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A CONCEPT PAPER ON AID STRATEGY IN MADAGASCAR FOR 1987-1990

February 1988

Table of Contents

Introduction

In September 1984, A.I.D. reopened a one person office in Antananarivo after an absence of twelve years. A bilateral project -- MARS[1]-- was negotiated with the government in April 1985 "to open doors for A.I.D. within the Malagasy agriculture sector." Over 13 ministries, parastatals, and other local institutions benefited from MARS-funded commodities training, consultancies and agricultural policy dialogue.

By early 1987, it was recognized that "the diversity, in the original MARS project, while perhaps appropriate for setting up working relationships with government institutions and for examining targets for further assistance, is no longer appropriate." Project amendments were executed "to channel project funds in support of fewer activities to achieve more in the way of concrete results, while lessening the burden on the small A.I.D. office." [2]

In May 1987 the Administrator upgraded the office in Antananarivo from a branch of REDSO/EA to an Office of the A.I.D. Representative (OAR). This resulted largely from the Malagasy decision to embark on a far ranging economic adjustment program in collaboration with the World Bank and the IMF. The country's strategic location on West Indian Ocean shipping lanes and its potential as a trading partner with the U.S. also argued for strengthening bilateral ties.

As a condition for the office upgrading, A.I.D./W suggested there should be a "reprogramming of the portfolio to address a longer term framework rather than continue to set objectives on a year to year basis". The OAR/Madagascar welcomed the reprogramming exercise because it would provide "considered judgment on the future program by informed observers who are familiar with agency objectives and procedures but have not been engaged with Madagascar on a day-to-day basis."

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[1] Madagascar Agriculture Rehabilitation Support. Total funding for the project through Amendment Five (September 30, 1987) has been $14,235.000.

[2] Evaluation 86-01 (Sept 1986) and MARS Amendment No. 2 (March 1987).

The program strategy review, originally set for August 1987, was carried out Oct. 30 - Nov. 16. The postponement worked in the Strategy Team's favor because it was able to discuss program issues with several other delegations visiting Antananarivo in November including representatives from the IBRD and the IMF. The altered schedule also coincided with previously arranged visits to Antananarivo by the Deputy Assistant Administrator for Africa as well as the Director of REDSO/EA and several of his staff -- from whom the Team gained valuable insights.

The Team consisted of a retired USAID Director, Jim Kelly; a Program Economist, Rene Daugherty; and, an Agricultural Expert, Larry Dominessy. The team received excellent support from the O.A.R. and his staff -- an extremely well informed and hard working group.

I. Analysis

A. The Setting

With a population of ten million and per capita income of $265, Madagascar now finds itself among the poorest countries in the world. This was not always the case. Based on abundant natural resources and the industriousness of its people, Madagascar had emerged in the late 19th century as a wealthy and independent country. Under colonial domination from 1896 to 1960, the country's economy continued to grow, but the welfare of much of the population was neglected. As a result, strong socio-economic tensions surfaced in Madagascar, a decade after independence, culminating in a violent overthrow of the government in 1972.

B. The Economic Crisis[3/]

The new government emphasized state control of the economy. In trying to address the equity concerns that propelled it to power, it introduced inward looking policies aimed at self-sufficiency in industry and agriculture, nationalized most of the larger private companies, adopted price controls and administrative regulations and established control over many aspects of agricultural marketing. The present government, which came to power in 1975, extended and codified these policies.

Through 1977, fiscal policies remained cautious and public external debt was kept low. In the face of continued economic stagnation in 1978, however, the government adopted a policy of all-out investment by the public sector and financed this investment by high cost, external borrowing. Many of the projects selected were economically and financially unsound eventually making little contribution to export earnings or debt servicing capacity. Economic welfare, measured by Gross Domestic Product, declined continuously over the period. Madagascar which had been self sufficient in food and a net exporter of rice became a heavy importer of rice--its main staple.

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[3] The Strategy Team drew heavily from IBRD documents in composing this Concept Paper. All economic data is derived from Bank sources.

By 1980 Madagascar was in the midst of an economic crisis with massive debt burden, declining export earnings and reduced credit worthiness. Imports essential to the functioning of the economy became increasingly short. A progressive unwinding of the economy ensued with the domestic overall deficit surging to over 18 percent per year.

C. The IMF and Stabilization

Faced with this crisis -- and having few options -- the government negotiated a two year IMF standby in June 1980. Performance criteria were not met, however, and it was canceled in April 1981 undisbursed. A second standby was negotiated with only half of the available resources eventually being disbursed. Performance started to improve in mid-1982 and IMF resources have been disbursed as planned for subsequent standbys.

From 1983-86, the IMF concentrated on the traditional stabilization objectives of reducing inflation, monetary excesses and fiscal deficits. The overall public sector deficit was reduced from 18 percent of Gross Domestic Product in 1980 to under 4 percent in FY 1986. Budgetary deficits were eliminated in 1983 and, each year since, the Government has contributed a small amount to development expenditures. The annual monetary growth rate decelerated to 13 percent in 1985 compared to 21 percent in 1981. Domestic inflation fell from 30 percent per-annum in 1981 to 10 percent in 1985. Monetary growth and inflation accelerated in 1986, however. Interest rates were recently increased and remain positive in real terms.

Stabilization has imposed real costs. Gross Domestic Product grew by only 0.8 percent in 1986 -- implying a further fall in per-capita welfare. Little progress was made on the production or export fronts. As a result, the Government cannot point to an improvement in economic welfare as a reward for the austerity of stabilization -- an austerity that has been particularly severe for the lower income urban population.

D. The IBRD Effort To Help Government Liberalize the Economy

As Elliot Berg notes in his most recent report for USAID/Madagascar: "Reform Programs... are not happenings or events, but processes". After eight years of stabilization and generally improving macro-economic climate, real per-capita Gross Domestic Product has yet to increase. Macro-economic events have "happened" but the impact of reform is being felt only slowly and unevenly throughout the economy.

With the IBRD and IMF heavily engaged in the liberalization process, however, some advances have been made. In January 1987, the Government introduced a partial liberalized import regime (LIR). The LIR has been expanded in recent months with larger allocations of foreign exchange and a broader list of eligible imports. This constitutes an important first step towards an open general licensing system (OGL) scheduled for introduction in early 1988.

Much has been accomplished over the past four years in the transportation sector. Significant donor resources have been mobilized by the IBRD to rehabilitate the deteriorated road network. Foreign exchange availabilities have also allowed for increased procurement of vehicles and spare parts. As a result of this progress, transport times are down, costs lowered and the transport sector has been taken off the donors' "critical constraint list."

The Government has made progress with respect to its budget. Current expenditures and the overall deficit have been significantly reduced as percentages of GDP. Borrowing from the banking system has been reduced as well. Despite these gains, however, the overall budgeting process remains fragmented and static and does not facilitate the consideration of competing priorities.

The Government has also reduced price controls. Ex-factory price controls have been eliminated for all but ten products with five of these to be dropped by January 1988. Controls of wholesale and retail profit margins have been removed for all but sixteen products with eight of these scheduled to be dropped during 1988.The Government has lifted marketing and price controls on groundnuts and increased prices for edible oils. However, the most important advances made have been on rice liberalization. Market incentives were introduced to promote production and urban supply. Producer prices responded somewhat sluggishly in 1984 and 1985 but, in 1986, farm gate prices soared -- rising ten times as fast as retail prices. The real pay-off appears to be in terms of increased production efforts. Producers are bringing more land into cultivation and farming it intensively. Efforts to drain marshland are speeding up. Rainfed rice fields are spreading and the practice of double cropping is beginning. Finally, marketing of produce has been facilitated by the completion of a large portion of the $100 million road construction/rehabilitation program begun in 1985.[4]

E. Donor Response to these Needs

Donors have provided significant assistance to Madagascar in the past several years. For example, in 1986 the ODA total was $255 million with individual contribution percentages as follows:

IBRD	- 34%
France	- 23%
FED	- 9%
UN (non IBRD)	- 8%
U.S.A.	- 7%
Germany	- 3%
Others	- 16%

The agriculture sector received the largest portion of this aid -- 27%. Other percentages by sector were Transportation and Communication 15%; Industry 12%; Commerce 17%; Humanitarian aid 9%; Education 7%; Natural Resources 5%; and, other -- 7%.

Donors contributed a total of $66.8 million for technical assistance in 1986. The breakdown by donor was:

France	- $31 million
U.N.	- $13 million
Switzerland	- $10 million
Germany	- $ 5 million
Canada	- $ 3 million
FED =	- $ 2.1 million
U.S.	- $ 2 million
Norway	- $ 1 million
Italy	- $ 1 million
Others	- $ .8 million

[4]See section II E. for the Role of "The Rice Buffer Stock in 1986."

F. Key Current Constraints to Development

Madagascar's aim over the next decade will be to attain economic growth, in the face of rapid population increase, while curtailing deterioration of its natural resource base. This means:

-- strengthening the government's resolve to implement the economic liberalization program

-- lessening government interference with the private sector

-- introducing modern technologies into the agricultural sector

-- implementing an effective population policy and family planning program

1. Government Tentative Commitment to Economic Liberalization

The Government's commitment to Liberalization appears tentative. The failure of statist policies in the early 1980's forced the government to accept bitter IMF prescriptions to get its finances in order. The austerity moves this required, however, are now causing their own problems. Several years of "stabilization" have failed to produce noticeable economic gains. The population at large is in worse poverty than before -- with theft, lawlessness and corruption on the rise. The professional and entrepreneurual class is wary from many thwarted attempts to deal with government. The political situation could become suddenly unstable and violent, as it has at similar times in the past.

Madagascar's *dirigiste* tradition, inherited from France, also hampers economic reform. There is a deep distrust of competitive markets and "price instabilities". On his recent trip to Madagascar, Elliot Berg found "very little intellectual support for free market ideas -- outside the World Bank Office and the U.S. Embassy." European critics of rice marketing liberalization suggest that it has led to wild speculation and created a law-of-the-jungle atmosphere. The GDRM Minister of Transport has complained about open competition among transporters "which has become anarchic, to an extent unforeseen by the partisans of liberalization...." Even UNICEF officials, concerned by equity issues, have questioned the IBRD'S emphasis on privatization and elimination of price controls.

In the midst of hectoring from the right and left, the Government now sits bewildered somewhere near the political center. It continues to implement parts of the IBRD reform program -- but haltingly. It also refuses to close down certain "white elephant" projects, continues to adopt new projects of dubious economic merit, and to exceed rice import-level agreements.

Bilateral donors have difficulty assessing government performance vis-a-vis the liberalization agenda since they are not privy to IBRD-Government discussions on the rate-of-progress under the adjustment process.

2. <u>Excessive Government Interference with the Private Sector</u>

In its swing to statism in the late 1970's, the Government justified its interventionist policies by lashing out at non-ethnic Malagasy businessmen "who were neglecting the growing and increasingly impoverished rural population, engaged in land and real estate speculation, and not expanding production of basic goods."

The government became the main actor in all aspects of the economy from agricultural and industrial production, to transportation, distribution, banking, export and import services. Prices were fixed at all levels, and most large and medium private operations were taken under state control. As a Malagasy businessman put it in the early 1980's: "Government simply dominates our economy, you can't move without meeting it at all times."

But, many of the nationalized and most of the newly created public sector enterprises fell into serious financial difficulties and were able to survive only through credit from the three state banks. The policy environment discouraged private sector investments in domestic production, productive areas and exports by reorienting efforts toward the internal market and an excessive use of imported inputs. In a 1985 survey, tradable inputs (excluding capital) for 32 of the 80 firms analyzed exceeded the value of output produced by the firm. In other words, these firms were using up more foreign exchange than they were saving or generating.

The brighter side of the picture is the government's willingness to recognize its past mistakes and to start liberalizing marketing activity -- as it has in rice -- and to consider alternatives for its many agro/food processing "white elephants."

There are problems, however, which tend to impede the liberalization process. First, there is the proliferation of regulations. Written rules go into exasperating detail and control the minutiae of every business activity. It is difficult to understand what is required because old regulations are seldomed canceled, only modified or superceded. There is also the problem of vested interests. Many people benefit from the status quo either legally by being job holders in the civil service or in the many parastatal organizations, or -- illegally -- through bribe taking of other corrupt practices. These people make up a growing part of the government's political support especially as segments of the population become more disaffected because of economic deterioration. The government is reluctant to upset this element even though by doing so it probably could gain more support from others in the medium term as the economy improves.

Even darker currents can be found at the "clandestine" level. There are strong linkages among the Party, its economic arm -- PROCOOPS --, the production parastatals and the banking community. This group crowds out the private sector, absorbing vast amounts of financial and human resources. As would be expected the "system" goes to great lengths to protect its interests. For example, data on food consumption and farm sales are not released to donors for fear that they will be used in pressing for specific policy reforms. In a similar vein, the World Bank has been unable to get copies of an audit of the Banking system which the IBRD itself financed.

3. Lack of Dynamism in Agriculture

Agriculture is Madagascar's dominant economic sector. It employs 85% of the population and accounts for about 90% of export earnings. Production in value terms is dominated by rice paddy (30%) and beef (16%). A small group of export crops (coffee, cloves, vanilla, sugar and cotton) account for about 15% of production but three quarters of merchandize exports. Approximately 80% of total production comes from small holders -- i.e., those with 1 to 2 hectares -- who form the backbone of the country's economy.

In spite of very favorable factor endowment, performance of the agricultural sector overall has been poor since the 1970's. Once a net exporter of rice, Madagascar's growing imports of rice and edible oil consumed an increasing share of foreign exchange resources in the 1970's, peaking at 21% of total export receipts in 1982.

The major reason for the poor performance was a major expansion of Government control over production, processing and marketing functions between 1972 and 1983, which discouraged private sector investment in productive activities. Other causes for the faltering production were: a) pricing policies which favored urban consumers but discouraged farmers from producing for the market, b) increasingly overvalued exchange rates producing foreign exchange shortages, c) a public investment policy heavily emphasizing industrial development and d) a significant lessening of French support for the rice research and extension system.

The world recession in the early 1980's caused further shortages of local budgetary funds and foreign currency for sector operations. There was a gradual breakdown of essential services to farmers, a limited availability of production inputs, and inadequate incentives for increasing output. In particular, investment credits for agricultural development declined markedly as the nationalized banks became preoccupied with parastatal debts.

At the 1983 Consultative Group Meeting for Madagascar, the Government set out the broad outlines of a restructuring program aimed at increasing food production and reducing imports. Some progress has been made in the intervening years particularly in reducing price and marketing controls. The Government has begun to redress the bias against the private sector by easing administrative controls, adopting an investment code more favorable to private investors and allowing them some access to foreign exchange. Several public enterprises ceased operations, staff and functions of others were sharply curtailed, and some production units were assigned to operators under individual contracts.

Despite considerable progress, much remains to be done. A major contributing factor to the lack of dynamism in the agricultural sector is the fact that the Government has not passed on the gains of devaluation to the producers of traditional exports. Consequently, export volumes remain stagnant. Currently real producer prices for export crops stand at half their 1979 level because of marketing problems and excessive taxation.

4. Rapid Population Growth[5]

Madagascar's first census, using modern demographic standards, showed a population of 7.6 million in 1975. The figure increased to 10.3 by 1985 -- a growth rate of 3.0 percent per year. If the rate continues, the country will have 17 million people in the year 2000 and 28 million in 2015.

The population growth potential should be a serious concern to Madagascar's policy makers and health officials. The issue is not whether the country could ultimately support a larger population but the effect of a 3.0 percent population growth rate on the country's development in the medium term. An increase of this magniture would virtually negate economic advances and perpetuate unsatisfactory living conditions.

[5] This section draws heavily on the IBRD "Population and Health Sector Review for Madagascar." (1987).

If fertility continues unabated, food production would have to triple over the next thirty years. Additional employment opportunities would have to be created for 200,000 job seekers per year over the period 1985 - 2000. Projected fuelwood demand would far outstrip supply and, over the long term, deforrestation could reach catastrophic proportions. The provision of education and health services would be severly affected -- with 3 million additional school students in 2015 and birth deliveries at health facilities increasing from the present 450,000 to 1.2 million per year.

Madagascar does not have an official family planning program. Government awareness about the problem is increasing, however. The main non-governmental organization involved in family planning, FISA, is gradually gaining recognition but, with only 84 service locations, primarily in urban areas, the coverage of services is still very limited.

II. Strategy

--Overriding Concern

The IBRD views agriculture as "Madagascar's main engine of growth in the medium term". Agriculture employs over 85% of the population, produces most of the country's food, and supplies the bulk of the raw materials for the country's manufacturing sector. In addition, agriculture accounts for 80% of export earnings.

Since smallholders form the backbone of the agricultural economy, they stand to gain from the liberalization process. Indeed, their incomes and welfare cannot be improved in any sustainable way without successful liberalization. At present, farm families produce over 40% of GNP but their income is 1/6 of the income of the non-farm population. Increased producer prices for exports --through marketing and revenue reforms-- are essential to address this inequity and to increase foreign exchange earnings for the economy as a whole.

Given the agricultural sector's potential, -- in terms of growth as well as equity -- the strategy team endorses A.I.D.'s current emphasis on agriculture in Madagascar. Reflecting this emphasis, as well as severe nutritional and environmental concerns, the overriding goal of A.I.D. efforts in the next three years should be:

> "To assist Madagascar to increase rural incomes while improving nutritional levels and maintaining the country's natural resource base."

--A "Sine Qua Non" for Increasing Rural Incomes

Increasing rural incomes in Madagascar involves, first, staying-the-course on the liberalization process. Without conclusive evidence of economic readjustment, concessional financing will dry up in the medium term, producer incentives will remain inadequate and the downward trend of the economy will continue at substantial costs to most Malagasy. In a real sense then, there is no turning back from liberalization without grave risks to the economic, social and political fabric of the country. The only issue is how to make the move to freer markets more effective and less burdensome socially.

The U.S. has an interest in seeing that the liberalization experiment proceed more quickly, more effectively and without excessive social costs. As Elliot Berg points out, its failure would be a blow to economic liberalizers everywhere.

A. A.I.D.'s Role On The "Macro" Level

A.I.D. can support liberalization in three ways:

-- mastering and backing the three-year (1987-90) adjustment program entered into by the government and IMF/IBRD
-- helping the government strengthen its commitment to liberalization and overcome the social costs of economic reform
-- becoming a more active proponent of liberalization in government and donor circles

1. Backing the 1987-1990 Adjustment Program

The IMF and the IBRD have been very active in Madagascar. Indebtedness to the Fund will reach SDR 167 million by December 1987. Lending by the World Bank group amounted to $647 million as of March 1987. This heavy involvement in the country over recent years has placed IMF and Bank staff in an excellent position to collaborate with government on a three-year adjustment agenda for 1987-90. The demanding program calls for increased economic efficiency, enhanced competition, a reform of institutions, greater incentives for producers and an increased role for market forces in resource allocation. The adjustment program has quantified macro objectives[6] and specified performance indicators for each sector (see Annex A).

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6 The quantitative objectives over the next three years ending in June 1990 are: (a) to achieve an agricultural sector led rate of real economic's growth of about 3.4% a year, (b) to increase domestic savings from 10.4% of GDP to 13.7%, (c) to reduce the rate of domestic inflation from 24.5% in 1986 to 5% in 1990, (d) a reduction in the deficit to the level of 2.1% of GDP, (e) a growth in export volume by 8.5% annually with the share of traditional exports (coffee, cloves, vanilla) declining from about 70% of total export receipts in 1986 to 53% in 1990.

A.I.D. can help accelerate the liberalization drive first by becoming more involved in the macro-economic dialogue. This will entail more independent analysis, constructive criticism of the reform pace when necessary and promoting improved donor coordination. Under current circumstances, A.I.D. is unable to stay abreast of macro-economic affairs in Madagascar. Workloads in Antananarivo, Nairobi and Washington leave little time for analyzing, in breath or depth, the 1987-90 adjustment program. Lacking the required familiarity with the program -- and not privy to IBRD/IMF program discussions, A.I.D. is not in a position to assess the rate of progress under the reform program or to evaluate the criticisms raised against it.

A.I.D. needs to allot more talent and time to understanding the intricacies of Madagascar's structural problems and the adjustment strategy designed to address them. It should make a systematic effort to monitor important macro-economic and sectoral movements. This will enable A.I.D. to assess reform progress periodically and identify those elements of the adjustment strategy which might benefit from conditioned aid support. A.I.D. will then be able to speak with confidence in policy debates while offering constructive criticism on a range of issues, such as: adequacy of government performance, effectiveness of IBRD negotiating approaches, the desired mix of program/project assistance, etc.

2. Strengthening Government Commitment to Reform

The government's most pressing concern, at present, is its balance of payments situation. Without higher concessional flows than now envisaged, economic recovery in Madagascar will be threatened.[7] By making balance-of-payments

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[7] Despite anticipated improvement in export performance and higher inflow of concessional capital, financing gaps are expected to persist in the near term mainly due to the heavy debt service burden. The scope for future rescheduling of official debt is limited. But resource transfers alone will not bring about recovery.

(BOP) contributions in the near term, the U.S. can give tangible evidence of its desire to support recovery in Madagascar while "buying time" for the effects of liberalization to be felt throughout the economy and for constituencies to form in support of more effective policies in Madagascar.

But resource transfers alone will not bring about recovery in Madagascar. BOP financing must be linked to implementation of specific reform measures which deepen the impact of the readjustment program. For example, a fully liberalized foreign exchange regime, with an open general license (OGL) system would induce a market determined exchange rate and an efficient allocation of imports -- two urgently needed reforms. While the government has committed itself, in principle, to move to an OGL system, pressures are building up to stay with the LIR. By linking our BOP contribution to movement on the OGL system, A.I.D. could help strengthen government resolve in face of the pressure from vested interest groups. With reinforced analytical capability, A.I.D. could identify a set of policy measures similar to the OGL for use in leveraging our annual BOP assistance for the period 1988-90.[8]

The strategy team recommends that local currency generated under BOP contributions be used to support reform objectives through attribution to the GDRM recurrent budget. This will regularize what have been off-budget resources--a move strongly backed by the World Bank. The attribution will also enable A.I.D. to reinforce sagging segments of the Government Plan which are important to A.I.D.'s strategy.

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[8] A TDY Team from REDSO/EA visited Madagascar, during the strategy team's stay, to analyse "conditionality" possibilities for an AEPRP grant. Some of the candidate issues for inclusion in the reform agenda were: deepening and/or broadening rice liberalization reforms, pursuing the relationship between population and development, preserving the natural resource base, and budget rationalization. These will be further explored during the PAAD design. In the second and third years of the program, the policy reform agenda will be refined inlight of previous years' experience and incorporated in grant agreement amendments.

The deterioration of social conditions is another area very much on government's mind given the potential for violent unrest. In time, overall income distribution is expected to improve as internal terms-of-trade move in favor of the agriculture sector. Similarly, reform measures should result in improved output and productivity leading to increases in urban employment and real wages. But anticipated medium term gains do little to assuage current hunger and suffering. Lest it appear insensitive, A.I.D. should associate itself with the plight of groups left disaffected by structural adjustment. We should urge that more social expenditures be targeted to the lowest income groups. In particular, we should work with the Government and the IBRD to convert the current official distribution of rice -- including PL 480 -- to a targeted feeding program for this disaffected group.

3. Becoming a More Active Proponent of Liberalization in Donor and GDRM circles

Increased understanding of macro-economic issues should also help A.I.D. expand debate within government and donor circles on the rationale for economic reform measures. Working with USIA, the Mission should seek new channels -- seminars, forums, observation tours, speakers, etc. -- to help create a more solid intellectual foundation for liberalization in Madagascar.

Better familiarity with adjustment substance and process will also help A.I.D. in its effort to improve donor coordination. Aside from sector and project level efforts, the main vehicle for aid coordination in Madagascar has been the Consultative Group. But these meetings are held too irregularly -- three times since 1983. It is not surprising that the World Bank, in its recent review of the Public Investment Program, listed "improving donor coordination" as one of the measures "urgently required."9/ What is needed is a sustained donor-government exchange in

[9] IBRD PIP Review for 1988 (December 1987) p. 13.

Antananarivo every six months to identify and address obstacles to policy adjustment and project implementation. Such sessions would also help donors avoid overlap in a country with a very high donor density.[10]

B. A.I.D.'s Role in Supporting Liberalization in Agriculture

-- Selecting a Focus

In its attempt to increase rural incomes, A.I.D. should help accelerate liberalization in agriculture by contributing directly to the sector. A.I.D.'s intervention should be carefully targeted, however, to avoid diffusion of effort over too broad an area. The strategy selected should meet the following criteria:

-- Directly supports A.I.D.'s overriding concern of "Increasing rural incomes while improving nutritional levels and maintaining the natural resource base."

-- Helps reinforce the Structural Adjustment Strategy within the sector.

-- Helps public sector agencies discover their proper role within the agricultural economy.

-- Does not overlap with other donor interventions.

-- Rests on and helps extend A.I.D.'s knowledge base within the sector.

-- Does not overtax USAID's management capability

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[10] A FED credit of $4.2 million for social-service needs has been "on hold" since early June 1987 because the Government has declined to call a meeting of donors, requested by the FED, to avoid duplication of donor effort. In a similar vein, A.I.D. had to design the original MARS project with much care because, in each of the areas of MARS activity, another donor offered a higher level of support than A.I.D. could provide. (e.g., FAO had the lead in agricultural statistics, the Swiss in forestry, World Bank in strengthening agricultural institutions, ODA in road repair and UNFPA in the census.)

Finally, although the intervention chosen will address medium and longer-term constraints, it should be cast in phases with the first phase terminating in October 1990. This will enable A.I.D. to examine results achieved on the macro-economic front as well as within the agricultural sector before proceeding in 1991 with subsequent phases.

1. Concentrating on Rice Sub-sector

Upon reflection, the Strategy Team believes that A.I.D. can best meet the criteria cited above by continuing to seek production improvements in the rice sub-sector. Malagasy have grown rice for centuries at a level of self-sufficiency. The country has abundant irrigated and rainfed paddy rice land, soils that can support intensive cultivation, adequate rainfall and water, and an improving transportation system. With such impressive resources, the country's sluggish rice production is disappointing in the extreme. The historical factors behind this disappointing performance were outlined in a previous section. The remaining obstacles are as follows:

-- Commodity prices too variable to stimulate-farmer interest. Until recently the government disposed of imported and domestically-procured rice stocks on the market after the harvest. This not only depleted Government stocks but depressed prices and encouraged speculation among traders. On the other hand, the shortage of stocks in the months leading up to harvest resulted in sky-rocketing prices, ad hoc trade controls and skepticism about the benefits of economic liberalization.

-- Farmers lack of knowledge of modern rice technology. Production increases in the last two years have been due largely to the governments relaxation of price and marketing controls. One should not conclude, however, that increasing rice production is simply a matter of "getting the prices right." As Lucie Colvin Phillips points out: "[the] healthy response to reduction of controls by farmers on old established systems do not necessarily mean that irrigation systems in new areas will flourish with minimal controls. The distribution of water, pesticides and other inputs require considerably more coordination on irrigation projects than farmers are used to in rainfed farming. They cannot be expected suddenly to master the necessary organization when they are familiar with neither the techniques of irrigation nor the requirements of some of the crops."[11]

-- Inadequate feedback between government research and extension agencies and the farmer. During a series of discussions in 1986 with Malagasy farmers, extension workers and managers of research activities, A.I.D. consultants found a serious lack of communication between research and extension.[12] Extension agents were not only giving inappropriate responses to farmer questions but providing faulty feedback to researchers on the nature of farmer constraints. Part of the problem results from research and extension being in separate Ministries. More significant, however, is the fact that decisions on both research trials and demonstrations are made in headquarters in Antananarivo rather than at the research station level.

A new approach is needed which strengthens both research and its links to the farmer and real world problems. Such a multidisciplinary approach would permit a smoother transition as on-farm trials progress from research (where scientists are managing the on-farm trials), to demonstrations (where the farmers are managing the trials with researchers observing). This will generate new technologies which will be better adapted to farmer conditions and the extension service will gain the confidence of farmers as it becomes better able to respond to their needs.

-- A weakened private sector capacity for delivering new technologies and provisions to small holders. The denigration of private initiative during the 1975-1985 period all but destroyed the confidence Malagasy business people had in themselves. Profit motives and private endeavor were demeaned. As Peter Glenshaw points out: "This will have to change, externally in the sense that

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[11] Lucie Colvin Phillips: Madagascar: the Central Highlands: p. 116 (1986).

[12] See "The Potential Use of Farming Systems Research in Madagascar" David W. Norman and David F. Nygaard. p. 16.

public approval of the private sector will have to be recreated, and, internally, in the sense that individuals will need once again to believe in themselves."[13]

-- A scarcity of foreign/exchange and local credit to purchase essential imported inputs and improved tools for farmers. The large infusion of concessional aid over the past three years together with projected grants should help mitigate the severity of this constraint.

2. Reinforcing Other Donor Efforts

Attempts to upgrade rice production in Madagascar will have to come to grips with each of the constraints cited above. However, the presence of other donor activity in the sub-sector means that A.I.D. need not address each of these problems with the same degree of intensity. For example, with respect to excessive price fluctuations, A.I.D. should cede the principal donor role to the IBRD while providing back-up support in the form of PL 480 aid for the rice buffer stocks operation as outlined in section II. E.

Concerning the critical area of agricultural credit, A.I.D. should allow the IMF/IBRD effort to revitalize Madagascar's financial and banking system to run its first phase (i.e. through FY 88) before considering A.I.D. assistance in this area. If the IBRD rural credit project, undertaken on a pilot basis in 1986, continues to show promise, A.I.D. should consider contributing a bloc-grant of counterpart funds to help meet rural credit needs in the rice sub-sector.

With respect to scarcity of foreign exchange for essential imports, A.I.D. will be helping to overcome this obstacle by its BOP contributions referred to in Section II. A.

[13]"Madagascar: Assessment of the Climate for Private Sector Development and Investment." (1985) p. 5-3.

3. A.I.D. Direct Interventions

A.I.D. should concentrate its agricultural strategy on improving the provision of modern technologies to rice farmers. This will entail:

-- helping to upgrade information on smallholder farming systems.
-- developing improved seed varieties
-- helping to revitalize private sector input delivery systems.

(a) Helping to Upgrade information on farming systems

Under this activity A.I.D. will help develop three categories of information on farming systems: (i) what are the more significant production constraints from the standpoint of the farmer; (ii) what mix of farming activities can be efficiently handled by farmers; and (iii) how can these activities be improved by the introduction of new rice cultures and fertilizers. A.I.D. support will enable FOFIFA's Farming Systems Department to field outreach and testing teams in two areas of the country: sections where the potential for new rice technology is most promising, and dryland stretches bordering important watershed areas. These teams will work directly with existing extension agents, performing diagnostic surveys, field trials, demonstrations and related training for extension workers. A.I.D. financed technical assistance will be furnished by IRRI.

A principal objective of the farming systems activity will be the containment of natural resource degradation. Traditional cultivation practices and low input use has resulted in inferior yields and the need to cultivate marginal lands, particularly as population pressures increased. Research into new techniques and the use of new varieties with modern inputs, resulting in higher yields, should help alleviate smallholder pressure on fragile soils in watershed areas. NGO reforestation activities will also be financed under the A.I.D. counterpart program to reinforce these watershed management objectives.

(b) Developing improved seed varieties

Donors do not have to wait, of course, until all results are in on the relative severity of individual production constraints before proferring assistance. Some needs are clear--one of which is improved seed varieties. A.I.D. correctly decided in 1984 that varietal research and testing should proceed even in the absence of a complete resource constraint analysis. As a result, hundreds of new rice strains have been introduced under IRRI auspices. On-station and on-farm testing for varietal and fertilizer adaptation have been successfully carried out. The preparation of several rice production packages--some capable of more than doubling rice yields in Madagascar--is nearing completion for release to farmers. A.I.D. should extend the IRRI contract until 1990 so that the first cycle of this promising varietal development program can be completed.[14/]

(c) Helping to revitalize private sector input delivery systems.

Since 1984, official government policy has recognized a positive role for the private sector in the process of developing the agricultural economy. Without directed donor assistance, however, it is unlikely that this policy will be implemented in accord with the GDRM/IBRD schedule. A.I.D.'s current effort to help the Government sort out parastatal divestiture possibilities is the kind of donor initiative needed to keep government attention focused.

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[14] With respect to seed production, existing government seed farms under the Ministry of Agriculture (MPARA) will be able to meet farmer demands until 1990--using private farmers on contract to augment station capabilities. MPARA intends to phase out of producer (i.e. certified equivalent) seed production while maintaining facilities only for foundation seed. Once improved seeds are in the system seed multiplication requirements will be handled entirely by private farmers.

Helping to revitalize the agriculture input delivery system is another critical area where A.I.D. could further liberalization goals. The World Bank has outlined a comprehensive survey of agriculture input requirements and solicited A.I.D. interest in sponsoring the fertilizer component. The Strategy Team recommends A.I.D. respond positively. Fertilizer, of course, is critical for increasing rice production. While some importing of fertilizer is being done now in Madagascar, costs to the farmer are high, mixes oftentimes inappropriate, and availability erratic. The government has also hindered the development of private sector fertilizer supply by dumping donated fertilizer stocks on the market at uneconomic prices.

By financing the fertilizer study, A.I.D. will be helping to reestablish a private sector delivery apparatus for one critical input. The analysis, which should be modeled on the Cameroon Fertilizer Study, would examine fertilizer needs and demands; importation, distribution and credit systems; and, private sector investment requirements.[15/] Assistance should be sought from IFPRI and IFDC in drafting the terms of reference and carrying out the study. The IBRD's Africa Project Development Facility has already indicated its willingness to work with interested investors upon completion of the survey.

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[15] The USAID Cameroon private sector fertilizer study showed that more appropriate blends of fertilizer could be furnished to small holders at reduced costs by custom blending at local ports.

C. HELPING BALANCED POPULATION GROWTH IN MADAGASCAR

A.I.D. is well positioned in Antananarivo to help move the country's family planning program into high gear. After surveying the "Population and Family Health" situation in May 1985, A.I.D. designed a comprehensive, but low-key family planning strategy, calling for assistance on: demographic statistics and studies; policy formulation; information and communication systems: and, the provision of family planning services and commodities.

The Mission has been able to implement its strategy in an impressive manner through a series of consultancies over the past three years. Coordination has been provided by an energetic and well-qualified Malagasy staffer, and timely technical guidance from REDSO/EA. With help from RAPID, national leaders (government officials, religious dignitaries, the press) have been made more aware of problems inherent in unchecked population growth. Work is proceeding on the national census for 1988 with assistance from BUCEN. OPTIONS and IMPACT are building the data base to permit the communication and dissemination of a national population policy.[16] Commodity support for existing family planning services in the private sector has also been provided through FISA. Rounding out its Family Health program, A.I.D. helped UNICEF design a five year child support program which will furnish ORT/immunization services for about 80% of Malagasy children. While no dollar assistance has been requested, A.I.D.-generated local currency will finance all local costs ($2.2 million equivalency) of the UNICEF program to emphasize the importance A.I.D. attaches to child survival in its population assistance program.

USAID's sensitive and patient approach to family planning issues has given the Mission excellent access to policy and opinion makers in Madagascar. Over the next three years, A.I.D. should capitalize on this access by working more actively to expand family planning services throughout the country. The rate of contraceptive use in

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[16] Adoption of a National Population Policy is a condition precedent for IBRD assistance beyond 1990.

Madagascar puts the country near the bottom of the list among developing countries. The REDSO population/health analysis, scheduled for February 1988, should lay out a more active role for AID in this area than would have been permitted in the past. Special attention should be given to the country's large and impressive health infrastructure. Few poor countries are in such a favorable position to deliver family planning services immediately throughout the health network in conjunction with maternal and child health programs.

Given A.I.D./W concerns about program diffusion, the Strategy Team pondered carefully before recommending a broader role for USAID in the family planning area. Several factors influenced our thinking. First, the Mission will be intensifying its effort within the sub-sector rather than expanding to another sub-sector. Secondly, by tightening up on criteria for local currency programs, (See Section II. F), the USAID staff should have adequate time to monitor increased family planning activities. Maximum reliance will be placed on outside consultants for technical guidance as is the case now. Thirdly, A.I.D.'s influence in the family planning area -- carefully built up over the past three years -- should be fully deployed to help overcome what the World Bank calls "Madagascar's most important long term issue."

D. <u>Supporting Liberalization with Food Assistance</u>

These are two areas where A.I.D. can use food assistance to support its overall strategy.

1. <u>Helping to stabilize rice pricing and marketing</u>

A.I.D. delivered 30,000 metric tons of rice to Madagascar in early 1987 as the first tranche of a Food-for-Progress program. A June 1987 evaluation concluded that this first tranche "successfully stabilized prices for consumers in urban rice markets". Some on the scene in Antananarivo disagree, suggesting that unanticipated high production and imports were important factors in price containment -- with the buffer stock following market prices down. What is important, however, in a land of dirigism is that many believed that the buffer stock arrangement may have induced enough nervousness on the part of inventory holding traders to flush out their stocks.

"It is probably the first time that an indirect policy instrument -- the use of the market instead of direct controls -- has shown its power".17/ Consequently, donors should be willing to undertake a buffer stock operation, if needed, in the coming years to continue eroding a belief system that sustains excessive government interference in pricing and marketing.

Since Madagascar's main rice crops is harvested in April, it is too early to project rice crop yields for 1988. Some experts believe that production may dip below 1987 because producer prices have been low for the past several months. An assessment of planting estimates will be made by GDRM/FAO in February 1988. If this assessment indicates the need for a buffer stock operation in 1988, USAID intends to alert Washington of the probable need to release a second tranche of the 1986 Food for Progress authorization. The strategy team concurs in this "readiness" approach, with one caveat: no definitive steps should be taken by A.I.D. until the IBRD has agreed to coordinate, on behalf of donors and WFP, the buffer stock arrangements for 1988.

If projections on local production increases are borne out, PL 480 rice inputs will not be needed beyond 1988.

2. Helping to Liberalize the Edible Oil Sector

Excessive government interference in edible oil production, pricing and marketing led to 50% decline in production between 1975-1985. At present approximately 3,000 MT of edible oil is produced annually in face of a requirement of about 20,000 MTS. Foreign exchange shortages have inhibited imports of oil as well as spare parts needed to rehabilitate local refineries. Consequently, it is not surprising that edible oil consumption levels have fallen precipitously in the last ten years. Per capita consumption is now below the minimum standard of 2.5 kilos per year and completely out of range of the WHO recommended optimum level for Madagascar of 9 kilos.

17 Elliot Berg

The World bank has been working with the GDRM to create a sector policy framework which will stimulate the rehabilitation of edible oil production capability. During the past year the government has eliminated the state monopoly on oil production and marketing and abolished controls on producer and ex-factory prices. In recent months the IBRD has outlined a strategy to complete liberalization efforts in the sector. The strategy calls for steps to: (a) protect local industry and commerce from outdated government regulations; (b) integrate foreign donations of edible oil into the plan for stimulating domestic production; (c) identify the proper role for government (i.e. research and quality control) in the sector; (d) assess the comparative advantage on world markets of Madagascar's oil producing plants; and, (e) prioritize short and medium term investments (private and public) needed for rehabilitation. The Bank recognizes that foreign imports of edible oil will be required by Madagascar to help meet nutritional needs over the next several years while sector rehabilitation efforts proceed. Short term donor assistance is required to effect foregin exchange savings.

The Strategy Team concurs in the USAID/REDSO proposal for a Title II 206 program of 8,000-12,000 MT of edible oil starting in FY 88; however, we suggest a three year duration rather than four. With respect to the reform element called for in 206 programs, we suggest the food assistance be linked to the government's agreement to implement the IBRD/GDRM reform strategy outlined above. A.I.D. should rely on IBRD monitoring and analysis of government's performance in the sector to determine how effective 206 leverage has been in encouraging liberalization within the edible oil sector. A.I.D. should not become involved operationally in the sector, since, during the duration of the 206 program, A.I.D. efforts will be totally devoted to program objectives in the rice sub-sector. Local currency generated by the 206 program will be utilized in support of activities outlined in the priority areas on p. 32.

E. Focusing Local Currency Programming

Since the resumption of A.I.D. activities in Madagascar, $25,378,518 million has been generated in local currency (at an exchange rate of $1.0 = 1,350 MFG) from PL 480 and CIP programs. Approximately, 166 projects have been completed and 202 are currently underway. [18]

A July 1986 program evaluation of the local currency activities concluded that the program was being implemented with guidelines established in the relevant agreements, and funds were being used for the purposes intended.[19] However, a USAID consultant who examined the impact of selected local currency activities in June 1987 drew different conclusions. While conceding that the program had achieved desirable self-help objectives, he suggested that "the program was too widely diffused across several sectors rather than having a specific focus. Furthermore, its impact on increasing agricultural production, specifically rice, has been insignificant".

The strategy team agrees that the A.I.D./Madagascar local currency program is too diffused, difficult to assess in terms of desired impact, and not sufficiently tied to the central thrust of A.I.D. efforts. Moreover, it constitutes an excessive drain on USAID programming energy.

Approximately $13 million worth of additional local currency from authorized C.I.P. and PL 480 projects will be generated from commodites imported in FY 88. Significant further amounts will be generated by projected PL 480 activities for FY 88-89. Criteria are needed to ensure that these funds are deployed to intensify the development impact of the A.I.D. "core" program in Madagascar.

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[18] In a Sept 1987 Accounting Review of the A.I.D. local currency program, Price Waterhouse Associates concluded that "the (governments) accounting system is adequate to monitor the deposit, control and disbursement of A.I.D. financed local currency" (p.5).

[19] P. Robinson Evaluation, p. 24.

Commencing January, 1988, the strategy team recommends that A.I.D. local currency (non-trust) generated under new agreements signed after that date be used only in support of activities which fall into one of the following categories:

-- promotion of policy dialogue in support of liberalizing the agricultural economy

-- promotion of modern rice and other food crops technologies

-- development of agriculture input distribution and credit systems

-- development of agricultural information systems

-- protection of irrigation infrastructure through reforestration and conservation

-- mitigation of the negative impact of the GDRM/IBRD structural adjustment program

-- emergency relief (e.g. during the immediate aftermath of cyclones).

Other changes are needed in the local currency program to lighten A.I.D./M's administrative burden and improve its accountability. Funds should be granted in "larger chunks," than in the past, and only to organizations with skills in design and evaluation -- in addition to their implementation capability. It is recognized that, in some instances, A.I.D. will have to reinforce some organization capabilities through training before acceding to activity approval. Special consideration will be given to non-governmental organizations (NGO's) in view of their ability to retail program benefits at the community level. NGO requests should contain the endorsement of the appropriate government ministry.

With respect to government organizations, requests for local currency funding should be accepted from only three ministries -- MPARA, MPAEF and MRSTD. This will help ensure that activities fall within A.I.D. program concentration areas. It will also help forestall criticism such as "many of the micro-realization projects (from the presidency) are a direct result of political promises ... which tend to enforce the "cadeau mentality:.[20/]

[20]See Jim Seyler's Paper on "Natural Resources in Madagascar" pp. 39-40 for a good discussion on this point.

F. Staffing Implications

Currently, OAR Madagascar has two direct-hire staff: the A.I.D. representative and a project development officer. The strategy team recommends that two direct-hire positions be added: a program economist and an agricultural/environmental officer.

The program economist is needed to monitor the GDRM/IBRD/IMF program for economic recovery--the first phase of which runs from 1987-1990. This is a comprehensive and intensive program covering all sectors of the Malagasy economy. A.I.D. needs to stay abreast of macro and major sectoral movements in Madagascar for three reasons: (1) to maintain credibility in policy dialogue with the government, the World Bank and other principal donors, (2) to be in a position to identify key elements of the economic recovery program that may move more rapidly if singled out for "conditionality treatment" in A.I.D.'s annual BOP agreement and (3) to provide A.I.D. with an annual report on the Government's rate-of-progress to be used in assessing A.I.D.'s future in Madagascar.

The agricultural environmental officer is needed to monitor events in the agricultural sector, to assist A.I.D. contractors in their dealings with the government, and to represent A.I.D. in sector policy meetings. The task will be a demanding one. Agriculture is the "engine-of-growth" for Madagascar--if progress is made in the sector, A.I.D.'s target population, smallholders, will benefit. The agriculture program recommended for A.I.D., over the next three years, is purposely not broad--but intensive. The three components of the strategy deal with constraints which must be ameliorated if the drive to liberalize agriculture is to succeed. An underlying strain that runs throughout the strategy is the goal of helping to control resource degradation through intensive cultivation. It could be argued that a non-A.I.D. export could be hired on contract to meet the requirements outlined above. The strategy team believes, however, that it will be quite difficult to find a technician broad-based enough to handle policy dialogue and stay abreast of the developments in each of the strategy sub-components,--while keeping the A.I.D. agriculture program moving.

Under the new staff configuration, the project officer's workload will become more manageable than it is now; responsibilities will consist of coordinating OAR involvement in population, food assistance and local working activities.

G. Financial Implications

The financial obligations entailed in the strategy recommended in this concept paper fall within the A.I.D./Madagascar Budget as currently projected by A.I.D./W. These obligations are as depicted below:

THE STRATEGY TEAM PROGRAM
December 30, 1987

		FY 88	FY 89	FY 90
The Bilateral Dollar Program	IRRI + Farming Systems + Fertilizer Study	---	1,000	1,000
	Ex MARS Tech. Asst Components	2,000	2,000	2,000
	PVO Natural Resource Management			
	Policy Dialogue			
	Training			
	Parastatal Divestiture			
	The AEPRP/Balance of Payments Support	19,000	6,000	6,000
	TOTAL	21,000	9,000	9,000
PL 480 Dollar Program	Title I/206	5,000	5,000	5,000
	Title II	1,400	1,400	1,400
	TOTAL	6,400	6,400	6,400
The Centrally Funded Dollar Program	Agriculture	50	50	50
	Education and Human Resources	125	150	150
	Population	182	316	233
	TOTAL	351	516	433

H. Biological Diversity Issue

An geologic accident nearly 150 million years ago transformed Madagascar into a living laboratory. Severed from the African continent, the island's plants and animals did not have to compete with advanced species found elsewhere. As a result, many primitive species survive today -- but, maybe, not for long. Human activities have already caused the extinction of 33% of Madagascar's known primate fauna. Less than 10% of the island's natural vegetation remains intact. According to U.S. anthropologist, Robert W. Sussman: "All of the plants and animals unique to Madagascar are threatened."

Understandably, the international scientific community is disconcerted about the accelerated extinction of the biological treasure-trove found in Madagascar. A.I.D. shares this concern and is currently supporting a GDRM/World Wildlife conservation activity with a five year matching grant. A.I.D.'s share amounts to $390,000 (U.S. $230,000 and PL 480 Title I counterpart funds -- $160,000). The program is based in and around two reserves in Southern Madagascar.

An A.I.D. consultant reviewed the progress to-date on the reserves, during July 1987, and drew the following tentative conclusion:[21/] "(1) The international conservation community's concern for the protection of and research on Madagascar's flora and fauna may occasionally overshadow the need for sound, economically viable development projects; (2) USAID needs to take a more active role in reviewing and approving future biological diversity projects; and (3), cooperative agreements may be a more appropriate mechanism than Operation Program Grants in supporting the foreign exchange costs of biodiversity activities."

The strategy team believes that the consultant showed excellent insight but did not go far enough. We recommend that OAR Madagascar not be involved in biological-diversity beyond September 1988. The biological diversity issue is too important to be handled as a minor component of A.I.D.'s development strategy. The funds and programming energy A.I.D. is likely to allocate to the fauna-flora problem in Madagascar over the next decade will be insignificant considering what is at stake. Furthermore, A.I.D. has little experience in protecting natural preserves and may lose time trying to rationalize its efforts under a developmental guise.

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[21] Jim Seyler, "National Resources in Madagascar (1987) p. 24

Biological extinction in Madagascar is a universal concern -- which deserves a world class strategy. Efforts must be made to mobilize concerned groups throughout Europe, North America and the Far East. A "Friends of Madagascar" foundation should be established to: (1) serve as a focal point for the generated worldwide interest, (2) draw on the enormous, and yet untapped, private financial resources available for such a significant cause, (3) persuade the Government of Madagascar to undertake the legislative, regulatory and enforcement measures required to create a preservation framework, and, (4) to finance the scientific-managerial expertise needed to sustain a program effort of the magnitude needed to achieve the desired goals.

Donors can assist in setting up the Foundation; but it should be private in nature. The U.S. should help organize pre-foundation meetings of interested individuals to start things moving. A.I.D. can provide some bridge financing, out of counterpart funds, to underwrite early expenses for the Foundation in Madagascar. By attempting to do more, A.I.D. could become part of the problem.

Afterword ...

What has transpired in Madagascar over the past two decades has a familiar ring. Independence ... a toppled elitist regime ... courtship of statism ... receivership induced by a down-turn in the terms-of-trade and excessive borrowing ... fragile stabilization achieved largely through compression of domestic demand ... imposition of structural reforms exaccerabating social tensions ... a call for increased concessional financing to buy time for the reform measures "to take" ... leading to efforts to assess reform progress--with the experts debating whether "the glass is half full or half empty."

What is different in the case of Madagascar is an impressive resource base coupled with an industrious people. Many observers believe that Madagascar can emerge from its economic morass if the Malagasy government will continue to relax its paralyzing grip on economic structures--allowing those industrious people to exploit the country's natural resources.

An assessment of Madagascar's progress will be made in 1990--at the close of the special three year adjustment program and after a decade of international effort to help the country regain its economic equilibrium. The 1990 assessment was very much on the mind of the Strategy Team while composing this concept paper. The result is a first, self-contained, three year phase of a longer term program. If the anticipated economic emergence in Madagascar turns into a backward slide, A.I.D. will be in a position to adjust accordingly.

ANNEX A

Overview of Policy Reform and Conditionality in Madagascar

Policy Area	Paper Frame Work Paper	IMF Structural Adjustment Facility	IBRD Industry Credit	IBRD Agricultural Credit	IBRD Industry and Trade Credit	IBRD Structural Adjustment Program (New)
1. External trade and exchange policies	Maintain flex. exchange rates	*	Deval. Export retention scheme			
	Introd LIR-Improve LIR	*			Exp. LIR	
	Introduce OGL (Jul '88)	*			*	
	Reduce admin. barriers to exports.		Prep. & impl. exp. prom. licensing & reduce admin. obstacles	*	*	*
	Eliminate export monop. & licenses except those controlled by Caisse de Stablization	*		*	*	*
	Eliminate imports prohib	80% of nomenc.	*		*	
	Reform Custom Tariff -reduce rates and spread				*	
2. Domestic trade lib.	Liberalize dom. prices	*	* Streamline procedures New invest. Code	*	*	*
	Approve foreign exchange adjustments	*				
	Complete -lib. of ex-fact. prices	Except 5 prod.	*		* *	
	-sharp red. in controls over profit margins at wholesale & retail level	Except 8 prod.			*	
	-phase out remaining controls				*	

3. Public Finance: Revenues	Tax Reform:					
	-Introd. gen. tax reform					*
	-Reduce dependency on transfers from FNUP			Study		*
	-Shorten tax collection lags					
	Increase panalties for payments					
	Broaden Tax Base:					
	-Widen coverage of income and turnover tax					
	-Increase particip. of Regional Administrations					*
	-Restructure fees and charges					
4. Public Finances: Expenditures	Personnel:					
	-Review personnel exp. and redeploy/retrain civ servants					*
	-Maintain relative wage bill at 1987 level	*				*
	-Review pub. sector role, management, compensation manning levels, trg. req					*
	Social Services:					
	-Provide adequate budget alloc. for basic health and educ.					*
	Public Enterprises:					
	-Reduce transfers to PEs	*				*
	-Compensate cross debts	*				
	PIP Reform:		Agree on indust. PIP			
	-Strengthen PIP formul:				*	
	-broaden coverage					
	-relate inv. to recur. costs		Adopt criteria for project selec.			
	-clarify PIP prog. cycle inc. legal base, decision-making, prog authorizations, inv. selection criteria		Strengthen MIEM			

	-Strenthen invest. prep and aid coord. within DG Plan.		proj. appraisal capac. Stop implement. Zeren & Mamisoa			
5. Public Finance: Management	Introduce new public accounting system					
	Modernize and computerize financial management					
	Establish timely and transparent financia information system					
	Evaluate program-budget system of MPARA				*	
	Introduce program-budgets in other ministries				*	
6. Public Enterprises Reforms	Formulate and act upon programs to restructure 16 PEs				*	
	Initiate diagnostic of 20 additional PEs	13 PEs			7 PEs	
	Curtail bank credit to loss-making PEs	* Ceiling formal	PEs			*
	Develop comp. action program to restruct. PE sector, including rehab., closure, priv. of PEs according to study results				*	*
	Execute action program				7 PEs	20-30 PEs
	Create new capacity for addressing PE problem at national level					*
	Set off cross debts	*				
7. Money and Credit	Credit policy: Support	*				

	Growth while containing inflation, through:					
	-Introduction of reserve requirements	* 8% reserve req				
	-Determining interest rt through tendering of floating rate Treasury bills	*				
	-Strengthen CB superv. of national banks				*	
	-Seek to maintain real positive rates	*				
	Financial System reform					
	Formulate comp. national credit policy				*	
	Rebuild bank portfolios while addressing prob. of PE debts	*			*	*
	Establish new internal, operating policies and procedures				*	*
	Encourage creation of new fin. inst.				*	*
	Initiate studies of institutions, laws and regulations, export finance, housing fin., lessing, and saving mobilization mechanisms				*	
8. Agriculture	Expand crop production & intensify cropping techniques					
	-Pursue liberalization of commodity prices and markets begun in 1983			*		*
	-Eliminate export license of major commodities				*	
	-End input subsidies					
	-Announce ag. support			*		

	prices well in advance of planting season					
	-Inc. intern. competitiveness of food crop prod. leading to food self-sufficiency			*		*
	Achieve rice self-sufficiency.					
	-Use internv. stock to reduce seasonal price fluctuations			*		
	-Phase out rice imports by 1990			*		*
	-Maintain modest rice stock to meet emergency requirments arising from natural disasters					*
	Increase volume of ag. exports					
	-Estab. min. prod. prices sufficient to encourage higher output	*		*		
	-Elim. 10% commission of state trading companies & allow priv. traders to compete on equal level			*		
	-Study & move to elim. admin. obstacles to ag. exports	*		*		*
	-Abolish state exporting monopolies except prod. managed by Caisse de Stab.			Study		Implement.
9. Industry	Promote efficient indust. within mixed economy					
	-Study and reduce admin.					*

	obstacles to adjustment (enter-exit branches, sale/resale enterp., technological choices, labor shedding, etc..)					
	-Lower dispersion of tariffs				*	
	-4 yr. prog. to reduce av. protection to 35%				*	
	-Study poss. use to debt-equity swaps & duty-free zone				*	
	-Study strateg. to prom. SSEs					*
	-Ensure continued access of exporters to imported inputs				*	Service account
10. Transport	Remove existing bottlenecks & encourage comp.					
	-Estab./implement Transp. Plan, focussing inv. on rehab. & maint.					
	-Encourage entry of new firms & remove price controls affecting road transp. system					
	-Improve avail. funds for road maint. & adjust the fuel tax					*
11. Energy	Improve efficiency in generation, dist., use electrical and fossil fuel energies, reduce cost of imported oil					
	-Raise and simplify elec. rates					
	-Rehab. JIRAMA					
	-Expand coverage of interconnected elec. network					
	-Divest petroleum dist.					*

	-Rehab SOLIMA					
	-Adjust pretroleum to to intern. parity prices					*
	-Devise improved purchasing arrangement for the import of fossil fuels					
	Reduce rate of deforestation					
	-Study resources and markets					
	-Encourage alternative cooking fuels					
12. Education	Improve cost-effectiveness of education system & links with employment markets					
	-Complete higher educ. study and formulate action prog. for the sector.					
	-Implement action prog. aimed at limiting access to trad. higher educ.					
	-Restructure basic & tech education to improve quality & relevance					
13. Population/Health	Improve cost-effectivenes of health delivery syst. and expand coverage					
	Establish high level multisectoral task force on population issues to formulate new pop.policy and seek, inter alia, to reduce birth rate					
14. Social adjustment	Initiate measures aimed alleviating social cost of adjustment on more					*

	vulnerable groups, parti-					
	cularly in regards to					
	food security & shelter					
	Initiate longer-term					
	on social adjustment					
	assistance of intern.					
	community					

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