AFRICAN DEVELOPMENT BANK **ADB/BD/WP/2019/265/Approved**	**AFRICAN DEVELOPMENT FUND** **ADF/BD/WP/2019/180/Approved** **26 November 2019** **Prepared by: RDGS/ECGF/PGCL** Original: French

BOARD APPROVAL **Lapse-of-time Procedure** **26 November 2019**	**FOR INFORMATION**

MEMORANDUM

TO : **THE BOARDS OF DIRECTORS**

FROM : **Vincent O. NMEHIELLE**
Secretary General

SUBJECT : **MADAGASCAR: ECONOMIC COMPETITIVENESS SUPPORT PROGRAMME - PHASE III (PACE III)***

ADF GRANT OF UA 7.91 MILLION
TSF GRANT OF UA 2.06 MILLION

The **Grant Proposals** together with the **draft Resolutions** were submitted for your **consideration on a Lapse-of-time Basis** on 12 November 2019.

Since no objection was recorded by 5:00 p.m. on 26 November, 2019, **the said Proposals are considered as approved and the Resolutions adopted**.

Attach.

Cc.: **The President**

***Questions on this document should be referred to:**

Mrs. J. NGURE	Acting Director General	RDGS	Extension 8501
Mr. A. COULIBALY	Director	ECGF	Extension 2536
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SCCD: E.D.

AFRICAN DEVELOPMENT BANK GROUP

PROJECT : ECONOMIC COMPETITIVENESS SUPPORT PROGRAMME - PHASE III (PACE III)

COUNTRY : MADAGASCAR

APPRAISAL REPORT

Date: October 2019

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BANK GROUP AFRICAN DEVELOPMENT

ECONOMIC COMPETITIVENESS SUPPORT PROGRAMME PHASE III (PACE III)

GOVERNANCE AND PUBLIC FINANCIAL MANAGEMENT COORDINATION OFFICE (ECGF)

November 2019

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CURRENCY EQUIVALENTS

July *2019*

Currency Unit	=	Ariary (MGA)
UA 1	=	USD 1.38
UA 1	=	EUR 1.23
UA 1	=	MGA 4,931

FISCAL YEAR

1 January - 31 December

WEIGHTS AND MEASURES

1 tonne	=	2,204 pounds (lbs)
1 kilogramme (kg)	=	2.200 lbs
1 metre (m)	=	3.28 feet (ft)
1 millimetre (mm)	=	0.03937 inch (“)
1 kilometre (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

ABBREVIATIONS AND ACRONYMS

ADF	African Development Fund
AFD	French Development Agency
AfDB	African Development Bank
AGOA	Africa Growth and Opportunity Act
ARMP	Public Procurement Regulatory Authority
BIANCO	Independent Anti-Corruption Bureau
CA	Court of Auditors
CNM	National Public Procurements Commission
COI	Indian Ocean Commission
COMESA	Common Market of Eastern and Southern Africa
CPIA	Country Policy and Institutional Assessment
CSP	Country Strategy Paper
DDP	Directorate of Public Debt
DGT	General Directorate of the Treasury
ECF	Extended Credit Facility
EU	European Union
FDI	Foreign Direct Investment
GAP II	Governance Action Plan
GDP	gross domestic product
I-CSP	Interim Country Strategy Paper
ICT	Information and Communication Technologies
IDEV	Independent Development Evaluation
IMF	International Monetary Fund
IP	Implementation Plan
IPR	Implementation Progress Reports
IPZ	Industrial Processing Zone
JIRAMA	National Electricity and Water Company of Madagascar)
MDG	Millennium Development Goal
MFB	Ministry of Finance and Budget
MPAE	Ministry attached to the Presidency in charge of Agriculture and Livestock
MW	megawatt
NDP	National Development Plan
NEP	New Energy Policy
OCSIF	Investments and Financing Coordination and Monitoring Agency
PAGI	Institutional Governance Support Project
PAPI	Institutional Support Project for the Promotion of Private Investments
PARGE	Economic Governance Reform Support Programme
PARSE	Energy Sector Reform Support Programme
PCG	Partial Credit Guarantee
PEPBM	Lower Mangoky Irrigation Area Extension Project
PFM	Public Finance Management

PIP	Public Investment Programme
PIU	Project Implementation Unit
PPP	public-private partnership
PRIASO	South-West Agricultural Infrastructure Rehabilitation Project
PSAEP	Agriculture, Livestock and Fishery Programme
PSMFP	Public Finance Modernization Strategic Plan
PURE	Emergency Economic Recovery Programme
RDGS	Southern Africa Regional Development, Integration and Business Delivery Office
SDR	Special Drawing Rights
SEZ	Special Economic Zone
TFP	technical and financial partners
TSF	Transition Support Facility
UA	unit of account
USD	United States dollar

PROGRAMME INFORMATION

INSTRUMENTS	:	General Budget Support
PBO DESIGN MODEL	**:**	Programme-Based Operation

GRANT INFORMATION

Client Information

BENEFICIARY	:	Republic of Madagascar
SECTOR	:	Multisector
EXECUTING AGENCY	:	Ministry of Finance and Budget (MFB)
ADF GRANT AMOUNT	:	UA 7.91 million
TSF GRANT AMOUNT	:	UA 2.06 million

Financing Plan 2017-2018-2019

Source	Amount (2017)	Amount (2018)	Amount (2019)
TSF Grant	UA 10 million	UA 10 million	UA 2.06 million
ADF Grant			UA 7.91 million
TSF PCG	USD 31 million from PCG		
IDA/World Bank Grant	USD 85 million	USD 90 million	USD 200 million
European Union	EUR 15 million	EUR 15 million	0
France (AFD)	EUR 5 million	Not stated	0

Key Information on TSF and ADF Grant Financing

Grant currency	UA
Interest type	N/A
Interest rate margin	N/A
Service charge	
Commitment fee	
Maturity	
Grace period	

Implementation Schedule – Key Milestones (expected)

Activities	Dates
Appraisal	July 2019
Negotiation	October 2019
Approval	November 2019
Effectiveness date	November 2019
Disbursement - Phase III	November 2019
Completion report	September 2020

EXECUTIVE SUMMARY OF PROGRAMME

Programme Overview	**Programme Name:** Programme Name: Economic Competitiveness Support Programme, Phase III (PACE III) SAP Code: P-MG-KA0-011 Geographic Reach and Sector: Nationwide Schedule: 3 years, 2017 - 2019 Operational Instrument: General Budget Support Financing Phase III: ADF Grant of UA 7.91 million; TSF Grant of UA 2.06 million Sector: Multisector
Overview of Country Context in 2018	Economic growth is projected to stand at 5.2% in 2019 and 5.5% in 2020, an improvement over the 2017 rate of 4.3%. The peaceful presidential elections of January 2019 marked the first political alternation in Madagascar. President Rajoelina won the poll with 55.6% of the votes on a platform of growth acceleration and drastic poverty reduction. The risks to the economic outlook are external shocks and climate change, the latter of which affects agriculture. Prices are expected to be brought under control in 2019 and the inflation rate might stand at 6.4% in 2019, compared with 6.1% in 2018 and 9% in 2017. On the social front, Madagascar is plagued by deep poverty and wide disparities. In 2013, the national poverty rate was 73.7%, attributable to rapid population growth (2.8% annually) and job insecurity. In 2015, the country adopted a National Social Protection Policy that placed emphasis on establishing social protection nets.
Lessons Learned	Key Lessons Learned Reflected in the Programme: Lesson 1: Reform support operations that are complementary with investment projects targeting the same areas contribute to the effective implementation of reform measures. *Consideration:* PACE III reform measures are supported by ongoing investment projects in Madagascar (PAPI, PAGOSE, PRIASO and preparatory project financing (PPF) for feasibility studies on the Integrated Agro-industrial Growth Pole Project in the South). Lesson 2: Adopt priority reform measures that have an impact on inclusive economic growth. *Consideration:* PACE III reform measures are a continuation of the Phase II measures being implemented by the Government. These measures will have a positive impact on the development of job-creating sectors, thereby fostering long-term Government commitment and inclusive growth. Lesson 3: When prioritizing structuring reforms, account should be taken of the fragile situation of the country, the programme schedule and capacity of implementation structures. *Consideration*: Given that PACE III measures aim to consolidate the outputs of Phases I and II, the necessary resources for their implementation have been identified and implementation structures are supported by TFPs.
Conditions for Ongoing Support	Madagascar meets the eligibility criteria for general budget support. Government's *commitment to poverty reduction* is demonstrated by the implementation of the 2015-2019 NDP. With regard to *macroeconomic stability*, the authorities and the IMF concluded a three-year programme under the Extended Credit Facility (ECF). The fourth and fifth programme reviews conducted in March 2019 and July 2019 concluded that outputs were satisfactory overall. Furthermore, notwithstanding macroeconomic shocks, economic growth can further accelerate to 5.3% in 2019, then 5.5% in 2020. This improvement will be driven by Industrial Free Zone enterprises, extractive industries and sectors such as agro-industry, tourism, building/construction and finance. With regard to *political stability*, recent trends are encouraging. The peaceful presidential elections of January 2019 marked the first political alternation in Madagascar. The country's parliamentary elections were held on 27 May 2019. The elections were won by the coalition supporting the president with an absolute majority of seats. TFPs continue to hold political dialogue with the Government to emphasize the importance of political stability to protect the achievements of completed reforms. As concerns *fiduciary review*, the Bank reviewed the fiduciary framework (Technical Annexes 1 and 2) and agreed with the Government on minimum measures to improve it and strengthen PFM capacity. Lastly, *harmonization efforts* remain intact within the "Budget Support/Public Finance

	Partnership Framework" Group involving the Bank and other development partners, the WB, EU and AFD, which are the main donors for budget support in Madagascar.
Policy Dialogue	Dialogue with the Malagasy authorities on the programme's economic reforms was conducted in a transparent and consultative manner with the other development partners within the "Budget Support/Public Finance Partnership" Group. Dialogue on the selected reforms of this operation started in May 2017 and continued until end-2019, with emphasis on the following points: (i) increase public investment in the social and infrastructure sectors to better deliver inclusive growth; (ii) streamline public spending by reducing non-priority expenditure and pay special attention to the financial problems of JIRAMA and the national carrier Air Madagascar; and (iii) strengthen sector governance to support the structural transformation of agro-industry for inclusive growth. In addition to strengthening dialogue, the Bank, in association with other donors, will support Government's efforts through investment projects (Technical Annex 9).

Results-Based Logical Framework

Project Country and Name: Madagascar / Economic Competitiveness Support Programme (PACE)
Project Goal: Contribute to creating favourable conditions for robust and inclusive growth by improving the economic competitiveness of Madagascar.

	RESULTS CHAIN	PERFORMANCE INDICATORS: Indicator (including CSIs)	Baseline situation	Target	MEANS OF VERIFICATION	RISKS/ MITIGATION MEASURES
IMPACT	Inclusive growth and improved economic competitiveness	Average GDP growth rate	2016: 4.2%	2020: 5.5%	IMF/MFB Report	
		Global Competitiveness Index (Pillar 2 Infrastructure)	2016: 1.9 (1-7)	2020: 2.3	Global Competitiveness Report	
OUTCOMES	Outcome 1. Increase of both public and private investments	Public investment rate and private investment rate (as % of GDP)	2016: 5.3% of GDP and 10% of GDP	2019: 10.5% of GDP and 10.9% of GDP	IMF/MFB Report	***Risk of: (i) socio-political instability; and (ii) macroeconomic instability.*** <u>*Mitigation Measures:*</u> (i) Partnership forged between technical and financial partners around ongoing reforms and the IMF's ECF; and Government commitment to preserve the country's stability ***Risk of limited capacity***: Inadequate institutional and technical capacity to implement reforms <u>*Mitigation Measure:*</u> All technical and financial assistance provided by TFPs to strengthen institutional capacity can mitigate this risk. ***Risk of corruption*** <u>*Mitigation Measures:*</u> Continued implementation of reforms to combat corruption, especially by gradually setting up anti-corruption units
		Number of jobs created	2014: 80 000	2019 : 100,000 [1] (75% of them women)	EDBM	
	Outcome 2. Rationalization of public expenditure	Fewer transfers to public enterprises	2017: MGA 750 billion	2019 : MGA 150 billion	MFB	
	Outcome 3: Sector governance is improved to boost economic competitiveness	Increase in JIRAMA's recovery rate	2016: 54%	2019: 75%	JIRAMA	
		Growth of value added in the primary sectors (PS) and secondary sectors (SS)	PS - 2016: 1.6% SS -2016: 5.5%	PS- 2019: 2.7% SS- 2019: 7.7%	IMF/MFB Report	
OUTPUTS	**Component 1: Improvement of the investments promotion regulatory and institutional framework**					
	1.1. Support for the development of public-private partnerships					
	Development of capacity to prepare and manage PPP projects	National PPP Strategy	2016: No PPP Strategy	Strategy adopted in 2018	EDBM	
		PPP project management structure (**trigger**)	2016: No structure	Structure put in place by decree and functional in 2018		
		Ongoing PPP projects	2016: A list of potential project is available	At least 1 PPP project ongoing in 2019[2]		
	Development of Special Economic Zones	Law on SEZ Establishment of a SEZ	2016: Bill available 2016: No SEZ, study ongoing	Start-up report available in 2018 Launch of tender to establish a SEZ in 2019		
	1.2. Modernization of legal and institutional frameworks to foster greater investments in agro-industry					
	Improvement of the legal framework of sanitary standards for agricultural and agro-industrial products	Implementing decree on sanitary standards for agricultural and agro-industrial products. (***trigger***)	2016: No appropriate regulation	Implementing decree adopted and implemented in 2019	MPAE	
	Establishment of an agro-industrial incubation centre for youths	Incubation centre[3]	2016: No incubation centre	Incubation centre established in 2019		
	Establishment of a legal and institutional framework for the promotion of agropoles	Law governing agropoles	2016: No law	The bill is submitted to Parliament in 2019	MPAE	
		Decree establishing a structure tasked with the promotion and management of agropoles	2016 : No structure	Structure created by decree in 2019		
		Decree instituting the land management and allocation mechanism	2016: No mechanism	Mechanism defined by decree in 2019		
O	**Component 2: Strengthening of sector governance in support of economic competitiveness**					
	2.1. Strengthening of electricity sub-sector performance					

[1] Programme's combined three years
[2] The list of potential PPP projects is attached as Technical Annex 11
[3] Benchmark incubation centre with intake capacity of at least 100 youths per year

<table>
<tr><td rowspan="8"></td><td>Establishment of an energy development master plan (production, transmission and distribution)</td><td>Electricity sub-sector development master plan</td><td>2016: No master plan</td><td>Development master plan adopted by the JIRAMA Board of Directors in 2018</td><td rowspan="5">Progress reports of MEEH and JIRAMA</td><td rowspan="8">in ministries and institutions.

Fiduciary Risk: The risks identified by CFRA can negatively affect the programme implementation and the achievement of its objectives.
<u>Mitigation Measures:</u> Strengthen MFB’s institutional and human capacity through PAGI; monitor the implementation of PSMFP (2017-2026); implement technical assistance and projects financed by TFPs</td></tr>
<tr><td>Promotion of results-based management through the deployment of performance-based contracts[4]</td><td>Performance contract between GM JIRAMA and directors (trigger)</td><td>2016: No performance contract</td><td>Performance contract between GM JIRAMA and directors signed in 2018</td></tr>
<tr><td rowspan="3">Improvement of JIRAMA’s financial and commercial performance</td><td>Settlement of arrears owed to JIRAMA by the State (trigger)</td><td>2016: Arrears payable stand at MGA 19.5 billion</td><td>Gradual settlement:
2018: MGA 7.8 billion
2019: MGA 7.8 billion</td></tr>
<tr><td>Audit of JIRAMA’s assets and liabilities</td><td>2016: Financial situation is not clear</td><td>2018: Audit finalized and a plan prepared to implement recommendations</td></tr>
<tr><td>Installation of prepaid metres in Government departments</td><td>2016: Prepaid metres are not installed on a widespread basis</td><td>2019: Prepaid metres are installed in all Government services</td></tr>
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<tr><td>Gradual reduction of State transfers to Air Madagascar</td><td>State transfers to Air Madagascar</td><td>2017: MGA 303 billion</td><td>2019: MGA 0</td></tr>
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Component 2: Strengthening of sector governance in support of economic competitiveness</td><td colspan="2">ADF Grant: UA 7.91 million
TSF Grant: UA 2.06 million</td></tr>
</table>

[4] Contracts will clearly specify the mutual commitments of the State and JIRAMA, based on the business plan for achieving the company’s financial balance by 2020

I. INTRODUCTION: THE PROPOSAL

1.1. This proposal submitted to the Board for approval concerns: (i) a grant of UA 2.06 million from Transition Support Facility (TSF) resources; and (ii) a grant of UA 7.91 million from African Development Fund (ADF) resources to finance phase three of the Economic Competitiveness Support Programme (PACE III). PACE is a three-year programme-based operation covering the 2017, 2018 and 2019 financial years. PACE II, approved in November 2018, provided a list of reform measures considered to be the indicative triggers for the third phase (PACE III). The chosen programme-based approach has made it possible to improve aid predictability and facilitate alignment with the country's development policies, thus creating conditions for reviving sustained, sustainable and inclusive growth.

1.2. Evaluation of the reform programme in July 2019 showed that implementation of the first two phases (I and II) of PACE has produced significant results overall, in terms of reforms aimed at improving Madagascar's economic competitiveness. At the macrofiscal level, Phases I and II of the programme have contributed to the stabilization of the macroeconomic framework. In 2018, Madagascar achieved a real GDP growth rate of 5.2%, the highest in the preceding 10 years, after robust economic performance of 4.3% in 2017. Overall budget deficit was also contained at around 2.2% of GDP in 2018, compared with 2.4% in 2017, thanks to measures taken to control low-priority spending. After briefly reaching 9% (year-over-year) at end-2017 due to the poor rice crop, inflation gradually declined and stood at 6.1% in December 2018. The risk of external debt distress, which was moderate in 2018, has now fallen to an overall low level, according to the IMF's latest debt sustainability analysis of July 2019. Gross official reserves reached 4.3 months of imports in 2018. Moreover, significant progress has been achieved in the implementation of programme measures to help create regulatory and institutional frameworks conducive to investment promotion. This includes: (i) the establishment of the PPP project management structure; (ii) the adoption of the SEZ Law and the validation of two feasibility studies on the implementation of pilot SEZs; and (iii) the adoption of implementing decrees on sanitary standards for agricultural and agro-industrial products. Progress has also been made in implementing measures to strengthen the performance of the electricity sub-sector. Thus, the key measures taken in the energy sector are: (i) the promotion of results-based management through the signing of performance contracts between the General Manager of JIRAMA and the Directors of the Air Company; and (ii) the improvement of the collection of unpaid bills. In addition, the planned measure to improve the performance of the transport sector through the conclusion of a strategic partnership between the national carrier, Air Madagascar, and a leading private company was also implemented. The aim of the partnership is to strengthen the management of Air Madagascar, with the aim of gradually moving towards positive results by 2021. Concerning the clearance of liabilities, 90% of the amount of Air Madagascar's debt provided for in the Strategic Partnership Agreement has already been settled. This should contribute to the elimination of State transfers to Air Madagascar by end-2019. These positive results call for sustained Bank intervention to consolidate the gains of the first two phases of the programme, and to continue supporting the efforts of Malagasy authorities to achieve a more competitive economy through improved governance of key sectors (energy, agriculture and transport). As with PACE II, the Bank will maintain ongoing dialogue with the Government to ensure effective implementation of PACE III reform measures.

1.3. As a follow-up to the Phase II, PACE III continues the reforms jointly identified in 2018 by the African Development Bank Group and the Malagasy authorities. The continuity sought in this Phase III also stems from the programme-based nature of the operation. This approach will help to establish a medium-term dialogue platform with the authorities and improve aid predictability in order to facilitate alignment with the country's development policies. It will provide part of the country's funding needs for the 2019 financial year.

1.4. PACE III reforms aim to consolidate the achievements of previous programmes and support Government's efforts to implement the reforms listed in the National Development Plan (NDP) 2015-2019. These priorities were reaffirmed by the new authorities as part of the general State policy with a view to enabling the emergence of Madagascar. PACE III will lay emphasis on improving Madagascar's competitiveness to attract more public and private investment in job-creating sectors such as agro-industry. In addition, improving the performance of public companies (JIRAMA and Air Madagascar) will enable the State to reduce its subsidies and transfers to these companies, and channel the resources towards investments in public infrastructure and social sectors with the potential to generate inclusive and sustainable economic growth.

II. POINTS ON THE COUNTRY'S ELIGIBILITY

Madagascar meets the eligibility criteria for general budget support operations defined by the Bank's Policy on Programme-Based Operations approved in March 2012 (ADF/BD/WP/2011/38). Since a detailed analysis of these criteria was presented in the PACE I Appraisal Report, the following sections only give an update of the criteria.

2.1. Criterion 1: Government's Commitment to Poverty Reduction

PACE is in line with the 2015-2019 National Development Plan (NDP). The Implementation Plan (IP, 2015 - 2019) which comes with it reflects the direction of the country's new inclusive and sustainable development policy. These instruments aim to implement the Madagascar Vision presented in the General State policy paper: "Madagascar: a Modern Prosperous Nation". Both documents seek mainly to create the right conditions for sustainable and inclusive economic growth through five strategic priorities, namely: (i) governance, rule of law, security, decentralization, democracy and national solidarity; (ii) preservation of macroeconomic stability and development support; (iii) shared growth and territorial anchoring of development; (iv) appropriate human capital to contribute to the development process; and (v) development of natural capital and building of resilience to disaster risk. The progress made by the country so far is reflected in: (i) a revival in economic growth marked by the return of commercial benefits, the development of tourism, the resumption of infrastructure projects, and increased private investment in major mining projects; (ii) the strengthening of the legal framework to further stimulate private investment, economic diversification and job creation (see §3.2); (iii) the willingness of the new authorities to pursue reforms within the framework of the General State Policy with a view to achieving the "Madagascar Emergence" objective. This new General State Policy lays emphasis, among others, on the following priorities: (i) peace and security; (ii) energy and water for all; (iii) corruption control; (iv) education for all; (v) health; (vi) decent employment for all; (vii) industrialization; (viii) the tourism industry; (ix) food self-sufficiency; and (x) sustainable management and conservation of natural resources.

2.2. Criterion 2 – Political Stability

The presidential elections were held in a peaceful atmosphere in January 2019, leading to political alternation in Madagascar. President Rajoelina won the poll with 55.6% of the vote and an election platform that promised to accelerate growth and reduce poverty. Several ministries have been merged to improve the efficiency of the public administration. On the basis of the General State Policy, the new authorities have embarked on the preparation of a new development plan for the country, dubbed the Madagascar Emergence Plan (PEM), which replaces the just-ended National Development Plan (2015-2019). In addition, the country's parliamentary elections were held on 27 May 2019 to renew the 151-member National Assembly. The elections were won by the coalition supporting the President of the Republic with an absolute majority of seats.

2.3. Criterion 3 – Macroeconomic Stability

2.3.1 The overall favourable environment has strengthened macroeconomic stability and in 2018 Madagascar was able to record its highest real GDP growth rate in 10 years, characterized by declining inflation, sound public finance and a comfortable external position. Economic growth was estimated at 5.2% in 2018, driven mainly by the agricultural sector recovery and an increase in public and private investments. The agricultural sector grew by 4.5% in 2018. The industrial sector recorded a 6.7% growth rate, driven primarily by textiles and the manufacture of essential oils. Despite the plague epidemic that occurred in early 2018, the services sector expanded by 5.4%. The surge in aggregate demand in 2018 was largely driven by public and private investments in infrastructure (roads, airports, energy and the Toamasina Port). External demand for textiles, vanilla, cloves and essential oils also contributed to growth. The budget deficit was contained at 2.2% of GDP in 2018, compared with 2.4% in 2017, thanks to better control of low-priority spending. The total public debt, of which 66.7% is external, inched down from 47.1% of GDP in 2016 to 45.7% in 2018. According to the International Monetary Fund, Madagascar's public debt remains sustainable overall. The risk of external debt distress was deemed low in July 2019. Gross official reserves reached 4.3 months of imports in 2018. The current account deficit improved from 3.3% in 2017 to about 2.2% of GDP in 2018.

2.3.2 Government monetary policy in 2018 was aimed at containing the increase in the money supply in order to ensure financial stability and keep prices under control. After briefly reaching 9% (year-on-year) at end-2017 due to poor rice harvests, inflation gradually fell to 6.1% in December 201

Table 1. Key Economic Indicators 2016 – 2020 (% GDP)

	2016	2017e	2018e	2019p	2020p
Real GDP growth (%)	4.2	4.3	5.2	5.3	5.5
Inflation, CPI (end of period as %)	7.0	9.0	6.1	6.4	6.0
Total receipts including grants	14.5	14.8	14.9	16.1	14.8
Tax receipts	10.8	11.5	11.7	12.3	12.3
Grants	3.7	3.3	3.4	3.8	2.4
Total expenditure and net loans	15.8	17.2	17.1	18.4	19.4
Recurrent expenditure	10.7	11.7	10.9	10.7	10.5
Capital expenditure	5.2	5.5	6.2	7.9	9.4
Budgetary balance (commitment basis)	-1.3	-2.4	-2.2	-2.5	-4.5
Broad money (M2 annual variation %)	20.1	17.8	11.2	15.7	13.5
Gross reserves (months of imports)	3.9	4.0	4.3	4.4	4.4
External debt	29.6	29.5	30.5	31.8	33.6
Internal debt	17.5	16.5	15.2	14.6	13.9
Current account transactions balance	0.6	-0.5	0.3	-1.4	-3.5

Source: AfDB, African Economic Outlook 2019 and IMF Reports of 22 March 2019 and 26 July 2019

2.3.3 The public finance situation is gradually improving. According to the results of the fourth and fifth reviews backed by the IMF's Extended Credit Facility (ECF) Reform Programme conducted in March 2019 and June 2019, the authorities have made satisfactory progress. The implementation of the ECF-supported programme continued to be satisfactory up till end-2018 and is expected to remain on track in 2019. The authorities met all the performance criteria for end-2018. Tax revenue collection reached 11.7% of GDP in 2018, up from 11.5% in 2017 and 11.0% in 2016. The Government was prudent in public finance management during the pre-election period, containing the deficit at 2.2% of GDP in 2018. Current expenditures have been executed in accordance with the Supplementary Finance Law. To raise the level of resources available for the financing of social and investment programmes, the Government set itself the goal of reducing current expenditures, which fell from 11.7% of GDP in 2017 to 10.5% of GDP in 2018. This reduction largely stemmed from a decrease in transfers to JIRAMA (from 1.2% of GDP in 2017 to 0.8% of GDP in 2018). Spending in priority social sectors was estimated at approximately 1% of GDP, close to the Government's target of 1.1%. The capital expenditure implementation rate is improving, even if, in terms of intensification, progress is slower than expected. Investment expenditure was estimated at 6.2% of GDP. Almost 80% of the capital expenditure programmed in the 2018 Supplementary Finance Law has been implemented, which compares favourably with the 67% implementation rate achieved the previous year.

2.3.4 *Outlook*: Real GDP growth is expected to stand at 5.3% in 2019 and 5.5% in 2020. The main drivers remain: transport, energy, public works, extractive industries and the activities of free zone enterprises. Inflation should stabilize at 6.4% in 2019 and 6.0% in 2020. Moreover, the implementation of Madagascar's medium-term fiscal policy, aimed at increasing revenue regularly, progressively reducing transfers to JIRAMA and increasing public investment, while limiting risks to macroeconomic stability and debt sustainability, should, in 2019, raise tax revenues to 12.3%, investment spending to 7.9% of GDP and current expenditure to 10.8% of GDP.

2.4. Criterion 4 – Fiduciary Risk Review

2.4.1. Since 2013, Madagascar has been implementing reforms aimed at improving its public financial management (PFM) system. As per the results of the last PEFA 2018 on 2016 outputs, the main legal fundamentals are robust, but the public financial management system has two key weaknesses, namely: low budget credibility due to limited supervision and insufficient control of public enterprises, whose deficit situation calls for the injection of unforeseeable subsidies and Parliament's marginal influence over the budgetary process. Madagascar's fiduciary risk, prepared by the Bank on the basis of the Country Fiduciary Risk Assessment (CFRA), is deemed substantial.

2.4.2. To mitigate this risk and address the country's weak PFM, risk mitigation measures were defined in the CFRA matrix. The authorities are committed to improving the country's PFM performance through the implementation of these measures. Achievements in that regard include: (i) the design of a strategic public finance modernisation plan (PSMFP) over a ten-year period (2017-2026) and implementation of its action plan; (ii) submission of Budget Review Laws within the statutory timeframes; (iii) tighter *ex-ante* control and service delivery (DGCF); (iv) operationalisation of the Budget and Financial Disciplinary Board (CDBF); (iv) institutional and technical capacity-building for key oversight bodies, including the General State Inspectorate (IGE), DGCF and the Treasury Inspectorate; and (v) institutional and technical capacity-building for agencies responsible for external audit and corruption control, including the Court of Auditors, BIANCO and CSI.

2.4.3. Given the political commitment to continue rolling out the PSMFP actions and measures listed in the Bank's CFRA matrix, the country's fiduciary risk will reduce to a moderate level in the medium term. The detailed analysis is presented in Technical Annex 1 to this report.

2.5. Criteria 5 - Harmonisation

Development partners in Madagascar coordinate their activities through sector and thematic groups, to strengthen political and strategic dialogue and further align and harmonise their interventions. The Bank actively participates in this process within the Public Finance/Budget Support Group along with the World Bank, the European Union and the French Development Agency. The International Monetary Fund (IMF) also participates in the process as observer. For 2019, the World Bank and the European Union plan to disburse USD 200 million. For its part, the IMF has already disbursed support for the fourth and fifth reviews of the programme backed by a three-year Extended Credit Facility (ECF) agreement, worth USD 87.6 million in 2019. The PACE III reforms were discussed in advance with the above-mentioned partners and selected on the basis of each institution's comparative advantage and value added, bearing in mind the need for harmonisation and complementarity.

III. 2019 PROGRAMME – PACE III

3.1 Programme Goal and Objective

3.1.1. PACE will contribute to creating favourable conditions for robust inclusive economic growth by improving economic competitiveness in Madagascar. In this regard, the PACE programme will help to remedy the investment deficit in Madagascar and improve governance in the energy, transport and agro-industry sectors.

3.1.2. The programme's expected impact will be to raise the GDP growth rate from 4.2% in 2016 to 5.5% in 2020, and improve Pillar 2 (infrastructure) of the Global Competitiveness Index from 1.9 in 2016 to 2.3 in 2020.

3.2 Programme Components

3.2.1 As a follow-up to Phases I and II, Phase III of the programme has two components. The first component: "Strengthen the regulatory and institutional framework for the promotion of public and private investment" will help to create a favourable environment for the promotion of public-private partnerships (PPPs) to develop backbone infrastructure projects. This component will also help to modernize legal and institutional frameworks to promote investment in the agro-industrial sector. The second component ("Improve sector governance to support economic competitiveness") will place emphasis on enhancing energy and transport sector performance. These two components are complementary and mutually reinforcing and, if satisfactorily implemented, will attract private sector PPP-based financing in the energy, transport and agro-industry sectors to stimulate economic growth and create higher value-added jobs.

Component I: Strengthen the regulatory framework to promote public and private investments: This component is intended to create a favourable regulatory and institutional framework for the promotion of PPP investments in higher value-added job-generating sectors (including agro-industry) and infrastructure projects. It will focus on the following two sub-components.

Sub-component 1.1 – Improve the regulatory and institutional framework to promote investment

3.2.2 *Context*

Madagascar's private sector is still undeveloped and characterised by very small informal enterprises with minimal involvement in higher value-added processing activities. Yet, Madagascar has the potential to create a more competitive private sector environment. Indeed, the country has abundant and cheap labour.

The country made some progress in 2017 with regard to the business climate. According to the World Bank's Doing Business Report 2019, Madagascar is ranked 161st out of the 190 economies considered in ease of doing business, compared with 162nd in 2018 and 167th in 2017. The country thus moved up six places relative to its 2017 ranking. The improvement particularly concerned the "starting a business" and "getting credit" indicators. Areas of weakness where reforms are still needed mainly concern the costs and time needed to obtain construction permits and get electricity and the timeframe for registering property and enforcing contracts.

To attract private investment, the country adopted an Industrial Development Policy in 2015. The proposed model is based on export-oriented industries (textiles and processed agricultural products). In 2016, a law on public-private partnerships (PPPs) was also adopted. In 2017, the authorities revised the institutional and legal framework governing special economic zones (SEZ) in an effort to promote industrialisation, economic diversification and job creation. The sectors identified for SEZ development are textile/clothing, agro-industry and tourism.

3.2.3 **Achievements of PACE II**

The measures planned under this sub-component to create favourable regulatory and institutional frameworks for investment promotion are the following: (i) establishment of the PPP project management entity; and (ii) validation of two feasibility studies on the implementation of SEZs, one on textiles in the country's midland and the other on multi-products in the north. Moreover, the development strategy for PPP projects was also formulated, and its adoption by the Council of Ministers is underway. The delay in the adoption process is mainly due to the prevailing electoral context (Presidential and Legislative), which had somewhat slowed down the functioning of the administration.

3.2.4 **Measures Supported by PACE III**

To consolidate the above-mentioned Phase II measures, it is envisaged that the following Phase III measures will be implemented: (i) adoption by the Council of Ministers of the PPP development strategy; and (ii) start-up of the implementation of a PPP project.

Sub-component 1.2. Modernisation of legal and institutional frameworks conducive to the expansion of agro-industry

3.2.5 Sector Context

Madagascar exploits agricultural land estimated at about 2 million hectares out of the 35 million potential hectares favourable for the intensive production of food crops and other major crops and products. Since Madagascar's climate is favourable for tropical and temperate agriculture, intensification is an alternative means of accelerating agricultural growth and boosting productivity. The country also has a huge workforce. Rice production remains the most important sector. It is practised by more than 85% of households, while commercial agriculture is concentrated along the east coast and in the north where coffee, vanilla, clove and lychee are the main cash crops.

Sector constraints: Madagascar still practises traditional, non-intensive low-yield agriculture. The proportion of cash and export crops intended for sale is low, and these crops are required to be in compliance with phyto-sanitary standards. The agricultural sector is also characterized by vulnerability to climatic conditions such as cyclones, drought (in the South), locusts and armyworms, which often destroy crops. Distribution systems are poorly developed and the cost of transporting inputs remains high, both of which factors have led to lower productivity. In addition, production infrastructure, such as irrigation facilities, is inadequate and several irrigation areas (estimated at about 1.2 million hectares) have deteriorated for lack of maintenance.

To address the poor management of irrigation schemes, the Government adopted a law governing the management of such schemes. Furthermore, in a bid to develop cash-crop sub-sectors and improve product quality, the Government identified a number of laboratories (*Institut Pasteur*, for example) to analyse the sanitary standards of agricultural produce.

3.2.6 Achievements of PACE II

Measures adopted for the second phase to contribute to the creation of conditions that are more conducive to agro-industrial development are: (i) the adoption of the implementing decree on sanitary standards for agricultural products and agro-industries. In this regard, four decrees were been adopted comprising: (a) Decree No. 2018-591 governing official control of animals, foodstuffs of animal origin, animal feed and other animal products; (b) Decree No. 2018-592 governing the official sanitary control of foodstuffs of plant origin; (c) Decree No. 2018-594 laying down general hygiene rules for foodstuffs of animal origin and animal feed; and (d) Decree No. 2018-593 laying down general hygiene rules for foodstuffs of plant origin. Given the electoral context mentioned above, the drafting of instruments governing agropoles has been delayed.

3.2.7 Measures Supported by PACE III

To consolidate the measures of Phases I and II, PACE III will continue to support reform measures aimed at modernising the legal and institutional framework for the development of agro-industrial growth poles, notably through: (i) the establishment of an incubation centre for young people in agriculture and industry; (ii) the adoption of the law governing agropoles; (iii) the adoption of the decree governing the entity for the promotion and management of agropoles; and (iv) the adoption of the decree establishing a transparent mechanism for allocating land in agropoles and specifications for private investors and the local people.

Component II- Improvement of Sector Governance in Support of Economic Competitiveness

This second component is aimed at improving the governance of growth sectors, namely: energy and transport. It is also intended to improve the management of these sectors in order to attract more private investment. The component comprises two sub-components, namely: (i) improve energy sector management; and (ii) improve air transport sector performance.

<u>Sub-component 2.1:</u> Improvement of Energy Sector Governance

3.2.8 Sector Context

Madagascar's electricity sector was severely affected by the socio-political crises of 2002 and 2009. The sector is plagued by structural weaknesses, such as inadequate power generation capacity and the obsolescence of the transmission and distribution networks. In 2018, the national electricity access rate stood at nearly 15% (that is, 53% in urban areas and 6% in rural areas) and remains among the lowest in Africa. Electric power is distributed in Madagascar by the State-owned company, JIRAMA, whose power generation remains dependent on small private producers using mainly diesel-powered generators. Thus, the lack of investment for the expansion and maintenance of the electrical system has caused a virtually permanent sectoral emergency characterized by a generalized recourse to such expensive stop-gap solutions as over-the-counter energy purchase contracts signed with independent operators of small thermal power plants.

For almost a decade, this situation has plunged JIRAMA into enormous financial difficulties, making it impossible for the company to meet new connection demands. Meanwhile, owing to these financial problems, preventive maintenance of the already obsolete facilities has been reduced or even abandoned altogether. In 2019, the thermal park accounted for nearly 650 MW out of a total installed capacity of 850 MW, or nearly 76%. As a result, JIRAMA's finances are severely affected, given that the operating cost of the service in 2018 stood at MGA 833 (USD 0.26/kWh), while the average rate was MGA 436 (USD 0.13)/kWh). Thus, the company's arrears amounted in 2018 to nearly USD 313 million with an EBITDA margin of "-31%". To mitigate the impact on consumers, the State grants the company a yearly operating subsidy to contribute to the purchase of fuel and energy and the rental of power generators from private entities. With the reform measures initiated in recent years, the situation has slightly improved. State subsidies to JIRAMA, which amounted to MGA 447 billion in 2017, stabilized at MGA 309 billion in 2018 and MGA 255 billion in 2019. The customer bill collection rate also improved from 60% in 2017 to 72% in 2018. Although rate increases have been applied over the past three years (on average, 15% in 2016, 7.5% in July 2017 and finally 10% in January 2018), there have been no rate adjustments since the beginning of 2019.

3.2.9 Achievements of PACE II

Generally, the measures planned under this sub-component to help enhance the performance of the electricity sub-sector have been implemented. These include: (i) the signing of the performance contract between JIRAMA and the State;[5] (ii) the signing of performance contracts between the JIRAMA General Manager and its technical directors; (iii) the improvement of financial and commercial performance through signing of the plan to clear arrears owed by the State to JIRAMA and payment by the State of MGA 7.8 billion to JIRAMA; (iv) development of a master plan for JIRAMA which was validated by the Board of Directors in December 2018; and (v) the enhancement of transparency by granting operating concession contracts based on bid invitations.

3.2.10 Measures Supported by PACE III

To ensure the continuation and consolidation of the reforms supported by phases I and II, phase III supports the following measures: (i) adoption of the JIRAMA master plan which will serve as a guideline for achieving the objectives of Madagascar's Energy Policy Letter for 2015-2030. A low-cost development plan (PDMC) was developed and validated by the JIRAMA Board of Directors. It should be noted that as part of the implementation of this plan, a contract is being negotiated with a private entity for the production of 192 MW; (ii) the promotion of results-based management through the signing of performance contracts between the General Manager of JIRAMA and the company's Directors. Although the performance contracts were drawn up and signed between the parties

[5] The objectives of the contract were drawn from the "Madagascar Energy Policy Letter 2015-2030", which summarises the main guidelines, objectives and strategies adopted to increase the household access rate to modern electricity from 15 to 70% by 2030.

concerned, an independent evaluation of the results of the implementation of these contracts is expected; (iii) the improvement of financial and commercial performance through payment by the State of MGA 7.8 billion to JIRAMA in power consumption arrears owed to the company (preliminary action). These arrears were included in the Supplementary Finance Law for 2019 and are currently being paid. Meanwhile, a 72% collection rate was achieved in 2018 (compared with the set target, which was 65% of all billing categories). However, one of the expected measures could not be achieved, namely the installation of prepaid metres in Government services. This operation was aimed essentially at drastically limiting the accumulation of the arrears owed to JIRAMA, which have increased significantly. While JIRAMA was committed to installing these metres before the end of the year, a decree had to issued on the generalized installation of prepaid metres, throughout the services of the central administration from 1 January 2020 and on the obligation to ensure the timely payment of the 2019 bills owed by the central government services to JIRAMA. It should also be noted that the Government undertook, through a decision taken in the Council of Ministers in May 2019, to pay all the bills submitted to public administration services by JIRAMA for 2019; (iv) the audit of JIRAMA's assets and liabilities, with a view to taking measures to improve the company's financial situation. The audit of liabilities for 2017 has been completed, while the audit for 2018 is being conducted by a consulting firm recruited by JIRAMA (Castalia). However, the audit of assets has still not been completed due to difficulties in estimating certain items. It is worth noting that a plan for implementing the recommendations issued on the basis of the liability audit was scheduled to be made available in August 2019.

It should also be noted that no tariff increase has been applied since the beginning of 2019, even though an average increase of 7.5% was targeted under the Programme. Indeed, an update of the Initial Recovery Plan (2017) is currently being carried out, taking into account various aspects (renegotiation of contracts with electricity and fuel suppliers to reduce operating costs, sector objectives of the new scheme in place), and an underlying tariff study is in the preparation phase.

Sub-component 2.2: Improvement of Air Transport Sector Performance

3.2.11 **Sector Context**

The restructuring of Air Madagascar is a major challenge for improving the country's economic competitiveness. This company remains strategic in terms of allowing access to the most remote economic zones of the country and connecting the country to the rest of the world. Furthermore, the company plays a key economic role.

In March 2017, following a competitive invitation for proposals, Air Austral was selected by Air Madagascar's Board of Directors as a technical and financial partner. In November 2017, Air Madagascar signed a strategic partnership with Air Austral. Under this partnership, Air Austral acquired 45% of Air Madagascar's shares for approximately EUR 15 million, and the State undertook to assume all the debts accumulated by the company as at end- October 2017, estimated at 88 USD million. To improve Air Madagascar's performance, Air Austral should operationalize the medium- and long-term business plan of Air Madagascar for the period 2017-2020, which provides for reform measures that would enable this company, which suffered a loss of nearly USD 20 million in 2016, to achieve financial equilibrium and become increasingly profitable from 2021.

3.2.12 **Achievements of PACE II**

Under PACE II, it was planned to support clearance of Air Madagascar's liabilities and implementation of the company's medium-term business plan under the strategic partnership with Air Austral signed in 2017. Regarding the liabilities, 90% of Air Madagascar's debt or MGA 272.49 billion (USD 75.61 million) provided for in the Strategic Partnership Agreement has been settled. Payment requests from Air Madagascar's creditors amounting to MGA 26.13 billion (USD 7.24 million) are in the process of approval by Deutsche Bank, from which the Government contracted a debt of USD 40 million. A total of MGA 5.95 billion (USD 1.54 million) remains to be covered. However, it should be noted that liabilities which predate the signing of the Partnership Agreement, and which had not been identified at the time, amount to approximately USD 7 million. With regard to implementation of the medium-term business plan of Air Madagascar, significant progress has been made, particularly in terms of fleet, network, supply and synergies, leading to an improvement in the company's financial performance. However, delays in implementing certain planned measures have slowed down the company's optimal development.

3.2.13 **Measures Supported by PACE III**

To consolidate PACE II measures, the third phase will support: (i) clearance of the balance of USD 1.54 million; (ii) renegotiation of the Strategic Partnership while ensuring the amendment of the Partnership Agreement clause relating to investment protection to ensure compliance with the guidelines.

3.3 Programme Outputs and Expected Outcomes

3.3.1 Progress Towards Achieving PACE II Output Targets (2018)

The PACE II output targets described in the logical framework were achieved as follows:

Table 2: Progress Towards Achieving PACE II Output Targets

Action	Status
Component 1: Improve the regulatory and institutional framework to promote investments	
1.1 Support the development of public-private partnership	
Adoption of the PPP strategy	**Ongoing**: *The PPP strategy is available, its approval by the Council of Ministers is planned for end-September 2019*
Establishment of the PPP project management entity	**Achieved:** The entity was established by decree. The Government has already recruited the head of the PPP unit.
Finalization of the feasibility study on the establishment of SEZs	**Achieved***:* The feasibility study on the establishment of Special Economic Zones in Madagascar (SEZ for textiles in Moramanga and SEZ for multi-products in Andrakaka) has been carried out.
1.2 Modernisation of the legal and institutional framework to foster the expansion of investments in agro-industry	
Adoption of the implementing decree on sanitary standards of agricultural and agro-industrial products	**Achieved:** Four Decrees were adopted on 28 June 2019, namely: - DECREE No. 2018-591 governing official controls of animals, foodstuffs of animal origin, animal feed and other products of animal origin; - DECREE No. 2018-592 governing official sanitary controls of foodstuffs of vegetable origin; - DECREE No. 2018-594 laying down general hygiene rules applicable to foodstuffs of animal origin and animal feed; and - DECREE No. 2018-593 laying down general hygiene rules applicable to foodstuffs of plant origin.
Preparation of the draft decree governing agropoles	**Ongoing**: The study analysing the legal framework applicable to agropoles was carried out by the Consultant in charge of the feasibility study on the Agro-industrial Growth Pole Project in the South (PICAS), since October 2018. The draft instrument governing agropoles will be available by end-September 2019
Preparation of the draft decree governing the agropole promotion and management entity	**Ongoing***:* The draft decrees will be available by end-2019
Preparation of the draft decree governing a transparent mechanism for allocating land in agropoles and contact specifications for private investors and the local population	**Ongoing***:* The draft decrees will be available by end-2019
Component 2: Strengthen sector governance to support economic competitiveness	
2.1. Strengthen electricity sub-sector performance	
Adoption of the energy value chains development master plan (production, transmission and distribution)	**Achieved** *:* JIRAMA's master plan was validated by the Board of Directors in December 2018
Promotion of results-based management through the signing of performance-based contracts between the JIRIMA General Manager and Directors	**Achieved:** Performance contracts signed. *However, independent evaluation of* of the performance contract implementation is yet to be carried out.
Improvement of JIRAMA's commercial performance: Collection of all categories of unpaid bills (including corporate and household bills)	**Achieved:** Payment by the State of MGA 7.8 billion MGA to JIRAMA for consumption arrears. Collection of 72% of all categories of bills for 2018.
Strengthening of transparency in the award of management concessions	**Achieved:** *Zero management concession without tenders*
Streamlining of JIRAMA's financial situation:	**Ongoing:** The audit of liabilities is being finalized. Meanwhile, the audit of assets is still ongoing, but more time is required to conduct the inventory of assets, the inventory and revision of management procedures and the reconciliation of accounts receivable.
Increase in rates:	**Achieved:** *An average increase of 7.5% applied o*
2.2. Improve air transport sector performance	
Conclusion of a strategic partnership between Air Madagascar and a leading private company	**Achieved:** 90% of the amount of Air Madagascar's debt provided for in the Strategic Partnership Agreement (MGA 272.49 billion or USD 75.61 million) has been settled. Significant progress has been made in the implementation of Air Madagascar's medium-term business plan, particularly in terms of the fleet, network, supply and synergies, leading to an improvement in the company's financial performance.

3.3.2 Progress Towards Achieving Outcome Indicators and Programme Impact

The achievement of Phase II outcome targets was deemed satisfactory (see Table 2) and the implementation of outputs for Phase III is well underway (see Annex 3). In this regard, the expected outcomes are on track as presented in Table 3 below.

Table 3: Progress Towards Achieving Outcome Targets Outlined in the Logical Framework

Outcome Indicator	Target	Achievements/Observations
Outcome 1: Increase of public and private investments		
Public investment rate and private investment rate (% of GDP)	2019: 10.5% of GDP and 10.9% of GDP	Ongoing: The economy is recovering, thanks to strengthening of the legal framework to promote investment. As a result, the projected targets may be reached by end-2019. Thus, for 2019, public and private investment rates are projected to stand at 8% and 14.2% of GDP, respectively, or a total of 22.2% of GDP.
Number of jobs created (three-year total of the 2017-2019 programme)	2019: 100,000	Behind schedule: The IFZ textile sector and the service sector (tourism, construction) contributed to the creation of an estimated 45,589 new jobs in 2017. However, the SEZ and agropole establishment process is behind schedule. This target may be achieved with a time lag of 2 to 3 years.
Outcome 2: Streamline public expenditure		
Reduction of transfers to public enterprises	2019: MGA 150 billion	Behind schedule: In 2018, subsidies provided to JIRAMA were estimated at MGA 450 billion, due to the drought on the high plateaus that year. However, the authorities are committed to gradually reducing subsidies through measures that will help to improve the company's governance and financial stability. For 2019, the sum of MGA 255 billion has been allocated to JIRAMA in the Supplementary Finance Law. It should be noted that these measures to strengthen JIRAMA are also supported by donors through investment projects.
Outcome 3: Improve sector governance to boost economic competitiveness		
JIRIMA's increased recovery rate	2019: 75%	Ongoing: In 2018, JIRAMA reached a customer bill collection rate of 72%, which is almost the target set for end-2019.
Growth of the value-added of primary sectors (PS) and secondary sectors (SS)	PS- 2019: 2.7% SS- 2019: 7.7%	Ongoing: Implementation of reforms for agribusiness development could make it possible to reach the 2019 target. For 2019, growth is estimated at 2.5% (SP) and 7.1% (SS).

3.4 Progress Towards Achieving PACE III Indicative Triggers

3.4.1. PACE III indicative triggers as defined at the outset during PACE II appraisal were achieved satisfactorily. The Status of each trigger is presented in paragraph 3.6.1

3.5 Policy Dialogue

3.5.1 PACE is a three-year programme-based operation aimed at supporting the authorities in implementing structural reforms. Dialogue on selected reforms started in May 2017 and will continue to end-2019 with emphasis on the following points: (i) strengthen public investment in the social sectors and infrastructure to better ensure inclusive growth; (ii) rationalise public expenditure by reducing non-priority spending, and paying special attention to JIRAMA and Air Madagascar's financial problems; and (iv) strengthen sector governance to support the structural transformation of agro-industry and the economy in general, to achieve inclusive growth. To strengthen dialogue, the Bank in collaboration with other donors, will support Government's efforts through investment projects.

3.6 Grant Conditions

3.6.1. **Planned Indicative Action (Triggers)**

All the indicative activities (triggers) of PACE III, which were defined during Phases I and II appraisal, are presented in Table 4 below:

Table 4: Indicative Activities (triggers) Defined under PACE I and PACE II

Measures Precedent - 2019	Status
Component 1: Improve the Regulatory and Institutional Framework for Promoting Investments	
Measure precedent 1: Final report on the study to establish an SEZ is validated	Status: The country has carried out two feasibility studies for the establishment of two SEZs, one on textiles and another on multi-products.
Measure precedent 2: Draft decree on agropoles is submitted to the Council of Ministers	Status: The study analysing the legal framework applicable to agropoles was carried out by the Consultant in charge of the feasibility study on the Agro-industrial Growth Pole Project in the South (PICAS), since October 2018. The law and its implementing instruments are still to be drafted
Component 2: *Strengthen Sector Governance to Support Economic Competitiveness*	
Measure precedent 3: Audit of JIRAMA's assets and liabilities	Status: Audit of liabilities for 2016 and 2017 conducted. Auditing assets takes more time owing to the difficulties in conducting asset inventory as well as the inventory and revision of stock management procedures, and reconciling accounts receivable
Measure precedent 4: (amended see Table 5) Interministerial decree on the installation of prepaid smart metres in central government services	Status: The smart metres that should have been installed in government services, by end-January 2019, are not yet functional.

3.6.2 PACE III Triggers (2019)

Following dialogue, the Government undertook to apply a set of measures prior to submission of the programme to the Bank Group's Board of Directors. The following table shows the measures precedent selected to serve as triggers for the programme's third phase in 2019. These measures precedent were discussed with the Government and are as follows:

Table 5: Triggers for 2019

Measures Precedent– 2019	Evidence of Implementation
Component 1 : Improve the regulatory and institutional framework to promote investments	
Measure precedent 1: Validation of the report on the study of the establishment of a SEZ	Report validation by EDBM
Measure precedent 2 : Establishment of an incubation center for young people in agriculture and industry	3 centers have been set up: - Synthesis of the Ministry of Agriculture, Livestock and Fisheries on the establishment of the incubation centers of the PEJAA program - Convention of the incubation center EFTA Analamalotra in TOAMASINA with the national coordination of PEJAA; - Convention of the incubation center SEFAFI Fihaonana in VOHIPENO with the national coordination of PEJAA; - FIFAMANOR Incubator Center Convention during the pilot phase (PPF PEJAA) and for the PEJAA project
Component 2: Strengthen sector governance to support economic competitiveness	
Measure precedent 3:- Audit od accounts Payable (Liabilities) of JIRAMA for 2017 -Resolution of the Board of Directors of JIRAMA for review and approval of the 2017-2018 liabilities and launch of the 2018 asset audit	-2017 Accounts Payable (Liabilities) Audit – Report Resolution of the Board of Directors of JIRAMA
Measures precedent 4: Signed Order and circular generalizing the use of prepaid meters by institutions, ministries and public bodies from 1 January 2020 and on the obligation of timely payment of the bills of institutions, ministries and public bodies to JIRAMA	-Order signed - Circular signed implementing the Order for the generalization of the use of prepaid meters by institutions, ministries and public bodies

3.7 Application of Conditionality Best Practices

Pursuant to Bank policy on programme-based support operations *(ADF/BD/WP/2011/38/Rev.3/Approval dated 29 February 2012*), the programme design reflected the four good practice principles for the application of conditionality**.** These four principles are justified by the following developments: (i) Government took ownership of the programme since it was designed with the active collaboration of State structures involved in reform implementation. The programme matrix was reflected in the Government's policy reform programme (Letter of Development Policy attached as Annex 1); (ii) TFP coordination was ensured for better complementarity of policy support interventions; (iii) the programme is fully aligned on the National Development Plan (NDP). These priorities were reaffirmed by the new authorities as part of the General State policy, since the programme supports the country's efforts to create conditions for accelerating economic growth and the creation of higher value-added jobs; (iv) conditions precedent to Board presentation are realistic and achievable. They were confirmed with the authorities during programme appraisal in July 2019.

3.8 Financing Needs and Arrangements

According to projections, Madagascar's budget financing needs for 2019 stand at about MGA 1,477 billion**.** This budget support operation is an integral part of external financing sources that will help to fill the budget deficit for the 2019 (Table 6). This gap will be bridged partly with external financing including budget support packages amounting to MGA 1,252 billion in 2019 and MGA 1,848 billion in 2020 and partly with internal financing worth MGA 425 billion in 2019 and MGA 189 billion in 2020. Bank Group budget support amounts to 2% of the financing needs for 2019.

Table 6: Financing Needs and Sources (projections in MGA billion)

Period	2017	2018	2019	2020
Total receipts and grants	5272	6016	7185	7587
including: grants (excluding budget support)	1032	1172	1538	1208
Total expenditure and net loans	6135	6898	8329	9847
including: interest payments	285	352	432	433
including: capital expenditure	1948	2497	3560	4753
Overall balance (commitment basis) (A - B)	**-863**	**-882**	**-1144**	**-2260**
Arrears accumulation	28	-170	-333	-68
Overall balance (commitment basis) (C + D)	**-835**	**-1051**	**-1477**	**-2328**
Internal financing	332	287	425	189
External financing including , including::	503	764	1052	1848
All budget support packages:	236	171	-	
World Bank (IDA) support			*647*	
AfDB budget support	*147*	*30*	*30*	
Financing (F + G)	**835**	**1051**	**1477**	**2037**
Financing gap	**0**	**0**	**0**	**-291**

3.9 Implementation of Bank Group Policy on Debt Accumulation

The principles governing the Bank's Policy on Non-concessional Debts are applied and respected under PACE. The latest IMF debt sustainability analysis conducted in July 2019 concluded that the debt distress risk in Madagascar is low. The policies implemented so far by the Government have helped to maintain debt sustainability.

4 IMPLEMENTATION, MONITORING AND EVALUATION

4.1 Programme Beneficiaries

4.1.1 PACE will benefit the entire population of Madagascar. An improved regulatory framework for the promotion of investments and better sector governance (energy, transport and agriculture) will help to improve the business climate and attract more investments in higher value-added job-creating sectors for the Malagasy people. Improved governance of State-owned enterprises (JIRAMA and Air Madagascar) will also benefit the population through better performance of these companies. Furthermore, the private sector will take advantage of the enhanced economic competitiveness arising from the delivery of programme-supported reforms. The programme will benefit JIRAMA and Air Madagascar by improving their performance.

The various PACE beneficiaries were met and their key concerns were reflected in the design of programme reforms.

4.1.2 Impact on Gender, the Poor and Vulnerable Groups

Impact on Gender

Context: The Government of Madagascar is determined to bridge gender inequalities and eliminate all forms of discrimination. It has ratified most international gender-related conventions and recently (2017) adopted the National Strategy to Combat Gender-Based Violence (SNLVBG) 2017-2021 and its corresponding Action Plan. In education, there is virtually girl-boy parity in the primary and secondary cycle: 49.7% of girls against 50.3% of boys in 2016. However, improvements are still needed in terms of empowerment. Women do not have equal access to jobs, land and credit. With regard to entrepreneurship, women are concentrated in the informal sector and head small-size enterprises in agriculture and trade.

Programme Impact: Enhancing Madagascar's economic competitiveness will make job-creating domains more attractive to the private sector. Private investments in special zones (SEZ, agropoles) will create jobs for women who constitute a significant labour pool in these zones (62.4%). These reform measures will also be supported by the Bank's ongoing PAPI Project, which targets the establishment of a textile SEZ that will employ mostly women. Moreover, the improvement of power supply will benefit vulnerable groups, especially women who lack the financial capacity to acquire back-up generators to supply electricity during power outages. Improved access to electricity will not only enable women to further engage in income-generating activities, but will also ease the drudgery of their domestic chores. (Technical Annex 9 gives more details on the gender context in the energy, agriculture and transport sectors).

Social impacts

PACE will help to improve the people's living conditions and reduce poverty by promoting productive investments in job-creating sectors, supporting practical and innovative approaches in agriculture, enhancing power supply and opening up the country's most remote economic zones.

4.1.3 *Impact on the Environment and Climate Change*

The programme is a general budget support whose reforms will not have any impact on the environment and climate change. It is classified under Category III.

4.1.4 *Impact on Sector Governance*

Measures supported by PACE will help to enhance the governance of the electricity, transport and agro-industry sectors. In turn, this will boost economic competitiveness and attract private investments.

4.1.5 *Impact on Public Finance Management*

The programme will also help to improve public finance management. The promotion of PPPs will reduce the Government's direct financing needs. Furthermore, enhancing energy and transport sector performance will help to scale back State transfers and subsidies to public enterprises in these sectors. Thus, inclusive growth-generating sectors would benefit from the additional resources freed up after the successful implementation of programme reforms.

4.2 Implementation, Monitoring and Evaluation

4.2.1 PACE implementation will be coordinated by the Directorate responsible for monitoring reforms, placed under the supervision of the Secretary-General of the Ministry of the Economy and Finance. This Directorate facilitates regular meetings with development partners on the implementation progress of economic and financial reforms agreed with the authorities.

4.2.2 After the conclusion of the third phase, a project completion report will be prepared to evaluate progress relative to the results-based logical framework and draw lessons for future operations.

4.3 Financial Management and Disbursement

4.3.1 Country fiduciary risk assessment (CFRA): The level of fiduciary risk is deemed significant overall. However, it is possible that it drops in the medium term to a moderate level, given the Government's commitment to implement the Public Finance Management Modernisation Strategy (PSMFP) adopted in 2016, as well as the complementary risk mitigation measures defined in the Country Fiduciary Risk Assessment (CFRA) matrix prepared by the Bank to help improve the country's PFM performance. (The detailed analysis is attached to this report as Technical Annex 1).

4.3.2 Financial management mechanism: Since this is a budget support operation, the resources will be used within the public expenditure chain circuit. The Ministry of Finance and Budget will assume responsibility for the financial and accounting management of PACE II resources, and improve the implementation of its own internal control mechanism.

4.3.3 External audit of the use of funds**:** PACE financial flows will be audited by the Court of Auditors of Madagascar, which has the required capacity for this exercise. However, this work will be based on terms of reference approved by the Bank. Furthermore, as part of its external public expenditure control prerogatives, the Court of Auditors will consider budget execution reports and the Budget Review Laws of each financial year, with a view to issuing its Notice of Compliance. The Budgets from FY 2017 to 2019 and the Court of Auditors' Notice of Compliance will be transmitted to the Bank within the statutory timeframes.

4.3.4 Disbursement methods: Second phase programme resources will be disbursed in one tranche into a special account opened in the Central Bank of Madagascar, subject to the country's fulfilment of the conditions precedent enumerated in Section 5.2.2.

4.4 Procurement

4.4.1 The country's procurement system has been evaluated by the Bank jointly with the World Bank based on the OECD/DAC MAPS methodology and using the critical indicators selected to ensure that the Bank's fiduciary obligations and standards are not compromised, particularly as concerns the principle of equity, which includes impartiality, transparency and integrity, as described in the Procurement Policy for Bank Group-Funded Operations. Reform of the national procurement system has been initiated by the Government with the support of the Bank and other TFPs. Progress has been noted, starting with the revision of the Public Procurement Code and its implementing instruments. Other recommended actions have not yet been implemented. The assessment of Madagascar's procurement system in December 2016 led to the conclusion that the overall risk for its use in Bank-financed operations was "substantial". The major problem identified was the failure to enforce the penalty against prohibited practices, fraud and corruption as well as conflicts of interest. Nonetheless, this level of risk could be reduced by: (i) enacting the implementing instruments of the Public Procurement Code while considering the elimination of the conflict of interest at all levels; (ii) establishing an independent complaints mechanism; (iii) incorporating into the legislative and regulatory framework specific provisions on prohibited practices and the corresponding penalties.

4.4.2. Moreover, the main weaknesses of the public procurement system are (i) the lack of an appropriate oversight system and systematic audit of public procurement; and (ii) the lack of provisions on fraud and corruption in the Public Procurement Code (CMP) and the General Conditions of Contract (CCAG). The recommended reforms to be implemented during the execution period of the Economic Competitiveness Support Programme (PACE III) are: (a) the adoption of concrete measures to ensure the systematic conduct of independent audits of public procurement by the Public Procurement

Regulatory Authority (ARMP); and (ii) the inclusion of clear definitions of fraud, corruption and penalties in the Public Procurement Code and in all standard documents, including the CCAG.

4.4.3. Given that resources allocated to budget support are not generally targeted, and despite some discrepancies identified with international practices, the public procurement framework in Madagascar would be appropriate for ensuring effective use of Bank resources allocated as budget support. Consequently, all procurements made by the Government under the budget support programme for the Economic Competitiveness Support Programme (PACE III) are in accordance with National Law No. 2016-055 on the Public Procurement Code (CMP) of 25 January 2017.

4.4.4 The identified reform measures which should be implemented by the Government are primarily aimed at: (i) dispelling the perception of a conflict of interest situation at the level of the Public Procurement Regulatory Authority (ARMP) by attaching the Public Procurement Commission (CNM) to an entity other than the ARMP; (ii) improving the planning and management of the public expenditure chain and helping to ensure the quality of public procurement management; (iii) laying emphasis on the systematic implementation of independent audits through the ARMP and the Court of Auditors; (iv) significantly improving the control of public procurement information and operationalizing the computerized public procurement management system (SIGMP) and ensuring its connection to the integrated public finance information system (SIIGFP); and (v) adopting and implementing a strategy for professionalizing the "public procurement" function.

5 LEGAL DOCUMENTATION AND AUTHORITY

5.1 Legal Documentation

The legal documentation is (i) a Grant Protocol Agreement between the African Development Fund and the African Development Bank as TSF administrators and the Republic of Madagascar; and (ii) a Grant Protocol Agreement between the African Development Fund and the Republic of Madagascar, to finance budget support.

5.2 Conditions Associated with the Bank’s Intervention

5.2.1 *Conditions precedent to effectiveness*

The TSF and ADF Grant Agreements will become effective on the date of their signature.

5.2.2 *Conditions precedent to the disbursement of resources:*

Apart from the effectiveness conditions outlined in paragraph 5.2.1 above, the disbursement of TSF and ADF grant resources shall be subject to the following conditions: Provide evidence of the opening a special account in the Central Bank of Madagascar (BCM) to receive the grant resources.

5.3 Compliance with Bank Group Policies

PACE-III complies with Bank Group policies and guidelines for programme-based operations. It is also consistent with the operational priorities of the Bank’s 2013-2022 Ten-Year Strategy and the 2017-2021 CSP.

6 RISK MANAGEMENT

The major risks that could undermine attainment of the development goals of this operation are presented in Table 7 below:

Table 7: Risks and Mitigation Measures

Risks	Mitigation Measures
Risk 1: (i) socio-political instability; and (ii) macroeconomic instability **High**.	Mitigation measure: (i) Partnership forged between technical and financial partners on ongoing reforms as well as the IMF's ECF; and (ii) Government commitment to preserve security and maintain political stability.
Risk 2: Inadequate institutional and technical capacity to implement reforms **Moderate**	Mitigation measure: The technical and financial assistance provided by TFPs will help to build the institutional capacity needed to mitigate this risk.
Risk 3: Perception of high risk of corruption **Moderate**	Mitigation measure: The continued implementation of anti-corruption reforms, especially with the gradual establishment of anti-corruption units in ministries and institutions (see Technical Annex I).
Risk 3: The risks identified by CFRA could have a negative impact on programme implementation and the achievement of programme objectives. **Significant**	Mitigation measure: The continued implementation of PSMFB 2017-2026, the PFM improvement support projects and technical assistance packages financed by other TFPs in Madagascar will also contribute to the improvement of public finance management and further mitigate the risks identified by the CFRA.

7 RECOMMENDATION

It is recommended that the Board of Directors should approve: (*i*) a grant of UA 2.06 million from Transition Support Facility (TSF) resources; and (*ii*) a grant of UA 7.91 million from the African Development Fund (ADF), both in the form of general budget support, within the framework of a programme-based approach, to finance phase three of the Economic Competitiveness Support Programme (PACE-III).

Annex 1: GOVERNMENT'S REQUEST

REPOBLIKAN'I MADAGASIKARA

Fitiavana - Tanindrazana - Fandrosoana

MINISTRY OF FINANCE AND BUDGET
SECRETARIAT GENERAL
GENERAL DIRECTORATE OF THE TREASURY
DIRECTORATE OF PUBLIC DEBT
External Aid and Debt Department

Antananarivo, 19 June 2017

THE MINISTER OF FINANCE AND BUDGET

To

THE DIRECTOR GENERAL
SOUTHERN AFRICA REGION
AFRICAN DEVELOPMENT BANK

No. 950-2017 -MFB/SG/DGT/DDP/SADE/as

Subject: Request for Budget Support - Economic Competitiveness Support Programme

Madam Director General,

Since returning to the concert of nations, Madagascar has continued to intensify efforts to strengthen the foundations of its economy through Government action and with the support of its historic partners. In this regard, I wish to extend our gratitude to the AfDB for its abiding support.

In a bid to improve quality of life for our people through robust and inclusive growth, I am pleased to submit, on behalf of the Government of Madagascar, this request for a credit award of **THIRTY MILLION Units of Account** (UA 30,000,000) for a three-year programme-based budget support covering the 2017-2019 period.

The main purpose of this budget support is to create favourable conditions for the promotion of robust and inclusive economic growth by enhancing the country's economic competitiveness.

I look forward to a favourable response to our request and thank you in advance for your kind consideration.
Please accept, Madam, the assurances of my highest consideration.

(Signed) Alexandre Randrianasolo
Secretary-General of the Ministry of Finance and the Budget
For the Minister

cc.: Mr. A. BENJEBBOUR, AfDB Resident Representative, MGFO

Annex 2: LETTER OF GOVERNMENT ECONOMIC POLICY

REPOBLIKAN'I MADAGASIKARA
Fitiavana - Tanindrazana - Fandrosoana

MINISTRY OF ECONOMY AND FINANCE

- - - - -

The Minister

- - - - -

Antananarivo,

Mr. Mohamed ABDALLAH CHERIF

Resident Representative of the African Development Bank in Madagascar

Sir,

The transparent and democratic presidential elections held in Madagascar in 2018 marked the adoption of a new development path for the country. The newly elected President has tabled the General State Policy (PGE) paper in Parliament, with the main objective being to close the development gap that has emerged over more than 50 years. A new strategy paper entitled "Madagascar Emergence Plan 2019-2023 (PEM)" is also being prepared that will reflect the overall national planning framework and the priority measures and programmes to be adopted for the fulfilment of the commitments made by the President of the Republic of Madagascar. The Extended Credit Facility (ECF) programme concluded with the International Monetary Fund (IMF) has also helped to accelerate the implementation of reforms, particularly in public financial management, that are designed to maintain macroeconomic stability and improve the business climate.

This development policy letter reflects the new Government's determination to address the challenge of creating the conditions for robust and inclusive economic growth by improving economic competitiveness. In that context, the Government is implementing reforms aimed at creating a favourable, more competitive and friendly business environment, in order to attract more public and private investments in transformative and job-creating activities with high added value. The State also plans to improve energy production, the springboard for the country's emergence, to strengthen large-scale projects in order to ensure sustainable and inclusive growth, and to allow the entire population to benefit accordingly.

x x

x

Poverty eradication remains the Government's major objective. Madagascar ranks among the poorest countries in the world, with 75% of its population living on less than USD1.90 a day. The primary sector employs more than 75% of the population, yet it accounts for only 28% of gross domestic production (GDP), due to low productivity. The agricultural sector is particularly affected, with rain-fed rice production being highly exposed to the adverse effects of climate change. Livestock farming techniques remain primitive and rural insecurity discourages people from developing their activities.

The living conditions of the vast majority of the Malagasy population remain difficult. The rate of access to electricity is only about 15%. In addition, Madagascar is one of the countries most affected by climate uncertainties in Africa, with an average of three cyclones per year.

x x

x

Economic growth remains robust, with a growth rate of 5.2% in 2018, driven in particular by the secondary sector, which grew by 5.4% over the year largely owing to the expansion of manufacturing industries and the recovery of the mining sector. The tertiary sector, which is the main driver of growth, expanded by 5.2% following the various infrastructure projects carried out as part of the implementation of the public investment programme. In the primary sector, good weather conditions in 2018 allowed agricultural production to recover. Inflation has been contained, dropping from 8.3% in 2017 to 7.3% in 2018.

With regard to public finances, the Government is continuing its efforts to mobilize revenue and tighten the management of public spending. In 2018, the net tax burden ratio was 11.7%, versus a target of 12% set in the Supplementary Finance Law (LFR) 2018. In terms of spending, public investment with domestic financing and social spending improved, accounting for 2.3% and 1.1% of GDP, respectively. Transfers to JIRAMA were limited to the amount set out in the 2018 LFR, namely MGA 309 billion, and 84% of public investments from internal financing were committed. Thus, the budget deficit stood at 2.3% of GDP in 2018.

x x

x

The economic outlook remains optimistic, with economic growth projected at 5.2% in 2019 and 6.0% in 2020, driven mainly by transportation, energy, public works, extractive industries and free export zones. Industrial growth is estimated at about 7.0% on average per year. The tertiary sector will contribute most to that economic expansion, with projected growth of 5.7% per year over the medium term. Inflation is expected to stabilize at 7.1% in 2019 and decline to 6.1% in 2020.

With regard to public finances, reforms have been accelerated to ensure increased revenue mobilization and effective allocation of public funds. The goal of fiscal policy is still to create more fiscal space while improving the quality of spending.

With regard to revenues, the implementation of the action plans for tax and customs administration will help improve revenue collection. These plans include simplifying and streamlining procedures, strengthening controls and combating fraud and tax evasion. In addition, the extensive and widespread use of performance contracts across the DGI and the DGD, as well as the monitoring and control of tax expenditure, will be pursued. The objective is to increase the tax burden by 0.5 percentage points per year; it will be set at 12.3% for this year.

With regard to spending, the goal is to improve quality and to keep lower priority spending under control. With the support of technical and financial partners (TFPs), the development of multi-year budgetary management frameworks (CMBMT, CBMT and CDMT) is an important step forward. In addition, the management and implementation of both internally and externally financed public investments will be strengthened, in line with the public investment management strategy adopted. These investments should reach 8% of GDP in 2019 and remain above 9% for the coming years. For projects to be carried out under a public-private partnership (PPP) contract, Law No. 2015-039 on PPPs and its implementing decrees will provide the legal and regulatory reference frameworks on which the Government will continue to base its actions. Efforts are also being made to gradually reduce transfer spending in order to provide greater flexibility for social spending, which is estimated at 1.4% of GDP. Transfers to JIRAMA and the Pension Fund are limited to 0.6% and 0.7% of GDP, respectively, in 2019.

x x

x

Poverty reduction remains a major challenge for the Government. Indeed, poverty has remained at a critical level, just as enrolment rates and life expectancy have remained low and household incomes have continued to decline, owing in particular to the depreciation of the local currency, underemployment and poor redistribution of wealth. The Government also faces several risks that could affect fiscal credibility, one of the most significant of which concerns the energy sector, in particular the fragility of JIRAMA's financial position, in addition to the lack of adequate infrastructure and a favourable business climate. Madagascar is ranked 128th out of 138 countries in terms of competitiveness, according to the 2016-2017 World Economic Forum report on competitiveness.

However, the Government is determined to make further efforts to enhance economic competitiveness and attract investments. It will focus more specifically on developing the energy sector, strengthening the transport sector, improving the business environment and expanding access to economic opportunities in agriculture.

The Government is committed to promoting PPPs by improving the regulatory and institutional framework, with the aim of promoting investment in priority job-creating sectors and infrastructure projects. That commitment was confirmed by the adoption of Law No. 2015-039 on PPPs and its implementing decrees, particularly with regard to the institutional framework. The PPP strategy was established in the first quarter of 2018 and will be submitted shortly to the Council of Minister for approval.

The legal and institutional frameworks that support the expansion of investment in agro-industry will also be improved. Agriculture is the key sector of Madagascar's economy. Nearly 80% of the population lives in rural areas and agriculture is the main activity in which most of them are engaged. The Government intends to establish agricultural growth poles and has taken measures to enable their development. A study analysing the legal framework applicable to agropoles in Madagascar was carried out in October 2018. According to the preliminary results of the study, the legislative and regulatory frameworks governing land tenure in Madagascar are sufficiently developed to allow for the establishment of agropoles. The only remaining issue is the adoption of instruments to facilitate such establishment. The Government has also committed to setting up an incubation centre for young people in agriculture and industry, to promote youth entrepreneurship in agriculture and agro-industry, and to reduce unemployment through the modernization of agriculture. Currently, three such centres have been set up.

The Government has decided to set up a legal and institutional framework to promote the establishment of Special Economic Zones (SEZs) in Madagascar to foster a competitive business environment that encourages investment. Textiles/clothing, agro-industry, information and communication technologies (ICTs) and tourism are the main sectors identified. Law No. 2017-023 on the establishment of SEZs was adopted by Parliament in December 2017, and a feasibility study for the establishment of the SEZs was carried out and the related report validated in December 2018. In addition, technical assistance for the effective establishment of SEZs is expected in September 2019.

In 2015, the Government adopted the New Energy Policy 2015-2030 (NPE) to address the country's urgent economic, social and environmental challenges. The policy recommends a process to develop an energy mix that combines renewable energies, hydrocarbons and other thermal resources. The objective is to streamline the energy sector and provide a favourable framework for investment in the sector, taking advantage in particular of new technologies. By 2030, 70% of households would have sustainable access to electricity and the share of renewable energies in the energy mix would rise to 85%.

JIRAMA's financial difficulties continue to put a strain on the State budget. For 2019, a grant of MGA 255 billion is included in the LFR to meet its fuel, energy and generator-leasing needs. However, proactive measures have been taken to limit transfer payments to JIRAMA, which has been called upon to adjust electricity rates, to switch from diesel generators to fuel generators, as they are more economical, and to draft a new law making the theft of electricity and water punishable. JIRAMA adopted its business plan in June 2017 to implement governance reforms and improve its financial performance. The plan provides for the signing of performance contracts between all directors of JIRAMA and the Director-General and the conduct of audits of JIRAMA's assets and liabilities. Performance contracts have already been signed and the audit of liabilities has been conducted, leaving only the audit of assets to be carried out during this year. The corresponding audit reports will be submitted to the Board of Directors for approval.

The State still had to pay arrears to JIRAMA on the central Government's water and electricity bills for the years prior to 2016. The clearance of these arrears extends until 2019. For 2019, the State has already made payments of totalling MGA 7.8 billion. In order to avoid the build-up of new arrears, the Government has also adopted new measures, such as installing prepaid metres in the central government services. A decree will be issued concerning the widespread installation of the metres as from 1 January 2020 and the obligation for the central Government to pay its 2019 bills to JIRAMA on time.

The implementation of the measures set out in the State's General Policy will enable the Government to achieve the objective of robust economic growth and poverty reduction. However, the shortfall in resources led the Government to seek financial support from the African Development Bank through the PACE programme to support it in creating conditions for enhancing Madagascar's economic competitiveness.

Annex 3: 2017-2019 PROGRAMME REFORMS MATRIX

Programme Components	**Reform Measures and Indicators**			**Outcome Indicators**
	2017	**2018**	**2019**	**2020**
Component 1 : Improve the regulatory and institutional framework to promote investments	*1.1 Support the development of public-private partnerships*			Rate of public investments and Rate of private investments as % of GDP: 10.5% of GDP and 10.9% of GDP Number of jobs created in 2019: 100,000 [6] (75% of them women) Growth of value added in the primary sector (PS) and secondary sector (SS): 2.7% (PS) and 7.7% (SS), against 1.6 % (PS) and 5.5% (SS) in 2016.
	Adoption of a manual on selection criteria for projects to be financed in PIP *Indicator: PIP project selection manual adopted* *Status: Achieved*	Adopt the PPP strategy *Indicator: PPP Strategy approved in Council of Ministers* *Status: The PPP strategy is available; it is expected to be adopted in Council of Ministers before end-June 2018*	*Status: The PPP strategy was established in the first quarter of 2018. The PPP Unit set itself the goal of validating the PPP strategy in September 2019.*	
		Establishment of PPP project management structure *Indicator: PPP projects management structure established by decree* *Implementation status: Achieved Structure was put in place by decree. The officer in charge of the PPP Unit is already recruited by Government.*	Promotion of PPPs *Indicator: One PPP project is ongoing* *Status: Two projects are currently underway:* *- The Sohalanona Hydropower Project, for which feasibility studies will be conducted upon receipt of no-objection notice from the AfDB* *- The Manakara Port Project. Negotiations were recently concluded with the service provider and the request for no-objection notice transmitted to the AfDB as a prelude to the launch of feasibility studies*	
	Adoption of the law on SEZ *Indicator: Law on SEZ adopted* *Status: Achieved*	Finalise the feasibility study for the establishment of SEZ *Indicator: Feasibility study approved* *Implementation status: Law on SEZ was passed by Parliament in March 2018, the contract with the consulting firm tasked with preparing the study was signed in January 2018, the study commencement report is available and the study will be finalized in August 2018*	Establishment of the SEZ *Indicator: Bid invitation for the establishment of the SEZ* *Status: Recruitment of a technical assistant for the implementation of SEZ is planned for this year, while the provisional date of assumption of duty is September 2019*	
	1.2 Modernize the legal and institutional frameworks to favour the upsurge of investments in agro-industry			
	Adoption of the implementing decree on the management, maintenance and preservation of irrigation schemes *Indicator: Decree adopted*	Adoption of implementing decree on the sanitary standards of agricultural and agro-industrial products *Indicator: Decree adopted*	Installation of an incubation centre for youth in agriculture and industries *Indicator: an incubation centre for young people*	

[6] Three-year total of the programme

Programme Components	Reform Measures and Indicators			Outcome Indicators
	2017	2018	2019	2020
	Status: Achieved	*Status: Four (4) decrees were adopted on 28 June 2019:* *DECREE No. 2018-591 governing official controls of animals, foodstuffs of animal origin, animal feed and other products of animal origin;* *- DECREE No. 2018-592 governing official sanitary controls of foodstuffs of vegetable origin;* *- DECREE No. 2018-594 laying down general hygiene rules applicable to foodstuffs of animal origin and animal feed;* *- DECREE No. 2018-593 laying down general hygiene rules applicable to foodstuffs of plant origin.*	*Status: Achieved* *Three centres were set up* *-Convention of/on the EFTA Analamalotra incubation centre at TOAMASINA under the PEJAA national coordination;* *- Convention on the SEFAFI Fihaonana incubation centre at VOHIPENO under the PEJAA national coordination;* *Convention on the FIFAMANOR incubation centre during the pilot phase (PPF PEJAA) and for the PEJAA project*	
	Preparation the draft law on industries *Indicator: a draft law is prepared*	Prepare the draft law governing agropoles *Indicator: Submission to Council of Ministers of the decree on agropoles* *Status: The integrated agro-industrial growth pole project, which has to define the regulatory instruments governing agropoles, is ongoing. This Bank-financed project was approved in 2017. The draft decrees will be available by end-2018*	Adoption of the decree governing agropoles and the law governing industries *Indicator: Decree on agropoles is adopted by the Council of Ministers and the law on industries is submitted to Parliament* *Status: Ongoing* *The PPF phase of the PICAS Project is focused on technical and strategic feasibility studies, the expected results of which are:* *- Diagnostic analysis of agro-industrial sectors at the national level and proposal of guidelines for a national programme for the development of agro-industrial growth poles;* *- General diagnosis of the southern zone. Analysis of the strengths and constraints of the southern zone as far as the implementation of PICAS is concerned;* *- Preparation of a development masterplan for the PICAS. Preparation of preliminary and detailed designs of the infrastructure to be set up under the PICAS Project* *- Formulation of an initial PICAS project, including: (i) Improvement of the policy, legal, regulatory and institutional framework for the development of PICAS;* (ii) Development of support infrastructure for production, transport and servicing of the agro park; (iii) Capacity-building for key players in agro-industrial sub-sectors. Activities related to the development of legislation or laws relating to land, industry and trade will be	

Programme Components	Reform Measures and Indicators			Outcome Indicators
	2017	2018	2019	2020
			provided for only as part of the activities of the future PICAS Project. *Without waiting for the PICAS Project, the African Peer Review Mechanism (APRM) has embarked on the process of setting up agropoles through the Agricultural Growth and Land Security Project (CASEF) financed by the World Bank. The APRM sought support from the International Institute for Sustainable Development (IISD), in the form of technical assistance for the development of the legal framework of agropoles and the conduct of studies on the best practices of investment models. According to the IISD Final Report (January 2019 version), the IISD discusses the legal possibility of setting up Agropoles without the design of new instruments and thus proposes the continuation of activities on the basis of existing instruments. This proposal may be adopted, since it covers the legal aspects of the establishment of an agropole after its identification and demarcation. This measure thus removes the need for the issuance of a decree establishing the agricultural investment zone (AIZ), which could take considerable time.* *This study, however, highlights some points of improvement for the entire mechanism without necessarily requiring the adoption of a decree.* *Brainstorming within the APRM will therefore need to be continued on the basis of this study in order to finalise: the framing of land identification, the role and identification of the actors to be involved right from the identification to the allocation and management of land in agropoles, management and monitoring modalities, the local spin-offs, facilitation measures, complaint management mechanisms, etc., in order to establish a well-defined framework for the hosting and management of investments.* .	
		Prepare the draft decree governing the agropole promotion and management entity	Preparation of a draft decree governing the agropole promotion and management entity.	

Programme Components	Reform Measures and Indicators			Outcome Indicators
	2017	2018	2019	2020
		Indicator: Draft decree *Status: The draft decrees will be available before end-2018*	*Indicator: the structure is set up by decree* *Status: Ongoing*	
		Prepare a draft decree governing a transparent mechanism for allocating land in agropoles and contact specifications for private investors and the local population *Indicator: Draft decree* *Status: The draft decrees will be available before end-2018*	Adoption by decree of a transparent mechanism for allocating land in agropoles and contract specifications for private investors and local residents *Indicator: Mechanism defined by decree.* *Status: Ongoing*	
	2.1 Strengthen electricity sub-sector performance			
	Preparation of an energy value chains development masterplan (production, transmission and distribution) *Indicator: Masterplan being prepared*	Adoption of the energy value chains development master plan (production, transmission and distribution) *Indicator: Master plan is adopted by the JIRAMA Board of Directors* *Status: The JIRAMA master plan is being prepared; adoption by the JIRAMA Board of Directors is expected in August 2018*	Signing of a contract with a private operator for the generation of 192 MW of hydropower *Indicator: production contract signed with a private operator* *Status: The contract was prepared and validated in November 2018. The production contract with a private entity for the production of 192 MW of power is being negotiated*	JIRAMA's collection rate rises from 54% in 2016 to 75% in 2019 The streamlining of public spending is strengthened: reduction of State transfers to public enterprises from MGA 750 billion in 2017 to 150 billion in 2019 Public and private investment rates as % of GDP: 10.5% of GDP and 10.9% of GDP, respectively
Component 2: Strengthen sector governance to support economic competitiveness	Promotion of the signature of contracts of agreed objectives[7] between the State and JIRAMA Management *Indicator: Contract signed*	Promotion of results-based management through the signing of contracts of agreed objectives between the JIRIMA General Manager and Directors *Indicator: Performance contracts signed* *Status: Performance contracts between the JIRAMA General Manager and Directors are signed*	Evaluation of the outcomes of the performance contract signed between the State and JIRAMA in 2017 *Indicator: independent evaluation of the objectives-based contracts signed* *Status: Independent evaluation of the management: The results of the 2017-2018 evaluation and the new guidelines are available.*	
	Improvement of JIRAMA's commercial performance: Collection of the central government's unpaid bills *Indicators:* *- A plan for settlement of State arrears owed JIRAMA is signed by both parties*	Improvement of JIRAMA's commercial performance: Collection of all categories of unpaid bills (including enterprises and households) *Indicator:* *-Payment by the State of MGA 7.5 billion to JIRAMA as consumption arrears* *-65% collection in 2018 of bills of all categories*	Improvement of JIRAMA's commercial performance: Collection of all categories of unpaid bills (including those owed by enterprises and households) and installation of prepaid smart metres *Indicator:* *- Payment by the State of MGA 7.5 billion to JIRAMA in consumption arrears* *-75% collection rate in 2019 for bills of all categories*	

[7] Contracts will specify commitments of the State and JIRAMA, based on the business plan aimed at achieving financial balance for the company by 2020

Programme Components	Reform Measures and Indicators			Outcome Indicators
	2017	2018	2019	2020
	- Payment by the State of MGA 3.9 billion to JIRAMA	*Implementation status: Achieved*	*-Installation of smart prepaid metres in government services* *Status:* *- MGA 7.8 billion allocated in the supplementary finance law (SFL) and the payment is ongoing* *- The collection rate for all categories was 72% in 2018* *- Smart metres were installed at end-January 2019, but the operation of the prepayment facility awaits the procurement of the management platform.*	
	Strengthening of transparency in granting management concessions *Indicator: Adoption of the model concession contract*	Strengthening of transparency in granting management concessions *Indicator: Zero management concession without tenders* *Implementation status: Achieved*	Strengthening of transparency in the award of management concessions *Indicator: Zero management concession without invitation to bid* *Status: No concession is awarded without an invitation to bid*	
		Streamlining of JIRAMA's financial situation: *Indicator: Audit of JIRAMA's assets and liabilities* *Implementation status: JIRAMA has already recruited an external audit firm. The audit of liabilities is ongoing while that of assets will begin in June 2018. The assets/liabilities audit will be finalised latest in August 2018*	Implementation of the JIRAMA assets/liabilities audit recommendations *Indicator: an implementation plan of the JIRAMA assets/liabilities audit recommendations is prepared and adopted by the JIRAMA Board of Directors* *Status: No concession is awarded without an invitation to bid. A CATALIA consultant has been recruited and is currently working on the subject.*	
	Increase in rates: *Indicator: An average of 7.5% increase applied o*	Increase of rates: *Indicator: Average increase of 7.5% applied* *Status: Achieved*	Increase in rates: *Indicator: An average increase of 7.5% applied* *Status: No increase since the beginning of 2019. Ongoing study on pricing.*	
	2.2 Improve air transport sector performance			
	Indicator: Signing of the strategic partnership agreement *Status: Achieved.* It is advisable to evaluate the implementation of this partnership contract	Settlement of Air Madagascar's liabilities and implementation of the carrier's medium-term business plan *Indicator: Settlement of part of Air Madagascar's liabilities* *Status: Government undertook to settle all arrears estimated at USD 94.3 million (MGA 303 billion) by end-2018. The government has already reimbursed USD 55.7 million (MGA 179 billion). The balance*	Settlement of Air Madagascar's liabilities in full *Indicator: Settlement of Air Madagascar's liabilities* *Status: At end-June 2019, 98.4% of Air Madagascar's debt indicated in the Strategic Partnership Agreement was settled, amounting to MGA 298.1 billion (USD 81 million, including claims from creditors in the amount of MGA 26.13 billion (USD 7.24 million).*	

Programme Components	Reform Measures and Indicators			Outcome Indicators
	2017	2018	2019	2020
		of USD 38.6 million (MGA 124 billion) will be settled by end-2018	*- Balance still to be committed: MGA 4.8 billion*	
			Implementation of Air Madagascar's business plan: *Indicator: 30% increase in domestic flights (from 2,444 flights/year registered in 2016 to at least 3,177 flights/year by end-2019* *Implementation of progress:* *At end-2016, the number of cycles stood at 5,709 for the internal network (management report), i.e., around 2,854 trips.* *Between January 2019 and December 2019, the number of planned cycles is 9,765, or an average of 4,882 trips per year, representing an increase of 71%* *Additional indicators relating to the company's performance as well as sustainability are needed for more effective monitoring of the business plan.*	
			Reduction of State subsidies and transfers to Air Madagascar *Indicator: MGA 0 State transfers to Air Madagascar* *Status: Achieved (ref. Finance Law 2019)*	

Annex 4 - NOTES ON RELATIONS WITH THE IMF

INTERNATIONAL MONETARY FUND

COMMUNICATION
DEPARTMENT

Press Release No. 19/88 FOR
IMMÉDIATE BROADCAST

22 March 2019

INTERNATIONAL MONETARY FUND
Washington, D. C. 20431 USA

PRESS RELEASE No.
19/88 FOR
IMMEDIATE
BROADCAST

IMF Executive Board Completes Fourth Review of Extended Credit Facility Arrangement for Madagascar

On March 22, 2019, the Executive Board of the International Monetary Fund (IMF) completed the fourth review under the Extended Credit Facility (ECF) [1] Arrangement for Madagascar. The completion of this review enables the disbursement of SDR 31.43 million (about US$43.9 million), bringing total disbursements under the arrangement to SDR 187.69 million (about US$261.9 million).[1]

[[1] The ECF is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance-of-payments problems.]

Madagascar's 40-month arrangement for SDR 220 million (about US$305 million, or 90 percent of Madagascar's quota) was approved on July 27, 2016 (see Press Release No.16/370). Additional access of 12.5 percent of Madagascar's quota was approved by the Executive Board in June 28, 2017, bringing Madagascar's access under the ECF arrangement to SDR 250.55 million (about US$347.1 million) at that time. This arrangement aims to support the country's efforts to reinforce macroeconomic stability and boost sustained and inclusive growth

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

"Madagascar's performance under its economic program supported by the Fund's Extended Credit Facility arrangement has remained generally strong. In the midst of the presidential election, the program is estimated to have remained broadly on track through end-2018. The structural agenda is also advancing. Recent economic developments also remain generally favourable, with solid economic growth, single-digit inflation, generally good fiscal performance, and foreign exchange reserves at historic highs

"The newly elected president and the government are committed to pursuing the program's strategy of inclusive growth through increased investment and social spending. Boosting revenue mobilization is central to this strategy and warrants renewed vigilance, given the small revenue shortfall in the second half of 2018. In particular, it is important to avoid tax base erosion when implementing new tax incentives for investment. The efforts underway to reduce transfers to the public utility JIRAMA and to limit fiscal risks related to fuel pricing are essential to creating fiscal space for high-priority investment and social spending. Intensified reform efforts will be necessary to maintain the momentum of the program

"Efforts to enhance governance and fight corruption—central to the success of the authorities' program—advanced with the recent approval of a new law on AML/CFT. Enacting the draft law on asset recovery submitted to parliament over a year ago is essential to complete the modernization of the legal framework. Continued development of institutions to fight corruption is also crucial for effective."

IMF Executive Board Completes Fifth Review of Extended Credit Facility Arrangement for Madagascar

On July 26th 2019, the Executive Board of the International Monetary Fund (IMF) completed the fifth review under the Extended Credit Facility (ECF) Arrangement for Madagascar. The

completion of this review enables the disbursement of SDR 31.428 million (about

US$43.7 million), bringing total disbursements under the arrangement to SDR 219.12 million (about US$304.5 million).

Madagascar's 40-month arrangement for SDR 220 million (about US$305 million, or 90 percent of Madagascar's quota) was approved on July 27, 2016 (see Press Release No.16/370). Additional access of 12.5 percent of Madagascar's quota was approved by the Executive Board in June 28, 2017, bringing Madagascar's access to SDR 250.55 million (about US$347 million) at that time. This arrangement aims to support the country's efforts to reinforce macroeconomic stability and boost sustained and inclusive growth.

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

"Madagascar's performance under its economic program supported by the Extended Credit Facility (ECF) arrangement has remained generally strong. Growth has been solid, inflation has been moderate, and the external position has remained robust. Going forward, the authorities' continued commitment to strong policies and an ambitious structural reform agenda will be key to mitigating internal and external risks, strengthening macroeconomic stability, and achieving higher, sustainable, and inclusive growth.

"The authorities' economic reform agenda requires continued efforts to enhance investment capacity, essential for scaling up priority investment spending. Increasing social spending, as planned in the revised budget law, and developing social safety nets is also crucial. Further enhancing revenue mobilization through tax collection is central to this strategy and warrants renewed efforts to avoid eroding the tax base.

"Resolute actions are needed to contain risks to macroeconomic stability and debt sustainability, including fiscal risks from the financial situation of JIRAMA, the sustainability of the civil servant pension fund, and liabilities to the fuel distributors. On the latter, the recent progress towards the implementation of an automatic fuel pricing mechanism while limiting its impact on the poorest is encouraging.

"The recent adoption of the law on illicit asset recovery brings the anti-corruption legal framework into closer alignment with international standards. The authorities should continue to build on these efforts. Making further progress on modernizing public financial management and improving the business climate will be essential to promote good governance. Allocating sufficient human and financial resources will allow for effective enforcement of this framework.

"The ongoing reform agenda should continue to benefit from IMF technical assistance in various areas, such as fiscal policy, governance, and the monetary and financial sectors."

Annex 5

Table 1. KEY ECONOMIC INDICATORS, 2016-24

Tableau 1. Madagascar : Principaux indicateurs économiques, 2016-24

	2016	2017	2018		2019		2020	2021	2022	2023	2024
	réal.	est. prélim.	EBS 18/66	est. prélim	EBS 18/66	prév.	prévisions				
	(Variation en pourcentage; sauf indication contraire)										
Produit intérieur brut et prix											
PIB à prix constants	4.2	4.3	5.0	5.2	5.4	5.2	5.3	5.1	4.9	4.8	4.8
Déflateur du PIB	6.7	8.3	7.8	7.3	7.2	6.7	6.3	5.8	5.2	5.0	5.0
Indice des prix à la consommation (Fin de période)	7.0	9.0	7.7	6.1	6.4	6.4	6.0	5.4	5.0	5.0	5.0
Monnaie et crédit											
Base monétaire	25.4	18.6	11.3	11.8	11.3	16.8	14.0	10.0	7.2	10.3	10.7
Masse monétaire (M3)	20.1	17.8	12.8	11.2	12.9	16.7	11.0	13.0	13.6	13.2	12.5
	(Croissance en pourcentage de la masse monétaire (M3) de début de période)										
Avoirs extérieurs nets	13.0	9.2	4.0	4.8	3.6	4.6	3.3	6.5	5.7	6.1	6.0
Avoirs intérieur nets	7.0	8.6	8.8	6.4	9.3	12.1	7.7	6.4	7.9	7.2	6.5
dont: Crédit au secteur privé	4.1	8.4	6.4	8.7	7.1	6.9	5.2	5.2	6.4	5.8	5.6
	(En pourcentage du PIB)										
Finances publiques											
Recettes budgétaires (hors dons)	11.3	11.9	12.2	12.0	12.5	12.5	12.7	12.9	13.1	13.4	13.7
dont: Recettes fiscales	11.0	11.5	12.0	11.7	12.3	12.3	12.5	12.7	12.9	13.2	13.5
Dons	3.5	2.9	3.4	2.9	2.7	3.4	2.3	1.8	1.7	1.6	1.5
dont: Dons budgets	0.7	0.8	1.3	1.0	0.6	1.2	0.0	0.0	0.0	0.0	0.0
Dépenses totales	16.1	17.2	18.0	17.1	19.6	18.4	19.1	19.7	19.7	19.6	19.1
Dépenses courantes	10.9	11.7	10.7	10.9	9.8	10.5	10.1	9.9	10.1	10.3	10.4
Traitements et salaires	5.7	5.8	5.8	5.8	5.7	5.8	5.7	5.6	5.7	5.7	5.7
Intérêts exigibles	0.9	0.8	0.9	0.9	0.8	1.0	0.9	0.8	0.9	0.9	0.9
Autres	3.7	4.9	3.6	3.5	3.2	3.5	3.3	3.3	3.4	3.6	3.6
Biens et services	0.6	0.8	0.9	0.9	1.0	1.0	1.1	1.2	1.3	1.5	1.5
Transferts et subventions	3.1	4.1	2.6	2.6	2.2	2.5	2.2	2.1	2.0	2.1	2.1
Operations nettes du Trésor	0.6	0.2	0.4	0.7	0.1	0.3	0.2	0.2	0.2	0.2	0.2
Dépenses en capital	5.2	5.5	7.3	6.2	9.8	7.9	9.0	9.8	9.6	9.3	8.7
sur financement intérieur	1.2	2.0	2.5	2.3	3.2	2.8	3.0	3.2	3.4	3.6	3.7
sur financement extérieur	4.0	3.5	4.8	3.9	6.6	5.1	6.0	6.5	6.2	5.7	5.0
Solde global (base engagement)	-1.3	-2.4	-2.3	-2.2	-4.3	-2.5	-4.1	-5.0	-4.9	-4.5	-3.9
Flottant (variation des comptes créditeurs, +=augmentation)[1]	0.5	0.7	-0.4	0.1	-0.1	-0.4	0.0	0.0	0.0	0.0	0.0
Variation des arriérés domestiques (+=augmentation)	-1.2	-0.6	-0.6	-0.6	-0.2	-0.3	-0.1	-0.1	0.0	0.0	0.0
Solde budgétaire (base caisse)	-2.0	-2.3	-3.2	-2.6	-4.6	-3.3	-4.2	-5.0	-4.9	-4.6	-4.0
Nouveau solde primaire du programme [2]	0.1	-1.0	0.1	-0.3	0.4	0.1	0.5	0.6	0.5	0.4	0.5
Excluding Central Bank recapitalization						*0.3*					
Financement total	2.0	2.3	3.2	2.6	4.5	3.3	3.8	4.4	4.3	3.6	3.1
Financement extérieur (net)	0.7	1.4	2.5	1.9	4.1	2.3	3.5	4.0	3.8	3.1	2.6
Financement intérieur (net)	1.4	0.9	0.7	0.7	0.4	0.9	0.4	0.4	0.5	0.5	0.5
Financement mobilisable [3]	0.0	0.0	0.0	0.0	-0.6	0.0	-0.5	-1.8	-2.5	-3.1	-3.5
dont: appui budgétaire qui reste à programmer	0.0	0.0	0.0	0.0	-0.1	0.0	-0.4	-0.6	-0.7	-1.0	-0.9
Epargne et investissement											
Formation brute de capital fixe	18.6	18.9	17.1	19.7	19.0	20.8	22.0	22.9	22.9	22.6	22.1
Epargne nationale intérieure	19.1	18.4	14.9	20.0	15.5	19.4	18.5	18.4	18.1	18.0	17.8
Secteur extérieur											
Exportations de biens, FAB	21.7	24.4	23.6	24.8	23.1	24.0	24.0	23.5	22.8	22.3	22.0
Importations de biens, CAF	28.7	31.5	32.1	31.4	31.5	32.1	33.1	33.7	33.5	32.9	32.3
Solde du compte courant (hors dons)	-2.9	-3.3	-5.6	-2.6	-6.0	-4.8	-5.8	-6.3	-6.5	-6.2	-5.7
Solde du compte courant (dons inclus)	0.6	-0.5	-2.2	0.3	-3.4	-1.4	-3.5	-4.5	-4.7	-4.6	-4.2
External Public Debt [4]	30.1	29.4	25.5	30.2	27.8	31.7	33.7	35.7	37.5	38.8	39.4
Dette publique Intérieure	11.8	10.8	9.6	9.5	8.6	9.3	8.4	7.8	7.5	7.3	7.2
	(Unités comme indiqué)										
Réserves officielles brutes (en millions de DTS)	834	1,086	1,180	1,221	1,280	1,369	1,471	1,615	1,742	1,870	2,007
En mois d'importations de biens et services	3.9	4.0	4.1	4.3	4.1	4.4	4.4	4.5	4.6	4.7	4.8
Taux de change effectif réel (moyenne de la période,	0.0	7.6	…	-4.2	…	…	…	…	…	…	…
Termes de l'échange (variation en pourcentage, détérioration-)	35.7	2.4	-1.8	3.7	0.7	-7.5	-0.3	0.7	0.3	0.4	1.1
Memorandum items											
PIB par habitant (dollars américains)	400	448	475	459	501	471	487	508	532	557	584
PIB nominal aux prix du marché (milliards d'ariary)	31,634	35,729	40,548	40,326	45,809	45,243	50,600	56,263	62,050	68,304	75,166

Sources: Données communiquées par les autorités Malgaches et estimations et prévisions des services du Fonds.

[1] L'augmentation du flottant en 2017 est largement dû aux transferts vers Air Madagascar done une partie sera payée en 2018. [2] Solde primaire sauf les investissement avec un financement extérieur et dons. Base engagement.

[3] Un montant négatif indique un financement annoncé en attente d'un accord pour le calendrier de décaissement.

[4] Après EBS 18/66, definition étendue pour inclure les engagements externes de BFM.

Table 2. NATIONAL ACCOUNTS, 2016-24

Madagascar: National Accounts, 2016-24

	2016	2017		2018	2019		2020	2021	2022	2023	
					(% change						
Real supply side growth											
Primary sector	1.6	-1.0	2.8	4.8	2.7	2.5	2.7	2.3	2.3	2.1	2.1
Agriculture	1.4	-6.6	4.5	9.2	3.7	3.2	3.7	3.0	3.0	3.0	3.0
Fishing	1.9	4.5	1.9	1.9	2.0	2.0	1.9	1.9	1.9	1.4	1.4
Forestry	1.0	1.0	-0.9	-0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Secondary sector	5.5	9.0	6.7	5.4	7.4	7.1	7.4	6.5	6.6	6.6	6.5
Food and drink	6.4	6.8	5.6	6.4	5.7	5.9	6.0	4.0	4.0	4.0	4.0
Export-processing zone	24.7	25.2	14.5	2.0	14.5	13.0	11.5	11.5	11.5	11.5	10.5
Energy	8.3	6.6	8.4	8.4	11.5	11.5	11.5	9.5	9.5	8.5	8.5
Extractive industry	-1.6	9.8	5.4	5.4	6.5	6.5	7.5	7.5	7.5	7.5	7.5
Other	5.7	4.8	4.7	4.2	4.6	4.0	4.3	4.1	4.2	4.2	4.2
Tertiary sector	4.8	5.4	5.4	5.2	6.1	5.8	5.9	6.1	5.4	5.4	5.3
Transportation	2.1	6.4	5.8	6.2	8.2	7.6	6.9	7.0	7.0	7.0	6.9
Services	5.2	8.0	6.6	6.7	5.7	5.7	5.8	5.1	5.1	5.1	4.9
Trade	3.1	3.1	4.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Public administration	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Public works/construction	18.6	3.8	6.5	6.0	10.0	9.7	11.5	13.5	7.6	7.6	7.5
Indirect taxes	5.7	5.4	5.4	5.4	5.7	5.7	5.0	5.0	5.0	5.0	5.0
Real GDP at market prices	4.2	4.3	5.0	5.2	5.4	5.2	5.3	5.1	4.9	4.8	4.8
Nominal demand composition				(As % of GDP)							
Resource balance	-2.3	-3.8	-5.9	-4.3	-6.1	-5.5	-6.4	-7.4	-7.6	-7.5	-7.1
Imports of goods and nonfactor services	35.9	39.4	40.7	39.8	40.1	40.9	41.7	42.0	41.5	40.8	40.1
Exports of goods and nonfactor services	33.6	35.5	34.8	35.5	34.0	35.3	35.3	34.7	33.9	33.3	33.0
Current account balance (including grants)=	0.6	-0.5	-2.2	0.3	-3.4	-1.4	-3.5	-4.5	-4.7	-4.6	-4.2
Consumption	83.7	84.9	88.8	84.6	87.1	84.7	84.3	84.4	84.8	84.9	85.1
Government	10.0	10.9	9.7	10.0	9.0	9.6	9.2	9.1	9.2	9.4	9.5
Private	73.7	74.0	79.1	74.5	78.1	75.2	75.2	75.4	75.6	75.5	75.6
Investment (I)	18.6	18.9	17.1	19.7	19.0	20.8	22.0	22.9	22.9	22.6	22.1
Public	5.2	5.5	7.3	6.2	9.8	7.9	9.0	9.8	9.6	9.3	8.7
Private	13.3	13.4	9.8	13.5	9.2	12.9	13.0	13.1	13.2	13.3	13.3
Of which: foreign direct investment	4.5	3.1	3.1	3.9	3.2	2.7	2.8	2.8	2.9	3.0	3.1
National savings (S)	19.1	18.4	14.9	20.0	15.5	19.4	18.5	18.4	18.1	18.0	17.8
Government	3.9	3.0	5.0	4.0	5.5	5.3	4.9	4.8	4.7	4.7	4.8
Nongovernment	15.2	15.4	9.9	16.0	10.1	14.0	13.6	13.6	13.4	13.3	13.0

Annexe 6

MADAGASCAR – PROGRAMME D'APPUI A LA COMPETITIVITE ECONOMIQUE-PHASE III/ (PACE III)

Matrice de prise en compte des facteurs de fragilité

Facteurs de fragilité identifiés par l'évaluation de la fragilité	Situation, défis et mesures de résilience soutenues par la Politique générale de l'Etat avec le soutien des partenaires techniques et financiers (PTF)	Mesures soutenues par PACE III et l'intervention de la BAD au titre de 2019
Facteurs politiques, institutionnels et sécuritaires	**1. Politiques légitimes et gouvernance politique (légitimité, inclusivité, consolidation de l'Etat et confiance dans ses institutions**	
	Légitimité : Le Madagascar se trouve à sa quatrième république depuis son accession à l'indépendance en Juin 1960. De son parcours vers une gouvernance politique stable, le pays a connu des crises socio-politiques récurrentes qui ont toujours fragilisées la légitimité étatique et institutionnelle et ce, au cours de deux générations passées. Malgré ce parcours parsemé d'embuches, la crise produite en 2009 fût longue et pénible pour le pays car elle a pris quatre ans avant qu'une voie de sortie ne soit acceptée par les deux parties en conflit sous la supervision de la SADEC. La mise en place d'un processus électoral excluant les deux principaux antagonistes de la crise a servi d'un levier pour replacer Madagascar sur la voie de la stabilité politique et institutionnelle. Les élections organisées en novembre 2018 sont venues renforcer la résilience de la gouvernance politique du pays par une acceptation des résultats sortis des urnes par les deux principaux antagonistes. Cet apaisement politique noté s'est renforcé par une élection législative paisible des membres du parlement en mai 2019 où le parti du président a eu une majorité absolue des députés. Malgré cette avancée observée depuis 2014, les causes profondes de l'instabilité politique demeurent observées au niveau de la conception de l'Etat par la classe politique malgache et du comportement des coalitions dominantes (majorité au pouvoir ou opposition) vis-à-vis de l'Etat. La situation politique se caractérise par : (i) une gestion néo-patrimoniale de l'Etat à travers un réseau clientéliste corrompu avec un bilan souvent négatif de l'utilisation du pouvoir d'Etat par la coalition dominante : l'Etat n'est pas mis au service de la Nation et de l'intérêt général et le principe de transparence et de la redevabilité n'est pas respecté ; et, (ii) le non-respect de la légalité et de la légitimité du pouvoir d'Etat, conféré de façon inclusive, consensuelle, libre et transparente, à un acteur ou à une coalition d'acteurs politiques désignés par leurs partis et élus au suffrage universel direct.	Le programme d'Appui à la Compétitivité Economique (PACE-III) contribuera indirectement à lever certains obstacles relatifs au renforcement du partenariat public-privé pour améliorer l'environnement réglementaire et institutionnel afin de consolider la conception de l'Etat et de ses institutions. La nature des actions que le programme porte, se situe dans la vision gouvernementale de consolider ses interventions sur l'ensemble du territoire par des activités de développement.
	Gouvernance : Malgré d'importants efforts de réforme entreprise par les gouvernements qui se sont succédés au cours de dix dernières années, la gouvernance demeure un grand défi pour le développement de Madagascar. Bien que la période de 2002 à 2006 soit marquée par des grandes réformes, les objectifs ambitieux poursuivis par la mise en œuvre du Plan d'action de Madagascar pour 2007-2012, sont restés sans impact visible sur la bonne gouvernance au point que les effets escomptés ne se sont faits observer que dans la gestion des finances publiques alors que les problèmes de gouvernance demeurent. Ils sont à la fois la cause et la conséquence visible des crises antérieures. L'absence d'équilibre effectif entre les différents niveaux de pouvoirs de l'Etat et de contrôle mutuel entre eux, la faiblesse des institutions, la confusion entre intérêt public et intérêts privés, l'immixtion des politiciens dans l'application du cadre légal et le sentiment auprès de l'opinion publique d'une impunité générale réduisent l'efficience, la transparence et la responsabilité de l'action publique. Ces problèmes de gouvernance affaiblissent l'efficacité du	Le programme d'Appui à la Compétitivité Economique (PACE-III), améliorera le système de la gouvernance en général à travers l'adoption du décret définissant un mécanisme transparent d'allocation des terres dans les agropoles et les cahiers de charges pour les investisseurs privés et les populations locales, et pourra servir d'un modèle pour consolider les progrès

Facteurs de fragilité identifiés par l'évaluation de la fragilité	Situation, défis et mesures de résilience soutenues par la Politique générale de l'Etat avec le soutien des partenaires techniques et financiers (PTF)	Mesures soutenues par PACE III et l'intervention de la BAD au titre de 2019
	développement en réduisant la croissance, freinent le développement d'un secteur privé concurrentiel et réduisent l'efficacité des services publics. Des réformes de grande portée ont été tentées, mais leur mise en œuvre a été déficiente, ce qui a nui à leur efficacité d'ensemble. Avec le recul, il apparaît que les obstacles posés par l'économie politique à la réforme de la gouvernance ont été sous-estimés tandis que les possibilités d'amélioration de cette dernière ont été surestimées. **Transparence :** Malgré les progrès remarquables dans la mise en place d'importantes mesures pour prévenir et lutter contre la corruption, la perception de la corruption reste élevée, selon l'indice de perception de la corruption de « Transparency International » (152eme rang en 2018 contre 155e rang sur 180 pays en 2017) et la corruption est considérée par les malgaches comme un des plus graves problèmes caractérisant la société actuelle. Le partenariat secteur public – secteur privé (PPP) souffre du manque de cadre de concertation formel et est parfois utilisé à mauvais escient pour faire du gré à gré. Les autres défis comprennent le manque de transparence dans la gestion et concession de ressources naturelles, les droits fonciers et, de plus en plus, l'incapacité de l'Etat à lutter contre le commerce illégal des bois rares et de minerais, la criminalité organisée et la corruption. En effet, le manque de transparence et de bonne gouvernance dans l'attribution des marchés publics et des terres à grande échelle pour l'exploitation agricole, minière et des ressources forestières par l'utilisation abusive des permis d'utilisation privé sont le symptôme de grands problèmes non résolus et des faiblesses dans la gouvernance des ressources naturelles et les insuffisances persistantes du cadre foncier. Ces questions continuent de poser des défis importants pour la paix et la sécurité dans les zones rurales.	déjà réalisés dans la gouvernance de la gestion des finances publiques. Le programme d'Appui à la Compétitivité Economique (PACE-III) appuiera des activités qui auront des effets positifs sur l'attractivité des investisseurs privés à la suite de la mise en place d'un environnement d'affaires dépollué de corruption.
	Questions de sécurité et de violence, capacité et performance du secteur de sécurité	
	Sécurité : Si la situation sécuritaire en Madagascar s'est grandement améliorée avec la mise en place d'un gouvernement de transition en 2013. Certes des incidents ont toujours eu lieu ponctuellement et conservent un potentiel de déstabilisation qui justifie un effort continu des actions structurelles du secteur de sécurité Face aux défis sécuritaires importants, le pays continue d'enregistrer des actes d'insécurités sous forme de crimes ou violences gratuites sur les biens et les personnes innocentes dans les villes, les campagnes et lors des manifestations festives. Néanmoins, une grande partie de la région du sud-ouest du pays connait un phénomène organisé de vol de bétail à main armée appelé « dahalos ». Les actes de ces bandes organisés sont fréquents et suscitent régulièrement la question de leur motivation, de l'origine des armes et de leur entraînement et d'autres questions plus spécifiques sur leurs réseaux qui peuvent être une menace pour la sécurité de l'Etat. Cette insécurité notée est une manifestation de la pauvreté ambiante et des inégalités grandissantes consécutives au regain d'activités, à des pratiques douteuses de compétitions et à des manipulations. Ces actes de violence sont du domaine civil et n'engagent que la « responsabilité politique » des autorités.	Le programme d'Appui à la Compétitivité Economique (PACE-III) ne contribue pas directement au facteur de la sécurité mais il apporte des solutions atténuant les risques qui pourraient dégrader la situation sécuritaire dans le pays.

Facteurs de fragilité identifiés par l'évaluation de la fragilité	Situation, défis et mesures de résilience soutenues par la Politique générale de l'Etat avec le soutien des partenaires techniques et financiers (PTF)	Mesures soutenues par PACE III et l'intervention de la BAD au titre de 2019
	3. Le secteur de la justice (accès inclusif à la justice, état de droit et indépendance de la justice, mécanismes de contre-pouvoir)	
	Un système judiciaire affaibli : les crises antérieures et récurrentes en Madagascar ont eu un impact négatif important sur l'appareil judiciaire et ceci a constitué une crise de légitimité depuis 2009 qui menace l'Etat de droit. Déjà déstructuré par les causes diverses de fragilité, il a été instrumentalisé à des fins politiques par l'ensemble des acteurs politiques et apparait miné par un manque d'indépendance, des problèmes de corruption, et une insuffisance de ressources techniques et matérielles. Le plan national de développement du secteur souligne les carences dans son administration telles que des infrastructures insuffisantes et vétustes, lenteurs et dysfonctionnements, surpopulation carcérale. En parallèle, les manquements en matière de formation des personnels pénitentiaires, des magistrats et des greffiers ont des conséquences sur l'ensemble du système. La faiblesse du budget est pour partie à l'origine de ces problèmes. Dans le cadre de son programme sectoriel 2015-2019, le ministère de la Justice a engagé des efforts pour améliorer la gestion du secteur, humaniser les conditions de vie des personnes détenues et restaurer le lien de confiance entre les citoyens et la justice, tout en prévenant la corruption.	Le programme d'Appui à la Compétitivité Economique (PACE-III) ne contribue pas directement au système de la justice mais il traite la problématique de l'exclusion, source d'injustice sociale, en faisant de l'inclusion un objectif primordial de la croissance économique.
Facteurs économiques et financiers	**4. Renforcement des bases de l'économie et la résilience des populations (accès équitable aux infrastructures et aux bénéfices des ressources naturelles)**	
	Gestion des ressources naturelles : La gestion des ressources naturelles considérables de Madagascar est encore loin pour atteindre les objectifs souhaités pour améliorer les conditions de vie de sa population. Cette dernière demeure pauvre, même si paradoxalement le pays est riche en ressources naturelles. Le Madagascar est relativement moins riche avec un produit intérieur brut (PIB) d'environ 12,73milliards de dollars en 2018 pour plus de 27,06 millions d'habitants. L'abattage illégal de bois précieux dans les Parcs nationaux de la région de Sava a atteint des niveaux sans précédent depuis la crise de 2009. Cette poussée de l'abattage risque d'anéantir le fruit de vingt ans d'efforts de conservation. Dans le secteur minier, deux projets miniers industriels de grande ampleur, la mine d'ilménite de QMM à Fort Dauphin et la mine de cobalt et nickel d'Ambatovy, viennent de lancer ou sont sur le point de lancer leur production et vont modifier le paysage économique du pays. L'augmentation imminente des recettes minières va contribuer à la croissance, mais risque d'exacerber les inégalités sociales dans les communes minières et pourrait causer une dynamique de ce qu'il est convenu d'appeler « la malédiction des ressources naturelles ». Alors que l'exploitation minière n'a pas été jusqu'ici un moteur important de l'économie politique, elle dispose du potentiel voulu pour éclipser les autres facteurs tandis que Madagascar pourrait rentrer dans le club des pays riches en ressources. De ce fait, le secteur minier doit être au cœur d'une étude critique du changement à Madagascar. Tant que des mesures fermes de collaboration ne seront pas prises pour mieux gérer les ressources naturelles, le pays risquerait de tomber dans la malédiction des ressources naturelles. En outre, la nature de la croissance engendrée par les ressources naturelles est caractérisée par des fortes inégalités de revenu, isolationniste et fragmentés.	Le programme d'Appui à la Compétitivité Economique (PACE-III) aborde également la question des ressources naturelles notamment l'énergie comme une résultante de la force hydraulique ou hydrocarbure. Le programme a prévu les mesures pour appuyer le renouvellement et renforcement des capacités des institutions impliquées dans la gestion du secteur énergie pour améliorer ses performances en guise de l'amélioration de la compétitivité économique du Madagascar .

Facteurs de fragilité identifiés par l'évaluation de la fragilité	Situation, défis et mesures de résilience soutenues par la Politique générale de l'Etat avec le soutien des partenaires techniques et financiers (PTF)	Mesures soutenues par PACE III et l'intervention de la BAD au titre de 2019
Facteurs sociaux : pauvreté et inégalité	**5. Mobilisation accrue des ressources pour développer des opportunités d'emplois, de revenus et d'accès inclusif aux services sociaux de base, axée sur le rôle crucial de l'Etat, une amélioration de la gouvernance financière et un recentrage approprié des fonctions de l'Etat**	
	Les inégalités : Les disparités régionales sont flagrantes et le milieu rural est le plus affecté par la pauvreté. La pression démographique tirée par un taux de natalité élevé, exerce des pressions supplémentaires sur la vie du pays déjà fortement éprouvé. L'urbanisation rapide et galopante constitue une autre forme de pression sociale qui n'épargne pas les populations urbaines et par extrapolation, vide les zones rurales de la main d'œuvre nécessaire à l'exploitation des richesses agricoles tandis qu'elle accélère la détérioration des infrastructures vétustes et parfois inadéquates dans les zones urbaines. Enfin, une majorité de la population notamment les femmes et les jeunes sont marginalisés socialement et manquent d'opportunités économiques et politiques. Un retour à la cohésion sociale, et une croissance inclusive, gages de stabilité et de prospérité pour tous les malgaches sont incontournable. Outre cela, la sécurité alimentaire de la population dont les plus usuels sont l'abondance de pluies pour la réussite de la campagne agricole, l'accès des populations aux services sociaux de base, la disponibilité de bras valides pour les récoltes, la stabilité politique et l'absence de catastrophes telles que des calamités naturelles ou des épidémies. La question épineuse de l'articulation entre le foncier par excellence pour l'agriculture et les mines nourrit le sentiment d'insécurité des populations locales confrontées à des occupations et appropriations illégales de leurs terres. Ainsi, malgré la loi, le contrôle de la terre demeure source de tensions communautaires et intergénérationnelles. Cette bombe à retardement doit faire l'objet d'un traitement politique, légal et culturel urgent pour éviter qu'elle ne devienne source d'un conflit dans le pays.	Le programme d'Appui à la Compétitivité Economique (PACE-III) apporte des éléments de réponse pour corriger les inégalités spatiales accumulées au cours de plusieurs années et créer un nouvel élan pour un développement territorial équilibré par l'adoption d'un texte régissant les agropoles.
	Sources de revenus : Malgré ses importantes ressources potentielles, l'économie malgache reste très fragile et dépend des services et de l'agriculture. Les services sont la principale ressource économique de Madagascar qui fournit 56 ,9. % de la production intérieure brute. Les services et l'agriculture contribuent à la formation du PIB à hauteur de 83,4 %. L'agriculture à elle seule constitue un enjeu pour la survie d'environ 80% de la population active de Madagascar. Le secteur occupe plus de trois quart de la population active du pays, dont une forte proportion de femmes, et demeure un des principaux moteurs de la croissance économique.	Le programme d'Appui à la Compétitivité Economique (PACE-III) est une action qui rentre dans la diversification et l'industrialisation de l'économie malgache. Les filières agro-industrielles au fort potentiel sélectionnées par le programme seront des moteurs de croissance avec une transformation des matières premières, ce qui contribuera à réduire la dépendance de l'économie aux secteurs de services et minier.

Facteurs de fragilité identifiés par l'évaluation de la fragilité	Situation, défis et mesures de résilience soutenues par la Politique générale de l'Etat avec le soutien des partenaires techniques et financiers (PTF)	Mesures soutenues par PACE III et l'intervention de la BAD au titre de 2019
	Cadre règlementaire (rôle de l'État dans la fourniture de services) : Le Madagascar a malheureusement un désavantage de ne pas disposer d'un patrimoine d'infrastructures de bonne qualité depuis son accession à son indépendance. L'investissement dans le développement des infrastructures prioritaires pour améliorer la qualité des services fournis par l'Etat à la population est un leitmotiv du gouvernement pour son programme de développement et ce, dans tous les secteurs d'activité porteurs d'un changement de niveau de vie de population et d'une opportunité économique. Bien que des progrès soient notés dans le secteur de transport malgré des disparités régionales encore importantes, les secteurs se référant à l'utilité publique (eau, déchets, TIC et transport) peinent à démarrer par manque d'actions rapides et efficaces d'une part et d'autre part par un retard de financement. La répartition déséquilibrée des services publics entre les régions et les couches des populations pourrait à long terme fragiliser la paix et la cohésion sociales retrouvées si des actions correctives ne sont pas prises pour inverser la tendance.	Le programme d'Appui à la Compétitivité Economique (PACE-III) s'inscrit dans une approche multisectorielle dont les déclencheurs une fois exécutés, rehausseront le nombre d'opportunités économiques pour les investisseurs (nationaux et étrangers). L'action de ces derniers servira de levier pour l'accroissement de mobilisation des ressources internes dans lesquelles le gouvernement prélèvera pour investir dans les servitudes publiques utiles(eau, électricité, santé) pour l'amélioration des conditions de vie des populations.

Annex 7: Map of Madagascar

AFRICAN DEVELOPMENT FUND

BOARD OF DIRECTORS

Resolution N° F/MG/2019/107

Adopted by the Board of Directors on a lapse-of-time basis on 26 November 2019

Grant to the Republic of Madagascar to finance part of the costs of the Economic Competitiveness Support Programme - Phase III (PACE III)

THE BOARD OF DIRECTORS,

HAVING REGARD to: (i) Articles 1, 2, 11, 12, 14, 15, 16, 26 and 30 of the Agreement Establishing the African Development Fund (the "Fund" or "ADF"); (ii) the Report on the Fourteenth General Replenishment of the Resources of the Fund ("ADF-14"); (iii) the applicable ADF-14 Country Resource Allocation; and (iv) the appraisal report contained in Document ADB/BD/WP/2019/265/Approval - ADF/BD/WP/2019/180/Approval (the "Appraisal Report");

NOTING the availability of sufficient resources to enable the Fund to commit the amount of the Grant;

DECIDES as follows:

1. To award to the Republic of Madagascar (the "Recipient"), from the resources of the Fund, a grant of an amount not exceeding the equivalent of Seven Million, Nine Hundred and Ten Thousand Units of Account (UA 7,910,000) (the "Grant") to finance part of the costs of the Economic Competitiveness Support Programme - Phase III (PACE III);

2. To authorize the President to conclude a protocol of agreement between the Fund and the Recipient (the "Protocol of Agreement") on the terms and conditions specified in the General Conditions Applicable to Protocols of Agreement for Grants of the African Development Fund and the Appraisal Report;

3. The President may cancel the Grant if the Protocol of Agreement is not signed within ninety (90) days from the date of approval of the Grant by this Board; and

4. This Resolution shall become effective on the date above-mentioned.

AFRICAN DEVELOPMENT BANK **AFRICAN DEVELOPMENT FUND**

BOARDS OF DIRECTORS

Resolution N° B/MG/2019/97 - F/MG/2019/108

Adopted by the Boards of Directors of the Bank and the Fund, on a lapse-of-time basis, on 26 November 2019

Grant to the Republic of Madagascar, from the resources of the Transition Support Facility, to finance part of the costs of the Economic Competitiveness Support Programme - Phase III (PACE III)

THE BOARDS OF DIRECTORS,

HAVING REGARD to: (i) Articles 1, 2, 32 and 37 of the Agreement Establishing the African Development Bank (the "Bank"); (ii) Articles 1, 2, 26 and 30 of the Agreement Establishing the African Development Fund (the "Fund" or "ADF"); (iii) the Report on the Fourteenth General Replenishment of the Resources of the Fund ("ADF-14"); (iv) the Operational Guidelines for the Implementation of the Strategy for addressing Fragility and building Resilience in Africa and for the Transition Support Facility (the "TSF Operational Guidelines"); and (v) the appraisal report contained in Document ADB/BD/WP/2019/265/Approval - ADF/BD/WP/2019/180/Approval (the "Appraisal Report");

RECALLING:

(i) Resolution N° B/BD/2008/05 - F/BD/2008/03 approved by these Boards on 28 March 2008 establishing the Fragile States Facility;

(ii) Document ADB/BD/WP/2014/46/Rev.2 - ADF/BD/WP/2014/30/Rev.2 entitled "Addressing Fragility and Building Resilience in Africa: The African Development Bank Group Strategy 2014 – 2019"; and

(iii) Document ADB/BD/WP/2017/175 - ADF/BD/WP/2017/123 as well as its corrigendum entitled "Fourth Cycle Assessment of Eligibility for Countries to the Transition Support Facility (TSF) Supplemental Support Funding (Pillar I) Resources" which confirmed, *inter alia*, the eligibility of the Republic of Madagascar to receive financing from the TSF Supplemental Support Window (Pillar I);

DECIDE as follows:

1. To award to the Republic of Madagascar (the "Recipient"), from the resources of the TSF Supplemental Support Window (Pillar I), a grant of an amount not exceeding the equivalent of Two Million and Sixty Thousand Units of Account (UA 2,060,000) (the "Grant") to finance part of the costs of the Economic Competitiveness Support Programme - Phase III (PACE III);

2. To authorize the President to conclude a protocol of agreement amongst the Bank, the Fund and the Recipient (the "Protocol of Agreement"), on the terms and conditions specified in the General Conditions Applicable to Protocols of Agreement for Grants of the African Development Fund, the TSF Operational Guidelines and the Appraisal Report;

3. The President may cancel the Grant if the Protocol of Agreement is not signed within ninety (90) days from the date of approval of the Grant by these Boards; and

4. This Resolution shall become effective on the date above-mentioned.