

INTERNATIONAL MONETARY FUND
AND THE INTERNATIONAL DEVELOPMENT ASSOCIATION

MADAGASCAR

**Joint Staff Assessment of Poverty Reduction Strategy Paper
Preparation Status Report**

Prepared by the Staff of the International Monetary Fund
and the International Development Association

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1. Madagascar's Interim Poverty Reduction Strategy Paper (PRSP) was presented to the Executive Board of the International Development Association on December 19, 2000, and the Executive Board of the International Monetary Fund on December 21, 2000. The I-PRSP had spelled out a timetable and process for the completion of the full PRSP by May 2001. In their discussion of the I-PRSP, Executive Directors of both institutions agreed with the Joint Staff Assessment of the I-PRSP that the time schedule for producing the PRSP was tight and noted that this ambitious timetable could undermine the quality of the PRSP. Consequently, the authorities revised the participatory and processing schedule of the PRSP with a completion of the PRSP anticipated in early 2002. Following a large number of thematic and regional workshops, a first draft of the full PRSP was discussed at a national validation meeting in November 2001.
2. Madagascar plunged into a deep political crisis following contested presidential elections at the beginning of 2002. The crisis lasted until July 2002, causing a severe recession and social hardship. During the crisis, the PRSP process was suspended. The new administration has now revitalized the process and planned a number of new workshops and technical work to be carried out. The government outlines these steps in the accompanying PRSP Preparation Status Report.
3. **Participation Process and Institutional Structure.** Staff agree with the Status Report's description of the past and planned participatory process and PRSP institutional structure and recommend that the government adopt a methodology that would facilitate the inclusion of workshop results in the final document. During 2001, fifteen workshops discussed various aspects of the PRSP in all parts of the country. Civil society participation was strong, largely due to targeted civil society support of several bilateral donors and the UNDP. In part, these workshops lacked professional facilitation, which made synthesis difficult and led to several complaints from participating groups that the discussions were not reflected in the PRSP. Staff agree with the Report's proposed additional workshops (rural poverty, governance, national workshop) but would recommend

that professional facilitation be relied on to crystallize workshop recommendations and facilitate subsequent integration into the full PRSP. Staff believe that the institutional structure of PRSP preparation, as described in the Status Report, is appropriate and underscore the need that the six thematic working groups accelerate their work in the coming months according to the terms of reference indicated in section IV of the Status Report.

4. **Poverty Analyses.** Since the completion of the I-PRSP, significant progress has been made with respect to preparation of analytical background work (by several donors and government agencies) including: (i) sector expenditure reviews in education, health, sanitation and water; (ii) a new poverty profile for 2001; (iii) study on the dynamics of poverty between 1999 and 2001; (iv) development of a detailed geographic poverty map; (v) a study on the priorities of poor rural communities; (vi) several analyses of the budget process, among them the HIPC Expenditure Tracking assessment; and (vii) a gender report. Further, the national statistical institute (INSTAT) has, jointly with Cornell University, produced a number of detailed studies on the social impact of the crisis in selected sectors (rural, health, education, transport) which could be an important input for developing a full PRSP that is responsive to the changed poverty profile. Staff share the assessment of the Status Report that these analyses constitute a good base for the full PRSP.

5. **Development of full PRSP.** Staff recommend that in addition to the areas outlined in the Status Report, government examine in more depth three areas that would feed into the full PRSP. First, staff suggest that the government include in the full PRSP a detailed short- and medium-term action plan on budget and anti-corruption reforms. Over the last years, lacking or insufficient internal controls resulted in irregularities of a number of public fiscal transactions. In addition to the regular semi-annual external audits which have now been mandated, strengthening of the internal audit and control functions would be important. Further, little progress has been made since regarding pro-poor budget planning and monitoring. Budget planning, especially for public investment, continues to be largely donor-driven, and it would be important that the full PRSP includes an action plan on how investment planning can be more strategically undertaken. Developing a system to monitor budget execution rates in selected sectors over time and link budget execution to physical achievements is a major step for adequately implementing and monitoring the full PRSP. Closely linked, staff recommend that the full PRSP include an evaluation of existing anti-poverty programs (as recommended in the JSA of the I-PRSP).

6. Second, the full PRSP would need to clearly define a three-year program of priority actions, costing, and monitoring indicators (including intermediate ones). As mentioned in the JSA of the I-PRSP, such prioritization of actions and costing would be needed to turn the strategy from paper into reality. In November 2001, a joint aide-mémoire of the donor community also stressed this point when reflecting on the first draft of the full PRSP.

7. Lastly, Madagascar's growth strategy needs to be examined. A recent study found that high overall economic growth in Madagascar from 1997 to 2001 led to a noticeable decline in urban poverty. But rural poverty, on the other hand, remained very high and even increased, largely due to a lack of progress in raising agricultural productivity. Further, the growth pillars of the economy (textiles, mining, fishing, tourism) did not spread welfare to poor rural areas, which lack basic infrastructure and access to markets. The poverty impact of growth would need to be raised significantly in the future if long-term poverty reduction targets are to be achieved.

8. **Donor Support.** The multi- and bilateral donor community (16 organizations and mission representatives) have accompanied the process of PRSP preparation through five joint aide-mémoires. A sixth aide-mémoire will be transmitted to the government shortly, following the planned PRSP workshop on governance. Madagascar's partner organizations also stand ready to provide immediate technical assistance outlined in the Status Report, specifically the African Development Bank (through a grant linked to its Adjustment Credit), UNDP, and the World Bank (through a Project Preparation Facility for a Governance Project).

9. **Timetable.** Staff believe that the timetable outlined in the Status Report—with completion of the full PRSP planned for March 2003—is ambitious. Given the need to (i) develop a new macro-economic framework by 2005/6; (ii) reformulate priority actions to take into account the impact of the crisis on the poor; (iii) establish a priority action program, especially with respect to budget planning and management; and (iv) ensure a preparation process with maximum feedback from civil society, completion of the full PRSP could be delayed. Staff will continuously support the government through technical advice to help advance the completion date as much as possible.

10. **Recommendation.** The staff of the World Bank and the IMF consider that progress on the development of the full PRSP, as evidenced in the PRSP Preparation Status Report, is satisfactory and provides a sound basis for continued access to Fund concessional assistance and IDA adjustment lending. The staff recommend that the respective Executive Directors of the World Bank and the IMF reach the same conclusion.