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INTERNATIONAL MONETARY FUND

MADAGASCAR

**Poverty Reduction Strategy Paper
Joint Staff Assessment (JSA)**

Prepared by the staffs of the International Development Association and the International Monetary Fund¹

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I. OVERVIEW

1. **Madagascar submitted a full PRSP to the Fund and World Bank on July 30, 2003, of which implementation had already begun.** The full Madagascar Poverty Reduction Strategy Paper (PRSP) builds on the interim poverty reduction strategy (I-PRSP) discussed by the Boards of the Fund and the Bank in November 2000, as well as on a number of sector strategies and an earlier *Strategy to Fight Poverty* (2000), which had been developed with support from the United Nations Development Program. A first version of the full PRSP had been prepared by end-2001 before Madagascar entered a deep political and economic crisis in January 2002, which ended with the international recognition of the new government in July 2002; the crisis had a profound impact on the economy as GDP contracted by 12.7 percent in 2002. Over the past year, the new administration made significant changes to the draft PRSP it had inherited, including the elevation of governance reforms to the core of the strategy and building sector strategies around work program agreements between ministries and the presidency. A total of fifteen different programs underlie three strategic axes: (i) restoring a rule of law and a well-governed society; (ii) promoting economic growth with a large social base, and (iii) promoting systems for establishing human and material security and enlarging social protection.

2. **The PRSP has taken into consideration the majority of the recommendations made by the 2000 Joint Staff Assessment on the I-PRSP.** That JSA made the following recommendations for the full PRSP: (i) a clearer roadmap of the participatory process was needed; (ii) assumptions on macroeconomic growth were optimistic and alternative

¹ This Staff Assessment was prepared jointly with the African Development Bank, the European Commission, and the United Nations Development Program.

scenarios would need to be developed; (iii) a strategy of how growth can reach the rural poor would have to be more clearly articulated; and (iv) prioritization and full costing of the many actions and targets included in the document was necessary, based on improved analysis of the linkages between poverty outcomes and input provisions. The full PRSP fulfils recommendations (i), and (ii). As indicated below, there are shortcomings in the articulation of the strategy to reduce rural poverty and in the costing of the different action plans.

3. **The PRSP has several major strengths.** First, it is underpinned by a very high degree of ownership. The new administration took on the process fully, making important and substantial changes to the draft, which existed before the crisis, and a very inclusive participatory process was followed. Second, the strategy includes a very comprehensive poverty diagnostic, including poverty dynamics over the past years, and takes this work into account in its strategic orientation. Third, its overall strategic focus is clear and well-argued; sector development plans are coherent with the PRSP as they are built on work program agreements between each sector ministry and the presidency. Fourth, the strategy includes a list of short-term policy actions, short-term program outputs, multi-year public investment spending targets, and a list of thirty-one indicators, which will allow a regular assessment of the progress in implementation. Fifth, the PRSP develops different macro-economic scenarios, linking poverty reduction to various growth paths of the economy. Lastly, the targets and objectives spelled out in Madagascar's PRSP are consistent with the Millennium Development Goals (MDGs). The strategy uses the Millennium declaration as one of its references, going as far as to map the different PRSP subprograms to individual MDGs (p. 45).

4. **The PRSP has several weaknesses as well, which the staff recommend the administration to focus on during implementation.** First, while all PRSP programs set specific sector targets for the coming years, only very limited costing has taken place to assess the expenditures needed to achieve such targets. Overall planning of public investment requirements derive from the macroeconomic framework and do not necessarily match program needs. Planning of necessary current expenditure needs—of crucial importance for basic service delivery—has not taken place. Second, only the transport and education strategies outlined in the PRSP derive from an assessment of *why* reforms are needed and *why* public service delivery has failed in the past. Other sector strategies, notably those in the health, nutrition, energy, water and agricultural sectors, have been assessed in general and forgo this important step. Third, the list of measures included in the PRSP add up to a very ambitious program, which is bound to test the implementation capacity of Madagascar. The government will need to focus on capacity building to ensure successful implementation. To improve capacity, and assure an impact on poverty in the short and medium term, the government will need to prioritize the actions with potentially the largest impact on the poor and assure follow-up. Fourth, during the first year of PRSP implementation, the government will equally have to harmonize the many different targets and indicators included in the document. While, laudably, a list of thirty-one priority indicators for monitoring has been established, this list of indicators and their baseline values are not always consistent with the detailed sectoral indicators found in the body of the text. Lastly, the PRSP does not include an

assessment of possible risks (and mitigation measures) that could negatively affect implementation.

5. **The staff are also somewhat less optimistic than the government's PRSP with respect to the macroeconomic outlook for the country.** While the base case scenario of the PRSP postulates real growth rates of the economy between 8 and 10 percent, the staff think that a 6 percent growth rate (which falls between the low and high case of the PRSP) is likely to be more realistic in the medium-term—and would itself mark a significant improvement over Madagascar's growth record in the past four decades. A real growth rate of 6 percent, combined with a pattern of growth that helps spread income growth to rural areas, would reduce hunger and extreme poverty by half by 2015.

II. PARTICIPATORY PROCESS

6. **A number of thematic working groups and a Technical Committee have led the PRSP process since its inception in the fall of 2000.** The PRSP process has been organized by the *Secrétariat Technique de l'Ajustement (STA)*, which acts as a technical secretariat to a PRSP Technical Committee, composed of representatives of all sector ministries, several nongovernmental organizations, and academia. The PRSP Technical Committee, though, has met only rarely and the operational decisions concerning the management of the PRSP process have rested largely with STA. Six thematic working groups (rural development, infrastructure, health, education, private sector development and governance) were constituted in the fall of 2000, which were responsible for drafting relevant sector strategies. Private and nongovernmental organizations participated.

7. **Over the past two and half years, PRSP preparation included substantial consultations with all groups of the Malagasy society.** Overall, STA organized ten thematic workshops in all parts of the country, covering such topics as good governance, fighting HIV/AIDS, gender inequalities, rural development, forest fires, urban poverty, education, health, and the environment. Regional workshops at the end of 2001 took place in each of Madagascar's six provinces to discuss a first draft of the overall strategy. Large national consultation workshops (with more than 500 participants each) in November 2001 (before the crisis) and March 2003 (after the crisis, in which the President participated) were held to validate the PRSP. The PRSP consultation process included significant participation of women. The staff agrees with the analysis of the composition of participants as presented in the PRSP (p. 4).

8. **Today, the Malagasy PRSP has a very high degree of public visibility.** The government presented the PRSP to the national assembly in July 2003 where the document was discussed and approved. The final PRSP has been distributed widely in the country and has posted on the government web site since June 2003. The president and ministers generally refer to the PRSP as the key government policy document.

III. POVERTY DIAGNOSTIC

9. **The Madagascar PRSP includes detailed description of poverty developments and the profile of the poor.** A large number of poverty studies, developed by the statistical institute, INSTAT, the agricultural research institute, FOFIVA, with support from the World Bank, UNDP, USAID, and Cornell University, underlie the poverty diagnostic section. The evaluation of household surveys from 1993 to 2001 shows that nationwide poverty has varied only little, while the urban poverty rate showed considerable variations. But since more than 80 percent of the poor live in rural areas, the large swings in urban poverty produced only small changes in the aggregate poverty level. Based on analysis of inequality developments, the PRSP shows that the majority of the poor did not benefit from the macroeconomic growth achieved during the period 1997 to 2001, as welfare gains did not spread to rural areas. A spatial analysis of poverty shows welfare differences between Madagascar's six provinces. However, in the staff's view, such differences are somewhat overemphasized, as recent studies using low level poverty maps show that major variations in welfare levels occur between Madagascar's 110 districts rather than between provinces.²

10. **The diagnostic section shows that the rural poor largely depend on agriculture, especially the production of rice.** In the view of the staff, the PRSP places correct emphasis on low land access (in part, due to lack of land titles), extremely low agricultural productivity linked to the limited use of modern inputs, widespread isolation of communities due to lack of roads, and lack of access to basic education and health services. It also points to the impact of recent shocks on poverty, such as the 2002 political crisis—which affected urban areas more than rural areas, as it is in the former that a good part of the new jobs that had been created from the 1997-2001 growth were located (in the secondary and tertiary sectors). The PRSP estimates that incomes fell by 20 percent in the entire country. Using a variety of different indicators, the PRSP shows that gender inequalities exist, less so in the income dimension of female-headed households, but significantly with respect to other dimensions of poverty such as illiteracy or access to basic health care. During the implementation of the PRSP and in the preparation of the first progress report, the staff recommend that this analysis be complemented by the results of institutional gender assessments, which have shown that progress is needed, especially in the enforcement of gender-responsive laws. Further, discrimination against women exists in terms of access to land through the traditional inheritance system as well as modern law.

11. **The staff especially commend the PRSP for incorporating community preferences and listing the vulnerabilities of the population.** Based on recent findings

² Per the constitutional amendments of 1998, Madagascar has four levels of government: the center, autonomous provinces, regions, and communes. After the political events of 2002, the elected governors of the autonomous provinces were replaced by special delegates chosen by the central government. Regions are not yet functioning, but an intermediate level of government exists for deconcentrated ministries, namely districts. In all, there are 110 districts in Madagascar, which are particularly important for service delivery in education and health.

of a census conducted at the commune level, the PRSP shows how community preferences vary spatially in Madagascar and identifies agriculture, transport, and security as the three most important areas for public intervention. The PRSP also includes a very useful categorization of different vulnerabilities (economic, social, environment, and natural disasters) of the population. While the operationalization of this concept is difficult, the PRSP lays the groundwork for future diagnostic work in this area.

12. **The staff would suggest that, during the first year of implementation of the PRSP, diagnostic work concentrate on four areas.** First, it would be important to establish coherence between the indicators derived from household surveys with line ministry targets outlined in the PRSP. This pertains especially to key indicators in the education, health, and nutrition sectors, which differ significantly today. Second, the staff would encourage the authorities to re-examine welfare developments of the period 1999-2001, as important changes in the household questionnaire might have led to larger swings in poverty than shown in the document. These modifications would not change the direction of the major conclusions of the comparisons, but are likely to affect the assessment of the degree of impact of growth on poverty. Third, while the PRSP includes a detailed analysis of growth policies and poverty reduction, it would be useful to include a detailed discussion in the first progress report on how past development projects and policies have impacted on the poor.³ Fourth, given the rising inequality between 1997 and 2001 as demonstrated in the PRSP, additional analysis may be warranted on whether the factors that have contributed to rising inequality in the past (such as land) are being effectively addressed.

13. **Lastly, the staff would encourage the government to continue regular meetings of the six existing thematic PRSP working groups.** These would be good vehicles for available sector-specific poverty diagnostics to be fed into sector analysis. Sector strategies currently do not take full account of the available diagnostic studies.

IV. THE POVERTY REDUCTION STRATEGY

14. **The staff support the main thrust of the Madagascar Poverty Reduction Strategy with its focus on governance, inclusive growth, and service delivery for human and material security.** The strategy is built around fifteen programs. Annex I of the document includes specific actions and targets to be achieved by each ministry by 2004, which is complemented by a policy matrix describing main sector policies at the beginning of the document (pp. iii–ix). While the incorporation of the work program agreements makes for a large number of general and specific objectives in the document, it ensures a coherence between the PRSP and sector development plans.

³ This discussion could draw on three sector-wide evaluations currently being carried out (for nutrition, transport, and social infrastructure) as well as the results of the Poverty and Social Impact Analyses, which are to be completed in the coming months (including an analysis of agricultural protection and poverty impacts of reforms in service delivery).

A. Macroeconomic Framework, Costing of the Strategy, and Fiscal Planning

15. **Madagascar has embarked on a three-year macroeconomic program (2001–04)** focused on policy reforms aimed at fostering macroeconomic stability and promoting economic growth, while contributing to the reduction of poverty and the improvement of key social services. The program is supported by an arrangement under the Poverty Reduction and Growth Facility (PRGF) of the IMF, an Interim Country Assistance Strategy (I-CAS) of IDA (in response to the political crisis of 2002), and other lending and grant support from international donors. Madagascar reached the decision point under the enhanced HIPC Initiative in November 2000.

16. **As recommended in the last JSA, the Madagascar PRSP includes two macroeconomic scenarios** and outlines the external financing needs that would be necessary if the high growth (and high poverty reduction) scenario were to be attained. The high growth (and baseline) PRSP scenario projects GDP growth to increase to 8 percent by 2006 and to remain between 8 and 10 percent until 2015. Growth would be carried by the traditionally strong sectors of the economy, including mining, the export processing zone, tourism, construction, and transport. The low growth scenario—at which the poverty reduction targets, according to the PRSP, would not be achieved—assumes growth to average 4.5 percent over the 2004–15 period.

17. **The staff are skeptical that the high growth scenario of the PRSP can be attained**, but judge the low-growth PRSP scenario as too pessimistic. This view is based on several factors: First, past experience shows that project implementation capacity is limited; given the significant deficiencies in service delivery to the productive sectors in the recent past, limited implementation capacity could prove a significant bottleneck to the attainment of high growth targets. In order to improve implementation capacity, important governance reforms as outlined in the PRSP would have to take place, especially in the areas of public financial management and capacity building. The reforms would be a precondition for efficient absorption of higher aid flows and improved service delivery for both private sector development (for instance transport, customs, electricity, water management, extension services) and for poverty alleviation (for instance, education, health, and nutrition). Second, and related, the agricultural sector (which would be an important source of pro-poor growth) is facing an array of institutional constraints (irrigation, electricity, transport, and social services, to name a few), which make high growth in the sector a particular challenge for Madagascar. Resolution of the challenges to rural sector growth is key to reducing poverty. Third, in view of commercial banks' past reluctance to increase their exposure to the private sector, the authorities' current efforts to enhance the private sector's access to credit would have to yield results in the short term. Fourth, the rehabilitation and privatization of state-owned enterprises, necessary for raising the overall efficiency of the economy, would have to progress at a timely pace. Finally, should domestic revenues fall short of projections, or should unanticipated needs arise from the underestimation of recurrent costs (as discussed in paragraph 4 of this JSA), the government would be required to seek additional sources of financing.

18. **The staff would recommend that the high growth scenario be examined in detail in the first annual PRSP report.** In the staff's view, an intermediate growth rate of 6 percent is more realistic and could lead to significant poverty reduction if growth is led by labor-intensive light manufacturing, increases in agricultural productivity, and investment in agro-businesses.⁴ Such a pattern of growth, could lead to halving of income poverty in ten years. The staff would, therefore, recommend that the first annual review of the PRSP assess the degree to which conditions for growth in the agricultural sector and in labor-intensive light manufacturing have been improved. The staff also suggest that progress in implementation of governance reforms, which are necessary for broad-based growth to occur, be assessed, together with an evaluation of implementation capacity and concomitant financing needs.

19. **Even though the discussion of the macroeconomic framework in the PRSP is limited, the staff judge the framework to be generally sound based on the tables attached to the document.** The financing requirements of the PRSP are broadly in line with donors' commitments and consistent with PRGF assumptions. Given the assumptions of the framework, the impact on medium-term debt sustainability will be moderate. The staff concur with the monetary policy underlying the framework and flexible exchange rate system. The staff would recommend that the PRSP progress report provide a comprehensive discussion of macroeconomic conditions, targets, and policies to achieve the inflation objective, savings and investment balance, fiscal deficit, and external objectives (including trade reform), as well as an assessment of the ability of these policies to respond to exogenous shocks. The staff would recommend that a discussion of how a lower growth outcome would be reflected in the prioritization of fiscal choices be included in the progress report.

20. **The PRSP rightly points out (p. 76) that domestic revenues in Madagascar are low and that significant revenue efforts are needed in the medium term to finance the ambitious poverty reduction strategy.** To this end, the discussion in the PRSP of the structural deficiencies of the tax system is limited. These deficiencies erode the effective tax base and distort economic activity. Furthermore, the government's recent decision to reduce the tax burden on transport and other capital goods was implemented together with a number of ad hoc exemptions. The PRSP progress report should indicate the authorities' commitment to reversing the proliferation of ad hoc tax and customs duty exemptions that do not support the reform's objectives. In addition, the PRSP progress report should indicate the authorities' commitment to reforming excise duties, external tariff, and income tax, and improving tax and customs administration.

21. **The staff consider the costing of the proposed actions to be one of the weak points of the strategy.** While individual sector ministries have defined work plans (included in Annex 1), and most ministries have established targets (input and output indicators), a detailed costing of the actions has not taken place (with the exception of the transport and education programs). Rather, the overall public investment envelope is distributed more or less according to the actual distribution of the 2003 public investment plan. While it is likely that spending plans will fit within the planned strong expansion of

⁴ See paragraphs 33 through 36 for an assessment of the rural sector strategy of the PRSP.

public investment, a costing is necessary, as it would establish a link between actions and results to be attained—an important part of public expenditure planning. Similarly, none of the sector programs outlined in the PRSP takes into account the corresponding higher outlays in current expenditures. For example, in the health sector, information campaigns and salaried doctors and nurses cannot be financed through the planned expansion in health investments. The staff would therefore urge the government to continue working on a detailed costing plan for major programs, linking results to be achieved to both investment and current expenditure outlays. The government would ultimately benefit from developing a preliminary Medium-Term Expenditure Framework once capacity to fully cost program targets is developed for the majority of expenditure programs. In some sectors, like education, the government can draw on advanced sector budget plans, which are currently not reflected in the PRSP. The first annual progress report could then include an update of the costed strategy.

22. **The staff recommend that programming of investments financed through savings from the HIPC Initiative be included in the normal budgetary planning process** and not, as outlined in the PRSP, in a separate fashion. The tracking mechanism for HIPC expenditure and financing should also be further improved. Over the past three years, retroactive programming of HIPC resources has proven to be extremely difficult and cumbersome, leading to an underutilization of these resources, which are much needed in the fight against poverty. The first annual progress report of the PRSP would also need to report on HIPC expenditure and financing and reconcile the poverty reduction expenditure in the priority sectors, including those financed by the HIPC Initiative debt relief, with the budget.

B. Targets, Indicators, Progress Monitoring, and PRSP Implementation

23. **The PRSP includes key baseline indicators and targets providing a benchmark for subsequent reviews.** The PRSP contains 31 core indicators (pp. 150-151), which cover the three top strategic focus areas of government and which complement sector-specific monitoring plans. The priority list includes poverty, infant mortality, school completion, and HIV/AIDS infection indicators, which permit to measure progress toward achieving the Millennium Development Goals. Indicators provide an appropriate mix between input, output, and outcome measures; data sources and necessary data collection efforts are clearly indicated. The baseline for 2003 and targets until 2006 permit a review within the existing monitoring and evaluation capacity of the government.

24. **During the first year of PRSP implementation, the staff suggest that the government conduct reviews of the proposed priority indicators and their targets, as several indicators appear to be too ambitious.** The government might find it useful to substitute several of the chosen indicators with others more appropriately linking policy measures to results during the course of PRSP implementation. For example, the key indicator for rural development would rather be growth in rice productivity instead of the chosen indicator measuring the intensity of agricultural production. Similarly, it might be advisable to replace some of the chosen indicators for primary schooling and health (number of beneficiary population per operating facility) with service delivery indicators

(student/teacher ratio or health utilization rates) and to add a monitoring indicator on private investment, as the latter is key in any successful growth strategy. The annual progress report would also have to clarify the definitions of several of the priority indicators. In reviewing the indicators, the government might want to establish more clearly how the different indicators and objectives are derived from the policy actions and sector investment programs outlined in the PRSP, and integrate this exercise with the full costing discussed earlier.

25. **The staff commend the PRSP for outlining a comprehensive monitoring and implementation strategy but are of the opinion that substantial technical assistance and capacity building would be required.** The STA would play the central role of coordinating information from line ministries, the statistical institute, INSTAT, the Directorate of Planning, and the Directorate of Economy. It would present the monitoring results twice per year to participative group meetings, which will include civil society and the technical working groups, which have already been established. Short-term actions to operationalize the monitoring and implementation system would include (i) identifying, in addition to the core indicators included in the document, the indicators and targets for each PRSP subprogram and policy measure that is to be followed as part of the monitoring effort (adopting a consistent distinction between input, output, and outcome measures); (ii) providing each ministry with terms of reference as to what type of data would be needed in what form and when; (iii) reviewing STA's role, staffing, and organization, as it has encountered problems of effective coordination across sector ministries in the past; and (iv) developing a comprehensive plan on how to strengthen the entire monitoring and implementation system of the PRSP, including the necessary steps, which will lead to the first annual PRSP progress report. Madagascar's international partners would support the government in this process through financial and technical assistance.⁵

C. Governance and Public Sector Management

26. **Madagascar's PRSP assigns governance reforms the central role in the fight against poverty.** The staff fully agree with the centrality of governance reforms to improve public service delivery and to create an environment conducive for private investment. While economic and structural reforms had well advanced between 1997 and 2001, governance reforms lagged significantly behind. The new government that took office in 2002 faced the following major problems, as assessed by the staff: poor financial management practices, piecemeal program evaluation, and poor accountability structures, a high level of perceived corruption (Madagascar ranked 98th of 102 countries in the Corruption Perception Index of Transparency International), cumbersome customs procedures, a judicial sector ineffective in enforcing contracts or property rights, an

⁵ Madagascar's partner organizations participated actively in the PRSP process since its inception, providing both technical assistance as well as regular feedback to the government. Six joint aide-mémoires have been drafted by thirteen of Madagascar's bilateral and multilateral donors, offering comments on process and content at the various stages of PRSP development.

administration that could not access a large share of the population (which is rural), forestry and mining sectors operating outside the formal economy, and a decentralization strategy that would adversely affect communes.

27. The staff concur with the broad governance reform agenda outlined in the document, including the short-term policy measures (pp. iii–ix) and note that implementation of the reforms has commenced in a number of areas. The staff commend the authorities for setting up a joint public/private sector committee responsible for implementing the reforms in the customs and tax departments.

28. **The staff would like to urge the government to develop a specific plan of how the major reforms are to be carried out** and to identify technical assistance needs where appropriate. Many of the reforms (e.g., improving budget planning, execution and monitoring; customs reform; fighting against corruption, strengthening of the justice/tribunal system as well as administrative reforms) remain at a general level, and it would be important to develop a detailed, step-by-step action plan as to how the objectives are going to be attained. Such an action plan already exists for the strengthening of financial control organs, which could serve as a model for other areas. The implementation plan could be part of the annual PRSP progress report, as could be more specific governance indicators, which remain general in several areas (such as for justice reform).

D. Structural Policies for Growth and Investment

29. **Three guiding principles underlie the policies aimed at stimulating growth and investment as outlined in various parts of the PRSP.** First, major investment in public transport infrastructure is needed to integrate farmers into the market economy through a better road network. Second, a commitment to public-private partnerships in the management of key public enterprises. Third, improving the environment for private investment through reforms in tax and tariff policies, land laws, and better governance. The staff support these three guiding principles.

30. **The transport program outlined in the PRSP is very ambitious, but is built around a clear strategy developed with Madagascar's major partners.** It contains a carefully developed and prioritized investment plan and appropriately chosen short- and medium-term targets. The PRSP presents important institutional reforms of the sector, which will change the role of the public sector from that of an implementing agent to one of a financier and regulator, allocating the construction and management of roads, ports, airports, and the railway to independent agencies. A management contract for the national airline and a concession agreement for the Northern Railway were signed in 2002. Short-term structural policy objectives (p.viii) regarding the reform of the Road Fund (and targeted spending of the Road Fund to maintain rural roads), and the signing of concession contracts for the major port (Tamatave) and airports are appropriately chosen. Short-term output targets (pp. A.I.2–A.I.4) are derived from a sector master plan.

31. **Public-private partnerships and transfer of ownership to the private sector also play an important role in other sectors,** although the strategies are less clearly defined than in the transport sector (p. 80). Attracting foreign investment in the cotton

sector could provide an important boost for cotton producers in Madagascar, as the expanding Malagasy textile sector (benefiting from AGOA) could increasingly rely on domestically produced raw material as inputs. While not spelled out specifically in the PRSP, the government is also currently seeking contracts for private management of the sugar company, SIRAMA, and is developing a strategy for private participation in the electricity sector by seeking a management contract for the electricity and water utility JIRAMA. The staff would suggest that the PRSP progress report reflect developments in these sectors.

32. **The PRSP includes policy measures that would entice private investment into regionally concentrated growth poles** (pp. 81-86, and p. 90). The staff judge these measures, as well as sector-specific measures outlined in the document, as appropriate and necessary to stimulate private investment. Additionally, the staff suggest that the first PRSP progress report reflect the current plans of the government to provide a minimum infrastructure platform (including complementary energy, water, and transport services) for private sector development.

E. Rural and Environmentally Sustainable Development

33. **Given the predominantly rural basis of poverty, the rural and environmental development strategy of the PRSP is of paramount importance for any success to fight poverty in Madagascar.** The outline strategy builds heavily on the Plan d'Action pour le Développement Rural (PADR) and the Plan d'Action Environmental (PAE). In the view of the staff, the strategy is correctly built around raising agricultural productivity, attracting agro-business investments to high potential zones, and promoting farming techniques and alternative revenue sources to reduce deforestation.

34. **However, the staff would like to raise three concerns regarding the presented strategy** and would like to encourage the government to refine its rural and environmental strategy in the first annual progress report of the PRSP. First, the rural development section of the PRSP does not start from a review of why such policies have largely failed in the past. This would be an important analysis to undertake as massive investments are currently planned (for instance, in irrigation, which have not worked in the past), which may require complementary institutional changes (such as the creation and empowerment of Water User Associations) and investments in other sectors (such as in energy and transport) to yield results. Similarly, severe governance problems in the forestry sector have undermined successful environmental protection in the past, and the new government has taken decisive action to deal with them (e.g., freezing new forestry permits, and banning log exports). The staff suggest that the annual progress reports of the PRSP include an analysis of the impact of recent actions, along with a concrete agenda for the future.

35. **Second, the PRSP largely fails to establish the links between the identified objectives, actions to be taken, and expected results.** The section on raising agricultural productivity—at the heart of the strategy—remains unspecific and states only broad policy objectives about relaunching agricultural production or production of locally certified and improved seeds. The continuation of fiscal measures with respect to rice

protection and input taxation, which were introduced in 2000 to improve the rural terms-of-trade, and especially those for rice producers, are likely to be key in raising rural productivity. Supporting measures such as improving market access by producers will also be necessary in this respect. Similarly, the PRSP places emphasis on development of high potential areas and the development of an export-oriented agro-business sector, but stops short of outlining how such investment and export diversification will be financed and implemented. The strategy outlines that income growth in the less favorable zones would stem from diversification into nonfarm activities, but the PRSP does not specify if necessary investments to achieve a minimum infrastructure platform (which would include roads and electricity) would be prioritized to help these poorest areas of the country. Sector-specific indicators (pp. 100-101)—apart from the 31 priority indicators discussed above—lack the appropriate baseline necessary for monitoring or are not linked to major strategic orientation of the rural development strategy. The staff suggest that the annual progress report provide a more substantiated link between objectives, actions, and results.

36. **Third, the staff judge the environmental protection strategy outlined in the PRSP as overly focused on area protection** and less specific on how the incentive and institutional framework could be changed to promote environmentally sustainable farming practices. The integration of coastal zone development with local area protection and the development of the fishing and aquaculture sectors is not specified. The staff would therefore recommend that the government ensures better coordination between the PADR and the PAE. The staff commend the PRSP for setting targets for reforestation and for the management transfer of forest cover to local communities, but would like to encourage the government to outline, in the annual progress report, what more general incentive policies could be developed to limit environmental degradation.

F. Social Policies

37. **The overarching long-term objective of the PRSP education strategy is to achieve universal primary education and to ensure that all children complete the primary cycle.** As such, the stated goals are in line with the *Education for All* initiative and the Millennium Development Goals. Currently, the student flow efficiency in Madagascar is one of the lowest in the world, with only one out of every four children completing primary school. The short- and medium-term strategy of the government consists of (i) progressively extending the primary schooling cycle to nine years (p. 108); (ii) supporting the demand for education by continuing to exempt primary school students from paying enrollment fees (p. vii) and supplying basic school materials (books and writing material) to all primary school students (p. A-I-19); (iii) providing each primary school with a small school-fund for necessary maintenance expenditures (p. A-I-19); (iv) hiring 1,700 new rural schools teachers in 2004; and (v) constructing 2,300 new school rooms in the most disadvantaged areas of the country. Further, the PRSP outlines plans to continue the deconcentration and decentralization of the education system and to introduce performance-based management contracts between the center and deconcentrated education districts.

38. **The staff agree with the outlined strategy, its goals and the announced actions in the education sector.** However, the staff has some reservations about the managerial capacity necessary to meet the stated goals and the specific indicators chosen to monitor performance. Regarding managerial capacity, a quantum leap is necessary (i) in budget planning and reporting at the various levels of the government, (ii) in the formulation of performance contracts and indicators, and (iii) in coordination of complementary investments. Regarding the indicators chosen, the staff would encourage the government to reflect more fully on the work in the *Education for All* initiative in the first PRSP progress report. With respect to the specific targets set for the sector (p. 112), the staff would recommend that the government revisit in the annual progress report the objectives for absolute school enrollment expansion in the primary cycle (p. 112)—which appears very low—and which is not in line with the targeted increase in net enrollment rates postulated as part of the thirty-one priority indicators (p. 147). Further, the staff would also suggest that the government add a number of performance indicators for school districts (such as the number of school districts with an adequate operational management system) and budgetary monitoring indicators, including whether primary schools have received their recurrent budget allocation in a timely manner. The government might also consider including the repetition rate as a core PRSP monitoring indicator and, by 2006, develop a learning achievement measurement system that will inform on the quality of education on a regular basis. Lastly, the staff note that a detailed costing of current and investment needs of the education sector has already been completed as part of the *Education for All* initiative and should be included in the first annual PRSP progress report.

39. **The PRSP health strategy focuses on various supply-side measures of service delivery, but does not outline the complementary institutional reforms necessary for improved access to health care by the poor.** The PRSP includes plans to improve mother-and-child health care services, implementation of the roll-back-malaria program, and the fight against transmissible and nontransmissible diseases. However, the PRSP does not refer to the population policy of the government to be pursued. A successful population policy would have an important impact on maternal health as well as on health, nutrition, and education expenditures. Furthermore, the strategy does not outline how service delivery could be improved by (i) changing human resource policies so as to improve the very limited availability of doctors and nurses in remote and poor areas; (ii) creating incentives (and introducing service contracts) to improve maintenance of health equipment, especially in district hospitals; (iii) shifting accountability and responsibility of health care delivery to deconcentrated health districts and/or private providers, combined with both increased financial and technical assistance to these entities; (iv) improving strategic budget planning and regular reporting (of domestic and external funds) in the government, integrating current and investment expenditure programming; (v) raising performance evaluation in the administration to improve allocative efficiency of health sector resources; and (vi) the provision of complementary services (e.g., electricity), which would improve the functioning of primary health facilities. Further, the PRSP announces the reintroduction of the suspended cost recovery for medicines and basic health services (p. 121) “with a human face,” i.e. which would exempt the poorest from health fees. It is not clear, however, how such targeting is to take place, and the staff suggest the annual progress report to outline and evaluate the newly installed system.

Lastly, additional financing for health service delivery will in large part fall on current expenditures for salaries and materials. These costs would have to be integrated into a medium-term budget framework.

40. **The staff suggest that the annual progress report review both types of indicators and defined objectives in the health sector.** First, for several indicators (including the child mortality rate), different baselines are postulated as part of the 31 priority indicators (p. 147) and as part of the sector specific indicators (pp. 114-115). Second, while the target for the vaccination rate of children applies to the 0–11 months age group, it should be measured through independent biannual household surveys (DHS, MICS, EPM) in the 12–23 months age group. The staff also urge the government to improve its Health Information Management System to allow annual tracking of the vaccination rate. Lastly, the number of inhabitants per functioning primary and secondary health care center neither takes into account the actual utilization of health facilities nor the highly unequal existing distribution of such health centers, disfavoring the poorest areas. The government might consider using the utilization rate of health centers for preventive care in rural areas as an indicator instead.

41. **The PRSP includes a clear strategy to combat the spread of HIV/AIDS.** Supported by various development partners, fighting the spread of HIV/AIDS is a key element of the government strategy. A multisectoral HIV/AIDS commission has been created in the presidency and a national strategic plan to fight the spread of HIV/AIDS is being implemented. The latest HIV prevalence rate, estimated in July 2003 among pregnant women countrywide, is about 0.7 percent, substantiating previous fears that, like elsewhere in Africa, the epidemic in Madagascar is spreading exponentially. The government has launched a comprehensive surveillance system to obtain more recent and reliable data. Increased focus on vulnerable groups, especially adolescents and youth, is of paramount importance in the fight against HIV/AIDS.

42. **The PRSP announces the much-needed development of an integrative nutrition strategy.** Malnutrition rates are close to 50 percent today and pose a direct threat to development possibilities and survival of affected children. However, the planned actions concern in large part its symptomatic treatment (e.g., in specialized hospital centers for the acutely malnourished) and do not derive from an integrative, national nutrition strategy, which would emphasize food security, improved breast-feeding practices, and nutritional education to improve household level capacity to detect correctly and treat child growth and health difficulties. Nevertheless, the staff welcome that the PRSP announces the formulation of such a strategy by 2005 (p. 115).

43. **The PRSP correctly emphasizes the need to improve basic service supply in water, sanitation, and electricity, especially in rural areas.** Basic service supply in rural Madagascar is almost absent today with only 31 percent of households having access to safe water (with sanitation connections even lower) and only 4 percent of households commanding electricity supply. The staff welcome the importance placed on basic service supply but would propose that the institutional mechanism of service delivery in the water sector could be outlined. Additionally, although progress has been

made in establishing the national water and sanitation authority (ANDEA), the short- and medium-term relationship between the ministry and ANDEA needs to be clarified.

V. RISKS FOR SUCCESSFUL IMPLEMENTATION

44. **Several risks could undermine the successful implementation of the strategy.** First, political stability is key for implementing any strategy. The new administration has commenced sweeping reforms in economic management, which would lead to the elimination of rents for the elite and to possible pressures for policy reversals. Second, fundamental public finance, budget programming, civil service, and procurement reforms are a necessary condition for Madagascar to raise public sector capacity and investment levels, which are, in turn, necessary to absorb more external aid inflows. If these reforms were to be delayed and not prioritized, the planned increase in public investments for poverty reduction would likely not materialize. Third, sustainable poverty reduction will depend on attracting private investment into the labor-intensive manufacturing sector and into agrobusinesses with spread effects to rural areas. Currently, confidence of private sector investors in the Malagasy economy is still fragile, due to the 2002 political and economic crisis. If the government does not succeed in reestablishing the confidence of private investors, the targeted high growth and poverty reduction path would not materialize. Fourth, the outlined public investment program of the PRSP requires Madagascar's partners to (i) increase their financial support (ii) align their support fully with the PRSP, developing common programmatic support approaches; and (iii) harmonize disbursement and procurement procedures. Underfinancing of the Malagasy program is a serious risk that could cause the implementation of the poverty reduction strategy to unravel. Moreover, if donors, including the Bank, were not to undertake such alignment with the PRSP and common cooperation, successful PRSP implementation would be impossible.

VI. CONCLUSION

45. **The staff view the Madagascar PRSP as a major accomplishment,** especially as the PRSP integrates existing sector development programs. Changes, clarifications, and refinements of the strategy will naturally have to be made during implementation and this refers especially to budget planning (including the current expenditure budget), costing of individual actions, concretizing reform steps in the governance areas, and refining indicators so that they capture well progress in the implementation of the strategy. But the staff are confident that the government, with support of Madagascar's international partners as well as civil society, can make such improvements.

46. The staff consider this PRSP a credible poverty reduction strategy that provides a sound basis for Fund and IDA concessional assistance. The staff recommend that the respective Executive Directors of the IMF and the World Bank reach the same conclusion.