



REPUBLIC OF MADAGASCAR

ECONOMIC DEVELOPMENT DOCUMENT

July 2017

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2017-2019 ECONOMIC DEVELOPMENT PAPER

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May 2, 2017

Dear Madam Managing Director,

I am pleased to provide you with the attached Economic Development Document (EDD), which was prepared to support and facilitate the implementation of our National Development Plan (PND) in a changing environment. We expect that this document will also serve to fulfill the requirements in this area associated with completion of the First Review of our ECF-supported program.

The EDD describes the underlying causes of poverty in Madagascar, among them the weak economic performance observed in the past several decades; the inadequate inclusiveness of economic growth; the predominance of the subsistence economy at the expense of the money economy, due to the inaccessibility of areas in which production occurs; persistent inflation; the erosion of purchasing power, which has altered the structure of the household consumption basket; and the limited coverage of the social protection system. It focuses primarily on the strategy for poverty reduction and social inclusion, which is predicated on the attainment of strong, sustainable and inclusive growth.

Our strategy, as outlined in the EDD, is based on complementary approaches to poverty reduction and social inclusion that include macroeconomic, sectoral, and structural aspects. The strategy also ensures the soundness of the financial system and its contribution to development financing. It furthermore identifies certain sectors - in particular, infrastructure, energy, water and sanitation, and social protection - as national priorities.

Moreover, the DDE is also intended to reflect the linkages between our poverty reduction strategy and the economic and financial program supported by the International Monetary Fund. To this end, it includes an implementation plan for the strategy that ensures consistency with the period covered by the Fund-supported economic and financial program. The DDE also complements the PND, and supports the implementation of the PND in areas that have positive and direct impacts on poverty reduction: increased revenue, efficient allocation of public resources, monetary regulation and inflation control, access to bank financing, rural development, regional integration, resilience to natural disasters, and expansion of the social protection system.

We look forward to collaborating with the IMF to achieve the objectives described in this document.

Please accept, Madam Managing Director, the assurances of my highest regard.

**General
Herilanto**



Lieutenant General Herilanto Raveloharison
Minister of Economy and Planning

**Raveloharison
Minister of Economy and Planning**

EXECUTIVE SUMMARY

The Economic Development Paper (DDE) describes the strategy adopted by the government to reverse the trend of modest economic performance, deteriorating social conditions, and persistent poverty observed in recent years.

The strategy addresses the underlying causes of poverty mentioned above: modest economic performance over the past several decades, inadequately inclusive economic growth, the predominance of the subsistence economy at the expense of the money economy, reflecting the isolation of production areas; land tenure problems and deterioration of hydro-agricultural infrastructure; economic dualism, a cause of economic disjunction; persistent inflation and the erosion of purchasing power; limited coverage of the social protection system; an inefficient financial system that limits access to financing; persistent governance problems; underdeveloped sanitation infrastructure; the adverse impacts of climate change; and repeated political crises.

The strategy adopts an approach that combines macroeconomic, sectoral, and structural elements that produce positive, direct impacts for poverty reduction.

1. The chief aim of the fiscal policy is to increase revenue and rationalize budget expenditure in order to provide ample margins to finance priority spending, specifically social and infrastructure spending. The priorities are, first, to expand the tax base and continuing reform of tax and customs administration, and second, to eliminate the causes of inefficient public expenditure and underfunding of the retirement and pension funds, and the planned reform of the national public institutions (EPN).
2. The monetary policy is given the role of regulating domestic liquidity in order to normalize trends in economic activities and achieve the inflation targets of less than 10.0 percent. The policy is essentially based on monetary aggregate targeting, chiefly through the use of indirect instruments such as liquidity absorption auctions (AON) and liquidity injection auctions (AOP).

The exchange regime is based on the free float of the local currency on a continuous market.

The analytic framework for the monetary policy (analysis of results and impacts) will be improved through enhancement of the forecasting model; a communication mechanism will be established at the Central Bank of Madagascar (BFM) to inform the market of the effects and impacts of the policy.

3. The financial system is underdeveloped. The banking system's poor performance reflects an excessive aversion to risk: it caters to a select customer base, limiting itself to safe, profitable products, and refrains from such risky transaction as medium- and long-term financing. It must nonetheless address the challenges linked to development imperatives: competition within the sector; diversification of financial products; and expanded access for economic agents; particularly SMEs; customer protection; and sector resilience.
4. The agricultural policy is based on the continuation of land tenure reform, the use of intensive and extensive farming methods, maintenance and renovation of hydro-agricultural infrastructures, and intensified technical and financial support for agricultural training and research centers.
5. For the social sectors (health and education), emphasis will be placed on quality and improved access to educational and health services. The key objectives for education are to increase enrollment in parallel with improving and expanding educational infrastructure and raising the quality of instruction; for health, the objectives are to expand health coverage with the goal of universal coverage.
6. The social protection system will be expanded to the social sectors as well as vulnerable farmers to improve their resilience in the face of natural disasters.
7. The rates of access to drinking water and sanitation infrastructure are low, with coverage of less than half the population in 2015 because investment failed to keep up with demographic pressures.

8. Local initiatives, promoted by outreach actions, should be combined with efforts to mobilize resources.
9. Deterioration of communication and surface transportation infrastructures is pervasive, as seen in the steady decline in the number of accessible communes over the year. The strategy here is based on integrating areas of potential production, especially the rehabilitation of rural roads, by restoring the financial capacity of the Highway Maintenance Fund (FER).
10. The energy policy includes the continued reform of the water and electric utility (JIRAMA) and a gradual shift toward renewable energies, i.e., hydropower, wind, solar, and biomass. The strategy for the shift is financed mainly by taxes.
11. To strengthen resilience to the risk of natural disasters, the strategy is based on three areas of effort: strengthening the capacities of local communities and the National Bureau of Risk and Disaster Management (BNGRC), development of the early warning system, and the establishment of financial mechanisms to respond to emergencies.
12. Governance and institutional strengthening rely on anti-corruption measures, notably the promulgation of the anti-corruption law, the proposed law for recovery of proceeds of illegal activity, and the planned creation of related organizational structures: local anti-corruption centers (PAC) and the agency in charge of asset recovery.

The preparation of the DDE draws, inter alia, on the ministries' sector policies; sector studies by the development partners, in particular the World Bank Systematic Country Diagnostic and the United Nations Development Program's Common Country Assessment; the National Statistics Institute (INSTAT) surveys on Millennium Development Goals (MDG); the ECF matrix; and the Ministry of Economy and Planning strategic report and economic and financial report.

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ACRONYMS

AON	Liquidity absorption auctions
AOP	Liquidity injection auctions
BFM	Central Bank of Madagascar (Banky Foiben'ny Madagasikara)
BIANCO	Independent Anti-Corruption Bureau
BNGRC	National Bureau of Risk and Disaster Management
BTA	Treasury bills issued via auction
BTP	Construction and public works
CBI	International donor and investor conference
CCT	Conditional cash transfer
CPR	Caisse de Prévoyance et de Retraite (retirement fund for contractual government employees)
CRC	Caisse de Retraite Civile et Militaire (civilian and military retirement fund)
CSI	High Council on Integrity
CTSPR	Reform Program Technical Monitoring Committee
DDE	Economic Development Paper
ECA	UN Economic Commission for Africa
ECF	Extended Credit Facility
EDBM	Economic Development Board of Madagascar
ENSOMD	Millennium Development Goals National Monitoring Survey
EPM	Household survey (Enquête Permanente auprès des Ménages)
FAO	United Nations Food and Agriculture Organization
FER	Highway Maintenance Fund
FRAM	Local parent-teacher associations (Fikambanan'ny Ray Aman-dRenin'ny Mpianatra)
GDP	Gross domestic product
HIPC:	Heavily Indebted Poor Countries Initiative
IMF	International Monetary Fund
INSTAT	National Statistics Institute
JIRAMA	Jiro sy Rano Malagasy (water and electric utility)
LPDR	Rural Development Policy Letter
MAP	Madagascar Action Plan
MDG	Millennium Development Goals
MNO	Mobile network operators
MTEF	Medium-term expenditure framework
NDP	National Development Plan
NGO	Nongovernmental organization
PAC	Regional anti-corruption office (pôle anti-corruption)
PFM	Public financial management
PGE	Politique Générale de l'Etat (President's general policy statement issued pursuant to article 55 of the Constitution)
PMO	Implementation plan
PNDR	National Rural Development Program
PPD	Public-private dialogue
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSAEP	Agriculture, Livestock, and Fisheries Sector Program
PSMFP	Strategic Plan for Fiscal Modernization
RIA	Results Integrated Analysis
SAMIFIN	National financial intelligence unit (Sampandraharaha Malagasy Iadiana amin'ny Famotsiambolana)
SDG	Sustainable Development Goals
SEZ	Special economic zone
SME	Small and medium-size businesses
TFP	Technical and financial partners
UNDP	United Nations Development Programme
USD	United States dollar
VAT	Value added tax

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MADAGASCAR: ECONOMIC DEVELOPMENT PAPER

I. INTRODUCTION

Following a long social, political, and governance crisis that came to an end in 2014 with the new democratic elections, Madagascar adopted a new economic and social development strategy based on inclusive growth and sustainable development. This new approach is evidenced by the implementation of a National Development Plan (PND) beginning in 2015, which will be completed in 2019.

In the design of the PND, security in general and human security in particular take on crucial importance in view of deficiencies at all levels (governance, capital of every type, resilience) that weaken the economy, society, and individuals. This marked fragility impacts every aspect of Madagascar's development framework and results in poverty, vulnerability, and inequalities that undermine our response to various shocks, threats, and hazards – some long in the making and others more cyclical. It is the result of weaknesses and deficiencies in one economic policy after another. The reason lies in the fact that development strategies and economic policies have thus far failed to provide lasting, sustainable solutions.

Together with the Extended Credit Facility (ECF) document, the draft Economic Development Paper (DDE), focused primarily on poverty, is based on the five strategic pillars, objectives and programs described in the PND, with emphasis on the priority strategies, programs, and sectors that are the focus of the country's efforts to eliminate the underlying causes of poverty. The PND's five strategic pillars are: 1) governance, the rule of law, security, decentralization, democracy, national solidarity; 2) preservation of macroeconomic stability and support for development; 3) inclusive growth encompassing all regions and sectors; (iv) adequate human capital to pursue the development process; and (v) the development of natural capital and strengthened resilience to disaster risks.

The government, like the Malagasy population, sees the fight against poverty as the very foundation of economic development. Major considerations are essentially bringing together the country's economic, social, religious, and even political institutions:

- (i) the extreme urgency of focusing the actions and measures planned on inclusive development;
- (ii) the importance attached to the effectiveness and quality of functional relations between the government and the private sector;
- (iii) recognition of the highly strategic role of agriculture in ending the exclusion of the poor;
- (iv) the impacts of extractive activities on the population's living conditions; and
- (v) the government's determination to focus the efforts of development stakeholders to promote macroeconomic stability, inclusive growth, and poverty reduction.

The actions are also in keeping with the spirit of the Sustainable Development Goals (SDG), which aim to completely eradicate poverty by 2030, leaving no one behind (see Annex). This paper begins, moreover, with the poverty profile, which illustrates the underlying causes of poverty.

To date, the major outcomes of implementation of the PND are as follows:

- (i) Economic growth has recovered with reinstatement of Madagascar's eligibility for trade benefits under United States legislation, the development of tourism, and the resumption of infrastructure projects. The economic growth rate exceeded the demographic growth rate by 2.8 percent, or 4.1 percent in 2015 followed by 4.2 percent in 2016.
- (ii) The increase in the inflation rate has slowed: 7.4 percent in 2015 and 6.7 percent in 2016.
- (iii) The tax burden is gradually increasing, i.e. the equivalent of 9.9 percent of GDP in 2014; 10.1 percent in 2015, and 10.9 percent in 2016. The forecasts for 2017 and 2018 are 11.2 percent and 11.6 percent, respectively.

- (iv) The fiscal deficit fell to the equivalent of 1.9 percent of GDP in 2016 compared to 3.7 percent in 2015 and 2.4 percent in 2014: transfers to government-held corporations were maintained within the limits provided in the 2016 budget.
- (v) After the advent of major mining projects marked by increased investment (40 percent of GDP in 2008), the ratio of investment to GDP has declined. It stood at 15.6 percent in 2014, 13.1 percent in 2015, and 15.1 percent in 2016; we note, however, the predominance of private over public investment.
- (vi) International reserves represented the equivalent of 4.0 months of imports in 2016 compared to 2.9 months in 2015 and 2.5 months in 2014; the outlook for 2017 is 3.5 months.
- (vii) The steps taken toward national reconciliation concern the creation of the steering committee for national reconciliation and a technical committee. The proposed National Reconciliation Law was adopted by the National Assembly in December 2016. The inclusive National Reconciliation Plan has been prepared. However, the political situation is not entirely stable.
- (viii) The fight against corruption has intensified with the promulgation of the 2016 anti-corruption law and the planned creation of the related institutional structures: regional anti-corruption centers (PAC) and the agency in charge of asset recovery.
- (ix) The proposed law on special economic zones (SEZs) has been drafted and is being validated. It aims to strengthen the basis for inclusive, sustainable growth through the stimulation of private investment, diversification of economic activity, and job creation.
- (x) The situation has improved with respect to the World Bank Doing Business ranking: Madagascar was ranked 164th of 189 countries in 2016, representing a gain of two places since 2015 (166th place).
- (xi) In terms of the United Nations Development Program (UNDP) Human Development Indicator, Madagascar was ranked 154th of 188 countries in 2015 compared to 169th of 175 countries in 2014.

II. POVERTY PROFILE AND DETERMINANTS OF POVERTY

- *Poverty profile*

The most recent INSTAT survey on poverty¹ dates from 2012.

Poverty is an essentially rural phenomenon in Madagascar. The average deviation between rural and urban poverty is 28 points. Poverty affects a significant proportion of the Malagasy population and is especially prevalent in rural areas where the great majority of the working age population live. The most recent INSTAT estimates indicate that roughly 71.5 percent of the population was poor in 2012, or 77.3 percent in rural areas and 48.5 percent in urban areas based on an average annual income of MGA 1,388,000, or the equivalent of US\$1.00 per day (MGA 3802.0).

Extreme poverty (a level of consumption or income well below the poverty threshold) impacts 56.5 percent of the population, whose average annual income of MGA 328,160, or less than MGA 1000 per day. Average annual per capita consumption is estimated at MGA 404,000. It is higher in urban than in rural areas, in particular the Androy Region, where it is below MGA 200,000.

Trends in poverty rates diverged between the provinces between 1993 and 2010:

- increasing in the Fianarantsoa, Mahajanga, and Antsiranana regions;
- nearly flat for Toamasina and Toliary;
- declining for Antananarivo.

¹ Millennium Development Goals National Monitoring Survey (ENSOMD) in 2012.

As the following table illustrates, poverty has barely declined in recent years.

Table 1: Poverty rate, 1993-2010

	1993	1997	1999	2001	2002	2004	2005	2010	2012
Madagascar	70.0	73.3	71.3	69.6	80.7	72.1	68.7	76.5	71.5
Antananarivo	68.0	66.4	61.7	48.3	66.0	59.8	57.7	66.8	...
Fianarantsoa	74.2	75.1	81.1	83.2	86.3	71.1	71.9	78.3	...
Toamasina	77.9	79.8	71.3	82.3	86.3	77.1	71.9	78.3	...
Mahajanga	53.2	73.8	76.0	72.4	89.1	74.1	70.2	71.6	...
Toliara	81.1	82.0	71.6	76.1	81.2	73.2	74.8	82.1	...
Antsiranana	60.2	62.3	72.6	69.2	83.7	65.4	64.2	68.1	...
Urban	50.1	63.2	52.1	44.1	61.6	53.7	52.0	54.2	48.5
Rural	74.5	76.0	76.7	77.1	86.4	77.3	73.5	82.2	77.3

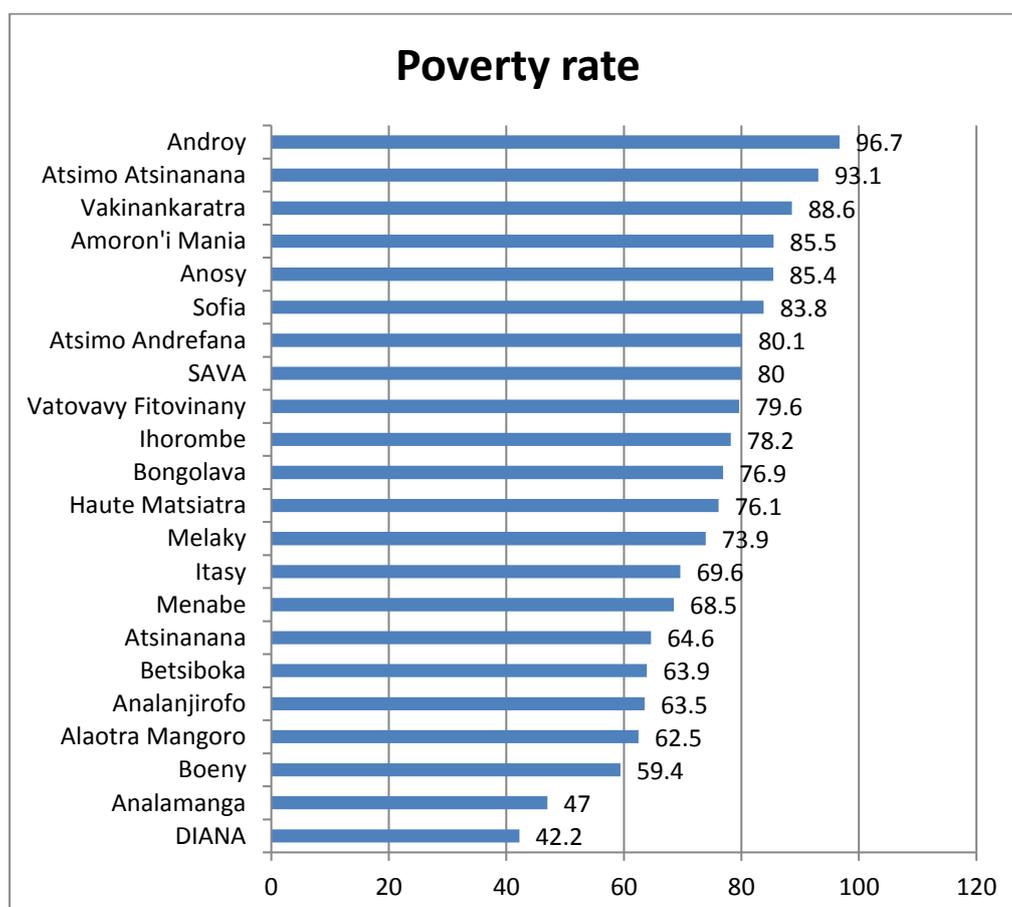
Source: INSTAT

In 2012, the poverty rates were highest in the Androy and Atsimo Antsiranana regions, at 96.7 percent and 93.1 percent, respectively. For the same year, the Diana and Analamanga regions had relatively low rates of 42.2 percent and 47.0 percent, respectively.

With time, poverty has spread to over half the population. It intensified especially during the period of political crisis: the poverty rate was 80.7 percent in 2002 and 76.5 percent in 2010.

For the period 1993-2012, the poverty rate was exceptionally high in Fianarantsoa and Toliary, at 91.0 percent and 81.2 percent, respectively, in 2002; and 84.7 percent and 82.1 percent in 2012.

Figure 1: Poverty structure by region



Source: ENSOMD 2012, INSTAT

- In order of importance, fever is the most widespread illness affecting the population, followed by diarrheal pathologies, respiratory infections, vascular events caused by inflammatory conditions, trauma, and coughs persisting more than three weeks.
- Rural areas are more exposed to disease than urban areas. The incidence of disease is 8.6 percent in rural areas compared to 7.6 percent in urban areas for the poorest; the comparable rates are 14.2 percent in rural areas and 12.1 percent in urban areas for the wealthiest. The trend holds true for the other consumption quintiles as well.

Table 2: Urban and rural incidence of disease by consumption quintile

Consumption quintile	Poorest	Poor	Average	Wealthy	Wealthiest
Urban areas.....	7.3	9.3	11.0	12.1	12.1
Rural areas.....	8.6	9.9	10.9	12.7	14.2
Ensemble.....	8.6	9.9	10.9	12.5	13.3

Source: INSTAT

Poverty is closely linked to household size and the head of household's educational level. The results of the INSTAT survey on the Millennium Development Goals (MDG) indicate that:

- household size among the poorest is higher (6.4 members) than among the wealthiest (3.2 members);
- the poorer the household, the larger the number of dependents: four dependents for the poorest households compared to 1.7 for the wealthiest;
- the number of members of working age (age 15 to 65) is nearly the same, regardless of household status (poorest, poor, average, wealthy, wealthiest);
- as the head of household literacy rate decreases, the household poverty rate increases: the head of household literacy rate is 42.5 percent for the poorest households compared to 83.0 percent for the wealthiest.

Regarding head of household educational level: out of 16,914 households surveyed, 29.9 percent had no education; 41.4 percent had completed primary education or were barely literate; 28.7 percent had completed the secondary education or higher.

According to consumption quintile, 13.9 percent of households are the poorest; 16.5 percent are poor; 16.5 percent are moderately poor; 22.2 percent are wealthy, and 28.5 percent are the wealthiest. These various trends are summarized in the table below.

Table 3: Household characteristics and head of household educational level by category

Consumption quintile	Poorest			Wealthiest		Overall
	Poorest	Poor	Average	Wealthy	Wealthiest	
Average household size (number of persons)	6.4	5.4	4.8	4.1	3.2	4.5
Number of dependents (< age 15 or > age 65)	4.0	3.1	2.6	2.2	1.7	2.7
Average working age members (age 15 to 65)	2.3	2.3	2.2	2.2	2.0	2.2
Head of household literacy rate (%)	42.5	60.8	65.0	74.5	83.0	68.4
Total	2,359	2,798	3,190	3,749	4,818	16,914

Source: INSTAT

In 2015, Madagascar ranked fifth among the 25 poorest countries of the world, after Burundi, the Central African Republic, Malawi, and Gambia, according to the international ranking based on per capita income in current dollars. Madagascar’s provisional ranking for 2016 was practically unchanged.

Table 4: Per capita income in Madagascar and the world’s 25 [sic] poorest countries

Country	Per capita income (current dollars)	
	2015	2016
Burundi.....	315.2	287.3
Central African Republic (CAR).....	338.7	372.2
Malawi.....	352.7	287.0
Gambia.....	384.2	435.5
Madagascar.....	405.0	402.0

Source: IMF 2015

Poverty manifests itself in restricted access to nutritious food products. It shifts the food consumption basket toward less expensive products with lower nutritional value, such as tubers, legumes, and dry goods, at the expense of foods of greater nutritional value that are often more costly, such as meat, eggs, and milk. The trend is virtually the same for the poor and poorest segments of the population.

A prevalent aspect of poverty is the absence of running water and cooking gas in the home. A vicious circle linking poverty, rapid environmental degradation, and insufficient rainfall can ensue: households turn increasingly to coal and fuelwood for their daily cooking, dangerously compromising their future.

Access to electricity is limited, particularly in rural areas, where it is only 5.0 percent to 6.0 percent. The situation has worsened with the suspension of connections to the grid due to problems at the national water and electricity utility (JIRAMA).

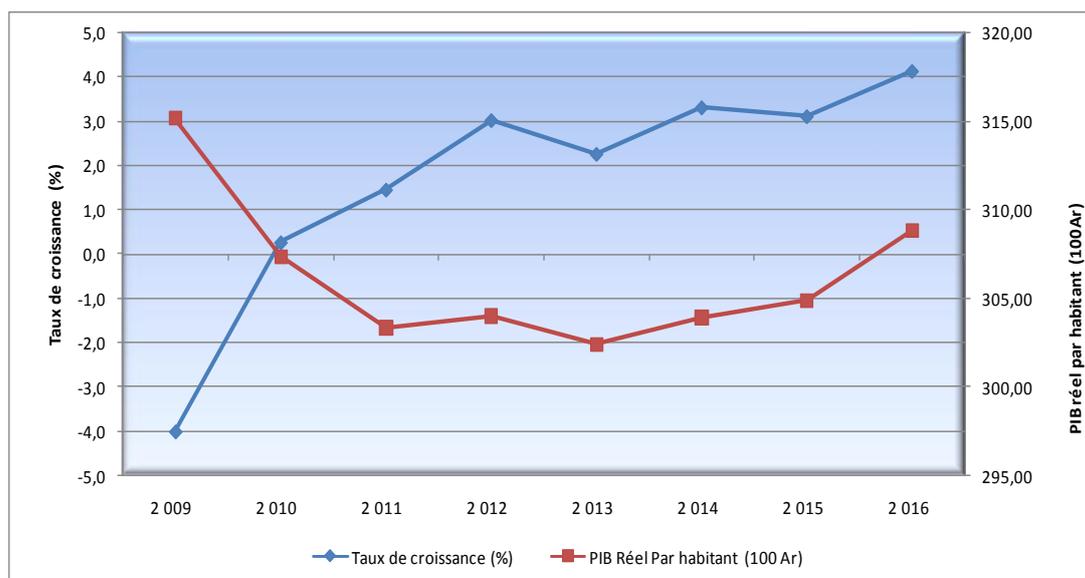
- ***Determinants of poverty***

✓ **Weak economic performance** is one of the determinants of poverty; economic growth is weak even in normal periods, and the crisis seems only to exacerbate poverty.

In fact, economic performance fluctuated between 1.2 percent and 4.1 percent during the period 1985-1990, to fall to 6.3 percent [sic] in 1991 following the civil disobedience linked to the crisis of the same year. The effects of the crisis did not subside until 1995. From that date, the situation seemed to stabilize and the economy recovered, with moderate growth varying between 1.7 percent and 6.0 percent from 1995 to 2001. The post-election crisis in 2002 was accompanied by the suspension of activity for several months, with the economy’s worst performance ever: the growth rate fell by close to 13.0 percent. The normalization of political and economic conditions in the following years resulted in growth rates between 5.3 percent and 7.1 percent between 2004 and 2008. The 2009 crisis jeopardized those gains; the post-crisis period brought moderate performance of 3.0 percent to 4.0 percent during 2014-2016.

The same periods were marked by weak gains or even a decline in per capita income, yet stronger growth would be needed to produce an effective, tangible impact in terms of poverty reduction.

Figure 2: Growth rate and real per capita GDP, 2009 - 2016



Source: MEP/DGE/DEME

- ✓ **Economic disjunction** has been observed for many years, reflecting persistent economic dualism characterized by the coexistence of a relatively isolated traditional sector and a modern sector focused more on the outside world. Agriculture is poorly integrated in the rest of the economic system, especially industry, exposing it to two essential factors of poverty: deprivation of the effects of transmitted growth on the one hand, and diminished potential value of agricultural products and lower incomes for farmer producers on the other. The situation is aggravated by the instability of commodities prices on the international market.

The existing processing industries are concentrated in the agri-food sector. They are divided among the beverage, the sugar/flour/starch, and fishery segments (the latter a few duty free units), whose shares of agri-food value added are 34.0 percent, 28.0 percent, and 17.0 percent, respectively. The share of agri-food in industrial value added has been continually declining for a long time, from an average of 23.0 percent between 1985–1999 to 18.0 percent during the period 2006–2013 due to the decline of sugar production units.

In fact, the equipment used by the agri-food segment is obsolete and no longer suitable in view of the availability of raw materials of local origin.

The legal provisions relating to the free-trade regime provide particular benefits for businesses involved in developing locally produced raw materials. However, the import component of inputs used by such businesses is 75.0 percent of their total raw materials imports, which is far greater than for businesses not covered by free-trade provisions (51.0 percent) and for all exporters combined (53.0 percent).

Small and medium-sized enterprises (SMEs), which are generally not capital intensive, should fill the deficit in terms of processing raw materials. However, they lack sufficient capital to invest to expand their scope of activities and create jobs. They need to borrow but are thwarted by number of quasi-structural problems: the banks' requirement of guarantees, high interest rates, operators' inability to assemble dossiers to qualify for bank financing.

In light of these factors, SMEs prefer to turn to microfinance institutions in the hope of obtaining financing under more flexible terms.

- ✓ **Near-stagnant structural transformation**, long observed, is also a factor that exacerbates poverty: agriculture requires substantial assets, yet agricultural productivity is flat if not decreasing; rehabilitation of hydro-agricultural infrastructure is slowed by insufficient resources; the rural exodus continues to inflate the urban informal sector in a context of limited urban job opportunities; the poor, rural segment of the population is extremely vulnerable to climate change.

- ✓ The government budget is often balanced after the fact with the help of fiat money such as central bank advances (statutory advances, current account advances) or the issuance of government securities, generally subscribed by second-tier banks. This leads to a process of **underfunding of individuals, or even the crowding out of private operators**, making it difficult for them to implement their investment plans, pursue their activities, and contribute to job creation and poverty reduction.
- ✓ **Repeated political crises and continual political instability** are none other than the expression of unmet economic, political, and social demands. They are the reason for the deterioration of economic and social conditions, as they have always held the economy hostage (suspension of activities, destruction of infrastructure, economic and social disorder). They erase the positive effects of previous reforms, as in the collapse of the social protection system and poor economic performance in 1991, 2002, and 2009 amid a drastic decline in activity. In parallel, the poverty rate grew during the same periods.

An empirical analysis of economic and social conditions in the post-crisis period indicates that it took more than three years on average to overcome the adverse effects of a political crisis.
- ✓ **Institutions are too weak** to exercise strict control over all aspects of society, and as a result, anarchical conduct continues and spreads (rise of corrupt practices, increased violence of all kinds, and recently, public condemnation) together with unsound practices (illegal trafficking), often contrary to the public interest.

III. POVERTY REDUCTION STRATEGY

The poverty reduction and social inclusion strategy for the period 2017-2019 is based on macroeconomic, sectoral, and structural approaches. It ensures inclusive growth, good governance, macroeconomic stability, a sound financial system that participates in development financing, and the reduction of inflation as a factor that erodes purchasing power.

Other sectors are identified as national priorities: governance, control of corruption, integration, infrastructure, energy, water and sanitation, health education, social protection, and resilience to climate change.

The chief objective of the strategy is to restore growth and reduce poverty. Public policies must converge to achieve this objective. The cyclical policy will systematically adjust the evolution of the economy in case of deviation from the desired trend.

Preservation of macroeconomic stability is a prerequisite to strong growth and poverty reduction. It serves to improve predictability for operators and support their investment plans through stable prices and exchange rates. In this regard, the government is committed to raising tax revenue and rationalizing spending with a view toward a sustainable fiscal deficit. The Central Bank of Madagascar (Banky Foiben'i Madagasikara, BFM) will regulate domestic liquidity to reduce the rate of price increases.

- ***Increased revenue and rationalized spending to support public investment programs***

The fiscal policy will be based on support for implementation of the National Development Plan, priority projects whose ultimate objective is social inclusion and poverty reduction. Reforms relating to increasing revenue and managing public spending are under way or planned.

The government will emphasize increasing tax revenue and modulating spending according to effective collections in order to contain the budget deficit at a tolerable level. The objective here is to reduce inflation in order to preserve purchasing power and improve living conditions.

In this regard, the government will expand the tax base by formalizing and taxing the informal sector, eliminating exemptions of all kinds through the establishment of a definitive list of exemptions, with the exception of those that serve the public interest. It will secure royalties to ensure that extractive

activities and the exploitation of fishery resources make a larger contribution to increased budget revenue. Tax audits will be strengthened through an increased focus on risk management; and a communication strategy will be developed. The practice of selling without issuing an invoice or receipt will be severely sanctioned. Tax adjustments will be systematic, based on audits of businesses. The collection of tax arrears will continue based on an inventory of arrears. Reports of irregular tax credits claimed by large businesses, as well as tax credits provided, will be published.

In regard to customs administration, the process of automating customs procedures is under way. Measures in the area of physical inspections (on-site inspections and desk-based reviews) will be enhanced to reduce fraud. The procedure for collection of customs duty and import tax arrears will be accelerated. Monitoring of customs warehousing will be stepped up, and quantitative and qualitative targets will be set for customs services. Audit teams will be established to conduct ex post verifications. Auctions of undeclared containers will be accelerated. The use of tablet computers in physical inspections will be instituted in order to optimize the use of databases. Unusually low values relative to reference values will be audited, and false declarations will result in adjustment followed by legal action.

A unique taxpayer identifier will become operational for both customs and tax administrations. Use of the identifier will be expanded to all departments of the Ministry of Finance and Budget (MFB) and the national pension fund (CNAPS), followed by the other ministerial departments.

A tax policy unit will be established at the MFB to conduct impact studies, analyze tax expenditure, and increase efficiency through improved coordination and information sharing among customs and tax units.

Cooperation between the tax and customs administrations will be enhanced, in particular with respect to information cross-checking and sharing.

Budget expenditure will prioritize social and poverty-related spending, in particular health and education, infrastructure, and social protection. The process of integrating teachers formerly paid by local parent associations (Fikambanan'ny Ray Aman-dRenin'ny Mpianatra, FRAM) into the civil service will continue, as will the distribution of school kits in order to lighten parents' burdens.

Particular attention will be paid to the selection, coordination, and monitoring of capital projects to improve capacities for implementation and absorption. In this regard, the medium-term expenditure framework (MTEF) process will continue; an Investment and Investment Funding Coordination and Monitoring Unit (OCSIF) was established within the Presidency by Order 2017-094. The mission of the OCSIF is to coordinate and monitor the implementation of priority programs and projects, particularly those identified during the December 2016 donor and investor conference (CBI).

Public sector infrastructure projects will likewise be prioritized.

The underlying causes of inefficient expenditure and budget pressure will be corrected through the policy of truth in pricing, with the elimination of fuel subsidies. Transfers to government-held corporations will be limited.

The government will address the problems associated with underfunding of retirement and pension funds – the civilian and military retirement fund (CRCM) for career civil servants and the retirement and pension fund (CPR) for contractual employees – and continue control measures such as renewals of retiree identification cards. It will begin validation of the personnel and payroll file for the civil service and senior government officials: identification of retirement date based on birth date indicated on pay slips, verification of orders appointing and replacing senior government officials. The objective is to reduce the wage bill to the equivalent of 4.8 percent of GDP in 2019 and reduce the expense of the retirement and pension funds deficits. In the context of continued fiscal reforms, Madagascar has opted for effective implementation of the program budget, which involves incorporating multiyear planning in the budget programming.

The MTEF is an iterative decision-making process that balances macroeconomic constraints and sector policy planning. It defines multiyear expenditure for the ministries by program and by type of expenditure. Programs are defined in terms of objectives, outcomes, and activities, and must be quantified. All ministries and institutions are required to prepare MTEFs to serve as the basis for programming.

In the interest of consistency, the ministries are required to identify the direct linkages between the MTEF and the PND or implementation plan on which the sector policies and programs are based; the programmatic structure is defined at two levels: mission and program. The ministries must estimate the three-year costs of their activities, define objectives and priority actions compatible with budget constraints, and conduct an internal assessment of their MTEFs.

An MTEF team, consisting of a strategy unit and an operational unit, is established in each ministry and composed primarily of staff members involved in the budget process. The strategy unit, which reports to the program managers, is charged with structuring programs and presenting them in logical frameworks that define specific operational objectives, the expected outcomes, and the activities and capital projects that will support the implementation of the programs. The operational unit is charged with budgeting the activities relating to the programs.

The principal measures to strengthen transparency concern the submission of the financial statements of the major government-held corporations for 2015 and 2012–2014 to the Court of Audit. Also essential to improved transparency is the submission of the audit report on execution of the 2015 budget (the budget review law) to the legislature, and the inclusion of information on public enterprises, public-private partnerships, and national public institutions (EPNs) in the budget documentation to ensure comprehensiveness.

Regarding EPNs in particular, a review of the legal and regulatory framework is planned in the interest of greater transparency and accountability.

- ***Monetary regulation to reduce inflation and protect purchasing power***

The BFM will pursue a prudent monetary policy by adjusting currency in circulation to the real needs of the economy in order to maintain inflation below 10.0 percent. Emphasis will be placed on monetary targeting through the use of indirect monetary policy instruments such as liquidity injection and absorption auctions to manage liquidity as conditions warrant.

The BFM will strengthen the analytical framework for the monetary policy, in particular by improving the forecasting model and enhancing communications to better inform the market of the effects and impacts of the monetary policy.

With the new BFM charter, which preserves the Central Bank's operational and institutional independence, having been approved, the remaining tasks are:

- (i) the implementation of organizational mechanisms (board of directors, audit committee, executive committee) and reorganization of the directorates and divisional units in accordance with the new charter;
- (ii) revision and update of the governance framework (internal regulations, employee code);
- (iii) preservation of financial autonomy by limiting statutory advances to the equivalent of 5.0 percent of ordinary revenue starting in 2019;
- (iv) effectively increasing capital; and
- (v) financial reporting and transparency and formal establishment of a business continuity plan based on good international practices.

The international value of the local currency is determined by the market; the free float of the ariary in continuous trading from 9:00 a.m. to 3:00 p.m. will continue. However, occasional interventions at market conditions will be provided to eliminate wide exchange rate fluctuations. To ensure private sector participation, market confidence, and surveillance by the BFM, transparency should be improved by providing market participants with access to a variety of information, in particular information concerning exchange positions and transactions and detailed commercial bank reports.

- ***A sound, resilient, inclusive financial system to promote strong growth***

The Malagasy financial system is still underdeveloped and dominated by the banking sector, which represents close to 95.0 percent of the system's assets, followed by nonbank financial institutions and

microfinance institutions in second and third place, respectively. Banks are the only actors on the foreign exchange market and the principal subscribers of government securities. Four large banks dominate the banking sector with 88.4 percent of deposits, 86.2 percent of receivables, and 86.1 percent of total banking assets. Their products are insufficiently diversified and directed toward a customer base of predominantly large businesses.

Access to financial services continues to be limited, as is the supply of financial products. As a percentage of GDP, total outstanding loans average 8.0 percent, compared to 7.2 percent in sub-Saharan Africa and 60.0 percent in Mauritius. Only 7.8 percent of the population over age 15 hold bank loans.

Interest rates are high, averaging 14.9 percent for a three-year loan, reflecting lack of competition between banks and the likely incorporation of a risk premium in the rates charged.

The banks' funding structure is generally short term, with short-term credits representing an average of 55.0 percent of the total stock of credits, compared to 45.0 percent for medium-term and long-term credits.

The banking sector's performance reflects its aversion to risk. However, it must face the challenges inherent to development imperatives: competition within the sector; diversification of financial products and expanded access to bank financing for economic agents, particularly SMEs; customer protection; sector resilience.

The strategy for stability, development, and resilience of the financial system is based on:

- (i) an improved supervisory framework, including
 - reform of legal and regulatory provisions to ensure the supervisor's independence and define the scope of its powers to impose corrective measures and sanctions and resolve financially troubled institutions;
 - enhanced on-site inspections and off-site reviews and definition of stability indicators for the system based on enhanced prudential rules;
 - increased staffing for the supervisory body, strengthening of personal capacities and the provision of adequate resources; and
 - strengthened cooperation and information exchange with supervisory authorities of the banks' countries of origin;
- (ii) the need to develop the financial market (including the interbank, foreign exchange, and government securities market) to improve the system's functioning and the transmission of monetary policy; and restore confidence thereafter through improved central bank communication with market participants and the public;
- (iii) more flexible access to financing, through:
 - the conduct of a more appropriate monetary policy, based on the relationship between the BFM policy rate and formation of the banks' base lending rates;
 - the development of competition through the creation of branch offices and institutions, above all in rural areas, to reduce liquidity costs; and
 - completion of the proposed law on electronic money and the preparation of implementing regulatory texts;
- (iv) the development of mobile networks and mobile phone transactions to promote competition among financial services; this could lead to less costly and more accessible services for customers, especially individuals and SMEs, while furthering the process of financial inclusion;
- (v) the improvement of financial infrastructures through the provision of detailed information on customers as a factor in reducing risks and expanding access to financing, especially for households and SMEs with limited means; support for the existing initiative (an operational credit reporting bureau); strengthening of existing credit rating agency capacities to evaluate the quality of credits and the risks they represent for the economy or, alternatively, a study on the potential costs and benefits of establishing other agencies; and the planned implementation of a credit bureau to

compile and centrally manage individuals' credit histories and make the information available to financial institutions for use in optimizing lending and minimizing risks;

- (vi) the identification and development of financial products and services better suited to the circumstances of households and SMEs: incentives for financial service providers through expanded coverage of guarantee funds; capacity building for SMEs, with the aim of producing simplified but valid financial statements, or generating reports for use in monitoring their activities; and
- (vii) the establishment of a framework enabling corporations to issue debt securities.

- ***Debt management***

The country's debt strategy is to maximize the use of concessional borrowing in accordance with the Medium Term Debt Strategy. Madagascar borrows only under highly concessional or semi-concessional terms so as to preserve external debt sustainability in accordance with pre-established criteria and avoid the accumulation of additional payment arrears. External debt contracted must have a grant element of 35.0 percent or more (highly concessional) or between a minimum of 20.0 percent and 35.0 percent (semi-concessional).

In order to satisfy the government's financing requirement, recourse to non-concessional borrowing will be limited to the debt ceilings agreed under the ECF arrangement. The overriding objective is to avoid short-term liquidity problems and medium-term or long-term solvency problems while ensuring development financing.

Domestic financing should be secured mainly through the auctioned Treasury Bills while the use of statutory advances should be reduced. For 2017, the limit on the withdrawal of statutory advances is set at the equivalent of 5 percent of the government's ordinary revenue in 2016 and the strategy foresees that there will no longer be recourse to statutory advances in 2018.

In addition to the use of own resources, the planned increase in public investment (7.9 percent of GDP in 2017, 9.8 percent in [2018], and 10.5 percent in 2019) will call for borrowing to finance the priority project presented at the December 2016 Paris conference. The objective is to free up available potential to consolidate the basis for strong and inclusive growth: renewable energies, transportation infrastructures, improved health and educational system, expansion of the social protection system, etc.

- ***Inclusive growth grounded in sound macroeconomics as a tool to reduce poverty***

The conditions to create sufficient jobs to ensure inclusive growth are not met: insufficient economic diversification, very few drivers of growth (free trade businesses, mines), limited coverage of the social protection system, lack of an effective income distribution mechanism.

The government is counting on inclusive, sustainable growth to reduce poverty. Growth will be driven by the private sector with the availability of untapped resources, obvious comparative advantages offering investment and job opportunities, natural capital representing 25.0 percent to 30.0 percent of total wealth; human capital representing close to 48.0 percent of total wealth yet underqualified, infrastructures underdeveloped and poorly maintained; arable land representing 40.0 percent of natural capital and forest product; a sizable informal sector that offers opportunities to be exploited (agriculture, fisheries, artisanal mining, etc.).

The inclusion strategy is based on sustainable growth distributed among different sectors of economic activity with the aid of a strong private sector. In particular, the creation of special economic zones (SEZs) where businesses can operate under advantageous rules generates positive externalities for the rest of the economy and improves the business climate in general. This offers opportunities for lasting, productive, well-paying jobs for which equality of access is sustained by the development of human capital, above all through improved quality of the educational and health system and expansion of the social protection system.

In short, the priority is the long-term engagement of the population, especially the young, in the productive process, supplemented by direct assistance programs to address short-term needs.

The proposed law on SEZs is has been drafted and is undergoing validation. The main objective is to promote investment and job creation. It provides that industrial, agro-industrial, science and technology, tourism, finance, transport, and logistics activities can be conducted in SEZs; the activity must promote economic integration in the interest of inclusive growth and sustainable development through the priority hiring of local personnel and purchase of raw materials on the local market.

SEZs will be exempt from all charges and operated under concession for a renewable term of three years.

The proposed SEZ law:

- (i) provides for tax and customs benefits and offers protections from nationalism, expropriation, or arbitrary or wrongful requisition of private property; eligibility for customs warehousing for a term of 36 months, renewable once, for businesses established in an SEZ; exemption from customs duties and import taxes for materials and equipment used in the construction or operation of SEZs or SEZ businesses; VAT exemption for imports, etc.;
- (ii) promotes the hiring of local personnel: no restrictions are placed on middle and senior management hires, but only 5 percent of non-management positions may be reserved for expatriates;
- (iii) sets out the principles applicable to foreign currency transactions (exemption from taxes, fees, and administrative charges) and the mechanism and mode of resolving disputes between private actors and the government and/or SEZ businesses arising in connection with the zone.

Through the combined effects of good rainfall, reinstated eligibility for trade benefits under the United States African Growth and Opportunity Act (AGOA), continuation of the Open Sky policy, and the organization of international summits, the economy expanded by 4.2 percent in 2016 with particularly solid performance from the agriculture, free-trade, tourism, and construction and public works sectors.

Madagascar's economic prospects are encouraging. Despite a drought in the central plateau and cyclone in the northeast in early 2017, the economy is expected to grow by 4.3 percent compared to an initial forecast of 4.5 percent. The anticipated investments following the Paris conference will further impact economic trends, with average growth projected at slightly above 5.0 percent during 2017–2019 sustained by annual average investment equivalent to 9.5 percent of GDP.

In parallel, per capita income is expected to increase to US\$416 in 2017, compared to US\$405 and US\$402 in 2016 and 2015, respectively.

- ***An appropriate business climate to stimulate private sector interest and promote growth***

The World Bank's Doing Business report is a systematic survey of the business climate in 190 countries. Madagascar's Doing Business ranking slipped between 2014 to 2015, from 157th to 164th place, or a downgrade of seven places in one year.

The true problem lies in difficulties with electricity supply and access to financing, in which Madagascar ranks last and 180th among the countries evaluated. In terms of obtaining construction permits and recording title to property, it was ranked 177th and 153rd, although it came in at 146th place in terms of contract execution. Political uncertainty was considered a major constraint by half of the businesses surveyed, and bribery, as a clear form of corruption, far exceeded that observed in sub-Saharan African countries.

Madagascar was ranked in 167th place in the 2017 Doing Business, an improvement over its 2016 performance (169th place) with simplification of procedures to establish businesses, transparency in issuing construction permits (availability of construction rules online), and improved cross-border trade (simplified customs procedures, institution of data sharing system).

The government is continuing its efforts to improve the business climate with the completion of the public-private partnership (PPP) law; the corporations law; the decree establishing the national authority

in charge of corrective commercial measures (ANCC); and the anti-corruption law. The new mining code has not yet passed.

With respect to PPPs, the terms of the arrangement (contracts, terms) must be published on the MFB site within one month after signature of the accord.

The proposed law on asset recovery has been drafted but is not yet approved; the decree creating the asset recovery authority is dependent on approval of the law.

The new real property code is being drafted; the gradual automation of customs procedures, online VAT payments, and JIRAMA reforms are under way; and a law governing the production and dissemination of statistics is planned.

The Economic Development Board of Madagascar (EDBM) expects to make improvements in the process of establishing a business in Madagascar, such as online business creation, payment of registration fees electronically or by mobile phone, and the adoption of a unique identification number.

Institutional mechanisms were also established to promote dialogue and exchange with the private sector and the technical and financial partners (TFPs): the public private dialogue (DPP) platform, the Strategic Dialogue Group (GDS), the Commission on Business Law Reform, the Partnership Framework for Budget Support (CPAB), the Coordinating Committee on Business Climate Reforms, and the Reform Program Technical Monitoring Committee (CTSPR).

- ***Governance and institutional strengthening, measures of progress and renewed confidence***

According to a World Bank survey of businesses in 2013-2014, poor governance negatively affects economic growth. According to the survey, respondents cited corruption, energy problems, and underperformance of government-held corporations (JIRAMA, Air Madagascar, Madarail) as obstacles to growth in Madagascar. These three variables are closely linked to problems of governance.

In fact, corruption makes transactions more costly and discourages private investment and growth by favoring the underground economy; the problem of electricity supply, insofar as it reflects poor management, forces companies to operate below their potential capacity; and inadequate tax collection owing to poor performance of tax and customs services jeopardizes the government's financing capacity, contributes to the deterioration of infrastructure and higher transportation and production costs, and imposes an increasingly large tax burden on fewer and fewer taxpayers.

The strategy for governance focuses on two areas of effort: improving anti-corruption laws and strengthening the jurisdiction in charge of corruption cases.

Law 2016-020 on the fight against corruption has been approved. It replaces the 2004 anti-corruption law after more than a dozen years of implementation revealed clear deficiencies. The purpose of the new law is to ensure integrity in the exercise of any public or elective office and to reform private sector practices to promote an environment favorable to socioeconomic development. For example, the new law:

- (i) amends a number of anti-corruption measures, provides for dynamic, harmonized management of asset disclosure by government officials, introduces the concept of disqualification for senior government officials, and establishes a sector policy to prevent and control corruption;
- (ii) introduces or updates specific corruption offenses such as misappropriation of public assets, conflicts of interest, corruption offenses by private-sector entities, criminal liability for corporations, and misappropriation of private assets; provides protections for witnesses, whistleblowers, and agents charged with enforcing anti-corruption laws; and strengthens the powers of the Independent Anti-Corruption Bureau (BIANCO);
- (iii) prohibits the use of influence or abuse of power to influence votes or a public, union, or association election.

The law also identifies the institutions charged with implementing anti-corruption measures: The High Counsel on Integrity (CSI), BIANCO, the National Financial Intelligence Unit (SAMIFIN), local anti-corruption centers (PACs), and the agency in charge of asset recovery.

From an institutional perspective, the anti-corruption strategy provides for the reform of the jurisdiction in charge of corruption cases and the establishment of an agency charged with recovery of illegally acquired assets. In this regard, the PACs created by Law 2016-021 replaced the criminal anti-corruption forum created by inter-ministerial circular in 2004 whose ineffectiveness suggests a broader approach involving all actors in the fight against corruption, including civil society organizations. The inclusion of such organizations in the PACs will enable all citizens to participate in the fight against corruption.

The PACs will be gradually established in the six provincial capitals. The anti-corruption institutions and the Judiciary management body (Conseil Supérieur de la Magistrature) will take part in the selection of magistrates, clerks, and other members appointed to the PACs. The mode of selection will be based on criteria, in particular a background survey to ensure the PAC members' integrity. The Antananarivo PAC is expected to be established this year (2017), with those of the other provincial capitals following in 2018.

The PACs come under the authority of the respective judicial institution with respect to legal matters. Monitoring and evaluation of their activities is provided by a committee whose members are drawn from all the anti-corruption institutions. The committee also supervises the preparation and execution of the PAC budget, hiring, and centralized data management. The main objective is to improve the low conviction rate for corruption and money laundering offenses.

The PACs' jurisdiction extends to all offenses relating to corruption and money laundering.

The asset recovery law is designed to create a mechanism for attachment and confiscation of the proceeds of unlawful activity. In addition to sanctioning illegal acts, the law could help replenish government funds.

The technical committee in charge of drafting the proposed law is composed of members from the Ministry of Justice, the MFB, the CSI, the BIANCO, and the SAMIFIN. The committee is assisted in its work by the UNDP.

The proposed law on asset recovery is complete and will be submitted to the legislature in May for adoption. The decree establishing the agency charged with asset recovery is dependent on the legislature's adoption of the asset recovery law.

To strengthen enforcement of the law, the time required to process anti-corruption cases must be shortened. To this end, the implementation of a corruption statistics system, based on surveys conducted by the BIANCO and the SAMIFIN, is essential to the judicial mechanism. The statistical information should be published periodically to facilitate monitoring and assessment of the performance of the jurisdiction in charge of corruption cases (PAC).

Coordination and capacity-building actions, as well as substantial budget appropriations, are indispensable in order to realize the potential of the existing anti-corruption institutions.

- ***Rural development to ensure lasting food security and poverty reduction***

The rural sector has enormous potential for sustainable, inclusive growth and poverty reduction. It employs 75.0 percent of the total population and 60.0 percent of youths, and accounts for 86.0 percent of the total number of jobs. Agricultural value added is estimated at 27.0 percent of GDP. The sector's performance in terms of growth trends is generally poor, with little change in GDP contribution for many years and a growth rate of about 1.5 percent, below the rate of demographic growth.

The area potentially available to major crops, pasture areas, ranching, or other large-scale production is estimated at over 35 million hectares. The agricultural policy instituted in 2008, which promoted increased cultivation of out-of-season crops, combined with the favorable effects of climate conditions produced tangible results in 2008 and 2009, but a decline followed due to insufficient maintenance of hydro-agricultural infrastructure and climate events.

Agriculture is characterized by small operations with low productivity reflecting obsolete means of production and difficulties in access to fertilizer and improved seeds. The sector attracts little investment because of various risks, notably climate risks and international price fluctuations. Insecure land tenure continues to discourage extensive agriculture and contributes to the flight from rural areas, which in turn fosters the growing informal urban sector. Demographic growth is relatively high. In rural areas, the average household size is 4.9 persons compared to 4.5 in urban areas; the national average is 4.8 persons. And recently, the effects of climate change on agriculture have become more pronounced.

Rice cultivation occupies 1.2 million hectares and employs 2.0 million rural households; the production of 4.0 million tons per year is consumed. Cassava cultivation represents 30.0 percent of cultivated land; the production of 3.0 million tons per year plays a critical role in food security for the rural population. The volume of exports is low, and processing industries are few. Maize cultivation represents 12.0 percent of cultivated areas; 75.0 percent of the production is consumed and 25.0 percent is used for animal feed. Industrial and cash crops represent potential opportunities for increasing producer incomes and creating jobs. The segment's underdevelopment is linked to fluctuations of international prices.

A number of sector policies and programs have been conducted in the past: the Rural Development Action Plan (PADR) in 1999, the Rural Development Policy Letter (LPDR) in 2004, the National Rural Development Program (PNDR) in 2005, the Five-Year Master Plan for Rural Development during 2004-2009, and the agricultural sector program (PSA) in 2008.

Thereafter, the Agriculture, Livestock, and Fisheries Sector Program (PSAEP) was instituted in 2015. The principal challenges to be addressed are increasing productivity, expanding production areas, food security, access to the local market, repositioning of exports, and sector governance.

The strategy is dictated by the need to overcome the following challenges:

- (i) **increased productivity** and promotion of competitive productive systems: use of quality inputs such as selected seeds and fertilizer and increased funding for research centers to develop agricultural techniques adapted to cultural conditions; increased investment in irrigation infrastructures; strengthened land tenure; increased use of small agricultural equipment and training for farmers, particularly young farmers, in rural trades; diversification of financing sources, such as private financing in the context of microfinance and rural financial services, and access to credit;
- (ii) **expanded production areas**: secure land tenure to protect family operations and investors, promotion of investments through the creation and management of investment zones;

A preliminary study for the implementation of the PSAEP revealed that an 86.0 percent increase in farming could generate a 40.0 percent increase in farm incomes and ensure food security for close to 20.0 percent of the rural population. However, it would require increasing the area of land under cultivation by 2 million hectares;

The security of land tenure could be improved by continuing and intensifying the issuance of land certificates until the new real property code is promulgated;

- (iii) **food and nutritional security and reduction of risks for the most vulnerable**: strengthened resilience to shocks through increased production, fortification of storage infrastructures, improved post-harvest procedures, and increased research specific to food security; facilitation of access to foodstuffs by grouping together small producers; integration of production areas; promotion of small processing units; building resilience to natural disaster risks through improvement of the early warning system and support for the risk information system;
- (iv) **access to local markets and repositioning of exports with integration in the market dynamic**: development of commercial segments, agro-industry, and industrial fisheries, and development of the ranching system in the livestock sector;
- (v) **improved sector governance**: organization and professionalization of actors, with reform of the agricultural education and training system, retraining of actors in new technologies; organization of platforms for dialogue and consultation; creation of a support center for production and marketing; development of guidance and decision-support tools, with standardization of the Agriculture, Livestock, and Fisheries (AEP) statistical system;

- (vi) **improvement of the collection and distribution system:** development of competition in controlled (non aléatoire) or overcrowded collection areas; efforts to rehabilitate infrastructures to remedy any disruption of the collection and distribution system;
- (vii) **coordination of agriculture with industry:** development of agro-industry to generate positive externalities for agriculture; rehabilitate and expand coverage of rural roads to integrate isolated areas;
- (viii) **expansion of the social protection system to vulnerable farmers** to improve their resilience to the risk of natural disaster caused by climate change.

- ***Resilience and risk and disaster management***

Madagascar is vulnerable to natural disasters by virtue of its geographic location. This situation is made worse by the effects of climate change, as seen in periods of scorching drought alternating with torrential rains, often followed by flooding. The effects on the economy, society, and infrastructure accentuate poverty because of inadequate prevention and, above all, lack of resiliency among the most vulnerable segments of the population who must contend with the collapse of dwellings, homelessness, destruction of communications infrastructure, interruption of traffic, damage classrooms and healthcare centers, etc.

According to a World Bank report, six periods of drought occurred between 1990 and 2013, resulting in the deaths of 200 persons and another 3,515,290 affected by the droughts. During the same period, three major floods affected 82,987 persons, including 45 dead and economic losses estimated at US\$150 million.

According to a United Nations Food and Agriculture Organization (FAO) report, cyclones and heavy rains in early 2015 flooded 25,000 hectares of rice field and reduced rice production by 6.0 percent, resulting in massive imports of cereal products. Other products, such as cassava and maize, declined by an average of 10.0 percent. In parallel, hydro-agricultural facilities were destroyed and farmlands were covered with sediment and silt. The FAO estimated the number of persons affected by food insecurity in 2015 at 1.9 million, of whom 1.4 million faced moderate food insecurity and nearly 450,000 faced severe food insecurity.

The provisional damage assessment following the Enawo cyclone of early March 2017, prepared by the National Risk and Disaster Management Bureau (BNRGC) cited 80 deaths and over 160,000 injuries, including over 32,000 in Antananarivo, the capital; 100 percent of the vanilla plantations and 80.0 percent of rice crops in the northern part of the island were destroyed.

The drought and cyclone during the first half of 2017 impacted agricultural production, leading to a downward adjustment of the economic growth target provided in the 2017 budget law, from 4.5 percent to 4.3 percent. Accordingly, the outlook for agricultural production is a decline in 2017.

Climate change and the attendant risks threaten the process of sustainable development and the living conditions of the vulnerable segments of society. The aim of the strategy is to reduce the risk of disaster and increased resilience in order to provide the populations with acceptable, safe living conditions.

The key components of the strategy are as follows:

- (i) **strengthen national capacities while relying on local communities**, and strengthen the capacities of the BNRGC and its regional offices to respond to emergencies. Strengthening risk and disaster management capacities should take place at the national and local level with involvement of the local community, which is the key actor in implementing actions to reduce risks and handle post-disaster situations;
- (ii) **increase the resilience of the vulnerable**, particularly the poor, to hazards through the implementation of disaster early warning systems; implement a comprehensive information system to be able to respond quickly with techniques and technologies appropriate to local conditions; improve education and outreach on climate change and the related risks, since persons living in rural and high-risk areas are often the victims of inadequate education and outreach; mobilize humanitarian and development assistance to strengthen resilience and reduce vulnerabilities;
- (iii) **develop and implement institutional and organizational procedures and mechanisms** that encourage and require the inclusion of risk and disaster considerations and development strategies:

risk and disaster management is crosscutting, and its success depends on the involvement of all development actors;

- (iv) **establish financial mechanisms** to permit real-time response to risks and disasters, in particular emergency and mitigation measures.

- ***Rehabilitation and development of infrastructures to ensure access to markets***

Lack of integration is a factor in market dysfunction that leads to temporary or prolonged shortages of goods in urban areas. It perpetuates the impoverishment of direct producers and urban consumers by devaluing agricultural products and eroding purchasing power through inflation. It also perpetuates the subsistence economy by restricting access to commercial outlets for products – a situation that can produce serious macroeconomic imbalances through its adverse impacts on production, imports, and international reserves.

Insufficient maintenance of transportation infrastructures and failure to pay the axle tax undermine the development of trade and free circulation of persons. Numerous production areas remain isolated because of dilapidated road infrastructures: access to schools and healthcare is made difficult, as is the delivery of inputs and production, which penalizes the agriculture sector.

Excessive carrier margins, reflecting the neglected state of infrastructure and probably a lack of competition, impact transportation costs and erode households' purchasing power, undermining the competitiveness of Malagasy products on the international market. In practice, the relatively few collectors carve out comfortable margins by paying producers low prices and charging consumers high prices. They generally operate only in controlled (non aléatoire) collection areas. However, a reduction of transportation costs would promote the improved competitiveness of the economy and especially the emergence and development of the local market.

The pace of integration, and therefore the construction or rehabilitation of rural roads, has slowed in recent years, an effect of budget constraints resulting in restricted appropriations for the Highway Maintenance Fund (FER) and, in turn, reduction of its operational capacities.

In fact, the percentage of communes accessible by road throughout the year has remained flat at roughly 40 percent for the last three years; the percentage of the national highway network paved and in good condition is 45.0 percent; the percentage of unpaved national roads in good condition was only 14.0 percent in 2015; and the percentage of rural roads in good condition was only 12.0 percent.

The government's priority is to develop road infrastructures serving areas with strong production potential. The strategy is broadly based on:

- (i) restoring the financial capacity of the FPR by increasing its budget by 10 percent to 25 percent;
- (ii) ensuring access to areas with strong production potential and palpable economic and social impacts: development of externality affects with positive impact on employment and income, greater availability of production factors and elimination of any market dysfunctions, improved international competitiveness, etc.

- ***Energy development***

The program for reform of the government-held utility JIRAMA will continue, together with implementation of the recommendations from the audit of electricity supply contracts, the lease of thermal plants and generators: competitive recruitment of JIRAMA management personnel according to predefined criteria, lower-cost development with the transition from thermal-based generators to hybrids or generators using lower-cost fuel, income protection, prevention of illegal connections and theft of fuel, reduction of losses due to technical and non-technical causes, adherence to principles of transparency and governance (open competition) for contracts relating to the lease of generators and electric plants, gradual adjustment of rates.

In the medium term, the rational use of renewable energies is emerging as a lasting solution to persistent energy problems. Renewable energies are inexhaustible because they can be systematically regenerated

in volumes that far exceed consumption. They pollute less, are readily accessible to all socioeconomic strata, and facilitate lower-cost development.

The problem, however, lies in the lack of available financing in view of the high cost of the investment required to exploit renewable resources for energy purposes. Only a few private initiatives have been implemented to date: the Barefoot College project, in partnership with the World Wildlife Fund; the Elec Antin micro plant powering low consumption residential and school lighting for the Antintorona, a village in northwest Madagascar; the first biomass thermoelectric plant, completed in 2012 in the commune of Andaingo, located midway between Moramanga and Ambatondrazaka; the first wind farm, completed in 2007 in Sahasifotra, a village located 30 kilometers from Diego Suarez in the north. Recently the Solar Scaling project has been launched with support from the International Finance Corporation, a member of the World Bank Group.

The energy development strategy is primarily based on:

- (i) the production of electricity from renewable energy sources, hydraulic, solar, and wind;
- (ii) hydroelectric development; and
- (iii) the development of electricity lines.

A financing plan has been prepared for the four priority projects: the hydro-solar-wind project in the Grand Sud, Tana-Tamatave transmission line interconnection (250 kilometers), Fianarantsoa Mankara-Mananjary transmission line interconnection. These projects entail obvious economic impacts (job creation, reduced energy costs, better working and study conditions for students and teachers).

The energy development strategy is based on: an improved legal framework; development of natural capital and preservation of the environment, access to sustainable energy for all; electrification of rural, semi-urban, and urban communities, ensuring Madagascar's energy security and independence; adapting and improving the regulatory and institutional framework and the business environment; and finally, sustainable financing of energy needs.

- ***Improved quality of the education and health system and expansion of the social protection system***

In regard to healthcare, roughly 77.0 percent of household survey (EPM) respondents state that they have access to healthcare facilities. However, the quality of services is deteriorating: office visits are free but medicine is rarely available, obliging patients to pay a portion or all of the cost. This phenomenon occurs in urban areas but is most prevalent in rural areas.

The illiteracy rate has declined and the school enrollment rate has increased following actions to reduce parental expenses (coverage of school fees, distribution of school kits) – narrowing the gap between the literate and illiterate. However, the impact on absolute poverty is less tangible: the quality of instruction is still in need of improvement, the principal challenge of the primary education policy.

The strategy for development of the health education system is based primarily on improving the quality of services, access to education, development of educational and healthcare infrastructures, institutional strengthening, and the creation of fiscal margins for the benefit of social sectors:

- (i) creation of the basis for strong, inclusive growth through improved quality of education and health services.

The success of this strategy relies on: reinstating the preparation of MTEFs to obtain additional funding for the health sector; application and monitoring of the MTEFs; budget planning and programming reforms; and scaling up of performance-based financing to improve the delivery of services.

- (ii) improved access to education and health services, expansion of the social protection system, strengthening of the legal and institutional framework, in particular by defining responsibilities for the support of different programs, including the pilot implementation of mutual insurance in certain regions.

In regard to this second strategy, certain actions will be critical to its implementation: the implementation of the National Universal Health Coverage Strategy, implementation of the national health insurance system and the National Health Solidarity Fund (CNSS), and the revitalization of mutual health organizations.

- (iii) creation of additional fiscal headroom by redirecting current spending to priority social sectors; institution of a year of preschool in public primary schools (EPP), construction and equipment of new classrooms in EPPs, hiring of additional teachers, and the provision of school kits to elementary school students.
- (iv) improving services through adherence to principles of good governance: training for non-civil service teachers, establishment of an effective, community-based system for supervision of elementary school teachers, introduction of school meal programs in disadvantaged areas, expansion of the conditional cash transfer (TMC) program to vulnerable areas, and finally, the integration of community teachers into the civil service according to merit-based criteria.

Access for poor and vulnerable populations to contributory and non-contributory schemes, like the geographic coverage of current programs, is quite limited and inadequate to break the cycle of poverty. The dispersion and fragmentation of programs results in inadequate coordination in planning, implementing, monitoring, and evaluating actions. The lack of a data collection system precludes the assessment of interventions at the national level.

Madagascar's social protection systems include a broad range of contributory and noncontributory systems and various assistant programs, including the retirement fund, pension and insurance plans, programs providing access to basic social services, programs supporting poor and vulnerable groups, social assistance programs for specific vulnerable groups including the elderly, the disabled, women, and children.

The World Food Program (WFP) school meals program is one of the means of support provided to vulnerable households to encourage them to send their children to school. The program operates in the south of Madagascar and supports 292,000 students enrolled in 1208 public and private elementary schools.

- ***Improved access to water, sanitation, and hygiene***

The water and sanitation sector has posted slow progress due to inadequate investment and lack of maintenance of existing infrastructures. At the national level, the rate of access to water and sanitation in Madagascar (41 percent) is below international trends (51 percent). According to the results of a 2012 INSTAT survey, 27.7 percent of the total population had access to drinking water, or 77.4 percent of urban populations and 17.7 percent of rural populations.

However, wide disparities exist between different regions. The regions with the highest coverage of drinking water infrastructures are Itasy and Analamanga, with access rates of 92.0 percent and 79.0 percent, respectively. The rate of use of toilets is estimated at 51.5 percent, with clear regional disparities (higher rates in the high plateaus). Three regions (Atsimo Atsinanana, Androy, and Sofia) have the highest prevalence of open defecation due to cultural barriers and lack of infrastructure.

In urban areas, access to sanitation faces specific difficulties associated with demographic growth, population density reflecting the lack of an urban development policy, and the lack of an organized system of collecting household waste and garbage. Lack of financing is also a major problem affecting the water and sanitation sector.

Sanitation encompasses all interventions to ensure the cleanliness of inhabited areas and limit the impacts of pollution on the environment. The objective of sanitation is twofold: to preserve the population's health and reduce the impact of pollution on the natural environment.

The strategy aims to organize and promote actions to improve hygiene and sanitation, and combines several areas of effort:

- (i) clarification of responsibilities: overlap of responsibilities between the respective ministry and the communes;
- (ii) improved performance of sanitation services: inefficiency resulting from lack of material and financial resources; services generally integrated into other communal services;
- (iii) adoption of a mode of funding that ensures efficiency and recovery of costs within the limits of the population's ability to pay: most services are inefficient and infrastructures are rapidly deteriorating;
- (iv) reduction of investment costs: sanitation infrastructures are dilapidated, inadequate, and even nonexistent due to inappropriate technologies and high maintenance costs;
- (v) management and control of environmental impact: wastewater and untreated sewage are dumped at disposal sites; discharge is not controlled;
- (vi) stepped up outreach actions and continued efforts to mobilize resources.

- ***Improved statistics system and reform of INSTAT***

The fundamental policy options, the related strategies, and the monitoring and evaluation of their performance require reliable statistical information produced in real time. Reform and reorganization of the national statistics system and INSTAT are part of the framework of reinvigorating the statistics system and improving economic governance. The aim is to be able to respond to users immediate needs through improved availability of statistics.

The reform of INSTAT should be pursued with respect to:

- (i) reorganization of the institute and strengthening of its capacities;
- (ii) enhancing legal provisions related to statistics: amendment of texts governing the production and dissemination of statistics; national statistical development strategy covering the period 2016-2019;
- (iii) the production and dissemination of statistics: publication of related concepts and methodologies, preparation of national accounts on a new basis, as well as quarterly accounts; general census of the population and housing; development of the index of industrial production on a new basis; and foreign trade statistics;
- (iv) coordination of statistics activities: conclusion of memoranda of understanding between the MFB, the BFM, and the Ministry of the Interior.

IV. CONCLUSION

- ***Conditions for the strategy's success***

The success of the strategy depends on factors associated with the domestic and international context. Domestic political stability is fundamental as a precondition to increased private investment. History has shown that foreign capital flows are closely linked to the evolution of the domestic political context and domestic macroeconomic conditions. Stability in both domains affords better predictability in a number of areas: optimal choice of sectors of intervention, investment outlook, return on investment, etc.

Widespread support for the strategy on the part of the Malagasy population and development actors is a sine qua non for implementation. This calls for the organization of national and regional communication and outreach campaigns directed to the country's different socioeconomic segments.

- ***Risk factors***

The principal risk is institutional weakness: inadequate human resources and insufficient financial and technical resources, reducing institutions' operational capacity. This could hamper the effective implementation of the strategy and jeopardize the achievement of its objective of reducing poverty. An unforeseeable change in the international context is also a serious risk entailing adverse impacts for the investment decision.

Other risks, generally inherent to developing countries, are closely linked to the unavailability of reliable information to evaluate the strategy's performance. Yet such an assessment is a prerequisite to adjusting or refocusing the strategy if needed to improve its effectiveness.

Ultimately, the DDE is the primary operational framework for poverty reduction. The proliferation of equivalent documents raises doubts as to the consistency of government strategies, which could discourage individual initiatives to the point of undermining the strategy itself.

ANNEX: THE DDE AND MADAGASCAR'S APPROACH TO ACHIEVING THE GOALS OF THE 2030 AGENDA FOR SUSTAINABLE DEVELOPMENT

Madagascar is actively engaged in implementing the 2030 Agenda amid numerous challenges: it is one of the countries that have not achieved the Millennium Development Goals (MDG) and, with a score of 36.2 out of a possible 100, Madagascar ranks 140th in achievement of the Sustainable Development Goals (SDGs) according to the July 2016 *SDG Index and Dashboard – Global Report* released by the Sustainable Development Solutions Network (SDSN) and Bertelsmann Stiftung.

The concept of sustainable development has existed for many years in Malagasy law (the Environmental Charter, the 2010 Constitution). The government appropriated the implementation process well before the adoption of the 2030 Agenda in September 2015.

Sustainable Development Goals (SDG) implementation process

The implementation of the SDG comprises two phases:

- an initial phase of:
 - (i) high-level political engagement through participation in political summits and expert meetings at various levels, as exemplified by signature of the Paris Accord on Climate Change in April 2016;
 - (ii) lasting improvement of the various stakeholders' performance through capacity building actions (meeting of the United Nations Economic Commission for Africa in Algiers to propose SDG indicators to the United Nations Statistical Commission; training on the results integrated analysis (RIA) tool, the Madagascar Action Plan (MAPS) approach, and transformational leadership; participation in regional workshops on SDG and the 2063 Agenda for Inclusive Growth;
- an SDG launch phase including (i) establishment of the institutional mechanism (Steering and Monitoring Committee, COS,² and Technical Committee, CT³); and (ii) a consultation and prioritization process including:
 - an initial national consultation in August 2015, organized to evaluate the linkages between the SDG and the PMD and to put the indicators into the appropriate context;
 - development of a roadmap for implementation of SDGs from November 2015 to December 2016 identifying the different implementation phases to be completed in that timeframe with the respective stakeholder responsibilities and deadlines by:
 - a second national consultation in 2016, organized to ensure adequate outreach for the development actors and provide technical training on the prioritization and incorporation of SDGs in the development strategies and policies.
- Madagascar is one of 22 countries that agreed to conduct a voluntary review, which was presented at the July 2016 high-level forum organized in New York to: (i) evaluate the coordination of national development policies and strategies with the SDGs and integration of the SDGs, and (ii) assess progress in prioritizing targets around the SDGs.

For Madagascar, the key issues and challenges for the review are (i) Madagascar is no longer a mere participant with roles to play but a full-fledged stakeholder, and (ii) improving the effectiveness and efficiency of the 2030 Agenda implementation process.

² Chaired by the Prime Minister or his representative and composed of representatives of the Prime Minister's office, the National Assembly, the 13 ministries, the UNDP, the African Development Bank, the United Nations Population Fund, and the African Union.

³ Chaired by the Director General of the Ministry of Economy and Planning and composed of representatives of technical departments, civil society, the private sector, universities, and research centers.

Initial lessons drawn from the SDG process

The various stakeholders found that the “*national framework documents*” on development policy converge and are coordinated with the SDGs. The principal challenge is to strengthen the technical and institutional capacities of the different stakeholders so they may fully assume their respective roles. The institutional mechanism should be supplemented by a coordinating body, in particular to address coordination among sectors, and mechanisms for representation and consultation of civil society organizations.

A good practice Madagascar can share concerns improvement of the mechanism for monitoring the effectiveness of official development assistance (ODA). A Permanent Technical Secretariat for Development Assistance Coordination has been established and provided with an IT platform for ODA management. The secretariat reports periodically on development cooperation for Madagascar.

Madagascar’s achievements in implementing the SDGs include, notably:

- *The integration of the 2030 Agenda* in national development plans and strategies is under way and budgeting will start in 2017;
- *The prioritization of SDG targets has begun* but has yet to be finalized. The next step is to target resources, giving particular attention to coordination, inter-sectoral dimensions, and decentralization;
- *Efforts to integrate SDGs* in development policies and strategies involve multiple actors;
- *Development cooperation is becoming increasingly efficient.*

Madagascar has also demonstrated progress in the following areas:

The government has adopted a number of measures in favor of the most vulnerable populations: (i) 21 commitments for the southern regions of the country; and preparation of the National Social Protection Policy; (ii) active participation in federations of disabled persons during the review and implementation process.

The analysis of performance with respect to Natural Capital (4) is under way. Madagascar has chosen two indicators: total wealth (US\$6500 per capita in 2014), and net adjusted savings (net adjusted savings were negative). Slightly over one-third (36 percent) of total wealth is provided by natural capital.

Outlook

The next steps for implementation are:

- The establishment of the SDG monitoring and evaluation mechanism, including integration of the SDGs into the updated National Integrated Monitoring and Evaluation System (SNISE), preparation of the MTBF incorporating the SDGs, determination of the baseline, and the general population and housing census (RGPH);
- Mobilization of resources. The approach is inclusive, incorporating civil society, businesses, and other key players, while promoting full and integrated use of all funding sources; improved effectiveness of ODA; promulgation of implementing regulations under the PPP law; promotion of innovative financing such as the mechanisms used by the Global Alliance for Vaccine and Immunization (GAVI);
- Adoption of the SDG process, which calls for intensive, inclusive communication in order to mobilize all of Madagascar’s civil society groups as well as local communities and citizens around the SDG. Regional communication and outreach activities should receive strong support. Madagascar will continue and step up efforts to include the SDGs on the agendas of central and regional governments, during the current administrations and thereafter;

- Meeting needs in terms of capacity building. The needs include requirements for assistance as well as information on good international practices to address questions such as how to finance investment plans and improve institutional mechanisms;
- With respect to SDG 17, the implementation of the Busan monitoring framework developed by the Global Partnership for Development Effectiveness through (i) preparation of a development cooperation policy paper and strategy for division of work among the development partners, and (ii) the establishment of a mechanism to assess the performance of each development partner.

Conclusion

- The progress achieved in terms of protection of the environment, biodiversity, and climate should be further supported to ensure that the development of Madagascar's natural resources is truly the basis for lasting, sustainable development and an effective means to fight poverty.
- The continued efforts to ensure acceptance and inclusiveness for the PND coupled the SDGs, and the manifestation of true political will to reduce inequalities will necessarily strengthen peace and security in the country.
- Considerable effort and attention should be given to examining Madagascar's particular requirements and characteristics through the identification of targets and prioritization of actions; the alignment of sector strategies and implementation plans and prioritization of objectives are essential and urgent in the agriculture and environment sectors to lay the foundation for sustainable development of natural resources.
- Performance in regard to human capital was "relative." The MDGs served to "reconcile" objectives. This situation calls for renewed differentiation of support in favor of the health and education sectors.
- A strong, capable institution is needed to channel development efforts around the SDGs and turn sector framework documents into coherent actions that produce impacts for the most vulnerable.
- The continued mobilization and effort of the international community and the private sector is likewise needed to help Madagascar overcome present and future challenges and make tangible progress toward achieving the sustainable development objectives.

The next steps are:

- to organize regional workshops not only for information and communication but also to continue discussion on the prioritization of targets and choice of indicators. The RGPH will supplement the statistical bases for the exercise; and
- to include SDG issues in the domestic resource mobilization strategy and the National Human Development Report.