



STRATEGY STATEMENT

This Strategy Statement for Madagascar was assembled by USAID/Madagascar. This is a USAID planning document and does not contain budget information approved by the U.S. Government. Any budget information contained herein is for illustrative purposes only.

Additional information on the attached can be obtained from Olutokunbo Cole in USAID/AFR/EA.

Release Date: 06/04/2006

I. PROGRAM RATIONALE

A. Country Context: One of the poorest countries in the world, Madagascar faces immense development challenges. Stricken with widespread poverty, capacity deficits and corruption, the country has an average per capita income of only \$255; 46% of the population is illiterate; 70% of the population lives below the poverty line; 49% of children under age five are malnourished; infant, child and maternal mortality rates are unacceptably high and life expectancy hovers at 55 years. This dire social situation springs mainly from the combination of low economic growth—itsself due in large part to Madagascar's 20-year, failed attempt at socialism—and a high population growth rate of 2.8%.

One of the world's top three "biodiversity hotspots", Madagascar's unique natural resources are threatened by poverty, unproductive agricultural methods, and weak governance. National development priorities established under the country's Poverty Reduction Strategic Plan (PRSP) emphasize 1) strengthening the rule of law and good governance, 2) accelerating broad-based economic growth, and 3) promoting humanitarian development and social protection. To promote good governance, the Government of Madagascar (GOM) has established an Anti-Corruption Commission within the Office of the Presidency (CSLCC)¹, as well as an independent, anti-corruption agency, BIANCO (both of which are supported under the USAID-managed Presidential Anti-Corruption Initiative)². To promote economic growth, the GOM has introduced public finance and customs sector reforms; is working to reduce the illicit trade of precious and semi-precious gemstones, and is strengthening partnerships with the private sector. Recognizing the importance of its unique biodiversity to the long-term economic health of Madagascar and the welfare of its people, the GOM has pledged to increase protected forest areas from 1.7 million to 6 million hectares by 2008. In the social sector, the GOM is committed to preventing the spread of HIV/AIDS; fighting malaria; strengthening health care at the community level; and increasing access to and the quality of primary education through its "Education for All" program.

Madagascar's economy has considerable untapped potential. Waters off the country's 5,000 kilometer-long coast are rich in export quality fish and shrimp, and the land possesses significant forest and mineral resources. Madagascar's unique biodiversity and pristine beaches offer excellent tourism possibilities, and the country's textile sector shows promise for increased future contribution to GNP. AGOA-induced investments increased Malagasy exports to the U.S. by 96.6% and 72.3% in 2000 and 2001 respectively, creating over 60,000 jobs and making Madagascar one of AGOA's most successful beneficiaries during the period. In August 2004, Madagascar reached the Completion Point under the Highly Indebted Poor Countries Initiative, resulting in the cancellation of its sovereign debt (\$1.9 billion USD). Based on sound economic, governance, and social investment indicators, Madagascar was selected as the first of 16 countries worldwide to receive Millennium Challenge Account (MCA) funding.

B. Strategic Issues:

Extractive Industries: Madagascar possesses rich industrial and commercial mineral resources, and is expected to become an oil producer within the next four years³. Noted in particular for its sapphires, Madagascar's mining sector includes nickel, gold, illemitite, and gemstones which collectively have the potential to increase economic growth significantly and reduce poverty. Industrial scale mining is still in the early stages of development, but the sector is expected to expand rapidly in future years. Cumbersome administrative procedures, a lack of coordination between mining and tax administrations, and weak country governance undermine transparent management of the sector and efficient revenue collection. For the Malagasy bureaucracy, the principal challenge is to establish rules and regulations that modernize the mining sector in three ways: a) shift entrepreneurial practices from the informal to the formal sector; b) maximize the flow of mining revenue to government coffers and c) direct increased mining resources to the improvement of Madagascar's social and economic development.

¹ CSLCC – Conseil Superieur de Lutte Contre la Corruption

² BIANCO – Bureau Independant Anti-Corruption

³ The GOM and Exxon signed an agreement in July 2005 for the exploitation of crude oil reserves in Mozambique Channel. Approximately 3 billion barrels of oil are estimated to be available. The impact of this resource is not yet known. USAID will monitor the situation as production develops and adjust its strategy for the sector accordingly.

USAID is well positioned to assist the GOM in overcoming the aforementioned challenges. To attract foreign investment into the sector, USAID participated in reform of the mining code. The new law, approved by two legislative chambers in August 2005, now awaits official publication. USAID also continues its focus on good governance and the fight against extractive industry sector corruption. USAID will continue to improve coordination of the forest and mining sectors through such efforts as joint mapping to facilitate exploitation of production zones and mitigate local social and environmental risk. By continuing to improve forest sector management and use of the Global Development Alliance (GDA) model, the Mission will seek to ensure an equitable balance between extractive industry investment and community needs.

C. MCA Coordination: The \$110 million MCA/Madagascar Compact was signed in April 2005. MCA/Madagascar emphasizes: (1) formalization of land tenure; (2) financial sector reform; and (3) expanding market access for farmers and small/medium-sized entrepreneurs. Although MCA and USAID interventions do not overlap explicitly, the two agency portfolios complement each other. The MCA land tenure program reinforces USAID Economic Growth and Environment programs. Specifically, MCA is expected to increase investor confidence, facilitate entrepreneurial access to credit, and thereby reinforce Mission efforts to improve Madagascar's overall business climate. Simplified and accelerated land titling procedures anticipated under the MCA land tenure component will increase farmer security and provide them with incentives to make long-term land improvement investments, reinforcing the Mission Environment program. Finally, in the Democracy sector, USAID support for fiscal transparency and public accountability emphasized under the Mission anti-corruption program facilitates GOM performance against the MCA anti-corruption indicator, and strengthens the Malagasy policy environment for private sector investment, complementing MCA emphasis of entrepreneurship.

D. Cross Cutting Themes:

Gender: Despite a history of queens and matriarchal societies, Madagascar is socially and economically dominated by men. Tradition gives men priority in community decision-making and governance, and control of land and other household resources. Women are responsible for the daily management of the household and for childcare. Poor, rural women are at the bottom of Malagasy society, and need targeted support if Madagascar's socioeconomic development is to be equitable. Because gender equity involves both men and women, USAID will ensure balanced male participation in all gender related activities, and male recognition of the value of change in female socioeconomic role(s).

The Mission addresses gender by: increasing the participation of women in politics and civil society; promoting women's legal advocacy; and ensuring gender responsiveness in HIV/AIDS, family planning and reproductive health programs. USAID/Madagascar is a leading participant in the Malagasy National Gender Network (MGN) - a group of CSOs, private individuals, GOM and donor community representatives working to promote gender equity and better coordinate gender sector activities. Mission health sector activities focus on increasing women's access to quality services and products, especially for maternal, child and reproductive health. This includes men's roles in family health, such as fathers' participation in monitoring child growth and nutritional status, male condom use and role in contraception, and men's roles in promoting community health. Environment and Rural Development interventions will continue working to increase women's access to micro-finance, agricultural technologies and inputs, and other income-generating activities. Through its dialogue with larger firms, the Mission Economic Growth program will encourage workplace empowerment initiatives for women, specifically for skills improvement, social integration, reproductive health information and HIV/AIDS prevention.

HIV/AIDS: With a prevalence rate under 1.1%, Madagascar has the rare opportunity among east and southern African countries of preventing HIV/AIDS from becoming a national epidemic. The country's high rate of sexually transmitted infections (STI), however, coupled with high rates of partner change as well as increased migration and immigration from high-prevalence countries make containment of HIV/AIDS increasingly difficult. USAID will continue to work closely with Madagascar's National AIDS Committee to strengthen the institutional capacity of NGOs, and public and private sector organizations to provide appropriate HIV/AIDS prevention messages, develop workplace policies, and ensure availability of quality

health services and products. USAID will also continue to provide technical support to Madagascar's Ministry of Health and Family Planning (MOHFP) to coordinate information, Behavior Change Communication (BCC) and adolescent reproductive health programs. Ongoing USAID prevention and management activities include expansion of "ABC & D" messages⁴, operations research, and high-level advocacy to raise political commitment to the fight against HIV/AIDS and STIs.

USAID will continue integration of HIV/AIDS into non-traditional sectors such as Environment and Economic Growth by linking family planning to improved household productivity and livelihoods, ensuring that family planning and reproductive health services reach bio-diverse areas, further alleviating pressure on forest resources. Economic Growth sector support will encourage widespread adoption of HIV/AIDS workplace policies to better inform workers, small entrepreneurs, and farmers on the threat of HIV/AIDS and how to prevent disease transmission.

E. USAID Program: USAID/Madagascar is at mid-point in a 5 year procurement cycle initiated in FY2003. Building on the structure of the current program, country needs, and requirements for ensuring complementarity with the MCA, USAID/Madagascar will continue to pursue strategic objectives in four sectors: Democracy and Governance; Health, Population and Nutrition; Environment and Rural Development, and Economic Growth. USAID/Madagascar currently participates in 6 of 9 ongoing Presidential and Agency Initiatives in the areas of Malaria, Basic Education, Trade\Competitiveness, Information & Communications Technology (ICT), and Anti-Corruption.

To maximize impact and results, USAID programs will remain integrated across sectors and continue to collaborate closely at national, regional, and local levels. Mission "Health, Population and Environment" activities, for example, will continue to build upon synergies between health and family planning, nutrition, food security, agriculture, and natural resource management. Good governance interventions will continue working to increase the transparency of public institutions and community mobilization and civic advocacy in health and environment sectors. The integration of resources and approaches across sectors in this manner ensures a comprehensive package of development results that increase income and improve health, natural resource management, and governance.

Madagascar is a Transformational Development country under the Agency Strategic Framework for Africa (SFA). US development assistance to Madagascar advances four of the six US foreign policy goals for Africa: promoting democracy and good governance, expanded trade and private sector investment, HIV/AIDS prevention, and natural resource protection. The strategic focus of the Mission program is outlined below.⁵

II. PROGRAM STRUCTURE

Sector: Democracy & Governance
SO Title: "Governance in Targeted Areas Improved."
Start/End Date: FY2006 – FY2011

Madagascar has many elements of a modern democracy, but its institutions are weak and derive their authority from dominant, central government actors. Laws are selectively enforced by a less than independent judiciary. A culture of non-accountability for public officials has also fostered corruption. Civil society is weak and thus unable to counter government excesses. Access to public information – for civil society and government actors alike - is inadequate. Weak governance undermines development throughout Madagascar. USAID democracy and governance sector programs support rule of law priorities established under the country's PRSP and reinforce the overall Mission portfolio. USAID/Madagascar works across health, environment, and economic growth sectors to strengthen civil

⁴ A: Abstinence, B: Be Faithful, C: Correct & Consistent Use of Condoms, and D: Delayed Onset of Sexual Activity

⁵ Analytical Agenda: Agency-mandated Gender, Conflict Vulnerability and Environment analyses were completed in 2003 as part of the FY2003-2008 Integrated Strategic Plan (ISP) and remain in effect. USAID/Madagascar will update these analyses in FY2007 before executing follow-on procurement activities anticipated for FY2008.

society, increase the flow of information, and improve government transparency, accountability and responsiveness to community needs.

USAID assistance directly supports the accomplishment of four SFA Democracy and Governance sector objectives: Reduce Corruption and Strengthen the Anti-corruption Environment; Increase Civil Society's Effectiveness in Advancing Reforms; Strengthen Institutions of Democratic Governance and Rule of Law; and Increase Participation of Marginalized Populations in Decision Making. Development assistance managed under this portfolio also supports accomplishment of the SFA Education objective: "Promote Equitable Access to Quality Basic Education".

Mission activities by Agency program component are as follows:

- *Strengthen Civil Society.* Civil society development is the core of the USAID Democracy & Governance program. This program will continue to strengthen the organizational and technical capacity of Malagasy civil society organizations (CSO) to advocate for issues of public interest, and establish strong civil society networks. It will also build the capacity of CSOs to protect populations vulnerable to human trafficking, and increase the availability of public information on trafficking in persons (TIP). USAID civil society support enhances the GOM national anti-corruption agenda by training CSOs on public corruption awareness and complaint procedures.
- *Expand and Improve Access to Economic and Social Infrastructure:* USAID intends to continue support for expansion of Madagascar's national e-governance program, providing rural telecommunication services in targeted areas, establishing sector-specific information systems at government ministries, and expanding rural radio coverage and programming to provide relevant information to communities. In support of the SFA and GOM Education for All initiative, USAID will also begin distance-education sector programming to build primary school teacher capacity and increase the participation of parents and communities in local schools.
- *Support Democratic Local Government and Decentralization:* Democracy and Governance programs will continue to build capacity in local and regional decentralized government structures by establishing regional information systems for development planning. They will also support regional and local development committees and public forums to increase citizen participation in local decision making processes.
- *Promote and Support Anti-Corruption Reforms:* In conjunction with Mission CSO support programs, the anti-corruption activities will increase public awareness about corruption and strengthen GOM capacity to enforce anti-corruption statutes. USAID will support implementation of the national anti-corruption strategy by training GOM officials to disseminate anti-corruption information, increase citizens' access to prosecution systems, establish regional anti-corruption offices, and ensure fair and just anti-corruption court decisions.

Public-Private Partnerships: ICT activities managed under this portfolio offer numerous opportunities for private sector partnership. Under the Africa Education Initiative, the Mission will partner with local and international businesses to pay for the production of radio programs, broadcasting fees, and procurement of radios for schools to provide radio-based teacher training and educational programs to rural communities. The Last Mile Initiative (LMI), will partner with local businesses to take advantage of their existing infrastructure and business skills to expand telecommunication services to underserved rural areas. The Anti-Corruption Initiative will form partnerships with and increase the involvement of the private sector in support of GOM anti-corruption efforts.

Transformational Development Impact: The Democracy & Governance program advances both of the Transformational Development operational goals⁶. USAID education initiative resources will strengthen the professional capacity of Ministry of Education teachers and increase the participation of parents and communities in the education system, thus contributing to a better educated and more productive Malagasy population. USAID/Madagascar will continue to train CSOs to become advocates for transparency and responsive governance. USAID will also continue support for Madagascar's fledgling anti-corruption institutions BIANCO and CSLCC to implement the national anti-corruption strategy and enforce GOM laws against corruption, increasing the effectiveness of Malagasy institutions in promoting democratic governance.

Sector: Health
SO Title: "Use of Selected Health Services and Products Increased, and Practices Improved."
Start/End Date: FY2006 – FY2011

Despite recent improvements in child mortality rates, total fertility rate and other key health indicators, Madagascar faces major health challenges which threaten social and economic development. Health service quality is substantially below standard and basic medicines and supplies are regularly in short supply. Public and non-governmental sector capacity to plan effectively and manage health programs is weak, particularly in the areas of financial and administrative management, and the use of data for new activity planning. National health infrastructure, information and logistics systems are extremely weak, and much remains to be done at central and provincial levels to ensure sustainable health financing.

USAID will continue working to increase the use and quality of health services and products throughout Madagascar. Mission programs advance community health and food security priorities established under Madagascar's PRSP by promoting maternal and childhood health, intensifying essential nutrition activities, reducing infectious and non-infectious diseases (including malaria and HIV/AIDS), and reducing Madagascar's vulnerability to natural disasters.

USAID assistance directly supports the accomplishment of all five SFA Health sector objectives⁷. Sanitation and reproductive health activities managed under this portfolio also support accomplishment of the SFA Urbanization objective "Address Critical Urban Health Problems through Community Based Approaches" and the SFA Youth objective "Increase Access to and Use of Basic Health Services (including HIV) for Youth". The overall impact of USAID health sector assistance is enhanced by the integration of PL480 Title II resources which reinforce core maternal and child health interventions, and furthers SFA Urbanization and Youth objectives through a combination of Food for Work and direct distribution activities.⁸

Mission activities by Agency program component are as follows:

- *Reduce Transmission and Impact of HIV/AIDS:* USAID will build on previous Mission achievements and its comparative advantage in research, social marketing, capacity building and behavior change. USAID will support the National HIV/AIDS Strategic Framework to ensure that the Malagasy people have appropriate knowledge and access to high-quality and effective services for prevention and care of STIs and HIV. USAID assistance will emphasize prevention, and include: targeted behavior change activities for high risk populations, increased public awareness about STIs, improved availability and quality of STI services and products, expanded behavior change messages with Faith Based Organizations (FBO) emphasizing delayed onset of sex and reducing number of partners, public and private sector capacity building at national and community levels, and strengthened public/private partnerships. USAID will also improve HIV surveillance and data collection.

⁶ Operational Goal 1: Foster a better educated, and more productive population; Operational Goal 2: Increase the effectiveness of African institutions in promoting a vibrant private sector and democratic governance.

⁷ Specifically: Reduce Transmission and Impact of HIV/AIDS; Prevent and Control Infectious Diseases of Major Importance; Reduce Child Mortality; Reduce Maternal and Newborn Mortality, and Improve Reproductive Health.

⁸ Urbanization: Improve the Urban Environment. Youth: Enhance Social Safety Nets for Youth.

- *Prevent and Control Infectious Diseases of Major Importance:* USAID will provide quality technical assistance to the Ministry of Health and Family Planning (MOHFP) to develop national policies and guidelines for malaria prevention and treatment. Social marketing operations will expand mass media and rural outreach education, reinforce home-based care of uncomplicated malaria, and improve access to effective malaria treatment and insecticide-treated nets (ITN) for children and pregnant women. A range of innovative interventions will improve health and hygiene, linking potable water, health, nutrition and food security, and watershed management. USAID will also expand access to potable water with simple, affordable treatment solutions. USAID's involvement in the Water Sanitation and Hygiene (WASH) Initiative will increase access to clean water, promote hygiene and sanitation, and improve local water management capacity.
- *Improve Child Survival, Health and Nutrition:* USAID will provide technical assistance to the MOHFP at the central, service delivery, and community levels. To further reduce child mortality, increase vaccination coverage, expand Essential Nutrition Actions (ENA), the prevention, early detection and treatment of childhood diseases will be increased through the integrated management of childhood illnesses (IMCI) approach. At the national level, USAID will support competency-based training for IMCI and ENA in medical and nursing schools, support the development of the national child health and nutrition guidelines, and improve cold chain and commodity management. USAID will also support improved use of data for decision-making and improve national surveillance systems. At the community level, USAID efforts will engage leaders, link communities with health care providers, mobilize communities to action, and expand outreach and education through innovative approaches such as child-to-child, child-to-community, peer education and effective use of mass media.
- *Reduce Unintended Pregnancy and Improve Healthy Reproductive Behavior:* The family planning program includes a full range of support at the national, service delivery and community levels. USAID will increase demand for and access to family planning services and products through social marketing, community-based distribution and community education. USAID will strengthen the public sector commodity management and distribution system. Technical assistance will be provided to the MOHFP to keep family planning as a national priority including strengthening the capacity of the MOHFP to develop, implement and evaluating programs. USAID will improve quality of services, focusing on competency-based approaches in pre-service training institutions and revising norms, standards and guidelines. USAID will improve the technical and management capacity of selected health organizations in family planning and will continue to expand the cutting edge integrated health, population, and environment interventions in remote biodiverse sites.

Public-Private Partnerships: USAID will continue to build upon ongoing social marketing relationships with the Malagasy private sector and develop Global Development Alliances wherever possible to improve the health and well being of Madagascar's poorest communities. Local businesses and other private sector actors currently engaged in Mission health programming encompass thousands of USAID beneficiaries in high disease prevalence areas. USAID will expand workforce development outreach to Malagasy businesses and NGOs in the fight against HIV/AIDS and work to increase the scale of community health and family planning interventions through such GDA partnerships as the QIT Minerals (QMM) mining sector alliance signed in 2003.

Transformational Development Impact: Mission health sector support directly advances the TD operational goal of fostering a healthier, better educated and more productive Malagasy population. By 2011, USAID assistance will have strengthened GOM Health Ministry capacity to plan and evaluate technical activities, particularly information management and logistics coordination necessary to ensure the availability of health products and services. USAID community level engagement will increase the availability, quality, and sustainability of health services and practices, including GOM budget allocation, local cost recovery and outside funding mechanisms. PL480 Title II resources will have improved household food security and nutrition in targeted regions, reinforcing Madagascar's overall enabling environment for poverty reduction and economic growth.

Sector: Environment & Rural Development

SO Title: “Biologically Diverse Forest Ecosystems Conserved.”
Start/End Date: FY2006 – FY2011

Madagascar is one of the world’s top three environmental conservation priorities. More than 80 percent of the flora and fauna are found nowhere else in the world—and a hectare of forest lost in Madagascar has a greater negative impact on global biodiversity than one lost anywhere else on earth. The country’s unique biodiversity, however, is severely threatened by poverty, unproductive agricultural practices, high population growth and weak governance. To remedy this complex situation, USAID employs a multi-disciplinary approach to conserve biologically diverse ecosystems by improving sustainable natural resource management and ensuring environmentally sensitive development.

A strategic vision exists for the conservation and sustainable management of the country’s unique ecosystems. This vision promotes an adaptive and participatory ecoregional planning and collaboration process including public and private sectors, civil society, and the donor community. The approach links sound natural resources management, improved agricultural production, food security and health, sustainable economic growth, and good environmental governance. The challenge is to scale-up the adoption and application of planning to the ecoregional level.

USAID assistance directly supports the accomplishment of all three SFA Environment sector objectives. The Mission environment portfolio also furthers the SFA Agriculture sector objective: “Enhance the Productivity of Agriculture”⁹, and complements the Democracy Sector Objective: “Strengthen Institutions of Democratic Governance and Rule of Law”. PL480 Title II resources integrated into the program further enhance the SFA agricultural productivity objective.

Mission activities by Agency program component are as follows:

Improve Sustainable Management of Natural Resources and Biodiversity Conservation: USAID will continue to work at national, regional, and local levels to support expansion of Madagascar’s protected areas from 1.7 to 6 million hectares by 2008. The new Protected Area System will introduce field level planning and land use management systems, and foster private sector collaboration to improve ecotourism activities and services in protected areas. The Mission will also continue to support revitalization of public sector environmental and forest institutions critical to successful forest management. Forest governance will be strengthened by supporting GOM development of forest zoning plans, improving forest permitting and control systems, and strengthening forest service information and communication systems.

- *Protect and Increase the Assets and Livelihoods of the Poor:* USAID links conservation and development by *working to improve* agricultural production, community based natural resource management, and farm to market linkages which, combined, protect and increase the assets and livelihoods of the poor. USAID support for community based natural resource management (CBNRM) and improved agricultural production techniques strengthen the protection of priority ecosystems by limiting expansion into protected areas. Specifically, agricultural intensification techniques introduced by USAID will increase household incomes and allow farmers to meet their needs with less land and reduce the need for new encroachments on priority ecosystems. Producer associations and farmer groups are empowered as a key element to facilitate the development of private sector, market-oriented growth. CBNRM activities are implemented to empower and motivate local communities to protect priority ecosystems and provide attractive alternatives to fuelwood and charcoal for household energy needs
- *Support Democratic Local Government and Decentralization:* USAID works to help government, civil society, and the private sector gain access to information to promote sound environmental decision making. Support is provided to regional and local governments to improve their respective development plans, and ensure the professional accountability of regional and local leaders. The

⁹ Full title: “Enhance Productivity of Agriculture, Including Development, Dissemination, and Use of New Technologies”.

capacity of local actors is being enhanced to develop better technical and managerial skills to allow for an active participation in local and regional level planning efforts. USAID strengthens civil society capacity to advocate for equitable natural resources management in collaboration with regional and communal government structures.

Public-Private Partnerships: USAID has partnered with a large multi-national mining company to leverage additional funds for conservation and development activities in southern Madagascar. The first phase of this Global Development Alliance (GDA) was very successful in incorporating conservation and development activities within a larger regional development framework. The second phase will build on achievements to date, bring in additional USAID-funded programs, and triple the amount of funding leveraged. In addition, USAID will establish additional GDA partnerships in other regions of Madagascar, particularly in extractive industries.

Transformational Development Impact: The Environment and Rural Development program advances both of the Transformational Development operational goals. USAID technical assistance and training for farmers, local and regional administrators, and Malagasy environmental institutions directly contributes to the SFA goal of establishing a healthier, better educated, and more productive population. USAID support to the Ministry of Environment, Water, and Forests at the national, regional, and local level to improve governance and encourage private investment for natural products, reforestation, mining and eco-tourism, coupled with environment-sector civil society development support increases the effectiveness of African institutions in promoting a vibrant private sector and democratic governance.

By 2011, USAID will have ensured the successful harmonization of eco-regional approaches to conservation and sustainable development. Specifically, USAID assistance will integrate the environmental dimension into sustainable development planning and good governance practices at all levels. Within priority eco-regions, there will be core conservation zones for critical biodiversity habitats to protect priority natural resources and ecological processes. Around these core areas, there will be sustainable use zones, which will be privately, publicly, or locally managed. Varying levels of sustainable land-use management will be utilized to increase agricultural production in response to domestic, regional and international market needs within and outside of the multiple use zones. Private sector partners will be actively involved in natural product investments, commercial forest plantations, and high-quality eco-tourism facilities and services to provide other economic growth opportunities based on sustainable natural resources management. Viable management and financing mechanisms for the effective stewardship of natural resources will be in place to ensure long-term sustainability of Madagascar's unique biodiversity.

Sector: Economic Growth
SO Title: "Critical Private Markets Expanded."
Start/End Date: FY2006 – FY2011

Madagascar's significant economic growth potential is undermined by weak organizational capacity among the country's producers and traders, and a lack of information, experience, and international linkages on the part of its entrepreneurial class. Agricultural and natural resource based products offer the greatest potential for poverty reduction in the medium term as the sector constitutes 30% of GDP and 85% of Madagascar's poor live in rural areas.

USAID will continue working to accelerate economic growth in Madagascar through the establishment of a competitive, pro-business climate and other conditions for private-sector-led development. The mission will focus on: (i) improving the competitive environment for private sector growth in Madagascar through promotion of policy and regulatory reform, (ii) strengthening small/medium enterprise (SME) capacity along growth-oriented value chains, and (iii) increasing Madagascar's participation in world trade through export of agricultural and natural resources-based products.

The Mission Economic Growth program directly supports the economic development priorities established under Madagascar's PRSP. Planned interventions will strengthen the competitiveness of the Malagasy private sector, and contribute to good governance, the rule of law and increased transparency through

promoting streamlined procedures, increased dialogue between public and private sector, and strengthening financial and managerial capacity of the public and private sectors. USAID will continue to work with the Ministries of Industry, Agriculture, Energy and Mines, Tourism, and Environment to strengthen activity planning and implementation capacity. The Mission will also encourage private entities to engage in policy dialogue by strengthening their capacity to identify, analyze, design, and promote policy and regulatory changes needed to do business better and faster as well as better manage natural resources.

Already a member of COMESA, Madagascar joined the southern African economic alliance, SADC, in September 2005. The Mission supports Madagascar's full participation in these regional groupings. It will do so by working closely with USAID's regional programs both in Nairobi and in Gaborone, under the TRADE and AGCI initiatives.

USAID assistance directly supports accomplishment of all three SFA Economic Growth and Agriculture sector objectives. The Mission Economic Growth portfolio also complements the SFA Democracy objective: "Increase Civil Society's Effectiveness in Advancing Reforms".

Mission technical priorities by Agency program component are as follows:

- *Improve Economic Policy and the Business Environment:* USAID will support the streamlining of GOM regulations that weaken Madagascar's international competitiveness in strategic export sectors. Priority reform areas include: labor markets, environmental compliance and government services provision. The Mission will also work to remove constraints to Malagasy private sector expansion. Key reform areas include: promotion of strategic exports (ex., spices, sustainable forest products, and mineral resources) and ecotourism.
- *Improve Private Sector Competitiveness:* USAID will provide technical assistance and training to Malagasy firms to improve their managerial and operational skills, support the adoption of best business practices, increase employee skill levels, expand the use of modern technology, and improve their ability to penetrate markets abroad.
- *Increase Trade and Investment:* USAID will continue to help the GOM develop country positions on trade and work with private sector leaders to become better informed about the impact of various trade agreements on their industries. It will provide technical assistance for better analysis of trade and investment policy, and address specific barriers to increased Malagasy participation in multilateral and regional trade arrangements, such as the WTO, SADC, and COMESA.
- *Strengthen Civil Society:* USAID will provide technical assistance and training to improve the trade and investment environment by strengthening technical capacity of Malagasy private sector associations and enterprises to identify and lobby for legal and regulatory reforms. Activities will promote public-private partnerships to stimulate economic growth and formalize the reform process.

Public-Private Partnerships: The Mission Economic Growth program supports GOM commitment to public-private partnerships and dialogue in the policy-making process. USAID will use the GDA to leverage support for EG sector interventions and expand the engagement of large companies in the development process. The goal is to ensure that indirect benefits from large scale investment accrue to local populations through increased demand for goods and services and that negative consequences are mitigated.

Transformational Development Impact: The Mission Economic Growth program supports the TD Operational Goal: Increase the Effectiveness of African Institutions in Promoting a Vibrant Private Sector and Democratic Governance by improving public-private dialogue, building capacity for policy, legal, and regulatory reform, and streamlining procedures to stimulate private investment. By 2011, USAID assistance will have increased private sector investment, Madagascar's participation in the global economy, and improved the Malagasy business environment contributing importantly to Madagascar's economic growth.

B. Donor Coordination & Indigenous Expertise

USAID/Madagascar places strong emphasis on donor coordination and enjoys productive collaboration with all major donors. The World Bank, United Nations and European Union are Madagascar's largest multilateral donors, followed by France, the United States and Japan at the bilateral level. Madagascar also receives funding from the MCA, GFATM, GAVI, and the MacArthur Foundation.

Donor coordination is strongest in the Environment Sector. Madagascar's National Environmental Action Plan (NEAP) was first established in 1991, and serves as the basis of activity coordination throughout the country. Now in its third phase, the NEAP is managed by a Joint Steering Committee on which USAID is co-chair. Malagasy leadership and expertise is critical to the future success of the NEAP. USAID will continue to work closely with the GOM and other donors in the implementation of the action plan, as well as improve sector performance through development of complementary initiatives such as the National Food Security Program and the National Rural Development Program to strengthen linkages between conservation and rural development. Globally, health programs are increasingly implemented through multi-donor partnerships such as GAVI, GFATM, UNAIDS, the Child Health Partnership and Roll Back Malaria (RBM). Overall health sector coordination is positive, but improved policy coordination is necessary on HIV/AIDS, malaria and social marketing. In democracy, USAID will continue to work closely with the World Bank, European Union and UN agencies to improve synergy between programs in support of GOM fiscal transparency, anti-corruption and education sector initiatives. In Economic Growth, the Integrated Framework serves as the basis of overall sector coordination. Although positive in the past, the commitment of the GOM, donors, and the private sector needs to be revitalized in future economic growth sector coordination efforts. USAID will continue to work closely with the World Bank and EU who are lead donors in this area, and also promote market-based, private sector development to accelerate economic growth in Madagascar.

Technical Gaps: Despite multiple efforts to reduce poverty through market-led agricultural development, agricultural production is a critical programming gap for the GOM and the donor community. Low agricultural productivity and poor product quality exacerbate Madagascar's inability to meet domestic, regional and international market demand. This problem is further complicated by the high cost of inputs, insufficient sector investment, and a dearth of organizations supporting the improvement of agricultural techniques. Although complementary in nature, planned MCA interventions do not specifically target agricultural production. USAID will leverage Title II development and anticipated Economic Growth resources with those of the EU, World Bank and other rural development donors in an effort to address this problem.

C. Fragility Risks: Although the GOM continues to enjoy public support for the 2002 reform agenda initiated by President Marc Ravalomanana, Madagascar faces a number of fundamental risks: that a weak and poorly equipped bureaucracy will be unable to deliver promised results; that ambitious social programs will outstrip government revenues; that the public will grow impatient with the pace of reform under the weight of grinding poverty and rising food prices; that vested interests will retard the reform agenda; that foreign investment will fail to materialize at the rate necessary to meet economic growth targets; or that natural disasters -- the country is vulnerable to annual cyclones -- will undermine GOM progress. In the near-term, Presidential elections scheduled for 2007 are the most pressing fragility concern and potential cause for backsliding. The 2001 presidential elections were marred by widespread allegations of fraud and resulted in a six-month political and economic crisis culminating in the opposition candidate's victory. National divisions over the election closely followed ethnic lines, and social tensions inflamed by the 2001 election persist throughout the country today. Coupled with increasing poverty, reduced public subsidies, and increasing competition for farmland and other natural resources, the 2007 election could be a flashpoint for the eruption of latent social tensions across Madagascar.