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MADAGASCAR:
1995 RESULTS REPORT (R2)

USAID/Madagascar
Antananarivo, Madagascar

U.S. Agency for International Development
Washington, D.C. 20523

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SECTION I: FACTORS AFFECTING PROGRAM PERFORMANCE

Five factors affected USAID/Madagascar's program this past year: (1) structural adjustment and economic performance; (2) political consensus building; (3) the ongoing foreign assistance impasse; (4) Agency values and reinvention; and (5) Presidential engagement in environmental management.

1. Structural Adjustment and Economic Performance: Regarding the Mission's goal of "Broad-based Market-led Sustainable Economic Growth," this section answers two questions:

- ▶ How successful were Madagascar's economic policies in 1995 in the absence of a Structural Adjustment Program with the World Bank and International Monetary Fund?
- ▶ How did 1995's economic performance compare to 1994, when Madagascar was put on the Africa Bureau's Watch List?

Last year's Assessment of Program Impact (API) characterized the Malagasy economy as stagnant in 1994. The three reasons offered for the stagnation were cyclone damage, a large devaluation (consequent to the introduction of a floating exchange rate system) and a poor economic framework. Regarding the latter, the 1994 API states: "The major impediments have been the overvalued currency [NB. resolved in May 1994], a weak revenue performance and high fiscal deficits leading to excessive Central Bank credit to the Government, and efforts by government officials to access dubious sources of external financing (which became known locally as parallel financing)."

Table 1 compares the Government of Madagascar's (GOM) use of economic policy levers in 1994 and 1995. Both fiscal and monetary policy management show improvement during 1995. Ad-hoc customs duty exemptions on foodstuffs and oil products were granted to ease pressures on consumer prices in early 1994. The cost of the foregone revenue was 170 billion FMG (26% of 1995 tax revenue). The GOM did not issue these exemptions in 1995. The price of flour was liberalized in 1995, allowing it to double at the retail level while reducing Government outlays. A new market-price formula for oil products was introduced in February 1995. The formula, developed with the World Bank, generated 50 billion FMG in the first nine months of 1995. Treasury borrowings from the Central Bank were 25% lower in 1995 in real terms. Tax revenues remain inadequate to pay for public goods at a growth-supporting level. In the interim, the GOM continues to implement its policy of incremental growth in the operating budgets for the health and education sectors and public security, while reducing spending in other sectors.

Monetary policy execution improved significantly in 1995. The Central Bank imposed a restrictive credit policy on the economy. Successive increases have raised the Central Bank base lending rate from 12% in 1994 to 23% in early 1995 to 33% by mid-1995. When anti-inflation effects took hold in the second half of 1995 the lending rate was reduced to 30%. The money supply growth in 1995 was 15% compared to 56% in the preceding year.

Table 1: ECONOMIC POLICY MANAGEMENT 1994-1995

Policy Levels	1994	1995
Fiscal deficit/GDP	7.9%	5.9%
Tax revenue/GDP	7.3%	8.3%
Money supply growth	56%	15%
Treasury borrowing from Central Bank (Constant prices, FMG billion)	899	675
Central Bank lending rate	12%	33%

Table 2 compares economic performance in 1994 with 1995. GDP growth was positive in 1995, although still below the rate of population growth. Private consumption, employment and inflation outcomes were also improved over 1994. The agricultural sector had the highest sectoral growth rate at 2.7%, while both industry and services grew at 1.6%. Employment growth was strong in textiles, leather-working, metal-working and in the health industry. Employment growth in manufacturing accounted for 42% of formal sector growth.

Table 2: ECONOMIC PERFORMANCE 1994-1995

Performance Measures	1994	1995
GDP growth	0%	2%
Private Consumption growth	1%	2.3%
Formal Sector		
* Employment	322,461	338,860
* Growth rate	2.3%	5.1%
Inflation	61%	37%

Economic reforms were undertaken in 1995. Prior to 1991, the World Bank approach in Madagascar was to reach quick agreement on a multi-year, multi-tranche program and then conduct the substantive negotiations during implementation. The new approach in Madagascar is that structural adjustment support (i.e., balance of payments support) is provided ex-post. Once the GOM has accomplished a sufficient set of reforms, the World Bank will approve a one-tranche program which will be immediately disbursed. The Bank then begins a new round of negotiations leading to another one-tranche program. SAP focus is guided by the Policy Framework Paper. The consequence for USAID is that the current

Africa Bureau practice of evaluating countries on the basis of a signed agreement is outdated. The structural adjustment measures taken in 1995 and those which remain as preconditions to negotiation of a credit are presented in Tables 3 and 4.

2. Political Consensus Building: The past year witnessed continued ever-shifting coalition building and an unfulfilled search for political consensus. The Prime Minister (PM) was forced out and a national referendum in September 1995 changed the 1993 Constitution to allow the President, instead of the National Assembly, to choose the Prime Minister. However, even with his own PM and cabinet in place, the President has been unable to master the changing coalitions within the executive and legislative branches. One could say that there is a flourishing democratic debate in Madagascar, but without underlying strong democratic institutions to support the process. The ongoing preoccupation on coalitions impedes strong policy actions and clear decision-making.

3. Impact of Foreign Assistance Impasse: USAID's unresolved fate as an organization and the impasse over the future directions of U.S. foreign assistance have had an impact in Madagascar, interestingly not all negative. Madagascar's presence on the Africa Bureau's "Watch List" for weak macro-economic performance along with the well-publicized closings of other USAID programs and reductions in U.S. support for IDA and other international organizations have helped the Ambassador and Mission Director make the case to the GOM, the private sector and the media of the need for Madagascar to reform and compete seriously for USG resources. This positive impact has been counterbalanced by program budget and operating expense uncertainties and last summer's hiring freeze which have had a negative impact on moving our strategy forward, most importantly in the D/G areas of governance, legal reform and civil society support. As a consequence, we have lost a full year of D/G implementation.

4. Agency Values and Reinvention Make A Difference: The Agency's four core values and reinvention have had a salutary impact on program implementation. While issues of obligation by strategic objective and new Congressional notification formats have caused delay (USAID/Madagascar had a Family Planning SO Agreement ready for signature in May 1995), the core values themselves, the move toward flexible implementation and the process of greater participation and partnership with our clients and customers have struck a responsive chord among the Malagasy and with other donors. In fact, we have important examples in every one of our strategic objectives where time and emphasis placed on explaining values have led to better design and implementation results.

In health/population, USAID emphasis on values has touched the Ministry of Health (MOH), considered the most inefficient and recalcitrant of all GOM ministries. While giving dollar funds directly to the MOH was a first, it was the MOH's move to internalize the core values which is most exciting. The MOH Health Director's opening remarks at the annual Ministry-donor planning meeting in January 1996 covered results, customer focus, teamwork and empowerment through decentralization in a way that would have made Administrator Atwood proud.

5. Presidential Engagement in Environmental Management: Our program has been aided by the engagement of the President in planning the second phase of the Environmental Action Plan. The high-level visibility of the President's meeting with representatives of GOM and donor organizations at the conclusion of the Environmental Plan Phase 2 Design review has encouraged Government officials outside the traditional "environment sector" to examine the links between their work and the Environmental Action Plan. The President is active in preaching environmental awareness in his travels around the country. His engagement will keep environmental issues in the forefront during 1996.

6. The USAID/Madagascar Response: As a learning organization, the Mission has responded to these factors through changes in emphasis and approaches in all four strategic objectives. Weak democratic institutions and continued lack of political consensus have led us to reorient S.O. 1 to focus on the nexus between democratic political maturity and economic policy. Therefore, we have increased our support to strengthen democratic institutions, such as civil society, the National Assembly, the press, and economic reform implementation capacity. We are also encouraging empowerment and values in all of our work to encourage the emergence of strong national institutions and organizations with a clear vision and values.

Our market development objective (S.O. 2) has led the way in decentralized decision-making and empowerment. USAID's rural road efforts, where local groups are responsible for maintenance supported by user charges, have caught the attention of the World Bank, European Union and Japan who are beginning to copy our participatory approach to road maintenance and private-public partnerships. Shortages of funds led to our receiving funding from Japan for rural roads in 1995 and the possibility of EU funds in 1996.

The environmental objective (S.O. 3) has encouraged a participatory process focused on local capacity-building to develop the second five-year Environmental Action Plan. This environmental success is indicative of broader civil society effort reaching down to the grassroots level. The failure of the Malagasy Government to impose a new NGO code last year gave USAID the opportunity to engender and support a participatory process leading to an ad-hoc NGO steering group which with USAID assistance is mobilizing 300 NGOs nationwide to participate in a national forum with Government and donors to develop an acceptable NGO law for Madagascar.

Under our family planning objective, we have changed the original design concept of static Centers of Excellence to building networks of local capacities for family planning training, logistics and quality control. This move toward decentralization and empowerment has helped our efforts have important results and be ahead of schedule. In fact, quoting from a recent RIG world-wide Performance Audit of Population Programs USAID/Madagascar "...exceeded planned outputs in six of eight performance indicators".

**Table 3: STRUCTURAL ADJUSTMENT MEASURES
TAKEN BY MADAGASCAR IN 1995**

SECTORS	STRUCTURAL MEASURES
A. Vanilla Sector	<ol style="list-style-type: none"> 1. Elimination of GOM price fixing and reference price (March). 2. Elimination of export licensing (March). 3. Establishment of an ad-valorem tax - 35% (June).
B. Petroleum	<ol style="list-style-type: none"> 1. Monthly price adjustment based on exchange rate (Feb). 2. Liberalized importation of non-bulk products (April).
C. Aviation	<ol style="list-style-type: none"> 1. Eliminate requirement for charter operators to invest in hotels (April). 2. Authorize Johannesburg-Tana-Mahe commercial flight (March - operated by Inter Air of South Africa).
D. Telecommunications	<ol style="list-style-type: none"> 1. Separate postal operations and telecommunications operations from the Ministry of PTT (June). 2. Establish telecommunications regulatory body (June).
E. Public Finances	<ol style="list-style-type: none"> 1. Amend 1995 Budget Law to resolve World Bank issues (June). 2. Increase budget allocations to education and health at expense of lower priority programs (January).
F. Financial Sector	<ol style="list-style-type: none"> 1. Reform statutes of Postal Savings Bank to guarantee autonomy in its operations (September). 2. Adopt legislation to authorize privatization to two state-owned banks (August). 3. Hire foreign temporary administrators to manage the two state-owned banks (August and October). 4. Abolish system of credit ceilings for individual banks (December). 5. Maintain floating exchange rate system (maintained throughout year).
G. Privatization	<ol style="list-style-type: none"> 1. Draft framework law for privatization (September).

**Table 4: REMAINING WORLD BANK PRECONDITIONS
TO SAP NEGOTIATIONS**

PRECONDITIONS
1. GOM adopts an appropriate 1996 Budget to promote economic growth and redress poverty.
2. GOM engages negotiators (e.g., a merchant bank) for sale of two state-owned banks.
3. New set of investment incentives are prepared in collaboration with the private sector.

SECTION II: PROGRESS TOWARD STRATEGIC OBJECTIVES

S.O. No. 1: Foster an Environment in which Private Action can Flourish

A. SUMMARY OF DATA

S.O. No. 1 Results	Performance				
	1992	1993	1994	1995	1996
Formal Private Sector					
. Employment level	282,387	315,196	322,461	338,860	
. Growth rate	-1.6	11.6	2.3	5.1	
Private Investment					
. Real growth rate	-16.0	6.3	31.0	15.7	10.1 ¹
. Share of GDP	3.7	3.7	4.7	5.5	5.2

Source: Ministry of Finance, CNAPS

1. GOM Planning figure

Note: These indicators were previously reported under the first sub-goal of the Mission strategy.

Performance targets were not required for sub-goal indicators. The Mission is reviewing these indicators.

S.O. NO. 1 INTERMEDIATE RESULTS

INDICATORS	Base	Performance Target					
	1992		1993	1994	1995	1996	1997
Broader Access to Savings and Credit							
CEM Savings							
▶ Deposits (FMG billion)		P	14,300	17,200	22,360	29,000	38,000
	13,006	A	16,150	23,456	32,818 ¹	-	-
▶ CEM share of total banking sector deposits	4.5%	A	3.6%	5.4%	7.3%	-	-
▶ Clients	254,770	P	267,500	294,300	323,700	372,200	428,000
		A	273,950	292,540	332,520	-	-
Credit							
▶ Banking system credit to private sector/GDP	16.4%	P	-	-	-	10.0%	12.0%
		A	16.5%	14.7%	11.4%	-	-
• Central Bank advances to Treasury/GDP	14.1%	P	-	-	-	4.0%	3.0%
		A	11.5%	9.9%	6.6%	-	-

Sources: Central Bank, CEM

1. September 30, 1995

B. ANALYSIS OF THE DATA AND USAID'S CONTRIBUTION

USAID's S.O. 1 activities support and complement the IMF and World Bank structural adjustment process with the GOM. Thus, the indicators presented in Section I provide a first-stage indication of progress in this S.O. This section will concentrate on the key intermediate results on activities being implemented and their indicators while linking USAID activities and the country's economic framework in support of development and growth.

USAID has provided assistance for financial sector policy reform since 1993 through the Central Bank of Madagascar (BCM) and the Caisse d'Epargne de Madagascar (CEM or Postal Savings Bank). This section documents the improved performance of the Central Bank in assuring "the internal and external stability of the currency". Underlying BCM's positive performance is its new legal statute, a condition under the USAID financial sector policy program and approved by the GOM in 1994. The statute's fundamental change was one of institutional autonomy which now allows the BCM to operate as an independent monetary authority. For the first time the Central Bank has the ability to deny credit to the Malagasy Treasury.

In 1995, the Central Bank engaged the Treasury in a discussion of its borrowing requirements. Following this with its own determination of how to support financing the deficit, the BCM chose to impose a restrictive credit policy which dramatically increased the cost of credit to both the public and private sectors. The base lending rate was increased, the reserve ratio was raised and the penalty rate on commercial bank reserve deficiencies was raised from 25% to 48%. The work of the Central Bank was aided by the perhaps most difficult political and economic pill of the entire SAP process, that is, the installation of foreign banking experts as provisional administrators in the two state-owned banks, BTM and BFV. The provisional administrators have restored order to the credit operations of the two banks.

The BCM Credit Department now has sufficient confidence in the state-owned banks and in its monitoring capability to rely on indirect credit controls. The Central Bank abolished its system of individual bank credit ceilings in December 1995. Henceforth, credit policy will be implemented by adjusting reserve requirements and base lending rates and by liquidity adjustments using a Central Bank financing instrument (Appel d'Offres positive or negative). Money supply growth in 1995 was 15% compared to 56% in the preceding year.

The quality of the annual monetary programming exercise was improved in 1995 with USAID technical assistance. Research Department staff was increased and the Department moved beyond merely publishing statistical tables to producing analyses for BCM decision-makers.

The CEM or Postal Savings Bank is the only financial institution offering services to low-income households in Madagascar. The CEM's clients tend to be middle-aged, about equally divided between men and women, with education beyond the primary level, and with incomes below \$50 per month. The CEM has "reinvented" itself with USAID support. A new legal status and adequate capitalization, both USAID conditions, gave the CEM the right and the resources to provide low-income households with an expanding range of financial services. The public's response can be seen in the growth of depositors and deposits since 1992. In May 1995, the CEM introduced its first new product since its founding in 1918 in the form of an interest-bearing savings bond which has features

of a travelers check. USAID-supported automation and an aggressive customer-service orientation have reduced waiting time for clients at CEM main office from 45 minutes to less than 10 minutes. The "customer-first attitude" at CEM has been noticed by commercial banks, who have been forced to raise interest rates and now feel under pressure to provide better service. USAID-funded training has enabled the CEM to introduce an upward mobility program for its employees. Long-time clerk and bookkeeper employees were given the chance to move into professional positions as the CEM expanded. The messages of esprit de corps, empowerment and the customer as king are conveyed to CEM customers at every transaction.

USAID/Madagascar has stressed the importance of commercial law reform to support private-sector development since 1993. This work has been carried out against the backdrop of efforts to establish (or hinder in some cases) an independent judiciary. Some political figures fear the impact of an independent judiciary on their unfettered use of public resources. USAID/Madagascar has helped to build a coalition in support of legal reform comprised of Ministry of Justice officials, judges, lawyers and both national and regional business associations. The coalition's active lobbying convinced the GOM to create a Legal Reform Commission in December 1995. The Commission's membership includes Government officials, legislators, legal experts and representatives of the business community.

The creation of the Legal Reform Commission, a condition for our involvement in the sector, paves the way for USAID-funded activities to begin in 1996. USAID activities will help the Malagasy to overhaul the legal system, reforming not only the laws but also the judicial apparatus. The Malagasy court system has suffered from 20 years of budgetary neglect. The visual evidence of this neglect is overwhelming. However, the real impact is on the Malagasy citizenry. While long delays in legal proceedings and the inability to obtain legal documents and records in a timely manner are outward symptoms, the bottom line is that the average Malagasy has no faith that the country's judicial system can provide swift and even-handed justice. This unresponsiveness has significant negative economic consequences for Madagascar. Delays in the rendering of decisions regarding commercial disputes make the environment for business investment decisions more uncertain, thereby reducing the level of investment. Even job seekers are impeded by delays in obtaining required judicial records.

EXPLAINING STRUCTURAL ADJUSTMENT

The process of reaching a structural adjustment agreement with the IMF and the World Bank has been hampered by the apprehensions and misgivings of Malagasy officials and citizens regarding what is being done and why. USAID funded the preparation of a targeted structural adjustment communication strategy which will be implemented by the Technical Secretariat for Structural Adjustment (STA). Thirty Government officials, journalists and business people participated in a one-week seminar to develop the strategy. The strategy was adopted, a permanent media committee was formed under the STA and the World Bank agreed to provide \$400,000 over two years to carry out the strategy.

The U.S. Ambassador has hosted a series of coffees and cocktails with Malagasy officials and business leaders to build coalitions for economic reform. These informal get-togethers are fostering a close working relationship among the Embassy, USAID, USIS, the National Assembly and the private sector. At one session, the Ambassador encouraged the Finance Commission to seek private sector input. Subsequently, the National Assembly Finance Commission invited three

business associations to present their views on the 1996 Budget Law recently passed by the National Assembly. This is the first time private citizens have testified before the newly-elected democratic legislative body. Also, at Embassy/ USAID encouragement, the National Assembly has agreed to establish a tripartite committee and participatory process to break the current political impasse regarding the country's new judicial framework.

C. EXPECTED PROGRESS IN 1996, 1997 AND 1998

Beginning in 1996, USAID will go beyond moral support to civil society groups. We will work through a U.S. PVO and channel technical assistance and training to civil society groups to expand citizen participation in public policy debates.

Madagascar has seen an explosion of civil society groups and development NGOs since the new democratic Constitution was approved in 1992. NGOs and associations are a growing force in national life in areas such as civic education, human rights, and local road-maintenance. In FY 1996, USAID will target these nascent civil-society groups to build local capacity and enhance private-public partnerships. We expect to foster an environment which welcomes participation, strengthens civil society, and encourages responsive governance. Our support will focus on networks and partnerships. Further, as envisioned under the New Partnership Initiative (NPI), our assistance will be driven by opportunities and issues which arise and respond to Malagasy needs. Pragmatism, rolling designs, and iterative learning will be the prime implementation modalities in these activities.

Civil society activities will be complemented by improved public policy analyses by Government technicians. USAID-funded researchers will support their Malagasy counterparts to develop a poverty profile of Madagascar. This profile will lead to a system of poverty-monitoring indicators which will track the impact of economic policies on low-income households. Poverty analysis will become pro-active as analysts will be able to inform decision makers of the likely impacts of policy changes on poor households. The poverty-monitoring system will be in place by 1997.

Improvements in the legal framework for private sector development will begin in 1996. All commercial laws will be codified and distributed to the judiciary and the legal profession by the end of 1997. Court administration will be streamlined and the backlog of commercial cases will be cut by the end of 1997. New draft laws and revisions to existing laws will be go to the National Assembly in 1997. USAID's assistance will emphasize the legal framework for the financial sector. The new legal framework will expand access to credit for small scale enterprises by developing appropriate financial instruments, improving collateral regulations and loan recovery procedures.

The CEM's transformation will be completed in mid-1996 with the installation of its new Board of Directors. Its capital will be opened to private investors. Client-friendly services will be extended to rural areas during 1996. During 1996, USAID will work with the new Board of Directors to explore CEM's entry into credit operations. CEM credit operations could begin in 1997. Operational improvements for 1996 in the Central Bank will include the establishment of a Monetary Committee, made up of the Governor and the Directors of the four operational departments. The Committee will oversee monetary policy implementation by ensuring that various Central Bank units are sharing information and coordinating their activities. The BCM Research Department will also publish a steady flow of financial sector information and analysis for the business community.

S.O. No. 2: Increase Market Access for Neglected Regions

A. SUMMARY OF DATA

S.O. NO. 2 Results	Base Year: 1993	Performance Targets					
			1994	1995	1996	1997	1998
1. Volume of production of key indicator products (thousand tons) (a)	1,558	P	1,620	1,685	1,753	1,823	1,896
		A	1,620	-	-	-	-
2. Total petroleum sales in Fianarantsoa and Mahajanga (thousand liters) (b)	67,073	P	-	70,743	72,653	74,615	76,629
		A	117,871 (c)	-	-	-	-
3. Number of annual truck registrations in Fianarantsoa and Mahajanga (d)	3,288	P	-	3,543	3,677	3,817	3,962
		A	3,235	3,413	-	-	-
4. Export of essential oils (tons) (e)	37.4	P	56.1	67.3	80.8	97.0	106.4
		A	59.8	-	-	-	-

Sources: Ministries of Agriculture and Commerce; National Petroleum Company

Notes:

- (a) Now includes cassava production; 1994 is provisional MOA estimate.
- (b) Kerosene (which does not reflect growth per se) has been retroactively removed from the base year statistic.
- (c) The significant jump in 1994 petroleum sales is an anomaly and was due to intensive use of port and rail facilities from Manakara to Fianarantsoa after Cyclone Geralda. We estimate an annual growth rate of 2.7%.
- (d) The typo in last year's base year has been corrected.
- (e) excludes clove oil

SO NO. 2 INTERMEDIATE RESULTS

No. 2.1: Increase and Diversify Agricultural Production and Sales Indicators	Base Year: 1993	Performance Targets					
			1994	1995	1996	1997	1998
1. Percent of cultivated area planted to off- season and secondary crops	25.5	P	30	35	40	45	50
		A	-	-	-	-	-
2. Agriculture marketing tax receipts for key agricultural products (FMG million)	686	P	-	*	*	*	*
		A	188**	-	-	-	-
3. Number of registered market participants	292	P	-	-	350	375	400
		A	292	324	-	-	-
● % of which are women	(1994) 19%	P	-	-	20%	22%	25%
		A	19%	15%	-	-	-

Sources: Ministries of Agriculture; Commerce; and Finance.

Notes:

- * Performance targets have not yet been established.
- ** With decentralization underway, there was a dramatic drop in reported tax receipts as local governments understate or refuse to divulge tax collection information. We will need to review the value of this indicator for future reports.

No. 2.2: Reduce Farm-to-Market Transport Costs Indicators	Base Year 1994	Performance Targets					
			1995	1996	1997	1998	1999
1. Vehicle transport cost reduction (FMG million) *	0	P	225	565	900	1,240	1,575
		A	-	-	-	-	-
2. Kilometers of roads or equivalent rehabilitated	0	P	100	250	400	550	700
		A	126	-	-	-	-

Sources: Ministries of Transport; CAP Project.

Note *: Not available until one-year after road rehabilitation completed, that is April 1996.

B. ANALYSIS OF THE DATA AND USAID'S CONTRIBUTION

S.O. 2 aims at increasing access to domestic and international markets for high potential, but neglected regions. Indicators focus on agricultural production and exports as well as market access as measured by road rehabilitation, petroleum sales and truck registration.

1. Agricultural Production and Export Promotion

The Mission's centerpiece commercial agribusiness promotion activity has been underway in the two high potential zones of Mahajanga and Fianarantsoa for one year. Production and market information indicate moderate economic growth in the two regions. The large petroleum sales jump in 1994 should be discounted as anomalous. The 1994 increase in truck registrations over the base year is indicative of steady, but modest growth. Essential oil export levels record the dynamic growth since USAID began linking Malagasy entrepreneurs with brokers at international trade fairs.

Complementary USAID activities have contributed to an increase and diversification in production and sales of agricultural commodities. For example, we have trained more than 200 Malagasy in the U.S. and in Madagascar on developing markets for diversified agricultural products. During the past year, 214 Malagasy companies benefitted from direct contacts with international buyers in four USAID-sponsored in-country workshops in export promotion. These workshops resulted in an increase in export sales and long-term contract orders, particularly for non-traditional products such as geranium oil, the key ingredient in the modern perfume industry. Geranium oil exports increased 100% in 1994 due to USAID market promotion efforts with Malagasy firms.

Aggregate figures for non-traditional agricultural exports, i.e., spices, essential oils and medicinal plants, show, after two years of USAID assistance, an increase in volume of total export sales. During the last 18 months (April 1994 to September 1995), \$5.8 million in sales can be directly attributed to USAID interventions. (This information comes directly from specific companies rather than aggregate Ministry of Commerce statistics). We expect these non-traditional export sales will continue to grow as the full impact of our strategic interventions in these commodity systems are fully felt.

USAID efforts also have led to direct employment impacts. After 30 University of Antananarivo agronomy graduates were given in-depth training in geranium production and transformation by the Mission, 20 were hired by five companies to help expand geranium production. In 1995, 70 hectares were under geranium production, an increase of 50% from 1994, resulting in 400 new agricultural jobs in 1995. In addition, eight firms in the new Essential Oils Association (created with USAID assistance) have increased their labor requirements, providing 500 new jobs. Three new firms have also created 200 new agricultural jobs in the distillation of geranium oil. Thus, 1,100 new jobs were created in 1995 in the essential oils sector alone.

The centerpiece commercial agricultural promotion activity under this SO started in September 1994. Through mutually reinforcing components that include technical assistance to agribusinesses, importation of agricultural inputs, and road rehabilitation to open up production zones, we are having a positive impact on agricultural development and broad-based economic growth in the two neglected but high potential zones.

Through the input supply fund, Malagasy firms import and use U.S. equipment, materials and commodities in their agricultural marketing activities. For example, our most recent order included four Chevrolet trucks, two Caterpillar diesel engines, one Caterpillar forklift, Caterpillar spare parts, and 12 John Deere tractors and spare parts, transactions valued at over \$510,000, for Malagasy agribusiness firms.

USAID-funded advisors, expatriate and Malagasy, have helped 62 agribusiness firms in Mahajanga and Fianarantsoa. Our assistance is forging new marketing linkages between producers and agribusinesses, has saved firms from going bankrupt during a period of tight credit linked to structural adjustment, and has positive cross-cutting effects on the environment.

PROBO, a new agribusiness firm in Mahajanga, was in financial trouble. Bank loans were coming due and PROBO's cash flow wasn't sufficient to service the loans and still meet operating expenses. PROBO's owners came to USAID's team in Mahajanga for help. First, USAID advisors helped negotiate contract farming arrangements between PROBO and 23

OPENING NEW MARKETS: THE SOUTH AFRICAN CONNECTION

USAID has successfully promoted trade links between Madagascar and South Africa. In July 1995, we organized and financed a Malagasy trade delegation trip to South Africa. Our purpose was to help Malagasy exporters penetrate the emerging South African market, find alternatives to traditional European markets, and find cheaper sources of packaging and processing chemicals. The Malagasy delegation consisted of 12 exporters of high-value, non-traditional commodities, such as essential oils, spices and organic products. As a result, an essential oils exporter started a joint-venture with a South African company. The South African partner provides equipment and the market for fruit extracts, such as litchi extract. The Malagasy company supplies the fruit pulp, labor, the production facility and storage for the finished product. The total investment is \$2,000,000.

maize producer associations, involving 600 small farmers, thereby guaranteeing PROBO a local supply of raw materials. Second, the team helped PROBO put together a package to reschedule its outstanding bank loans. During analysis of PROBO's loan repayment schedule, USAID financial experts discovered accounting errors resulting in a net overcharge to the firm of \$25,000. The commercial bank admitted its error and deducted \$25,000 from PROBO's outstanding debt. Taken together, these actions saved a new agribusiness firm with 40 employees from bankruptcy while saving a market outlet for 23 corn producer associations representing 600 small maize farmers and their families.

USAID's partnership with the International Rice Research Institute (IRRI) and the Malagasy Agricultural Research institute has produced new rice seed varieties which double yields without fertilizer and achieve 300-400% increases with fertilizer. Nine new varieties of rice were released in 1995 and early in 1996. Three new varieties resistant to the Rice Yellow Mottled Virus, the major threat to Malagasy rice production, will be introduced in 1997.

2. Market Access and Infrastructure

Madagascar's agricultural products are transported overland in large lorries or pick-up trucks. Due to the horrible state of the road network, transportation costs are high. To alleviate this constraint, USAID will rehabilitate 437 miles of market access roads in the two regions. Linking isolated producers with buyers allows more surplus agricultural production to get to market.

Using innovative and participatory methods, the Mission has worked closely with clients and beneficiaries in Mahajanga and Fianarantsoa. Regional Infrastructure Committees (RICs), made up of local stakeholders such as farmers, trucking firms, farmers, agribusinesses and local governments, decide which roads will be rehabilitated in exchange for the local commitment to maintain those roads. During the 1995-96 construction season, we will complete 78 miles of farm-to-market roads, opening up rich agricultural production areas, many for the first time in decades. Farmers have recounted on national radio that they are getting higher prices for their products due to increased competition among collectors brought about by USAID road rehabilitation.

BETTER EFFICIENCY AND AIR QUALITY

USAID has shown that economic efficiency and clean air go hand-in-hand. FIF, Mahajanga's largest agricultural equipment manufacturer, asked USAID's help to rehabilitate its foundry and improve the quality of its product line of plows, ox-cart wheels and rice hullers. Once our local advisors had identified the problems in the foundry and changes to the oven and materials used were made, FIF reduced production costs by 25%, while cutting smoke emissions by 50%. Thus, USAID's intervention had a favorable impact on efficiency and the environment simultaneously.

Another 79 miles of roads in Mahajanga and Fianarantsoa will be rehabilitated in 1996. Through participatory decision-making in the RICs, and by having farmer associations and local users of the roads, such as trucking firms and regionally-based agribusinesses, commit to do basic maintenance, we are forging a new sense of ownership over rural farm-to-market roads. These local partnerships will increase our chances for sustainable success. For example, the Mahajanga local government has pledged to devote 10% of its budget to road maintenance and two major international agribusiness firms in the region, MARBOUR and AQUALMA, have offered to co-finance complementary road work and to make available their own heavy equipment to maintain road segments adjoining the USAID farm-to-market roads.

The success of USAID-funded farm-to-market road rehabilitation activities not only supports the Government and donor-supported national highway plan in which the World Bank, Switzerland and the European Union are improving key primary and secondary roads into which the USAID farm-to-market roads will feed, but also has permitted USAID to leverage its scarce resources to rehabilitate more roads and sooner. In 1995, our donor outreach led to Japan providing \$1.1 million in local currency funds for USAID-managed tertiary road rehabilitation and we are negotiating an additional \$1.2 million equivalent from the European Union in 1996 enabling 40 miles of roads to be rehabilitated.

A WINDOW TO THE WORLD

Road rehabilitation funded by USAID has unlocked rural production potential. Farmers from Mahasoabe, a small village south-east of Fianarantsoa, wanted to rehabilitate the six mile road connecting their area to the nearest main road to market where they could sell their surplus. After gaining commitment from local producer associations to maintain the road, the USAID team, with its Government counterparts and a local road construction firm, started work. The road rehabilitation itself had an immediate positive impact during the "lean" season as 300 local laborers, 85 of whom were women, were hired to do the road work. Working under eight crew leaders, two of whom were women, the road was finished in December 1995. At a roadside ceremony honoring the new U.S. Ambassador to Madagascar, the village elder, Ralaivao Mercel, said that the villagers had grown tired of asking for help with the road until USAID came. Promising that the villagers would maintain the road, Mr. Mercel added, "USAID has fixed the road and opened a window to the world for us."

S.O. No. 3: Reduce Natural Resource Depletion in Target Areas

A. SUMMARY OF DATA

S.O. No. 3 Results	Performance Targets				
	Base Years	P A	1994	1995	1996-98
a. Increase Natural Habitats contained in Protected Areas (Ha)	1989 1,045,865	P A	1,120,472 1,120,472	1,120,472 1,181,553	1,500,000 -
b. Decrease forest loss in target areas: ▶ Primary forest ▶ Secondary forest ▶ Crop land	1950-89 62%-57% 36%-28% 2%-15%		Comparative data for 3 of 6 target areas are presently being finalized by field operators and will be submitted with the Resource Request in June 1996.		

Source: ANGAP

B. ANALYSIS OF DATA AND USAID'S CONTRIBUTION

Madagascar is a USAID global biodiversity priority country. This unique island is a biodiversity "hot-spot" with over 80% prevalence of flora and fauna species found nowhere else on earth. The Environmental Action Plan (EAP), a donor/host country developed program, provides the guiding principles for selecting priority activities, coordinating programs and projects with other donors and the GOM, and maximizing the use of scarce resources.

USAID has played a key role in the successful implementation of the first five-year phase (EP1) of the EAP, and continues to be a major participant in the development of the second five year phase (EP2) currently being designed. The underlying leitmotif for the future is: (1) to enhance Malagasy ownership of natural resource conservation at all levels and (2) to expand activities beyond parks and reserves to include agricultural lands and surrounding forests and watersheds which can relieve pressures on protected habitats.

Expansion of natural habitats: This year's creation of a central depository for biological and socio-economic information, developed by Malagasy and international scientists at the National Parks Service (ANGAP) geographical information system archives, provides a basis for expanding the protected areas system to ensure a representation of all ecosystems. These data have been keyed to a specially prepared Vegetation Formations and Forest Cover Map of Madagascar to create overlays to identify priority biodiversity habitats. The overlay of the different priority areas shows that many of them are not located within existing protected areas. Work is underway to expand biodiversity conservation beyond the present protected areas to add corridors, classified forests, littoral forests, and marine/coastal ecosystems.

Decreasing rate of forest loss: EAP data indicate that there were 10.1 million hectares of forest remaining in Madagascar in 1989. It is estimated that this area would be cut in half by the year 2000 without the EAP program. Successful implementation of the EAP, however, would save 3.6 million hectares of forest by the end of the century, an area the size of the state of Maryland. Comparison of past (1950) and present (1989) forest cover was undertaken by ANGAP to establish pilot baseline information in one protected area. These data indicate an 18.6% loss of secondary forest over a thirty-nine year period. Preliminary comparative information, presently being digitized for 1995, indicates a decrease in the rate of forest loss in selected areas where USAID is working over this baseline. Rates of deforestation for other protected areas, as well as classified and gazetted forests, will be further developed and refined during 1996.

S.O. NO. 3 INTERMEDIATE RESULTS

INDICATORS	Base Year 1993	Performance Target					
			1994	1995	1996	1997	1998
1. Create National Institutional Framework for the Environment							
a. Environmental policies: Developed	-	P	0	2	4	6	8
	0	A	0	7	-	-	-
Enacted	-	P	0	2	4	6	8
	0	A	0	3	-	-	-
b. Sustainable financial mechanisms in place	-	P	0	1	2	3	4
	0	A	0	1	-	-	-
c. GIS operational in National Environmental Institutions	-	P	1	2	3	4	4
	0	A	1	2	-	-	-
2. Conserve Biodiversity							
Percent of required elements for qualified protected area mgt plans implemented	-	P	15	50	80	100	100
	0	A	18	59	-	-	-
3. Sustainable Natural Resource Management							
a. Percent households in peripheral area priority zones continue program sponsored alternatives to destructive practices	-	P	0	0	0	35	50
	0	A	0	0	-	-	-
b. Protected Area entrance fees: % reinvested into local communities	-	P	20	60	80	80	80
	0	A	20	48	-	-	-
c. Qualified forest mgt plans:							
- Developed	-	P	0	2	4	6	8
	0	A	1	3	-	-	-
- Implemented	-	P	0	0	2	3	4
	0	A	0	1	-	-	-

Source: ANGAP, USAID project records, WWF, GOM/DEF

1. Create National Institutional Framework for the Environment

Great strides have been made to create a national institutional framework with the capacity to formulate and implement environmental policies and management practices which reduce natural resource depletion and will lead to sustainable long-term management of the environment. The increased ability of the National Office of the Environment (ONE); the National Forest Service (DEF) and the National Parks Service (ANGAP) to formulate global and sectoral policy and sound management practices is evident. ONE completed sectoral policy studies for tourism, energy, and industry and enacted policies for environmental impact assessment, the prevention of natural and human caused disasters, and the control of forest fires which are a principal cause of environmental degradation in Madagascar. DEF revised the national forest policy expanding it beyond control of wood products harvesting to include multiple use forest management which involves habitat maintenance, soil erosion and other forest products control in partnership with neighboring populations.

All conditions precedent to the second tranche disbursement of the USAID policy change program were met in 1995. Landmark legislation was enacted enabling the creation of private foundations; the GOM provided funds to capitalize the first private foundation, the National Environmental Endowment Foundation; and rigorous environmental impact assessment legislation for investment projects was passed.

A revised list of stumpage fees for commercial timber species, corresponding to 12% of the market value, was adopted and helped assure that the sale prices for timber reflect more closely the replacement value of the timber harvested. As a result, the National Forestry Fund (NFF) recorded a seven-fold increase in forest revenue collection. DEF's use of effective and accountable methods to implement 1994 legislation, which increased forest revenues for pine and rosewood timber, ensured that revenues are returned to the NFF and reinvested in forest management.

"BEAUTIFUL LAND" FOUNDATION

USAID assistance helped design landmark legislation enabling creation of the first independent Malagasy resource institution, the National Environmental Endowment Foundation, the TANY MEVA. The TANY MEVA will provide sustainable local financing for natural resource and conservation projects. As the first private foundation, it will be the model for foundations in other sectors.

2. Conserve Biodiversity

Protected Areas Management: One of USAID's underlying strategies to conserve biodiversity in the protected areas in Madagascar is to support the National Association for the Management of Protected Areas (ANGAP) to evolve into a National Parks Service. In 1995, ANGAP developed its second five year plan under EP2 that outlines its strategy to evolve from a coordinator of Integrated Conservation and Development Projects (ICDPs) to a National Parks Service with direct management responsibilities for protected areas. In 1995, ANGAP assumed full responsibility for coordinating conservation and development activities in the 39 existing protected areas and their peripheral zones, and assumed direct management

of three protected areas of Isalo, Lokobe, and Manombo.

One of the key strategies in ensuring biodiversity conservation is a viable and practical management plan for each protected area. During 1995, 59% of the eight critical elements in implementing qualified management plans were fulfilled in the eleven protected areas funded by USAID. These better managed protected areas have witnessed an increase in the number of tourists and subsequent revenue generation in surrounding areas. The number of tourists visiting the protected areas in Madagascar increased by 86% in 1995 resulting in an increase in revenues generated from park entrance fees alone of 65%.

ANGAP's NEW VISION

USAID's reinvention work inspired ANGAP to adopt a vision statement. "To establish, conserve, and manage in a sustainable manner a network of National Parks and Reserves representative of the biological diversity and the natural environment unique to Madagascar. These protected areas, sources of national pride for both present and future generations, should be the place of preservation, education, recreation, and contribute to the development of peripheral zones communities and to region and national economies."

3. Sustainable Natural Resources Management

Increase local capacity: Central to reducing pressures on protected areas is to enhance the ability of local communities and associations to plan and manage viable alternatives to destructive practices. A total of 25 local communities and associations are able to participate more fully in improving natural resources management in Madagascar as a result of a capacity-building effort initiated in 1995 to strengthen local NGOs in organizational and financial management, technical expertise, monitoring and evaluation, and popular participation. Important models are being developed and lessons learned which will inform the work of the National Environmental Endowment Foundation.

Sustainable alternatives to destructive practices: A key strategy in conserving biodiversity is working with local communities living in peripheral zones of protected areas to provide them with alternatives to destructive practices. With close participation of villagers, all protected areas funded by USAID completed an analytical process in 1995 to identify and implement activities to reduce pressures on the protected areas.

Impact of some of these strategies and activities are: (1) community benefits from ecotourism through micro-projects, funded from 50% of protected area entrance fees, have resulted in local communities realizing for the first time a direct link between conservation and increased income; (2) promotion of private sector involvement has stimulated vibrant small businesses and increased employment and income as an alternative to abusive use of natural resources; and (3) improved agricultural techniques, such as intensive rice-based production systems, agroforestry, crop rotation, vegetable and other food crop production have provided the local population with alternatives to the destructive practice of slash and burn.

Community based natural resource management: A national workshop in May, sponsored by ONE, passed a progressive resolution calling for community management of renewable resources. The proposal, consistent with government policy towards decentralization, calls for the reversal of current centralized, state management systems. Improved management of forests located in the peripheral zones of protected areas is critical to reducing pressures on the biodiversity. Community-based forest management plans were developed for three forest types representing different ecological zones; and others are being developed in which community based agreements for the local management of natural resources in and around protected areas will be established.

**SLASH-AND-BURN ENDS
IN MANTADIA**

Slash-and-burn agriculture or "tavy" in Mantadia National Park halted due to USAID-sponsored interventions. The in-roads of tavy within park boundaries were extensive in 1991 prior to the introduction of alternative agricultural systems, agroforestry, environmental education, and strengthened Malagasy park management and enforcement capacity. By 1994, tavy was reduced 65%, and halted completely in 1995.

Over 400 Nature Protection Agents (APNs) work with the 669 village forestry committees created and 167,800 people trained in the protection of natural and reforested areas. Between 1991-95, these APNs established 1,461 nurseries and planted 1,927,000 seedlings. In those areas where APNs are active, fire loss was reduced 74% from 21,772 hectares in 1991 to 5,670 hectares in 1995.

C. EXPECTED PROGRESS IN FY 1997 AND FY 1998:

Under EP2 Malagasy institutions at all levels will assume increased responsibility for managing their environment for long-term sustainability. Building on lessons learned, EP2 will expand biodiversity conservation activities beyond the selected protected areas into a more regional approach which better integrates environmental concerns into economic and sectoral planning linked to the GOM national decentralization policy.

The reinvented USAID natural resources program will focus on strengthening the Malagasy institutional framework for conserving biodiversity and sustainable regional natural resource management. This program will be formally launched during the summer of 1996, and the Rps will be implemented during FY 1997 and 1998. The Results Framework envisions USAID involvement in two broad areas that reflect the interests and priorities of our partners and customers, as well as those of the USG, with a potential of six Rps:

1. Create a National Institutional Framework for Management of the Environment

- RP1: Environmental information management systems
- RP2: Sustainable financing mechanisms
- RP3: Environmental policies, legislation and procedures

USAID will support ONE in the application of legislation and policies from EP1, such as

systematic impact assessment of investment projects; development of forestry and parks policy; and community management of renewable resources. Geographic Information Systems will become operational, allowing ONE, ANGAP, and DEF to use information for decision-making and environmental planning.

With the National Endowment Foundation legislation in place, the Tany Meva environmental foundation will be fully functional enabling the creation of subsidiary foundations within Tany Meva to finance the protected areas program and regional development activities that relieve pressures on natural resources. Based on the success of Tany Meva, development foundations are expected to be established in other sectors. Structural improvements in the administration of the National Forest Fund are expected to triple resources available to the National Forest Service (DEF) for the sustainable management of forest lands by 1998.

2. Regional/Local Community Biodiversity Conservation and Sustainable Natural Resources Management

RP4: Participatory community management of renewable natural resources

RP5: National parks management and ecotourism development

RP6: Sustainable multiple use management of forest ecosystems and watersheds

USAID field activities will focus on selected geographical regions for Rps 4, 5, and 6 within a context which fosters better integration of the EP2 with the ongoing national decentralization process and sectoral activities with a spatial definition beyond the narrowly defined peripheral zones of the protected areas. This will include agricultural lands, habitats and surrounding forests and watersheds.

ANGAP will realize its vision to evolve into a National Park Service. It will decentralize its park management structure while limiting support to development activities directly linked to conservation within the peripheral zones. During EP2, ANGAP will assume direct management of 39 existing protected areas, as well as 11 in the process of being created, and promote ecotourism to generate resources for reinvestment in local community development initiatives. It is expected that revenues generated from park entrance fees will increase by 15% annually, supporting ANGAP's move toward financial self-sufficiency.

Experience gained from the current ICDPs will refocus sustainable development alternatives to destructive practices within a regional perspective. This will result in a more long term and dynamic analysis of the pressures on the natural resources and will be more participatory in nature than the approaches of the current ICDPs. This complementary development process will be coordinated, managed and implemented by a spectrum of different actors -- NGOs, community associations, local government services, and private organizations -- specializing in such activities within a more democratic process consistent with the GOM's policies of decentralization, disengagement of the state, and local capacity building.

ANGAP, ONE, DEF and other executing agencies of EP2 will actively participate in regional development planning to ensure that viable responses to pressures on natural resources take into account the needs of populations creating those pressures. Community based forest management plans will be formulated and implemented for 15 classified and

gazetted forests within this regional context. A major challenge will be to identify and support the structures (NGOs, community associations, local government bodies, private sector) that will eventually take over the complex challenge of long term, regional, participatory development which will relieve destructive pressures on protected areas and thus conserve biodiversity.

S.O. No. 4: Reduce Total Fertility

A. SUMMARY OF DATA

S.O. No. 4 Indicator	Base Year	Performance Target						
		1992	P A	1993	1994	1995	1996	1997
Total Fertility Rate	6.1	P A	*		*	5.7 *	*	5.6

Source: 1992 DHS

* Survey and 1993 Census data will provide estimates, when data become available.

INTERMEDIATE RESULT 4.1: INCREASE MODERN CONTRACEPTIVE USE

Indicators	Base Year	Performance Target						
			1992	1993	1994	1995	1996	1997
1. Contraceptive Prevalence Rate for modern methods (%)	1992 5.1	Planned	-	-	-	-	-	14
		Actual	5.1	5.4	-	9.1*	-	-
2. Couple Years of Protection (CYP)	1992 72,000	Planned	-	-	85,000	120,000	180,000	240,000
		Actual	72,000	84,000	126,000	137,000	-	-
3. No. of Public/ private medical sites providing FP services	1987 72	Planned	-	-	300	410	520	630
		Actual	150	205	297	492	-	-
4. Percent of public medical sites providing FP services	1987 6	Planned	-	-	22	28	35	42
		Actual	17	19	24	44	-	-
5. Percent of women who know where to obtain contraception	1992 46	Planned	-	-	-	60	-	75
		Actual	46	-	-	90*	-	-

Sources: 1992 DHS; USAID Project Implementation Report (PIR); Ministry of Health.

* These data are from the UNICEF 1995 Multiple-Indicator Cluster Survey (MICS).

B. ANALYSIS OF THE DATA

USAID/Madagascar uses the 1992 Demographic and Health Survey (DHS) estimate of the Total Fertility Rate (TFR) as its baseline, and the 1997 DHS as follow-up, for measuring program impact at the Strategic Objective level. In the absence of survey data, USAID/Madagascar estimates that TFR declined to approximately 5.8 in 1995. This estimate is based on the statistical relationship between TFR and Contraceptive Prevalence Rate: a 15% increase in CPR is correlated with a decrease of one birth in TFR.

The DHS also serves as the baseline and follow-up source for measuring the Contraceptive Prevalence Rate (CPR). In 1995, at the request of USAID, UNICEF included measurement of CPR in its Multi-Indicator Cluster Survey. USAID has worked closely with DHS experts to ensure the comparability of data from the two surveys. Based on the UNICEF data, the CPR for married women age 15-49 has almost doubled since 1992.

The estimated increase in the CPR, particularly in 1995, is substantiated by Couple Year of Protection (CYP) data from USAID's program-wide management information system. CYP, estimated at 72,000 in 1992, almost doubled to 137,000 in 1995. The most pronounced change occurred in 1994 and 1995 -- the period during which USAID's family planning program has been in full operation. Some sites have not yet reported the data from the fourth quarter of calendar year 1995, so the Table 4.1 estimate of 1995 CYP is conservative.

The increases in contraceptive use are paralleled and further substantiated by data on new sites providing family planning services. Madagascar has made remarkable progress in increasing the number of family planning sites where modern contraceptive methods are provided. There was a seven-fold increase in family planning sites between 1987, when only 72 sites were functioning, and 1995, when fully 492 sites were providing services. Since the USAID family planning program, became fully operational in FY 1994, almost 300 new sites have begun providing family planning services.

Rapid expansion of family planning services through multiple channels forms the backbone of the USAID program. To ensure rapid start-up, the program first focused on strengthening private sector efforts through technical assistance and subgrants to local NGOs. In 1995, however, family planning became the first USAID/Madagascar program to provide direct assistance to a public sector program. As a result, two Ministry of Health provincial programs are currently implementing ambitious plans for expanding and improving public sector family planning services. As with NGOs, the USAID package of assistance includes training, supervision and rehabilitation complemented by rigorous training in and oversight of financial management at each site. This focus on institution building and multiple channels of service delivery will have a long-term impact on program sustainability.

The Madagascar family planning program was one of a number of USAID family planning programs examined under the 1995 RIG/IG worldwide Performance Audit of Population Programs. The final report states that "The audit found that USAID/Madagascar had made significant progress towards its strategic objective for population. The audit also found that

USAID/Madagascar had made substantial progress towards output targets for population activities. In fact, it exceeded planned outputs in six out of eight performance indicators we reviewed." This summary statement indicates that the Madagascar family planning program is not only meeting, but surpassing, its ambitious program objectives.

COMMUNITY-BASED PROGRAMS TAKE OFF

After a USAID-sponsored study tour to community-based contraceptive distribution (CBD) programs in Kenya, Malagasy public and private family-planning providers initiated CBD programs in 1995. These programs have proven tremendously successful. A health maintenance organization, AMIT, serving factory workers, recruited several thousand new users in just six months. In some factories, contraceptive use increased from 0% to over 50%. Currently, 44 CBD sites are active and USAID will expand this approach to factories and businesses throughout Madagascar. A rural CBD program implemented by a local PVO, featuring community agents, has met similar success and will be replicated in additional districts this year. Both of these programs highlight the high unmet demand for family planning in Madagascar as well as the need for multiple channels of service delivery.

C. CONTRIBUTION OF USAID ACTIVITIES

USAID is the leader and the lead donor in the population area. To maximize program impact, USAID activities are targeted to Madagascar's two most densely populated provinces -- Antananarivo and Fianarantsoa -- which comprise over 50 per cent of the total population. UNFPA and the German aid agency, both of which actively support family planning programs, provide technical assistance and support to Madagascar's four remaining provinces. The USAID-funded technical assistance team is composed of experts in management, logistics, IEC, training and clinical skills, and provides technical assistance at both the implementation and national policy levels. In addition, USAID provides over 70% of the contraceptives distributed annually by the national family planning program.

USAID played the lead role in the development and implementation of a Management Information System (MIS) for family planning services, currently used by all NGOs and MOH programs nationwide.

USAID is supporting decentralization and automation of the MIS, which will provide accurate and timely program information and reinforce strategic planning at the provincial and district levels. USAID has, and will continue to provide, leadership in the development and strengthening of non-public sector services, including NGO, CBD and social marketing programs.

USAID collaborates effectively with all sector donors, and successfully leverages support from other donors. UNICEF, for example, has incorporated key demographic indicators in its annual surveys at USAID request. The Government of Japan has initiated funding for family planning programs in Madagascar based on ongoing discussion and collaboration with USAID, and GTZ and French Cooperation are increasingly involved in collaborative efforts with USAID.

D. EXPECTED PROGRESS IN FY 1997 AND 1998

USAID will continue to support increased access to quality family planning services in FYs 1997 and 1998. The number of fixed sites providing FP services will reach 630 in 1997 and over 700 in 1998, which will require intensive efforts in training, provision of equipment and supplies, and communication products to reach clients at new sites. To improve quality, continued emphasis will be placed on support systems such as logistics, MIS, supervision and training capacity. Increasingly, these systems will be decentralized to the district level. At the same time, USAID will actively promote and develop expansion of CBD in factories, other urban settings and rural areas. This strategy will promote increased access for many couples not easily reached through fixed sites. In combination with expansion of access to long term methods, these two strategies will facilitate attainment of contraceptive prevalence levels of 14% in 1997 and 16% in 1998.

Institution strengthening will also be a major focus of support over the next several years. Research underway in 1996 will enable program managers to define minimum standards and critical management needs at each level of their respective organizations. USAID will support such management strengthening efforts as financial management training, strategic planning, institutionalization of cost recovery, auto-evaluation and supervision approaches, and integration of priority family planning and child survival services. These are key elements in longer term sustainability of program efforts. Also in 1997, a second national DHS will provide important data to track progress and to target subsequent efforts.

Intermediate Result No. 4.2: INCREASED USE OF EFFECTIVE CHILD SURVIVAL AND NUTRITION INTERVENTIONS BY HEALTH WORKERS AND CARE TAKERS

A. SUMMARY OF DATA

Target 4.2 Indicator No. 1	Baseline	Performance Target					
	1992	1993	1994	1995	1996	1997	1998
1. Percent of Children with Diarrhea receiving ORT							
Planned		-	35%	40%	45%	50%	55%
Actual	26%	30%	30%	32%	-	-	-

Sources: Ministry of Health, 1995 UNICEF MICS

B. ANALYSIS OF THE DATA

The 1994 API included the above table which has been updated with 1995 survey data, indicating minor improvements in ORT use. The intermediate result shown above replaces Performance Outcome No. 4.2: Improve Nutritional Status of Child Under Five, which was in the 1994 API. With increased child survival funding, Mission efforts have expanded the focus which is now on increasing the use of high impact child survival and nutrition interventions by: improving access to

services; increasing knowledge and awareness of potential clients; and improving the quality of services to attract and retain clients.

C. CONTRIBUTION OF USAID ACTIVITIES

USAID/Madagascar laid the groundwork for major new child survival activities in 1995 by broadening the scope of activities planned under the BASICS Project, and developing a child survival PASA with the Peace Corps. USAID also solicited proposals from U.S.-based PVOs active in Madagascar, and anticipates providing grants to at least two PVOs and to UNICEF in the coming months. A full set of indicators to track progress in child survival is currently under development and will be reported in the next R2. A summary of progress to date in identifying standard indicators for USAID's child survival partners is provided below.

In conjunction with new child survival activities, USAID/Madagascar's Title II program, locally managed by Catholic Relief Services (CRS), was integrated into S.O. 4 during 1995. The Title II program has met or surpassed all results planned for the reporting period. CRS has redefined its country program structure by decentralizing responsibility for program management to the diocese level. CRS program management has developed plans for a Food Assisted Child Survival/Focused Nutrition Program (FACS/FNP) which was initiated in February 1996. The FACS/FNP represents a significant departure from previous Title II program policy in Madagascar, with tremendous potential for enhanced program impact. Two prominent features of this new approach are resource targeting to pregnant women and high-risk children age two and under, and a transition from center-based to community-based identification of malnourished children and distribution of commodities.

The FACS/FNP has a strong community health education and promotion component and its indicators and targets will be integrated into USAID/Madagascar's Results Reporting system. Finally, findings from the 1995 CRS Knowledge, Practices and Coverage (KPC) survey suggest that the mothers who participate in the CRS Title II program have a higher level of knowledge and employ better health practices than non-participating mothers. When compared to baseline data from the 1992 DHS survey for Madagascar, participating mothers use Oral Rehydration Therapy more frequently for a child suffering from diarrhea (KPC - 40%, DHS - 29%); are more likely to have a child immunized against measles (KPC - 65%, DHS - 54%); and are more likely to have at least two tetanus injections prenatally (KPC - 94%, DHS - 44%). Although the results from these two surveys are not completely comparable, they strongly suggest that the child survival activities associated with the Title II program are leading to results.

D. EXPECTED PROGRESS DURING FY 1997 AND 1998

The S.O. 4 team is currently developing indicators and targets with its child survival partners. The following are planned targets which will be refined and quantified in coming months:

- Immunization coverage (1999 targets): BCG (90%); measles (80%); full coverage (80%); tetanus toxoid (50%); incidence of polio and measles reduced by 50% and 80%, respectively.

INSTITUTIONALIZATION OF CORE VALUES

The Madagascar Minister of Health and Population sponsored a workshop for national and provincial managers and donor representatives in February 1996 to plan the annual workplan for the national family planning program. In an opening presentation establishing the agenda and guidelines for subsequent discussions, the National Director of family planning programs laid out the following guiding principles: **teamwork, expanded participation in the national program, quality programs oriented to clients, and planning for results.** Although no mention was made of reengineering, it is clear that USAID's new core values have been accepted and are being promoted by our national counterparts.

- TBD: Target population receiving child survival, nutrition, sanitation and prenatal services at select sites.
- Successful transition from center-based to community-based Title II program serving TBD participants at 87 sites nationwide by 1999.
- Minimum package of messages for caretakers developed and disseminated by 1998.
- Improved child survival and nutrition knowledge and practices at select sites nationwide by the year 2000 (targets TBD at specific sites).
- TBD: Number of health care workers trained in ICM, and the number of health care professionals correctly using ICM.
- National policy for Control of Diarrheal Disease (CDD), malaria and fever revised and national policy for Acute Respiratory Infection (ARI) developed.

During 1995, USAID/Madagascar worked closely with the Title II program Cooperating Country Sponsor, Catholic Relief Services (CRS), to develop plans for a targeted, developmentally-oriented Title II program. Performance measures and targets for this revised program have been incorporated in the lists at the beginning of this section. Recognizing that annual cyclone-generated food emergencies are the rule, rather than the exception, USAID/Madagascar is presently working with CRS and CARE to develop plans for an emergency food program and, possibly, a monetization (cash for work) program linked to urban development programming. Given that initial discussions and analysis are just getting underway, USAID/Madagascar anticipates submitting an off-cycle request for additional Title II Program resources during this fiscal year.

The selected tools and tactics for the Mission's more ambitious program of improving the availability, quality and use of effective child survival interventions in FY 1996 and beyond include: promoting community participation in the development of child survival and nutrition programs; training staff and community agents in key child survival concepts; increasing the numbers of sites and communities providing child survival and nutrition services; Information, Education and Communication (IEC) targeted to caretakers, community agents and health care providers; Management Information Systems (MIS); and support for the development of national level policy.

SECTION III: STATUS OF THE MANAGEMENT CONTRACT

A. STRATEGIC OBJECTIVE CHANGES OR REFINEMENT

The Africa Bureau matrix on the status of the Mission-Washington contract correctly shows our current S.O.s with one exception. Support for Civil Society is not a separate support objective, but an integral part of S.O. 1. As discussed in Section I, the Mission has decided to strengthen its support for democracy and governance and this is included strategically under S.O. 1. Finally, S.O. 1 has been refined to read: "Foster an environment in which private action can flourish."

The Mission held a series of retreats in October 1995, for each S.O. team to both take stock of our reinvention efforts as a CEL, and also to revalidate our current Sos and program under each S.O. with our partners and customers. This process is continuing and may result in changes in the S.O. language itself, but not in the overall objectives we are trying to achieve. As a learning organization, trying to involve our partners and customers more in our strategic analyses and program development, refinements in the Sos will be a continuing process.

B. SPECIAL CONCERNS OR ISSUES

1. Obligation of Funds: In May 1995, as a CEL, we developed an S.O. agreement with our partners and with the GOM for S.O. 4. We have since redrafted sections four times based on changes in informal guidance. While we realize the value and benefit of obligating by S.O., we are concerned that the Agency must have an operational fall-back position to get us through the next several years when last-second obligations may become the reality.

2. Planning/Analysis Sequencing: The Mission has been working with the REDSO/ESA RLA on planning and analysis requirements as we move toward obligating by S.O. and implementing results packages. Our joint preference is that we define sufficient analysis and planning at the S.O. level very narrowly and use RP development as the example of "just-in-time" analysis to meet the requirements of 611(a) and other Agency analytical and statutory requirements. Otherwise, we risk doing too much work up front which becomes out-of-date by the time the RP would become operational. Thus, we trust the Agency will support this approach as S.O. obligations move forward.

3. Overall Documentation Burden: USAID/Madagascar fully supports the Agency's reinvention efforts. Our time as a CEL was productive, we hope to be a Leading Edge Mission (LEM) under NPI, and we were a guinea pig on the new employee evaluation system which with its 360-degree focus, we believe to be a giant step forward in supporting USAID values. At the same time, we are concerned about the combined impact of all the new systems and paperwork (SO/RP documentation, customer service plans, CEL/LEM reporting, AEF, etc.) together. Individually each one is valuable, however, implemented as a system we fear we may be overwhelmed and not be as free to work with our partners and customers as was anticipated. USAID/Madagascar hopes that the reinvention team in AID/W will monitor this carefully.

C. ENVIRONMENTAL ISSUES AND SCHEDULE

During the past reporting period, we engaged in two significant environmental activities under S.O.2. First, we completed a Programmatic Environmental Assessment (PEA) of the road rehabilitation work in our two high potential zones. USAID regulations do not require that PEAs be done for road work funded by host-country-owned local currency funds generated through USAID development activities. However, because of Madagascar's high visibility biodiversity status, ongoing Agency concerns about road construction activities in the third world, and the Mission's commitment to environmentally sound economic development, we completed the PEA.

The PEA team visited the road sites pre-selected for 1995 rehabilitation and used this experience to complete their analysis of the steps which we and our partners should take to ensure that all road rehabilitation is executed in an environmentally sound manner. Working collaboratively, we developed an Environmental Screening Form that determines which roads can be approved for rehabilitation and which road sites may need further analysis or special steps taken to preserve the environment around the road sites.

Using the initial criteria developed during the PEA analyses, we approved the 1995 road sites accordingly. The screening forms for 1996 road sites are currently under review by the Mission Environmental Officer. Training in the application and use of the Environmental Screening Form is planned for mid-1996 for our partners in the Government and among the private road construction firms.

Our second environmental activity arose due to agribusinesses request to import pesticides and insecticides under the USAID Input Supply Fund (ISF). While USAID regulations generally prohibit procurement of such commodities, except for emergency purposes, we wanted to analyze the demand for and management of these commodities in Madagascar. This would provide us with a better idea of what would happen if USAID were to request a waiver to import and use of pesticides and insecticides. We also wanted to know whether or not pesticide and insecticide use could contribute to sustainable increases in agricultural productivity if used in an environmentally sound manner.

A team of analysts conducted a Programmatic Environmental Assessment of pesticide and insecticide use in Madagascar during August and September 1995. The assessment indicated no widespread demand for pesticides and insecticides among most producer associations and agribusinesses. Moreover, we learned that current use and management of pesticides and insecticides in Madagascar is not done in an environmentally sound manner. Therefore, the Mission decided not give any further consideration to importing such commodities.

During 1996, the Mission intends to obligate funds under Strategic Objective Agreements for S.O. Nos. 1, 3, and 4. Initial Environmental Examinations (IEE) will be submitted prior to obligation. The Mission has completed a Programmatic Environmental Assessment of Tropical Forestry Management. Upon completion of the Mission review process, it will be submitted to AID/W.