The Executive Directors discussed Madagascar's Poverty Reduction Strategy Paper (PRSP), and the Joint IDA-IMF Staff Assessment (JSA) of the PRSP.

Directors noted the daunting task facing Madagascar in reaching its Millennium Development Goals (MDGs) but also noted the country's enormous potential resources which could allow it to overcome its current challenges. Directors agreed with the joint staff's assessment of the strengths of the PRSP, including the strong country ownership of the PRSP process. They were particularly pleased to note that the PRSP was the result of a broad based participatory process, that it is based on a sound diagnostic of poverty, and that there is broad consensus on the development priorities for the country. Directors noted that continued ownership and consultation with key parties would be important. Directors also noted the PRSP's three strategic axes of governance, broad based growth and human and material security as means to reduce poverty and achieve more equitable growth. Directors agreed with the objective of reducing the country's level of poverty, by integrating rural markets through better infrastructure, and putting greater emphasis on rural service delivery.

Directors were pleased to note the good performance of Madagascar's economic recovery. They welcomed the measures Government has taken to encourage private sector growth and emphasized the need for a strong regulatory framework to guide the private sector reform efforts. They noted, however, that the role of the private sector in supporting the goals of the PRSP should be made clearer. Directors noted the actions Government has taken to reduce poverty and improve public sector management. Directors agreed that improved governance, including budgetary measures, pro-poor development, including transport infrastructure linking farmers to markets, the sustainable management of Madagascar's rich natural resource base, and increased access to and improved quality of education are critical to the achievement of the PRSP's objectives.

Directors welcomed the different macroeconomic scenarios provided in the PRSP but believed that the growth rates may be too optimistic. Risks, including political commitment, reducing income inequality, environmental degradation, and assuring the confidence of the private sector would need to be addressed. Directors also noted the need to guard against raising unrealistic expectations which could jeopardize the reform process. Directors also concurred with the areas of weakness noted in the JSA that would require more focus, including agriculture and rural development and gender, and the identification of sustainable sources of growth, and further prioritization and costing of action plans going forward, especially for the capacity building and risk assessment processes.
Directors noted that the PRSP was a very ambitious program which would test the implementation capacity of the country and would require a major investments and enhancement in capacity as a result. It would, therefore, be important to keep a close eye on absorption capacity, monitoring and evaluation, and donor coordination.

Finally, Directors noted that Government would need to sustain its macroeconomic and fiscal reform program and successfully complete a number of other essential reforms to reach the high-case lending level needed to reach the Millennium Development Goals. Directors emphasized that the current PRSP is just a beginning of the process and that much more will need to be done in the coming years. They added that if these reforms and such high growth levels continue, Madagascar would be well on its way to achieving its desired objectives.

Directors therefore concurred with staff that the PRSP provides a good basis for IDA’s continued concessional assistance to Madagascar.