

Madagascar

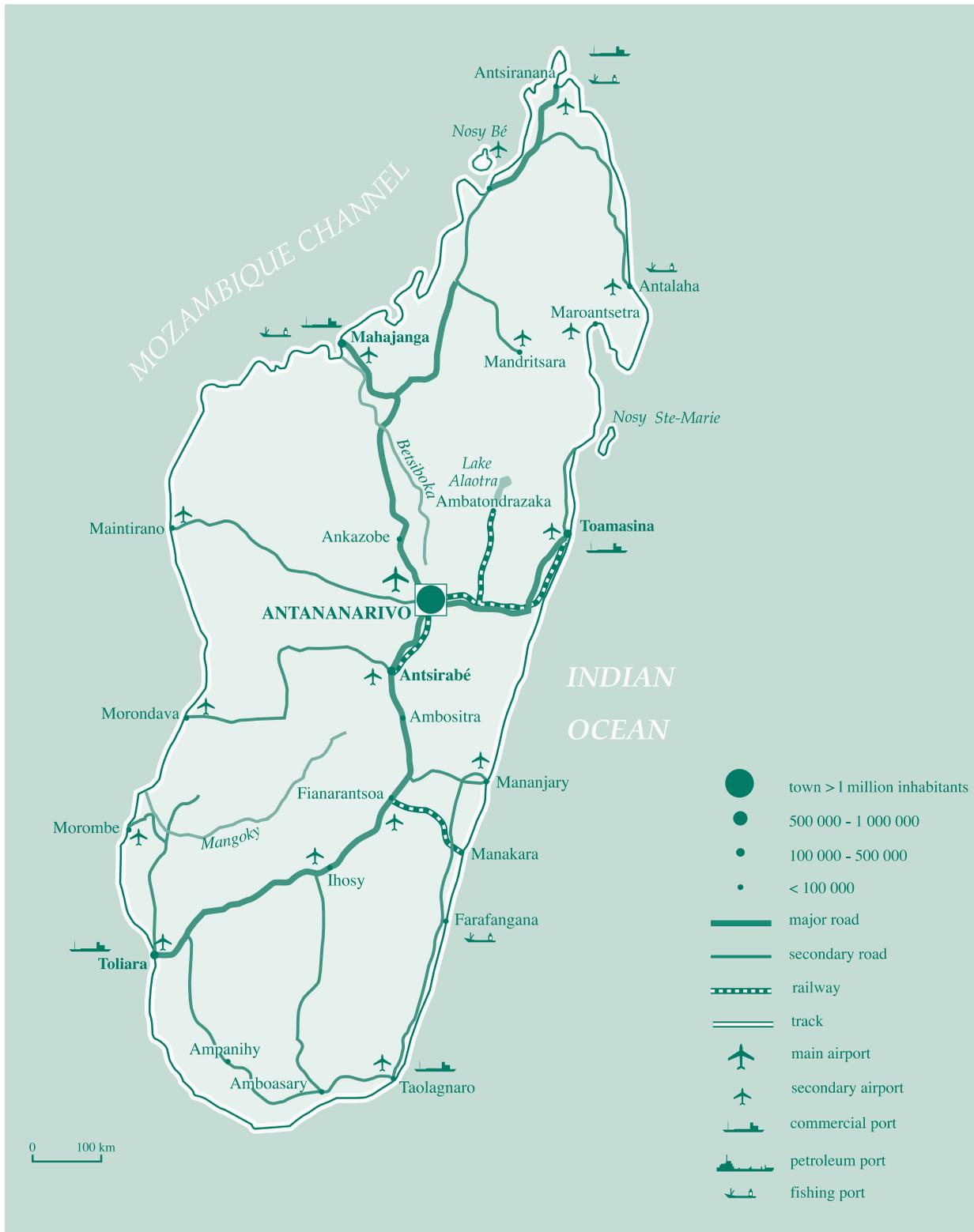


Antananarivo

key figures

• Land area, thousands of km ²	587
• Population, thousands (2006)	19 105
• GDP per capita, \$ PPP valuation (2006)	920
• Life expectancy (2006)	56
• Illiteracy rate (2006)	29.3

Madagascar



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MADAGASCAR'S ECONOMY FELL INTO A DEEP recession after the 2001 political crisis and shrank by 12.7 per cent in 2002. It soon bounced back, however, with growth of 9.8 per cent in 2003 and further expansion in 2004 (5.3 per cent), 2005 (4.6 per cent) and 2006 (4.8 per cent). The recovery was fuelled by the strong performance of the primary and secondary sectors and further reforms to bolster the opening up of the economy, improve macroeconomic stability and governance, and combat poverty more effectively.

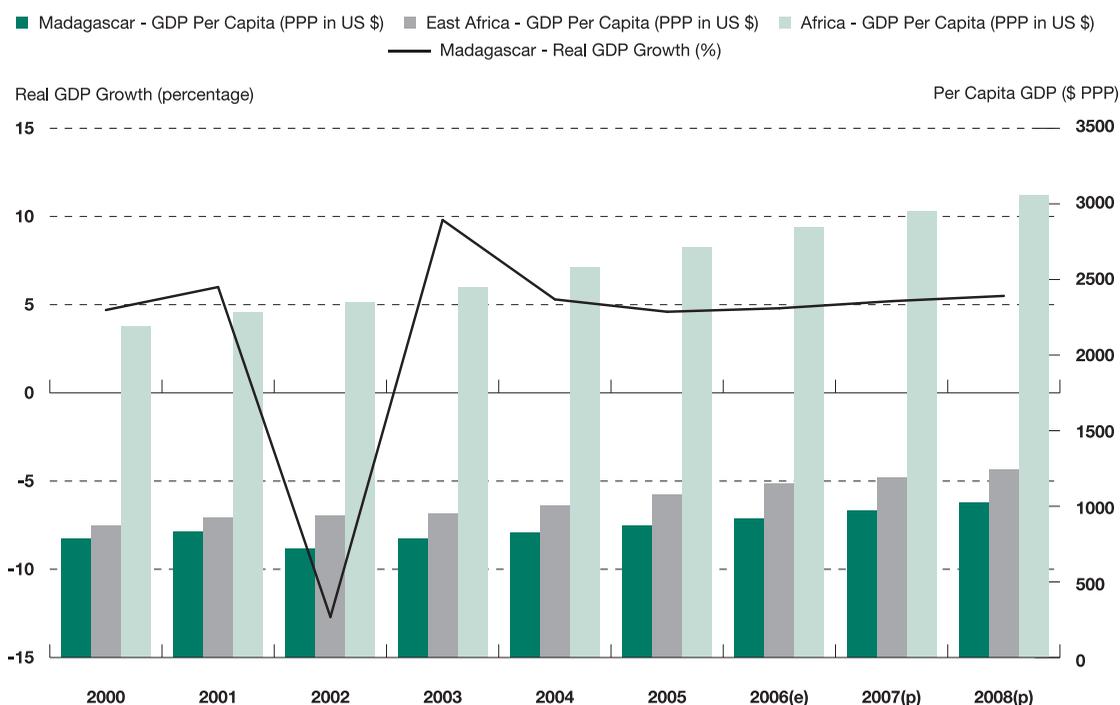
Macroeconomic policy since 2002 has been based on maintaining stability to encourage growth and

reduce poverty. The government has focused on reform of the budget and public procurement, more effective monitoring of public finances and continued efforts to reduce the share of customs duties in budget revenue.

Elections for president in December 2006 and for parliament in 2007 should encourage the government to stick to this course. Adoption of programme budgets and a serious war on corruption should greatly improve management of public finances.

Economic recovery is expected to be sustained based on the performance of the secondary and tertiary sectors which benefited from fiscal and macroeconomic reforms.

Figure 1 - Real GDP Growth and Per Capita GDP
(\$ PPP at current prices)



Source: IMF and local authorities' data; estimates (e) and projections (p) based on authors' calculations.

<http://dx.doi.org/10.1787/638420028046>

Recent Economic Developments

Despite good performances in 2005 by agriculture, tourism, construction and, to a lesser extent, exports, real GDP grew only 4.6 per cent, down from 5.3 per cent in 2004 and well below the 2005 budget's forecast of about 7 per cent. This outcome was mainly due to higher world oil prices, expensive electricity and frequent blackouts caused by the financial crisis at the national power and water company Jirama, which hurt the productive sectors, especially industry. Although growth was up slightly in 2006, it is further threatened by persistent structural problems linked to public finance management, slow reform of the public sector, governance issues and a poor business climate that discourages private investment. The expiry of the African Growth and Opportunity Act (AGOA) preferences for Madagascar exports to the United States will not help matters. The government wants to use all the opportunities provided by its membership of the Common Market for Eastern and Southern Africa (Comesa) and the Southern African Development Community (SADC).

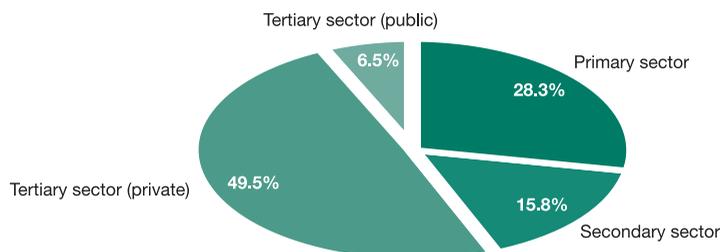
The tertiary sector, which accounts for more than half of GDP, was the star performer in 2005 with 6.2 per cent growth, mostly due to booming transport, telecommunications, banks, insurance and services. Extension and modernisation of the country's roads opened up isolated productive regions and linked them to markets for agricultural and industrial items. Despite the threat posed by chikungunya fever, the tourism sector still managed to contribute to growth, and

energetic promotion of Madagascar as a tourist destination led to the opening of eight new hotels in the first quarter of 2006. The government is encouraging the sector with a tourism master plan (TMP) and giving higher status to the national tourism office.

The primary sector, which accounts for about a third of GDP, grew a modest 3.3 per cent in 2005 (up from 3.1 per cent in 2004). Its best performer was agriculture, where rice production increased thanks to good weather and the improvement in growers' access to microfinance and inputs, especially fertiliser. Great efforts were also made to upgrade agricultural infrastructure such as dams and irrigation channels, expand crop areas and teach growers about new production methods. Sector growth is expected to slow to 2.1 per cent in 2006 because of poor rainfall and costlier energy.

The secondary sector (a bare 16 per cent of GDP) performed least well in 2005, growing only 3 per cent (less than half the 6.6 per cent recorded in 2004). It grew 4.7 per cent in 2006 but was hit by the end of the Multifibre Arrangement (MFA) at the beginning of the year, higher oil prices, frequent power cuts and sluggish industrial output, especially in the free zones. Industrial activity outside the free zones grew nearly 12 per cent in 2005 due to good results in construction materials (up 13.5 per cent), construction (+18.8 per cent) and electrical appliances (+25 per cent). The government wants to revive and diversify the sector by quickening the pace of Madagascar's integration in the SADC and encouraging the sugar industry.

Figure 2 - GDP by Sector in 2005 (percentage)



Source: Authors' estimates based on National Institute of Statistics data.

<http://dx.doi.org/10.1787/381578235225>

Pending the development of a mining sector, which could be based on oil and diamonds, the economy continues to rely heavily on traditional products. World prices for coffee soared in 2005 to \$0.56 a bag (up from \$0.37 in 2004), boosting the value of the country's coffee exports by 62.5 per cent. In contrast, vanilla prices slumped 84 per cent in 2005, cutting export earnings by three-quarters, despite a 50 per cent rise in the volume exported. The export price of cloves improved by 20 per cent, but earnings fell sharply as volume exports were more than 45 per cent lower. Madagascans still depend on rice, and efforts to increase food security were expected to boost output of paddy rice by 15 per cent in 2006 (to 3.93 million tonnes). The 3.42 million tonnes produced in 2005 were not enough to meet local demand, and the government had to import rice during the dry season at a subsidised price. Consumer prices for rice in rural markets fell in early 2005 despite more expensive energy and averaged about 900 ariary per kilogram at the end of the year. The food security policy is also reflected in fish-farming, which grew 2.8 per cent in 2005 due to restocking, production of alevin and the introduction of forgery-proof fishing permits to protect fish stocks and regulate the industry better. Efforts to improve livestock quality included importing 9 000 doses of selected animal semen, local production of 7 055 doses and vaccinating 77 per cent of cattle.

Consumption of oil products fell slightly (0.6 per cent) in 2005, but that of electricity grew 3 per cent. Mining advanced in 2006 with a 9 per cent increase in chromite production and planned investment by Qit Madagascar Minerals to extract ilmenite (titanium ore) in the Tolagnara (formerly Fort Dauphin) region. Other investment is being negotiated with the Dynatec/Sumitomo consortium to mine nickel and cobalt at Ambatovy. Madagascar also earned about 6 billion ariary in 2005 from exports of precious stones. In all, mining yielded 339 million ariary in royalties for the government, as against 212 million in 2004. Oil exploration in the Mozambique Channel by Madagascar Oil may boost revenue from 2009.

Tourism continued to expand in 2005, and eight new hotels opened in the first quarter of 2006. Visitors

were up more than 21 per cent on 2004, generating 19 per cent more revenue (367.7 billion ariary, compared with 308.3 billion in 2004). Major investments are planned to convert sites in the south to up-market tourist destinations. Rail transport of goods grew strongly (about 30 per cent), contrasting with the poor performance of road transport, held back by higher oil prices and a sluggish industrial sector, and the even weaker performance of sea transport, which declined more than 11 per cent year-on-year, mainly due to lower imports of capital goods. Banking and insurance continued to grow, thanks largely to greater public access to microfinance, whose use increased from 4 per cent of households in 2000 to 7.6 per cent in 2005. New technology also prospered, especially in fixed and mobile telephony, which gained 50 per cent more subscribers in 2005 year-on-year. Banking should grow by 6.9 per cent in 2006 (+6.6 per cent in 2005), and microfinance providers are expected to serve an increasing percentage of potential customers (15 per cent in 2005) and also improve the loan satisfaction rate (50 per cent in 2005). The goal in telecommunications is to expand national phone coverage, which was still only 3.2 per cent in 2005.

Overall economic activity in 2006 was helped by a 14.8 per cent rise in gross investment. Public investment was fairly in tune with the priorities of the poverty reduction strategy paper (PRSP), despite the fall in its GDP share to 9.3 per cent in 2005 (10 per cent in 2004) and changes in execution procedure for government spending. Public investment should rise (to 10.8 per cent of GDP) in 2006 to support infrastructure and the social sector, followed by a renewed fall in the medium term. Private investment has steadily risen, to 16.7 per cent of GDP in 2005 (14 per cent in 2004), and should reach 18.2 per cent in 2006. It is expected to increase further in the medium term if the business climate improves and macroeconomic policy is stabilised. Public consumption, despite a smaller share of GDP in 2006 (8.6 per cent, down from 9 per cent in 2005), should increase in 2006 due to the rise in capital expenditure. Private consumption has also risen, and the gradual fall in inflation (to an expected 5 per cent in 2009) should boost household purchasing power.

After the expiry of the MFA and the drop in raw material prices, goods exports fell 11.2 per cent in 2005, to 1 675.7 billion ariary (from 1 864.5 billion in 2004). Imports rose about 5 per cent, to 2 817.6 billion ariary (2 684.3 billion in 2004), mainly because of greater imports of subsidised rice. Abolition of customs duty exemption for imported capital goods in the last quarter of 2005 cut the inflow of such goods in 2006 to 464 billion ariary (from 736 billion in 2005) and caused a drop in public and private investment in productive activity. Customs duties and import taxes are to be combined in a single tax category. The expiry of the MFA in 2005

and of the third-party provision of AGOA (the last stage of the preferences process for Madagascan exports to the United States) in 2007 will hurt the Madagascan economy. To soften the blow, the government is finalising the 2007-11 Madagascar Action Plan (MAP) to replace the PRSP and setting clear quantitative targets based on the national development vision "Madagascar, Naturally" and the Millennium Development Goals (MDGs). The MAP will spell out the government's development aims, enable it to respond to opportunities arising from globalisation and make the country's forecasting and planning more effective.

Table 1 - Demand Composition (percentage of GDP)

	1998	2005	2006(e)	2007(p)	2008(p)
	Percentage of GDP (current prices)		Percentage changes, volume		
Gross capital formation	14.4	26.0	14.8	8.5	7.4
Public	7.5	9.3	20.0	6.0	3.0
Private	6.9	16.7	12.0	10.0	10.0
Consumption	93.8	91.4	3.3	4.3	5.0
Public	8.0	9.0	1.4	8.8	5.0
Private	85.9	82.4	3.5	3.9	4.9
External sector	-8.2	-17.3			
Exports	21.4	28.2	5.6	3.7	4.1
Imports	-29.7	-45.5	8.1	4.4	4.8

Source: National Statistics Institute data; estimates (e) and projections (p) based on authors' calculations.

<http://dx.doi.org/10.1787/610120035362>

Macroeconomic Policies

Fiscal Policy

Government revenue increased due to streamlining of the tax system, better tax and customs collection, and, in part, the abolition in September 2005 of customs exemptions for imported capital goods. This income was not enough to cover expenditure, however, owing to the reductions in duty on emergency rice imports. Total revenue (excluding grants) in 2005 was 1 102.8 billion ariary (10.9 per cent of GDP), up from 982.4 billion in 2004 (12 per cent of GDP), with an expected further increase to 1 340 billion ariary (11.3 per cent of GDP) in 2006.

Public spending was held to 21.3 per cent of GDP in 2005 and was geared mostly towards investment in infrastructure, health and education. It rose to an estimated 21.7 per cent of GDP in 2006. Capital expenditure also rose, by about a quarter over 2005, to more than 1 290.4 billion ariary (11 per cent of GDP), 1 004 billion of it funded by debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. To avoid the spending overruns, particularly in budgetary spending, that occurred in 2005 after pay rises for civil servants, the government has adopted programme budgets and set up budgetary and financial discipline councils. Systematic analytical audits of spending will be conducted, and ministries will have to submit monthly spending plans so that the treasury

Table 2 - Public Finances (percentage of GDP)

	1998	2003	2004	2005	2006(e)	2007(p)	2008(p)
Total revenue and grants^a	14.1	15.4	20.3	16.7	17.0	16.1	15.1
Tax revenue	9.8	10.0	10.9	10.4	10.6	10.4	10.4
Grants	3.5	5.1	8.2	5.7	5.8	5.1	4.1
Total expenditure and net lending^a	19.9	19.6	25.2	21.3	21.7	21.0	20.2
Current expenditure	10.6	10.1	12.6	11.0	10.4	9.7	9.3
<i>Excluding interest</i>	7.8	7.9	9.7	8.3	8.3	8.1	7.8
Wages and salaries	4.1	5.4	4.9	4.5	4.3	4.1	4.0
Interest	2.7	2.2	2.9	2.6	2.2	1.6	1.4
Capital expenditure	8.2	7.8	12.5	10.3	11.2	11.3	10.9
Primary balance	-3.1	-2.0	-2.0	-2.0	-2.6	-3.2	-3.6
Overall balance	-5.8	-4.2	-4.9	-4.7	-4.7	-4.8	-5.1

a. Only major items are reported.

Source: Ministry of Finance and Economy data; estimates (e) and projections (p) based on authors' calculations.

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can match them to expected revenue and financial flows. A new information system for monitoring expenditure will be introduced in 2007 along with new public procurement rules. Money freed up under the Multilateral Debt Relief Initiative (MDRI) will go exclusively to poverty reduction and will be monitored accordingly.

Despite problems in cutting expenditure, the government hopes to end the 2006 budget period with a deficit (including grants) equal to 4.7 per cent of GDP. To reduce it further, administrative and tax measures are planned to increase the tax burden to 10.7 per cent in 2006 (10.1 per cent in 2005). This rate is far too low, and the country will have to increase it gradually in order to offset (with more stable budget revenue) the abolition of customs duties scheduled as part of Madagascar's membership of SADC and Comesa. The tax on oil products was raised in January 2006, by 66 per cent on petrol and 178 per cent on diesel. Steps are also planned to improve management and collection of VAT, after cutting the average rate from 20 to 18 per cent and unifying it into a single rate. The tax administration and its data and assessment system will be made more efficient.

Monetary Policy

Like other central banks, Banque centrale de Madagascar (BCM) has the job of ensuring stability of prices, the currency and the exchange rate. Inflation

declined to 11.4 per cent in 2006 (from 18.4 per cent in 2005) due to a sizeable fall in the price of consumer staples, while the prices of other goods remained tied to higher world oil prices and electricity rates and to depreciation of the ariary.

To limit the excesses caused by the supply-side shocks, the BCM kept in place in 2005 the restrictions it introduced in 2004 to curb growth of the money supply. This more cautious monetary policy, controlling the sources of money creation, involved keeping the BCM's intervention rate at 16 per cent and the reserve requirement at 15 per cent. Since banks found themselves in a situation of excess liquidity early in the year, these measures were reinforced in April by exclusion of banks' cash in hand from the calculation of the reserve requirement.

Loan policy in 2005 was to encourage primary banks to finance the private sector, and loans to business, especially to importers of oil products, rose 22 per cent during the year. Financial markets did well in the first half of 2006 with renewed auctioning of treasury bonds, which allowed non-bank financial institutions to buy them as well and enabled the government to finance the deficit in a more sound manner while tapping at source into some of the excess bank liquidity.

The government hopes to bring inflation down to 5 per cent in the medium term, but the double-digit rates of the past five years (except in 2003) could

persist for the next few years, especially if drought exerts inflationary pressure by reducing hydroelectric energy output and future harvests. The inflationary trend may also last because of rising water and electricity prices. To curb money creation, the government also hopes to use liquidity controls such as tenders and repurchasing. Treasury repayments will also reduce the government's debt. The nominal effective exchange rate fell by 9 per cent between April 2005 and April 2006, which allowed the real rate to sink below the level it reached before the 2004 devaluation. The government wants to keep the floating rate, limiting BCM intervention to smoothing out large rate fluctuations and meeting targets for foreign exchange reserves (the target for 2006 was the equivalent of 2.9 months of imports).

External Position

The current account deficit was 10.1 per cent of GDP in 2005, with the sharp drop in vanilla prices, a fall in shrimp exports because of overfishing and the end of the MFA all substantially reducing export earnings. The deficit is expected to reach 16.8 per cent in 2006 because of a big rise in total imports (to 5 167 billion ariary, from 4 598 billion in 2005). Goods exports fell in 2005 (to 1 798 billion ariary from 1 853 billion in 2004) but are expected to rise to 1 986.4 billion in 2006, while goods imports, which rose slightly in 2005, should reach 3 159.6 billion. The trade deficit is thus set to increase to 13.3 per cent of GDP in 2006 (from 9.5 per cent in 2005). Capital goods imports fell

somewhat from the 2004 figure because of the abolition of customs exemptions, while the terms of trade deteriorated as world oil prices rose. Reduced foreign grants and loans in 2005 helped keep the balance-of-payments deficit at about the same level.

The government streamlined customs duties by combining them in three tariff bands (of 5, 10 and 20 per cent). In addition, Madagascar recently joined the SADC and wants to use all the opportunities it provides for agriculture and tourism. The country also belongs to Comesa, whose members are considering a common external tariff. Madagascar will have to phase out its customs duties, which will be abolished under these regional agreements, and find more reliable sources of revenue. As well as using current foreign aid, the government plans to call on the European Union for substantial help in funding the MAP.

The total external debt was 69.7 per cent of GDP (\$3.5 billion) in 2005, 80 per cent of it bilateral and multilateral. The debt situation in 2006 seems sustainable due to cancellation of nearly \$2.4 billion in debt under the HIPC Initiative and the MDRI. Analysis of its viability shows that the main debt indicators, which were already satisfactory in 2005, would fall substantially in 2006, and that the country's stock of debt would be cut by some 70 per cent by the end of the year. The government's strategy for controlling future debt involves the use of soft loans and curbing domestic debt by gradual withdrawal from the banking sector and repayment of its commercial debt.

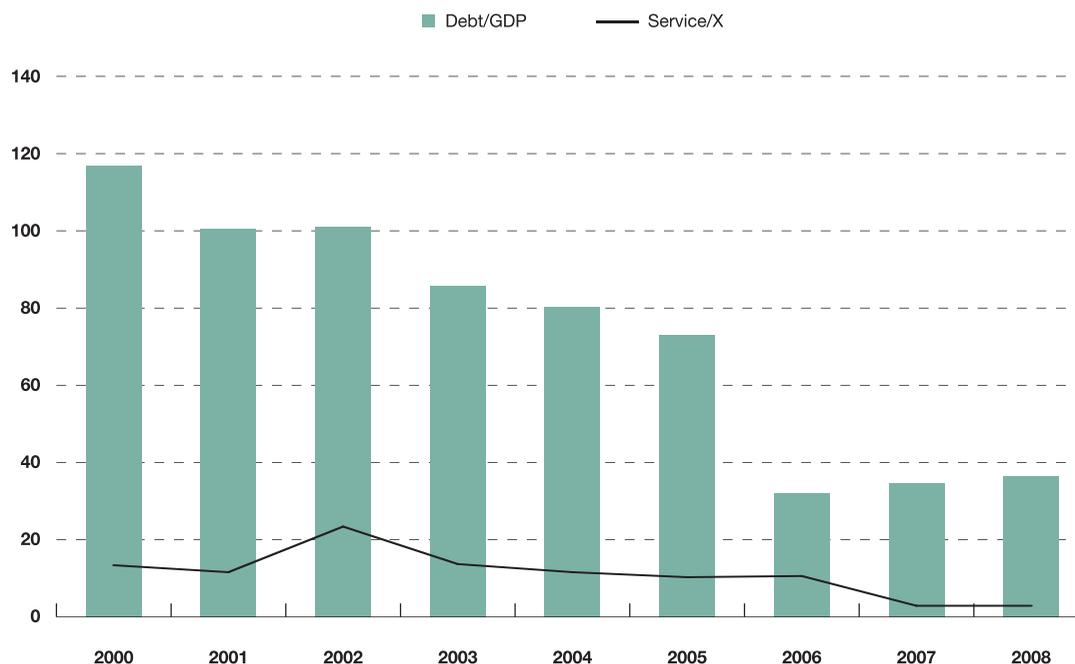
Table 3 - Current Account (percentage of GDP)

	1998	2003	2004	2005	2006(e)	2007(p)	2008(p)
Trade balance	-4.0	-4.0	-10.0	-9.5	-13.3	-12.8	-12.9
Exports of goods (f.o.b.)	14.0	14.4	22.7	17.8	16.3	16.0	15.6
Imports of goods (f.o.b.)	18.0	18.4	32.7	27.4	29.6	28.8	28.5
Services	-3.8	-5.4	-6.3	-3.5	-6.0	-5.9	-5.8
Factor income	-2.0	-1.5	-1.5	-1.6	-1.3	-1.2	-0.9
Current transfers	2.3	5.5	7.5	4.5	3.9	3.8	3.5
Current account balance	-7.5	-5.4	-10.3	-10.1	-16.8	-16.1	-16.2

Source: Central Bank data; estimates (e) and projections (p) based on authors' calculations.

<http://dx.doi.org/10.1787/024776006677>

Figure 3 - Stock of Total External Debt (percentage of GDP) and Debt Service (percentage of exports of goods and services)



Source: IMF.

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Structural Issues

Recent Developments

Madagascar is one of the world's poorest countries (ranked 146th out of 177 in the UN Development Programme's 2006 Human Development Report), and its economic development is held back by lack of local savings, outdated economic and social infrastructure, very unequal and arbitrary application of rules nationwide and, in recent years, frequent and extensive power cuts by the state water and electricity monopoly Jirama, which is in acute financial and structural crisis. The country's weak structures are ill-equipped to manage public finances and withstand external shocks, including wildly fluctuating prices for products such as oil and vanilla.

The government has asked the International Monetary Fund (IMF) to help, through a new poverty reduction and growth facility (PRGF) agreed on in July 2006 to support its 2006-08 programme for economic growth, budget consolidation, and reduction of poverty

and vulnerability to external shocks. The authorities have also asked the IMF to apply its Trade Integration Mechanism (TIM) to help them cope with the expiry of the MFA and AGOA. Madagascar has received IMF technical assistance since 2005 to help with management of tax revenue and public finances and with a financial sector assessment programme (FSAP). It has also had help in recent years with tax and customs policy and administration. Other major steps to clean up public finances have included computerising procedures under an integrated system of managing public finances and combating corruption through a national anti-corruption council and an independent anti-corruption office. Reform of procurement procedures resulted in new regulations in 2006. Most prices have been liberalised, and the bold introduction of 99-year leases aims to reassure foreign investors about access to industrial and agricultural land.

Thirty-five of the 47 state firms due to be privatised were turned over the private sector in 2005 and 2006, including the phone company Telma and the northern railway company RNCFM. Divestment of Air

Madagascar was suspended, however, and that of Aéroports de Madagascar (Adema) is not complete. Others due to be privatised are either being reorganised (such as the sugar company Sirama) or being turned into shareholding firms so some of their assets can be sold off. In 2007, the government plans to prepare for privatising the southern railway and the port of Mana Kara by getting the World Bank to pay for upgrading infrastructure to ensure the line is financially viable, and to franchise out the 12 airports run by Adema.

The government is paying special attention to Jirama because of its huge effect on the entire economy. A variety of measures have been taken to deal with its structural and financial problems, including franchising it and revising its rates. A private management contract to have the firm operated under a lease arrangement has been drafted with World Bank help. Electricity prices rose 93 per cent in 2006 and a thorough restructuring plan has been submitted to the funding agencies. The government is also pulling out of water-supply operations. The government wants to complete the entire privatisation programme in 2007 and 2008 but is meeting strong resistance from trade unions and from squatters blocking settlement of land issues and delaying the divestment process.

Good transport infrastructure encourages agriculture and fisheries by linking these sectors to markets and helping to reduce poverty, especially in the rural south, where 39.7 per cent of the country's poor live. One of the pillars of the infrastructure development strategy is thus to improve transport in the countryside, where it is very important. The government is speeding up a road project in Toliara province (upgrading highway RN 1 bis), repairing infrastructure damaged by cyclones and, with the help of the African Development Bank (AfDB), completing the surveying of RN 9, which will allow the country to present its development partners in 2008 with an integrated road project. RN9 will be crucial to success of the PRSP, since it will be a major link between the fisheries project area and the outskirts of Bas-Mangoky and Manombo with the port of Tuléar. Achievements in 2006 included a maintenance plan for 4 500 kilometres of metalled roads and 3 700

of unsurfaced roads, expansion of meteorological infrastructure and assistance, and upgrading sections of railway (70 kilometres in the north and 40 in the south). Two agencies, one for roads and the other for road transport, have been set up to regulate transport and encourage competition between hauliers.

Opening up the economy, political stability and streamlining visa and work-permit formalities have improved the business climate. A commercial arbitration law was passed in 2005, along with a code of conduct for judges encouraging them to open private practices. These reforms, as well as better performance by the banking sector and privatisation of two banks, have helped boost private investment. The government and the World Bank have nearly completed an investment climate assessment (ICA) and are hoping for good results from current decentralisation and devolution of procedures and practices in the country's 22 regions. However, the private sector is still hampered by poor basic infrastructure, overly expensive factors of production, lack of long-term financing and structural flaws in the banking system. Arbitration procedures are still drawn-out and inadequate, and the poor qualifications, pay and working conditions of judges are still causing problems. Madagascar dropped one place (from 148th to 149th) between 2005 and 2006 in the World Bank's 2006 *Doing Business Index*, which measures the business climate. It jumped an impressive 28 places in the ranking for business creation, but dropped 36 places in the labour law facilities category. The government's opening of a one-stop shop has reduced bottlenecks and costs due to bureaucratic delays. The authorities also intend to continue modernising business laws (already well under way through a business law commission) and build a suitable legal and institutional framework to promote public-private partnerships. The government will have to sort out the land issue (a major obstacle in the key agriculture and tourism sectors) if more foreign direct investment (FDI) is to be attracted. About 90 per cent of farmers own their land, but only 8 per cent have proper deeds to it. This hampers partnership with foreigners and reduces the property market, along with access to loans, for which land is often used as security.

The financial system comprises the BCM, seven commercial banks, various microfinance institutions, insurance companies, and pension and retirement funds. Reforms have begun in this sector as well, to liberalise it and make it more efficient. Special attention has been given to making the BCM more independent from the government. The banking system remained profitable and well-funded in 2005 and should grow 6.9 per cent in 2006 (+ 6.6 per cent in 2005). Government debt to the banks fell by 27.5 per cent in 2005 (to 294.1 billion ariary from 405.8 billion in 2004) and should drop by another 73 billion ariary in 2006. Solvency and liquidity indicators improved, and banks had far fewer non-performing loans. Two laws were passed to monitor and regulate credit institutions and mutual finance bodies. A banking and financial supervision commission was set up and prudential management standards introduced. Steps were also taken towards privatising state banks and boosting the interbank exchange market. Despite these reforms, much remains to be done in financial intermediation, diversifying financial products and broadening access to financial services. With World Bank and IMF help, the government completed a review of the financial sector in 2005 that identified its weaknesses and provided the basis for a programme to build capacity and boost technical assistance.

To encourage savings, which are expected to increase 15 per cent in 2006, the government, with support from the Millennium Challenge Corporation, is encouraging savings banks and facilities to expand in rural areas and wants to strengthen the payment system to cut delays, set up a nationwide clearing-house for credit institutions and draw more of them into the formal banking system. Steps have also been taken to expand and decentralise the financial market so that large towns and cities can issue bonds, especially for small investors.

Despite its huge potential, agriculture is struggling to expand in the face of obstacles such as bad agricultural infrastructure and transport, which prevents the emergence of serious commercial farming. The low technical capacity of farmers, lack of access to credit, poor training and the poor organisation of the sector also hold it back. Agriculture has a key part to play in

the fight against poverty, so the government, as part of its “Madagascar, Naturally” development vision, wants to double agricultural output between 2004 and 2009. Urgent measures were taken in 2005 to combat forest fires, reduce by a quarter the area burned and replant 50 000 hectares a year with mostly high-quality species which could earn foreign exchange.

Prevention of forest fires, reforestation and improved weather forecasting are crucial aspects of the management and preservation of the country’s natural resources. The same is true of improving rural living conditions, which can be done by supplying primary healthcare, education and better access to drinking water and sanitation. A policy of sustainable management and use of fish stocks has been started, with the introduction of forgery-proof inland and marine fishing permits and the restocking of water courses. Sustainable management of forests and protection of wetlands and marine and coastal eco-systems is being pushed thanks to Madagascar’s signing of the Ramsar Convention on Wetlands and the Nairobi regional convention. A network of protected areas (Système d’aires protégées de Madagascar – SAPM) was set up in 2005 to protect plant and animal life and develop eco-tourism. Better regulation of the gem and gem-cutting sub-sectors has been introduced. These measures have been completed by a new mining code and a law governing major mining investments as part of a project on governance of mineral resources (Projet de gouvernance des ressources minérales – PGRM) and Madagascar membership of the Extractive Industries Transparency Initiative (EITI).

Access to Drinking Water and Sanitation

The country’s water resources are shrinking due to climate change, uncontrolled use and alarming damage to the environment through organic pollution and forest fires. The sector also suffers from non-integrated water management, lack of well-structured coordination, a large number of operators and institutions whose activities overlap and cause wastage, government domination and a low rate of satisfaction of water and sanitation needs.

The PAEPAR drinking water and rural sanitation project (Projet d'alimentation en eau potable et assainissement rural) aimed to build the capacity of the government, private sector and local communities to supply water and sanitation sustainably and effectively. The \$17.3 million project, funded by development partners and the World Bank, covered the 1998-2005 period. The government has switched from a pilot approach for the sector to a programme budget approach. PAEPAR also facilitated \$100 million of new rural projects funded by the AfDB. They included installing 627 wells with hand pumps and 320 gravity systems, with local communities helping to pay for them in cash and in kind. About 300 gravity systems and 350 equipped wells can be installed in the country each year. Average distances from water sources have been reduced from three kilometres to 500 metres and water-drawing time by 40 minutes per journey, which has increased consumption and noticeably reduced water-borne diseases in the project areas. The project also encouraged use of family latrines and introduction of the Diorano-WASH public-private partnership programme to get people to wash their hands with soap. These results have been welcomed by the partners, as diarrhoeal illnesses are the second biggest cause of morbidity in Madagascar, affecting 51 per cent of all children under five. About 2.5 million Madagascans are infected with bilharzia, and 60 per cent of children's deaths are due to polluted water and bad sanitation.

Under the integrated water resource management strategy (Gestion intégrée des ressources en eau – GIRE), a national water and sanitation authority was established (Autorité nationale de l'eau et de l'assainissement – ANDEA), which since 2003 has monitored drinking water quality. Since there are no facilities yet to treat sewage and industrial effluent, ANDEA monitors the environment and compliance with environmental standards. The institutional reforms in the sector also include, for reasons of efficiency and recovering costs, the establishment of regional and local water and sanitation departments to ensure good management of existing infrastructure and reduce unaccounted-for water to a minimum. Customers will have to pay part of the cost – an annual per capita \$70 for water and \$10 for sanitation. Over the 2005-09

period, development partners will also be working on capacity building and the development of rural water supply and sanitation infrastructure.

In 2005, 29.88 per cent of Madagascans had access to drinking water (66.53 per cent in urban areas and 15.63 per cent in the countryside). Sanitation access was 52 per cent (73.3 per cent urban and 44.2 per cent rural). The south of the country was worst off. In 2006, these figures are expected to be 36 per cent for drinking water at national level (67.16 per cent urban and 19.13 per cent rural) and 58.10 per cent for sanitation (76.36 per cent urban and 58.10 per cent rural). About 400 delivery systems were planned, but only 106 were built in the first half of the year (an execution rate of 27 per cent). Some 4 000 new latrines were to be installed, and 3 000 are already in place.

With the lessons it learned from PAEPAR, the government adopted a national water and sanitation access programme (Programme national d'accès à l'eau potable et à l'assainissement – PNAEPA) in 2005 to move towards achieving the MDGs. The government has promised access to improved water for 72 per cent of the population by 2015 and better sanitation for more than 50 per cent.

PNAEPA funding rose from \$10.6 million in 2004 to \$14.6 million in 2005, 40 per cent of it from local sources. Clean water was supplied to about 148 000 people in 2004 and 222 000 in 2005, compared with only 50 000 in 2001. A national sanitation policy and strategy (Politique nationale et stratégie pour l'assainissement – PNSA) was drawn up in 2006 and will be presented to the government for approval. An action plan for the entire water and sanitation sector has also been drafted and put in place.

The overall programme for 2005-15 will be implemented through sub-programmes. The energy and mines ministry has drafted a nationwide medium-term expenditure framework (MTEF) for 2006-08. A first sub-programme, presented to aid donors in February 2005, covers seven of the country's 22 regions and will be jointly funded by the government, local people and the African Development Fund.

Political Context and Human Resources Development

Madagascar has emerged from a long period of state control of economic and political affairs that led in 1996 to the introduction of reforms to open up the economy and reverse rapidly declining per capita income. A transition crisis delayed them, but after the election of President Marc Ravalomanana in 2002, stabilisation efforts resumed with support of development partners. The country reached the decision point under the Enhanced HIPC Initiative and then completion point in 2004.

Ravalomanana was re-elected in December 2006, and parliamentary elections are due in 2007. Fourteen opposition parties fielded presidential candidates and called on the international community to ensure the honesty of the poll and the vote-counting. The media, which is genuinely free, provided full coverage of the elections, including clashes during the campaign.

The government intends to step up the fight against corruption, reform the civil service, promote the use of democracy and the rule of law, and start administrative reforms to increase access to public services through greater decentralisation and devolution. The Millennium Challenge Account ranks the country as its main beneficiary because of its good performance in governance.

Madagascar scores high among African countries in respect for women's rights. The population is practically at gender parity in terms of completion of primary education (42.4 per cent for men and 41.5 for women), but more women are unemployed than men, and women earn lower wages when they have equal qualifications.

The main goals of education policy are ensuring basic education for all and good quality teaching at all levels, but results are far short of this. Net enrolment of children aged 6 rose from 67 per cent in 2000 to 96.5 per cent in 2006, but the dropout rate is still very high. Gross enrolment of children aged 11-14 was only 27 per cent in 2005 and of those aged 15-18 only 7

per cent. These are some of the lowest rates in the world, beneath the sub-Saharan average of 30 per cent for the 11-14 age group and 13 per cent for those aged 15-18. The pupil/teacher ratio in primary schools improved from 59 per teacher in 2005 to 52 in 2006. Only 309 of every 100 000 inhabitants were in higher education in 2006, compared with an average of 300 in low-income countries and 1 400 in neighbouring Mauritius. The number is expected to rise to 358 in 2007 and 407 in 2008. The share of the education budget in the national budget has been falling since 2004 (when it was 20.2 per cent), to 19 per cent in 2005 and 16.5 per cent in 2006. Universities have suffered most from these budget cuts because their investment spending has dropped sharply, from 12.4 per cent of education's total investment spending in 2005 to 5.6 per cent in 2006. Basic education's share of the sector budget fell from 82.8 per cent in 2005 to 78.9 per cent in 2006.

The predominant diseases in Madagascar are still malaria, diarrhoeal illness, acute respiratory infections, bilharzia and sexually-transmitted diseases (STD). Government health priorities for 2006 focused on improving access to neighbourhood healthcare, promoting mother/child health and stepping up the fight against infectious diseases and HIV/AIDS. Maternal mortality is still high, at 469 for every 100 000 live births, but child mortality below the age of five fell from 94 per thousand in 2004 to 88 in 2006. A total of 63 basic healthcare centres were built and equipped in 2005, adding to 197 existing ones, and 511 doctors, 43 dentists and 669 paramedics were hired. The battle against infectious diseases targeted leprosy and malaria. HIV/AIDS incidence is only 1 per cent among the general population but still more than 5 per cent among those engaged in high-risk behaviour. The government and its partners have drafted a national HIV/AIDS action plan because of this danger of greater infection. An epidemic of chikungunya fever in 2006 affected tourism as well as the general population.

Based on growth projections of 4.8 per cent in GDP and 2.8 per cent in population in 2006, poverty was estimated at 67.5 per cent (72.3 per cent in the countryside and 50.3 in urban areas). These are poor

figures compared with other African countries, but showed improvement over the 2005 poverty rate of 68.7 per cent (73.5 per cent rural and 52 per cent urban). This improvement is probably due to better public access to basic social services and to infrastructure. The June 2006 PRSP implementation report noted a major impact of economic growth on poverty reduction. The strong 5 per cent average annual growth between 1997 and 2001 brought poverty down to below 70 per cent, though the gap between rich and poor continued to widen. Poverty is still mainly rural. The “Madagascar, Naturally,” target for 2020 puts the rural economy at the centre of poverty reduction efforts and aims to double agricultural production and exports over five years, boost textile exports by half in five years and 200 per cent over 10 years, raise agro-food production by half in five years and 150 in 10 years, and increase tourist arrivals from 160 000 in 2003 to 400 000 in 2008 and 800 000 in 2013. These efforts will succeed only if agricultural and fishing production and productivity increase significantly, especially in the south, to improve food security and income, which are the only ways to reduce poverty sustainably in the countryside.

The PRSP’s priorities have not changed. After it was updated in June 2005, the goals of “Madagascar, Naturally” were incorporated in it so as to highlight efforts to achieve the MDGs. The PRSP will be completed in 2007 and succeeded by the MAP until 2011.

Labour policy priorities focused in 2006 on implementing the national employment policy and the labour law. Creation of a national jobs and training monitoring centre (Observatoire malgache de l’emploi et de la formation – Omef) was an important milestone in analysing and planning the labour market. Five regional Omef branches were opened in 2006, as well as two tripartite regional labour councils and three regional committees to combat child labour. Unemployment was 2.7 per cent in the formal sector, according to Omef, with 75 per cent of the labour force working in the informal sector. Only 3 802 jobs were created in 2006 (15 000 were planned), and 15 807 people received vocational training.