

INVESTMENT COOPERATION

IMF approves an Extended Credit Facility program, subject to certain prerequisites

After assessing the reforms undertaken by Madagascar, an IMF team that visited the country during May 25 -June 8 agreed in principle to a program supported by the Extended Credit Facility (ECF). But some prerequisites have yet to be met before the arrangement is presented to the Fund's Executive Board for discussion prior to obtaining a definitive "yes".

"Today is a big day for Madagascar. We have reached an agreement with the IMF (International Monetary Fund)," said President Hery Rajaonarimampianina during a press conference last Wednesday. After waiting for two years, the Big Island finally gets agreement on a long-term economic support program. And in spite of the few prerequisites set by the IMF, the Malagasy authorities seem confident and assured that everything will be ready on time so that the IMF Board could approve the program definitively.

Speaking to the media, the IMF head of mission, Marshall Mills, talked about "an agreement in principle (...) which is contingent upon the timely completion of prior actions by the Malagasy authorities and obtaining the necessary financing assurances". It's only after the completion of these prerequisites that "the Board could consider Madagascar's request for ECF support by the end of July 2016."

The Minister of Finance and Budget, Gervais Rakotoarimanana, stated that among the prerequisites set by IMF is the adoption of an amending Finance Act to present to Parliament before the end of July. This will mostly consist of "redirecting government expenditure," said Marshall



Mills. And according to the IMF Resident Representative, Patrick Imam, "the program's ultimate goal is to significantly scale up public spending on essential infrastructure and social priorities such as education, health, water and sanitation".

Promises and engagements

An engagement to end purchase-by-agreement policy, practiced by the state-owned water and electricity company, JIRAMA, is another prerequisite the mission staff would like to see by the end of July. Internal reform such as rising electricity prices, so as to reduce state subsidies for JIRAMA, is also part of IMF conditions. To secure this agreement in principle, the Malagasy authorities had to announce recently an increase in electricity prices

before pulling out and postponing the decision to implement the rise.

The authorities must also secure funding pledges amounting to \$45 million by the end of July. This sum should in particular be used to fill the gap in the budget until the end of the year. The Finance Minister has assured that these financing promises should be acquired on time and should especially come from the African Development Bank (AfDB), the French Development Agency (AFD), and "why not the World Bank".

The three-year program supported under the Extended Credit Facility will amount to \$310 million, and will be released in seven installments every six months, "subject to progress in the implementation of reforms." But more than a financial

assistance, the program will help catalyze significant support from other donors and investors. "The ECF is not a goal in itself, but a means both to support the Malagasy authorities and development program to obtain the support of the international community to develop the country by doing reforms," said Patrick Imam.

Immediately after the IMF Executive Board approves the agreement, Madagascar should finally be able to organize the donor conference announced since Hery Rajaonarimampianina came to power. This conference - bringing together technical and financial partners as well as potential investors - should take place in October.

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