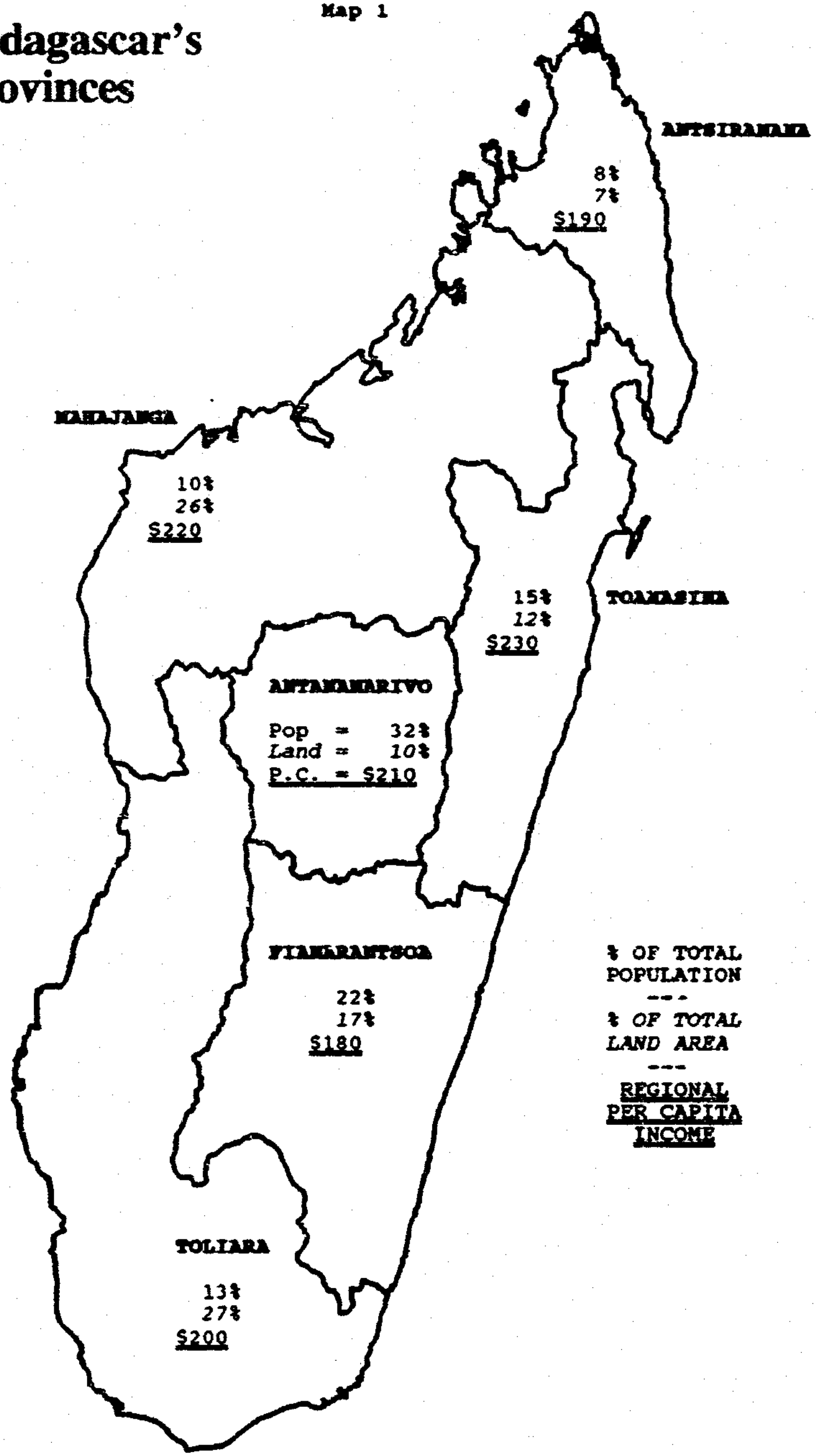
U.S. Agency for International Development
Bureau for Africa
DEVELOPMENT FUND FOR AFRICA

MADAGASCAR: COUNTRY PROGRAM STRATEGIC PLAN CPSP 1993–98

USAID/Madagascar
Antananarivo, Madagascar

Map 1

Madagascar's Provinces



MADAGASCAR STATISTICS

INDICATOR	MADAGASCAR	LOW-INCOME COUNTRIES
GNP per capita	$230	$300
Average annual growth rate (1965-89)	-1.9%	1.4%
(1980-89)	0.8%	3.4%
Average inflation rate (1980-89)	17.8%	14.9%
Life expectancy at birth	51	55
Adult literacy	67%	49%
Fertilizer consumption (100 grams/ha of arable land)		
1970/71	61	72
1987/88	21	310
Average index of food production per capita (1979/81=100), for 1987-89	93	103
Private consumption, average annual growth rate, 1980-89	-0.6%	2.2%
Gross domestic investment, average annual growth rate, 1980-	0.1%	1.5%
Official development assistance, as percentage of GNP, 1989	12.6%	5.6%
Total debt service as a percentage of exports, 1989	52%	27%
Population , average annual growth rate, 1980-89	2.9%	2.7%
Percentage of population, 0-14 years, 1989	46.2%	43.3%
Total fertility rate, 1989	6.5	5.5
Infant mortality rate, 1989	125	94
Under-5 mortality rate, 1989		
female	162	134
male	180	145
Primary school enrollment rate, 1988	97%	75%
female	95%	68%
Secondary school enrollment rate, 1988	19%	25%
female	19%	20%
Urban population as a percentage of total population, 1989	24%	25%

Source: World Development Report 1991

CPSP PROGRAM STRATEGIC PLAN

a.

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LIST OF ACRONYMS

ADB	African Development Bank
AIRD	Associates for International Resources and Development
ANGAP	Association Nationale pour la Gestion des Aires Protégées (National Association for the Management of Protected Areas)
API	Assessment of Program Impact
APPROPOP	Appui au Programme de Population (Population Support Project)
AREAF	Africa Regional Electoral Assistance Fund
ATLAS	African Training for Leadership/Skills
BDE	Banque de Données de l'Etat (National Data Bank)
BEST	Business Survey and Expansion Techniques
BFV	Bankin'ny Fampandrosoana ny Varotra (Commercial Bank)
BMOI	Banque Malgache de l'Océan Indien (Banque Nationale de Paris branch)
BNICL	Bankin'ny Indostria - Crédit Lyonnais (Industrial Bank - Crédit Lyonnais)
BTM	Bankin'ny Tantsaha Mpamokatra (Rural Development Bank)
CAP	Commercial Agricultural Promotion Project
CBR	Crude Birth Rate
CDD	Control of Diarrheal Disease
CDR	Crude Death Rate
CG	Country Group
CI	Conservation Internationale
CITES	Convention on International Trade in Endangered Species of Wild Flora and Fauna
CNOE	Comité National d'Observation des Elections (Elections Observation Committee)
COMODE	Conseil Malgache des ONGs pour le Développement et l'Environnement (Malagasy NGO Council for Development and Environment)
DHS	Demographic and Health Surveys
EAP	Environmental Action Plan
EEC	European Economic Community
FED	Fonds Européen de Développement (European Development Fund)
FIARO	A Malagasy venture capital company
FISA	Fianakaviana Sambatra (an NGO working for Family Planning)
FIVMPAMA	Fivondronan'ny Mpandraharaha Malagasy (Malagasy Private Business Association)
FMD	Financial Market Development
FMG	Malagasy Francs
FNUP	Fonds National Unique de Péréquation (Export Stabilization Fund)
GEM	Groupement des Entreprises de Madagascar (Association of Private Malagasy Firms)
GOM	Government of Madagascar
GTZ	German Agency for Technical Cooperation
HASYMA	Hasy Malagasy (Cotton Production and Processing Parastatal)
HRDA	Human Resources Development Assistance
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMATEP	Institut Malagasy des Techniques de Planification (Malagasy Institute of Planning Techniques)

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IMF	International Monetary Fund
IMR	Infant Mortality Rate
INSCAE	Institut National des Sciences Comptables et de l'Administration de l'Entreprise (National School of Accountancy and Firm Management)
ISCAM	Institut Supérieur de la Communication des Affaires et du Management (Institute of Business Communications and Management)
IPPF	International Planned Parenthood Federation
JCE	Jeune Chambre Economique (Junior Chamber International Affiliate)
JIRAMA	Jiro sy Rano Malagasy (Water and Electricity Authority)
KAP	Knowledge, Attitude, and Practice (survey method)
KEPEM	Knowledge and Effective Policies for Environmental Management
LAN	Local Area Network
LRJ	Legal, Regulatory, and Judiciary Framework
MAELP	Madagascar Agricultural Export Liberalization Project
MAELSP	Madagascar Agricultural Export Liberalization Support Project
MAPS	Manual for Action in the Private Sector
MARS	Madagascar Agriculture Rehabilitation Support Program
MBG	Missouri Botanical Garden
MCH	Mother/Child Health
MEDIA	Mass Education/Development Information Assistant
MIX	Marketing Infrastructure Expansion
NGO	Non Governemental Organization
NPP	National Population Policy
ODA	Overseas Development Administration
ONE	Office National de l'Environnement (National Environmental Office)
ORT	Oral Rehydration Therapy
PADG	Protected Area Development Grants
PDA	Office of Program Development and Assessment
PIP	Public Investment Program
PTT	Posts and Telecommunications
SAFAFI	Sampan'Asa Fambolena Fiompiana (Agricultural Department of the Malagasy Luthern Church)
SAVEM	Sustainable Approaches for Viable Environmental Management
SOLIMA	Solitany Malagasy (Malagasy Petroleum)
STABEX	Caisse de Stabilisation de l'Exportation (Export Earning Stabilization Fund)
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific, and Cultural Organization
UNFPA	United Nations Fund for Population
UNIDO	United Nations Industrial Development Organization
WHO	World Health Organization

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I. EXECUTIVE SUMMARY

Madagascar is in the throes of a historic transition to a democratic Third Republic and to a co petitive market economy.

After two decades of one party, centralized presidential rule, failed socialist policies, and impoverishment, Madagascar made a dramatic about turn in 1987-88. It adopted a serious structural adjustment program, it liberalized its markets, it formulated a population policy, launched an environmental action plan, and began a gradual political liberalization. Within three years the reforms had sparked an economic recovery with growth approaching 5% by 1990, attracting expanded tourism and investment interest. The Malagasy people, having tasted the new freedom, clamored for a more rapid transition to democracy and prosperity. During 1991 generally peaceful demonstrations brought the Second Republic to an end and set in motion a process of constitutional reform and free presidential and parliamentary elections leading to a third republic, expected by year's end. The new constitution to be voted on in a national referendum on August 19, 1992 calls for a multi-party system with greater authority vested in the Prime Minister and independent parliament, with increased decentralization to regional and local government institutions.

If Madagascar succeeds in this transition, its prospects for realizing its high economic potential are good, particularly as it integrates into the regional economies of the Indian Ocean and Southern Africa.

U.S. interests, while not great strategically or in foreign policy terms, nevertheless lie in seeing Madagascar succeed in its democratic and economic reform process. Such progress can bring prosperity to this poorest of countries, help preserve Madagascar's unique and diversified flora and fauna, open prospects for denser commercial and cultural relations between our two countries and contribute to stability and prosperity in the region.

Analyses of development progress, prospects, and challenges show that Madagascar faces a negative set of development dynamics that will require at least a decade of determined effort to reverse. These include accelerated environmental degradation, explosive population growth, decaying infrastructure, monopolized commerce, and fragmented markets. Madagascar is moving in the right direction by restructuring the economy toward private export led growth. It now needs to complete the political transition and resume its negotiations with the World Bank and IMF on the next phase of its structural adjustment program. Then it can get on with implementing the new republic's democratic mandate and the remaining economic reforms. The most daunting challenge will be to transform the subsistence rural economy of fragmented markets and interrupted communications into a competitive, efficient market economy tapping regional comparative advantages and multiply interregional and intersectional trade. This will seriously test Madagascar's political will and leadership abilities as it tackles established interests, protected businessmen, threatened bureaucrats, insular and dated attitudes, procrastination and corruption.

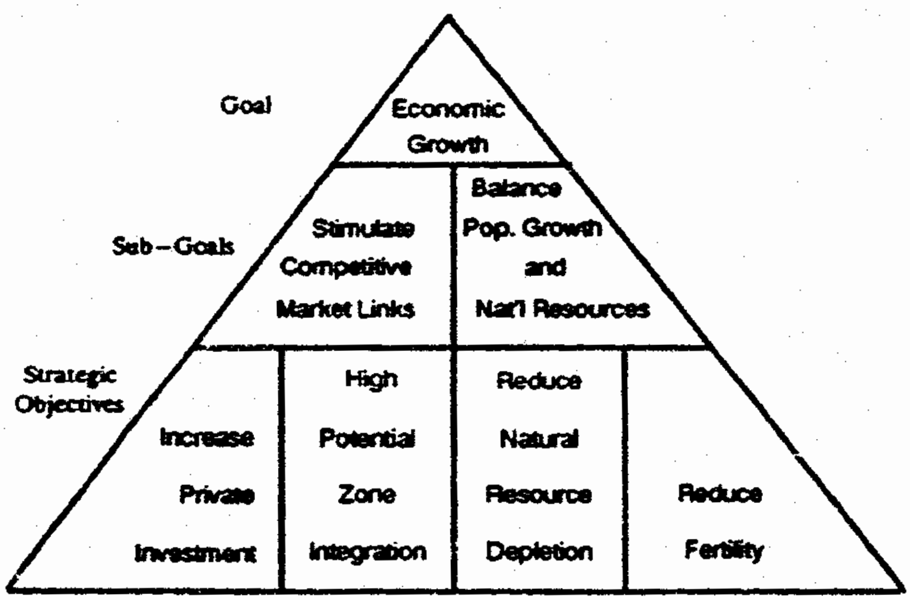
U.S. assistance can make a difference in helping the transition along and in bringing about this eventual transformation. Madagascar merits our assistance as a focus country because of great need, high economic potential, good economic performance in recent years and its commitment to democratic transition.

The Mission followed a wide-ranging fully participatory process designed to produce not only the best strategy, but one which had Mission ownership.

The resulting strategy focuses on stimulating market links, and balancing population growth and natural resource use, with the aim of accelerating broad-based, market-led, sustainable economic growth. Our program centers on promoting private investment, integrating high potential zones (starting with the Northwest Coast and the Southern Highlands) into the national economy, reducing natural resource depletion in protected areas, and reducing total fertility, with a target of supporting the transition to democracy. The strategy can be schematized as follows:

Figure I.1

CPSP Schematic



We will concentrate our programs and resources in pursuit of these four strategic objectives in the following ways:

1. <u>Increase private investment</u> through pro-market policy and regulatory reforms, through financial sector development, and through expanded business services;

2. <u>See that High Potential Zone growth multiplies national market activity</u> by reducing communications and transport costs, by increasing and diversifying agricultural production and sales, and by expanding locally-managed market services;

3. <u>Increase sustainable natural resource use in target areas</u> by conserving biodiversity, improving the management of forest resources and protected areas and increasing income opportunities for resource users; and

4. <u>Reduce total fertility</u> through promotion of modern contraceptive use, use of oral rehydration therapy (ORT), and better child nutrition.

We are well positioned to develop a portfolio to implement this assistance strategy if approved. We have carefully focused our programs and developed performance indicators to measure progress and impact on achieving our strategic objectives. The portfolio will include about 13 programs over the next six years (FY 1993-1998). The Natural Resources and Population programs are already in place and will be fully operational within the next six to nine months. The investment and high potential zone programs will require two new starts in FY 93 and two new starts in FY 94. The portfolio will include a balance of non-project and project assistance supported by food aid, local currency and private investment guarantees. We envisage average annual resource levels on the order of $40 million in DFA and $7-10 million in PL 480 to carry out this strategy. Naturally, we expect country and program performance as well as resource availabilities to determine actual levels.

We see USAID's role as a leader and catalyst for sustainable, equitable, market-led growth combining our substantial intellectual and financial resources in innovative and synergistic ways to help remove key bottlenecks, leverage policy and institutional reform, reach out to selected regions and mobilize private sector energies. We will press for transparent accounts and tight controls on funding with local counterparts and implementing agencies. We will work to ensure close donor coordination especially at the sectoral level. We will monitor performance and measure impact against our agreed contract with the Bureau, using mutually agreed performance indicators and a fully integrated program management system. We will rely on a staff of 102 U.S. and Malagasy professionals and support staff organized around our strategy objectives and with an eye to efficiency and accountability. We will be guided by enthusiasm, entrepreneurship, and excellence in our quest for development results.

In this way USAID Madagascar hopes to take its place among the ranks of the best Missions in the Africa Bureau and the Agency and contribute measurably to Madagascar's sustainable development.

II. DEVELOPMENT PROGRESS, CHALLENGES AND PROSPECTS

A. The Socialist Legacy

1. Failed Socialist Policies

Upon independence in 1960, Madagascar maintained close ties to France. The economic structure remained essentially unchanged with a heavy emphasis on the extraction and export of raw materials by large trading companies -- primarily of the main export crops: coffee, vanilla, and cloves. Investment, while quite low, was targeted towards the modern agricultural sector.

As French private companies and other foreign businesses continued to control close to 80 percent of the productive elements in the economy, many Malagasy became increasingly disenchanted with the country's economic structure. While some of the Malagasy elites were able to benefit from this economic structure, it only served to widen the income gap between Malagasy. Uprisings in the South in 1971 followed by riots by students and the young urban unemployed led to a change in government in 1972.

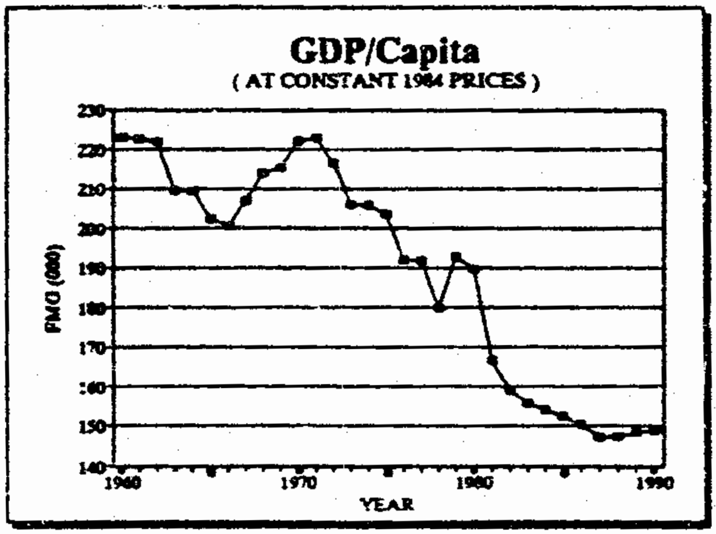
The change in Government in 1972 represented a turning point in the country's economic policies. An interventionist policy was targeted toward encouraging the development of a self-sufficient national economy. This process was reinforced by the nationalization of large foreign enterprises and a massive public investment program over 1978-80, and was maintained by prohibiting imports of domestically produced goods and imposing quantitative restrictions and tariffs on the remainder of imports. This general environment had deep repercussions on the economy. Heavy protection implied little or no competition from abroad, a condition that was compounded by the minimal domestic competition, due to the system's bias against the entry of new enterprises. The source of this bias was the foreign exchange allocation and other bureaucratic licensing procedures. Exports were discouraged by restrictions on trade goods deemed to be vital nationally. This inward-looking overall trade regime led to small monopolistic domestic markets.

Because of the limited number of domestic producers, the government imposed controls on prices and profit margins that severely distorted the price signals and led to a misallocation of resources. The latter is clear from the inappropriate choices and decisions taken by entrepreneurs and managers of public enterprises, who failed to take economic costs into account in many instances. The evidence is the unjustifiably large size of factories built during the period, which were doomed from inception to operate well under capacity; the range of goods produced, which was not based on any notion of comparative advantage but rather on what was deemed essential for national development; and the technology adopted, which was capital-intensive and required imported inputs and spare parts whose purchase aggravated the foreign exchange situation.

2. The Downward Economic Spiral

Economic performance under these new policies was disastrous, Figure II.1 (See Martin, Whither Madagascar? 1992, on the economy of Madagascar).

Figure II.1



Per capita income fell in every year but one between 1972 and 1986. Real GDP stagnated during the socialist period. Real GDP in 1985 was below the 1972 level, Figure II.2. The stagnation in agriculture was primarily the result of government policy to increase its ownership of land and control over prices, marketing, and processing in the agricultural sector. Prices of crops were set and controlled by the government at levels that were too low to allow adequate incentives to producers. Marketing was put under the exclusive control of state marketing monopolies which proved to be inefficient, costly, and unreliable. In an effort to decentralize government control, local communities took responsibility for marketing rice through official distribution channels at subsidized prices. This system also proved to be costly and without adequate targeting mechanisms which allowed the rich to benefit more than the poor from the official (less expensive) distribution system. When combined with the country's high population growth rate, the resulting decline in agricultural production caused Madagascar, which had been self-sufficient in food and a net exporter of its primary consumption good, rice, to become a consistent importer of this staple good.

Figure II.2

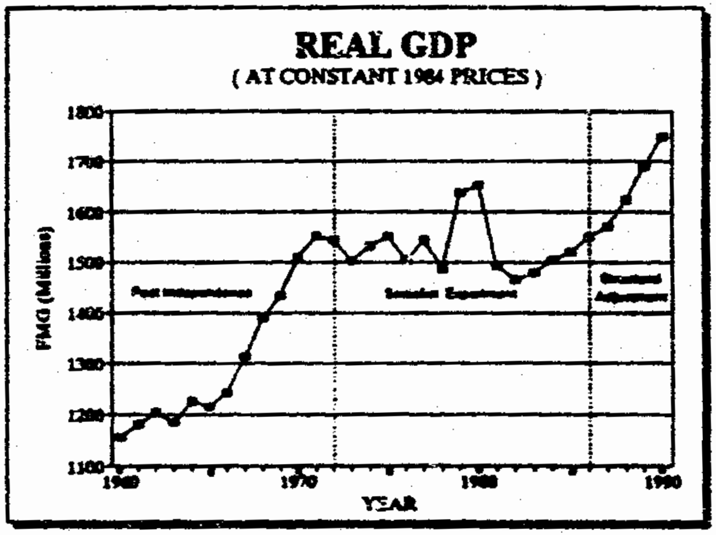


Table II.1
Madagascar: Economic Growth Rates
(percent per annum)

PERIOD	SECTOR			GDP
	Primary	Secondary	Tertiary	
1950-1960	2.7%	6.8%	1.3%	2.5%
1960-1972	1.2%	5.7%	2.9%	2.8%
1972-1986	1.2%	-2.2%	0.6%	0.3%

Note: Primary sector includes crop and animal production, fishing and forestry products; secondary sector includes mining, manufacturing, utilities and construction; tertiary sector includes transportation, commerce, finance, government administration and services.

While the government tightened its control over the economy across most sectors, fiscal and balance of payment policies remained cautious and external debt stayed low through 1977. In 1978, however, in the face of stagnating economic activity, the government attempted to encourage growth by diversifying the economy with a policy of massive investment by the public sector. It did so by greatly increasing its reliance on external sources for financing, quadrupling external debt between 1978 and 1980. Unfortunately, many of the projects selected in the investment program were financially and economically unviable and have since made little contribution to GDP or export revenues. In addition to building up massive foreign debts, the government's expansionary domestic policies under this program produced a large fiscal deficit which surged from its level of 2.5 percent of GDP between 1970 and 1978 to 18 percent in 1980 and an inflation rate that climbed to a yearly rate of 30 percent.

The fundamental cause of the economic crisis was inappropriate government policies. State control of the economy inhibited an efficient flow of resources within the country and overexpansionary fiscal and monetary policies associated with the 1978-80 'invest-to-the-hilt' program led to large government deficits and high inflation. Continued poor performance of public enterprises drained public resources and provided little productive output in return. Public investment and consumption rose at the expense of the private sector.

Internal price controls also contributed to the economic crisis by inhibiting producer incentives. Production of food crops and export crops fell and many food crop farmers reverted to self-sufficient farming, leading to increased imports of foodstuffs and declining export volumes, fueling the balance of payments problem. Both GDP and the volume of exports declined at the same time that external debt service obligations escalated from 4 percent of exports in 1978 to 17 percent in 1980 and 85 percent (before rescheduling) in 1983. The current account deficit reached 18 percent of GDP as resource constraints tightened and investment plummeted. Under the impact of heavy external payment obligations, declining export earnings, and reduced creditworthiness, severe foreign exchange shortages prevailed.

In response to growing deficits and foreign exchange shortages, the government followed a policy of stricter economic controls of production and prices and import compression with increased quantitative restrictions on imports and rationed foreign exchange. The imposition of these policies had several adverse effects on the economy. One of the most serious was the decline of domestic output of both tradables and nontradables. In addition to the sheer lack of imported inputs, the resulting increase in the price of the available intermediate and capital good imports caused remaining production to become less profitable.

Other effects of these policies were equally detrimental. For import-competing industries without price controls, the quantitative restrictions on imports and foreign exchange provided protection as prices rose in these industries relative to other sectors due to excess demand and restricted supply. This tended to draw resources out of other sectors, such as the export sector, into often relatively inefficient import-competing industries. Where price controls inhibited the rise in prices, shortages and parallel markets appeared -- this is especially true for the case for rice, vegetable oil, occasionally bread, and other goods (foreign exchange itself primary among them). With inadequate incentives for the production of export crops and with a decline in domestic production, the government's revenue base also contracted -- further exacerbating both government and balance of payment deficits, providing even less foreign exchange for imports, and resulting in a downward spiral in production. With government revenues down, its ability to provide for the functioning and maintenance of economic and social infrastructure also declined, among other things leading to a deterioration in the transportation and communication networks. In addition to its inability to finance imports, the country did not have enough foreign exchange to repay its substantial debt.

All these factors affected household welfare, diminishing real wages. As incomes were already stagnating, higher inflation further lowered real household incomes. One of the primary determinants of household incomes became economic rents to those who could benefit from the controlled activities. Not surprisingly, by 1981 real per capita GDP was 23 percent below its 1972 level -- despite the socialist plan's efforts to improve the welfare of its country.

Income differences widened and poverty increased in the two decades following independence. (The most recent data on income distribution is from 1980.) The changing size distribution of income in Madagascar is shown in Table II.2.

Table II.2
Madagascar: Size Distribution of Income

POPULATION SHARE	SHARE OF INCOME	
	1962	1980
Poorest 20%	8.1%	5.0%
Next 20%	10.5%	8.7%
Next 20%	14.2%	13.4%
Next 20%	18.2%	20.5%
Next 10%	13.2%	15.3%
Next 5%	10.1%	10.8%
Next 4%	14.6%	17.4%
Next 1%	11.1%	8.9%
Gini Coefficient (all households)	0.39	0.45
Gini Coefficient (rural households)	0.29	0.41

These figures show a serious deterioration in income distribution from 1962 to 1980, due essentially to increased inequality in rural income distribution. Average rural incomes grew only slightly and urban incomes in the major towns declined about twenty-seven percent.

Unemployment is a serious and growing economic problem in the labor market. In 1980 the unemployed in the urban area registered as seeking work amounted to more than eight percent of the labor force outside of agriculture; from 1970 to the mid-1980s the number of registered unemployed tripled. Actual unemployment appears to have been much higher than registered unemployment. UNICEF estimated unemployment in Antananarivo to have been more than thirty percent in the early 1980s.

On the basis of poverty levels calculated by Cornell University, thirty-seven percent of households in rural areas, twenty-six percent of households in small urban centers, and eighteen percent of households in the seven largest cities were poor in 1980. Overall, thirty-four percent of households had incomes below the poverty line in 1980, ninety percent of those in rural areas.

The poverty estimate presented above can be supplemented by health statistics indicative of societal well being and the standard of living. Considerable evidence indicates that infant mortality rates increased from the late 1970s through the mid-1980s. About 50-60 percent of children appear to have a high degree of chronic undernutrition. Long-term malnutrition appears to be widespread among children under five. The national sample of children three years old and under showed 33 percent and 37 percent of children in urban and rural areas with evidence of long-term malnutrition (stunting), and no survey found less than 29 percent.

B. Reform progress

1. Economic Reforms and Market Liberalization

Against this background, Madagascar changed from a socialist failure to a promising structural reformer and free-market advocate meriting its "focus country" status for U.S. assistance. Here is how they did it.

In the early 1980s, the government began to implement several economic adjustment programs, supported by bilateral donors, the IMF and the World Bank, aimed at reducing domestic and external financial imbalances. Table II.3 summarizes the structural adjustment policies. These programs, which were designed to open the economy to competition, included far-reaching structural reforms in the areas of internal and external trade, the financial sector, public enterprises, social policy, and public expenditure programming. Meanwhile, the government improved its demand management policies. By the end of the 1980s, Madagascar had achieved considerable progress on the macroeconomic front: the external current account deficit was reduced significantly, owing largely to the improvement in the overall fiscal position, the pursuit of prudent monetary policy, and a narrowing of distortions in relative prices between traded and nontraded goods.

Over 1982-87, the exchange rate was devalued on several occasions lowering the value of the Malagasy franc (FMG) by a cumulative total of 80 percent against the basket of currencies to which the currency was pegged. A mechanism was also set up to regularly adjust the exchange rate in light of the differences in the relative inflation rates vis-a-vis Madagascar's trading partners. The currency's exchange rate declined to the equivalent of FMG 2,014 per SDR at the end of 1989 from FMG 335 at the end of 1981.

Despite some initial resistance, the government took comprehensive measures in 1987-89 to reduce administrative barriers to exports and to eliminate government export monopolies and export licensing requirements. A new export law allowed exporters to export freely all their products (with the exception of vanilla) at prices negotiated directly with foreign importers, while the state export monopolies in pepper, cloves, and coffee were abolished. Moreover, with USAID assistance, the complex system of export taxation was simplified considerably and replaced by ad valorem taxes on traditional exports, involving a substantial reduction in the rates.

On the import side, a liberalized import regime was introduced in 1987, covering 25 percent of imports. This import regime was subsequently replaced by an open general license system for all imports. A comprehensive reform of the tariff system was begun in 1988 to promote efficient import substitution and export industries within the mixed public/private sectors. The aim was to reduce the effective rate of protection significantly, to 35 percent over four years, and to decrease sharply the dispersion of tariffs by limiting the range eventually to 10-50 percent. Progress in this area has been encouraging.

The government also formulated a three-year program to rehabilitate the public enterprise sector and to reduce its predominance in the economy. After full implementation of the process of liquidation, divestiture, or restructuring, the public enterprise sector was expected to be cut to about half its initial size, while all the remaining public enterprises were to be reorganized or financially rehabilitated. Although some progress was made in several areas, the privatization and rehabilitation program was delayed, and a central entity was established only in late 1990 to coordinate the overall reform program.

In order to further establish a dynamic and competitive financial system, thereby helping to stimulate private saving, in 1988, the Government embarked on a program of restructuring the state-owned domestic banking system by opening it to private domestic and foreign investors. A critical element of this operation was the restructuring of the portfolios of all three state banks. This involved the liquidation of all non-performing and doubtful assets, followed by the partial privatization of two banks (with the participation of foreign partners). Subsequently, a joint venture private bank opened in Antananarivo.

Table II.3

MADAGASCAR STRUCTURAL ADJUSTMENT POLICIES

POLICIES 1988–91	STATUS	POLICIES 1991–94
1. Public Finance		
A. Improve the tax structure		
– Implement tariff reform	Significant progress	– Limit range of tariff rates to 10–50 percent
– improve customs administration	Not met	– reduce discretionary duty exemptions/concessions
– replace FNUP levies by ad valorem taxes	Met	– Install new system of import tax collection
– abolish taxes with limited revenue–raising importance	Partially met	– Replace ad valorem petroleum tax by a specific tax – Reform budget according to new nomenclature
B. Improve Public Expenditure Efficiency		– Present fully consolidated budget
– Present Current Budget on commitment/ payment–order/cash basis	Significant progress	– Formulate a new policy on the management of civil service recruitment and personnel
– Adopt budgetary reform legislation	Not met	– Stabilize size of central government personnel at the level of January 1, 1991
– Implement 3–year rolling PIP	Met	
– Census of central government personnel	Met	– Formulate decentralization plan regarding resource
– Adopt action plan for personnel management and administration	Not met	
2. Public Enterprises		
– No new public enterprises created	Met	– Divest 7 and restructure 4 designated enterprises
– No new credit to "high–risk" (class D) public enterprises	Met	– Divest 21 listed enterprises
– Liquidate/privatize 20 public enterprises	Partially met	– Determine new list of enterprises for future reform program
– Liberalize domestic air transport	Not met	– Complete liberalization of domestic air transport – Liberalize cotton market/restructure HASYMA
3. Financial Sector & Monetary Policy		
– Adopt new banking law	Met	– Pursue monetary policy assigning more important role to indirect instruments of control
– Publish all decrees and regulations referred to in the banking law	Not met	– Require banks to post lending and deposit rates
– Establish private commercial bank (s) operating independently	Met	– Formulate restructuring plan for BTM – Reduce State shareholdings in BNI
– Restructure BTM/BFV portfolios so that at least 1 has a private sector participation of at least 25%	Partially met	– Strengthen CB supervision of commercial banks – Pursue a monetary policy geared toward maintaining positive real interest rates
– Strengthen central bank supervision of commercial banks	Not met	– Promote availability of medium and LT credit – Expand financial services to include, among other things, leasing and mortgage finance
– Maintain positive real interest rates on deposits and credit	Met for all credit and most deposits	– Review the structure and functioning
– Introduce new savings/lending instruments	Not met	– Reestablish financial and operational independence of the Central Bank
– Broaden financial services to include export & housing financing and leasing	Not met	
4. External Sector		
– Fully implement OGL system	Met; but rescinded temporarily	– Gradually reduce restrictions on payments and transfers for current int'l transactions; and
– Gradually eliminate temporary surcharge on imports	Significant progress	– Abolish all restrictions on the repatriation of profit, dividends, royalties and capital invested by non–residents and foreigners
– Reduce number of import nomenclatures subject to administrative control	Met	
– Complete liberalization of domestic trade on export crops (w/ exceptions for vanilla)	Significant progress	
– Gradually liberalize services balance transactions	Not met	
– Publish new mining law	Met	
– Pursue flexible exchange rate policy	Met	
– Strengthen Central Bank's foreign debt management unit	Partially met	
5. Investment		
– Review investment code	Met	
– Complete Free Trade Zone study	Met	
6. Price Policy		
– Abolish all producer prices	Met	– Change petroleum price structure to improve tax yield and introduce a system of automatic price adjustments
– Abolish all business profit margin controls for wholesale and retail	Met	
– Adjust oil product prices and water, electricity and communications rates with exchange rate fluctuations	Oil price raised	– Complete electricity tariff reform

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Along with the reorganization and deregulation of the financial system, the monetary authorities were able to gradually reduce reliance on direct credit control in favor of indirect instruments of monetary control.

The government's fiscal strategy has been geared toward generating additional savings, reinforcing the incentive framework through tax reform, and contributing to the rehabilitation and expansion of the productive capacity of the economy. On the revenue side, the main focus was on continuation of the rationalization of the tax and tariff structures and a broadening of the tax base. The monitoring and control of the financial operations of the central government were also enhanced, and the structure of public spending improved.

2. Democratic Reforms and Improved Governance

Madagascar's command economy and socialist policies reflected the ideological orientation of authoritarian, single party rule under a strong president and highly centralized political system during the Second Republic from 1975-1991. The single party state was characterized by a highly controlled media, circumscribed human and political rights, an authoritarian president, few independent associations and a patronage system that controlled most economic opportunity and rewards.

Political liberalization in Madagascar began slowly in the late 1980s. The 1989 presidential election was contested by four political parties and the ruling party, headed by President Didier Ratsiraka, received 63 percent of the vote. Many believe that the ruling party machinery effectively controlled the outcome of the election.

Following the political liberalization winds that were blowing across the socialist world, Ratsiraka -- secure with his election to a third seven-year term as president -- took steps to further open up political competition in early 1990. A new decree officially legalized political parties and political groups in early 1990 which brought about a flurry of new groups. On May 1, 1991, the opposition parties held their first public outdoor rally. Political rallies in Antananarivo grew in size, joined by large numbers of the civil service who instituted a six-month long strike that effectively crippled the government. The demonstrations and strikes calling for the immediate resignation of Ratsiraka and a new, more democratic constitution, were the result of widespread frustration after 15 years of corrupt government, a declining economy and standard of living, and lack of most political freedoms.

The demonstrations and strikes of 1991 brought the Second Republic to a close and accelerated the political liberalization process. The six month long, mainly urban protest movement culminated on October 31, 1991 in the signing of the Panorama Convention, an agreement between key political entities in the country that suspended the institutions of the Second Republic of President Ratsiraka, replacing them with "Transitional Government Institutions." Ratsiraka remained nominal head-of-state, with primarily ceremonial powers. The transitional institutions created under the Panorama Convention are to be in place for no longer than 18 months (until April 1993). The principal aims of the transition are to provide a new Constitution to be approved by a popular referendum on August 19, 1992, and legislative/presidential elections leading to a new, democratic Third Republic. The presidential and parliamentary elections are to follow the constitutional referendum.

The transitional government under Prime Minister Razanamasy has shown clear commitment to democratic reform and better governance, despite its inexperience and intense competition among the diverse and divided political factions -- each represented in the 36 Ministries created from the 24 previously existing Ministries. It has worked to advance the precepts of democracy, rule of law, respect for human rights, and open political debate. At the same time though, the transitional government sees its mandate as limited and therefore has been hesitant to make tough policy decisions or negotiate continued structural adjustment measures.

The press has enjoyed uncensored freedom since 1990 and represents a variety of political views with verve and vigor. There are five major newspapers and several news magazines.

People now freely associate. Since March 1990, the Malagasy have embraced the right to create and join political parties. More than 60 political parties are legally registered, although no more than a dozen have a significant national following. The business community has a number of professional associations, and several of these groups became actively engaged in the political process during the past year. The business groups are also becoming advocates for their own interests. The traditional Malagasy concept of "Fihavanana" or community spirit plays a major role in the lives of farmers who enjoy the right to participate in cooperatives outside of the local government structure. Labor organizations in the western tradition have not been a major political or social force. Instead, during the height of last year's protests, strike committees emerged in the public sector (Ministries and other public offices), and brought the government nearly to a standstill during the six-month-long strike.

Religious organizations play a prominent role in Malagasy society, embracing traditional western churches (most notably the Christian Council of Churches) as well as Islam and Judaism. The church played a major mediating role to bring together all sides for negotiations which led to the Panorama Convention. The Christian Council of Churches also organized and chaired the National Forum in March 1992.

Also, since the late 1980's, a number of human rights organizations have been created in Madagascar. A leading human rights organization encountered initial difficulties in attempting to register with the government of the Second Republic, the new transitional Minister of Interior has allowed for quick legalization, and by early January 1992, six human rights groups have been registered as recognized associations.

Human rights are reasonably well respected. There is traditional respect for human life at all levels of Malagasy society. Political and extra-judicial killings, as well as disappearances, do not occur here. Allegations of abuse of power by the state and its agents were frequently made during the period 1975-1989. However, the 1990's have been notable for the absence of these types of allegations.

The new constitution, developed by a broad range of Malagasy interests at the National Forum, is significantly different than the current constitution. It allows for a full multi-party political system, a strengthened legislature to both represent a broader spectrum of Malagasy society and serve as a balance to the President, an independent judiciary separate from the executive branch, decentralized authority to the regions, and a weakened President with a Prime Minister as head of government. Appropriate checks and balances are therefore part of the new constitution. However, nascent or non-existent democratic institutions envisioned in the new constitution and new patterns of pluralistic participation will take time to develop.

If the constitution is approved, subsequent planned free and fair elections, whereby a wide range of interests and parties vie for support, will be a watershed event in Madagascar. Similar to the presidential elections in Zambia, free elections in Madagascar will provide the new regime the domestic and international legitimacy it needs to stabilize the country and carry out necessary continued political and economic reforms.

Related to the democracy transition, improved governance has taken on increased importance. Transparency, accountability and government effectiveness have assumed center stage in the national debate, giving rise to renewed allegations of widespread corruption during the Second Republic. The transition process and the new regime will inevitably be shaped by strongly entrenched perceptions that, during the Second Republic, corruption was widespread among the leaders and was neither investigated nor prosecuted by those in authority. While there is as yet no substantiated evidence of such abuse on the part of the Transitional Government, the press has become much more vigilant and willing to report on allegations of corruption, as witnessed by the public clamor which arose following interference by the transitional High Authority of State in a tender offer by the State oil company SOLIMA. Donors have pressed the need for greater transparency and accountability in recent meetings and consultations with the government.

Public administration has been generally weak and ineffectual, reflecting overstaffing, underemployment and low salaries (real income decreased by 42% between 1980 and 1988 for public servants). During the transition, public administration and the civil service are hobbled by the transitional nature of the government and competing political interests. Any new regime will find the public administration with the same problems, although the more open, participative atmosphere should provide the environment for an improvement in the rapport between the civil service and the population. Clearly, an effective and efficient government responding to the needs of the population is a long-term objective.

While difficulties and uncertainties remain, most Malagasy believe that democratic change is inevitable. The Malagasy are building consensus in their own way and are setting their own timetable for change. With the enactment of the new constitution, the Malagasy people will have increased their right to demand public accountability from their elected leaders at both the national and local levels. A wide range of new business, farmer, human rights, advocacy, professional and other groups are forming the heart of a vibrant civil society.

The next year will be key for the political liberalization process. A new constitution and the conduct of free and fair elections will substantially propel the democratization process, clearly legitimize a new regime, create opportunities for greater participation at all levels and provide a more conducive environment for long-term broad-based economic growth. While this process could be derailed or significantly delayed, as in other countries undergoing similar changes, the continued demand for political liberalization and increased pluralism in Malagasy society appears irreversible.

C. Development Dynamics and Challenges

Madagascar is at a historic turning point, as it moves from a dirigist, inward-looking, mercantilist economy under one party, socialist rule toward an outward looking, market-led, private-sector driven economy under a pluralist, more decentralized, democratic Third Republic. It faces a critical choice: it can reinforce the policy directions it adopted in the late eighties and follow a promising growth path or it can revert to the policies of the past and witness further impoverishment of its people and the depletion of its natural resources.

Madagascar is ill prepared for this transition in terms of public administrative capacity, physical infrastructure, social services, financial services, transport, technology, human resources, and social organization. Madagascar is an agriculturally based economy characterized by subsistence farming, regional isolation, market inefficiencies and threatened by depleted soils and forests. Production is not intensive, especially for the majority of small holders, and only one half of farm output is sold. The lack of transportation and communication systems and the absence of enforced and predictable rules governing market transactions perpetuate fragmentation, impede normal links between sectors and regions, interrupt multiplier effects, inhibit competition, and reduce profitability of expanded economic activity.

Madagascar is a rice-based economy. Rice is by far the most important crop in Madagascar in terms of area planted and value of production. Rice is the major staple throughout most of the country. The price of rice is a politically sensitive issue.

The combination of rapid population increases and poor agricultural resource management practices has led to a growing body of landless poor for whom no other viable economic options exist at present other than slash and burn further up the slope, charcoal making, migration to urban areas, and crime (See Verin, Socio-Economic Factors in Economic Development in Madagascar, 1992).

The structural reforms in the late 1980s demonstrated that they can create the conditions for economic growth. In attempting to reestablish and increase the rate of growth in the 1990s and sustain it over the long term, Madagascar will confront many challenges. USAID/Madagascar's assessment is that seven challenges stand out as the crucial ones which must be addressed by public policy makers, private businesses and individual households. The seven challenges are described in this section.

1. Demographic Pressure

Madagascar currently has a population growth rate of 3.2 percent, with both a high total fertility rate (6.5) and a high infant mortality rate (125). The population growth rate, if it holds constant, would result in a doubling of the nation's 12 million inhabitants (1990) by the year 2012.

The crude birth rate (CBR) is estimated to be 45.6, and the crude death rate (CDR) is 15.5. It appears as if the total fertility has increased slightly since 1975. Life expectancy is thought to be 51 years, and there is evidence of a slight decline since 1980.

Madagascar has a youthful population, with 46 percent under the age of 15, and only three percent over age 65. The ratio of the population in the dependent age groups to the potentially economically active population is .96, implying a virtual one-to-one correspondence between potential wage earners and dependents. Current estimates of contraceptive prevalence are low, with only one percent of women at risk of pregnancy using a family planning method.

Population growth and other factors have already placed an unacceptable demand on strained social services. The need for health services is expanding rapidly. At current growth rates, the number of mothers and children requiring health care will increase from a current level of 4.6 million to 12.6 million in 2015 and primary schools will need to accommodate a 60 percent increase in the number of children reaching age 6 by 2000.

The impacts of population growth on the environment and the labor market are discussed below.

2. Environmental Degradation

Madagascar's natural resource base, upon which the vast majority of Malagasy depend directly, is seriously threatened. The scale and intensity of deforestation, loss of biological diversity, soil erosion and associated declines in overall land productivity are unparalleled. The <u>Madagascar Agriculture Sector Assessment</u> documents the following examples:

Deforestation: Eighty percent of Madagascar's forest cover has been destroyed, half of it over the last forty years. If current trends continue almost all of the country's remaining forests will be degraded or destroyed within the next 20-40 years, with consequent loss of biodiversity, watershed protection, soil stability and forest products (with an estimated annual net worth of $250 million). The principal cause of deforestation in Madagascar is slash-and-burn (tavy) agriculture.

Biodiversity Loss: Because of its high levels of biodiversity and endemism, Madagascar has been termed "the single highest major conservation priority in the world", with an estimated 75% of its identified species being found nowhere else. Unfortunately, this biodiversity is becoming increasingly diminished and fragmented as habitats degrade and disappear, with unknown economic costs.

Soil erosion: Average soil loss for the whole of Madagascar (which has generally poor soils) has been estimated at 25 tons/ha/yr. In contrast, maximum sustainable soil loss on good soils is 11 tons/ha/yr. The resulting economic losses due to destruction of irrigation, road and other infrastructure and siltation of hydroelectric dams and port facilities are enormous.

Brush Fires: Deliberate burning is the proximate cause of many of the problems cited above, as well as leading to decreased soil fertility and potential permanent land loss for agricultural or forestry uses. An estimated 3-5 million hectares are burned each year.

This alarming advance of environmental degradation is being pushed by the combination of population growth and the lack of economic growth that are increasing demands on the natural resource base. Over 80 percent of Malagasy depend on agriculture for their primary means of livelihood. Farmers and pastoralists continue to rely on land-extensive production practices which destroy vegetative cover and exacerbate soil erosion. Government administrators have applied policies and regulations which distort incentives towards over-exploitation rather than in favor of conservation of valuable resources. Development projects are often approved without due attention to their potential negative impacts on the environment. Even when appropriate policies and procedures exist, the government frequently lacks the resources and institutional capacity to apply them. Private sector and NGO service capacity in the natural resources sector is poorly developed.

The negative impact of environmental degradation on the economy is very high. The economic cost of decreased agricultural productivity due to soil loss and fertility decline, loss of productive forests, damage to infrastructure because of soil erosion, and the costs of infrastructure maintenance and redesign is estimated to equal between 5 and 15 percent of Madagascar's GNP annually (Madagascar: Plan d'Action Environnemental, 1888). Some attempts to institute sustainable management of the renewable resource base have been made, but not on a significant scale. A more broadly based effort is needed to protect natural resources and at the same time foster ecologically and economically sustainable development.

3. Generating Jobs

Rapid labor force growth is a natural consequence of rapid population growth. The labor force participation rate is not known with any degree of accuracy. The rural labor force remains predominant and supplies about 75% of labor force entrants each year. However, this predominance is not characteristic in wage employment where urban growth predominates.

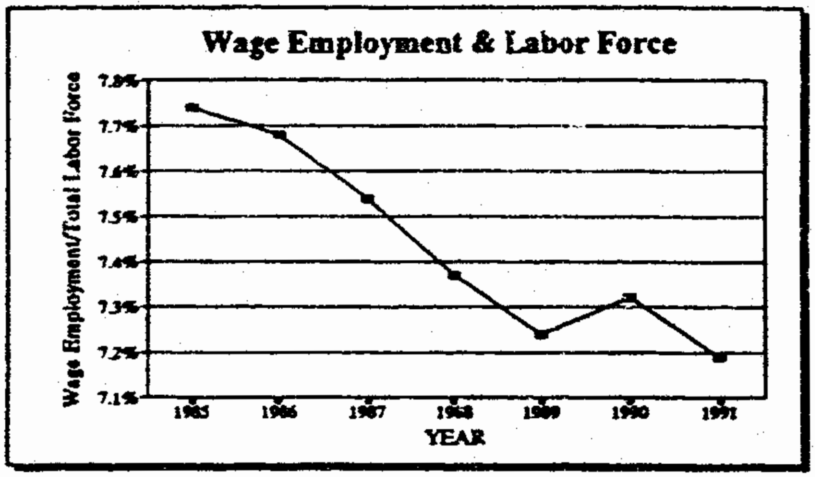
Every year, more and more entrants come to the labor market, while currently there is not adequate demand to absorb them. The problems of unemployment and underemployment are among the most serious problems facing Madagascar. In the labor market, an imbalance between supply and demand exists. In mid-1980s, the estimation of annual job demand growth was about 150,000 .

The labor force grew by 2.7 percent between 1980 and 1985, and 2.9 percent between 1985 and 1990. It is expected to rise by 3.2 percent annually for the next five years. Much of the labor force growth is absorbed into low productivity jobs in agriculture and the informal sector. Approximately 184,000 jobs should be created annually between 1990 and 1995, and 237,000 jobs between 1995 and 2000. On average, the annual arrival to the labor market will be 205,000 jobseekers for this decade. Although rural population represents the largest component of the labor force, urban labor force is growing more rapidly than rural, accounting for 25 percent of labor force growth.

The ratio of modern sector wage employment to total labor force is displayed in Figure II.3. It shows the inability of the modern sector to keep pace with labor force growth during the early period of structural adjustment. The upturn in 1990 was encouraging. Modern sector wage employment growth can come about only with an investment climate that encourages domestic and foreign investors to enter the Malagasy market.

Investors in Madagascar are generally satisfied with the quality of workers, both men and women, hired for production jobs. However, technical, and especially managerial skills, are in short supply. Professional workers, who gained their business experience during the socialist period don't have the mid- and senior-level managerial experience that investors need to keep their factories running efficiently. Public and private spending on skills upgrading will be needed to increase the pool of managers.

Figure II.3



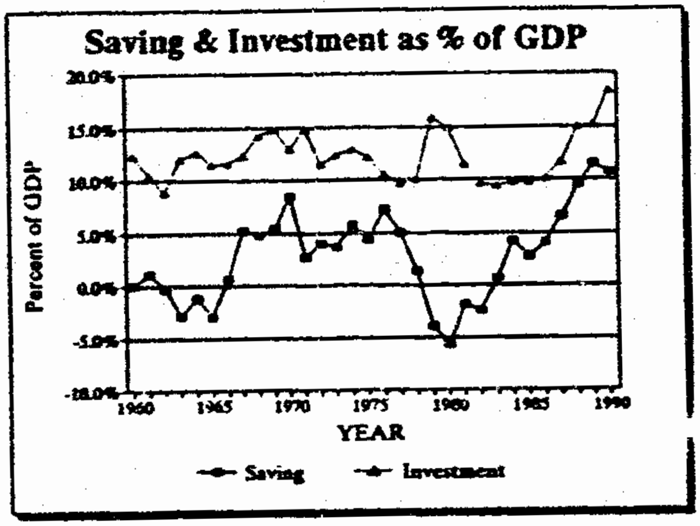
A longer-term and very serious threat to the quality of the labor force is the declining quality of the education system. The adult literacy rate is high (67 percent). Reported figures for primary school enrollment rates are very high (97 percent overall, and 95 percent for females). These rates are threatened by the deterioration of the education system. Budgetary allocations are inadequate to provide textbooks and supplies and to pay teachers' salaries. Schools are closing, especially in rural areas, because of a lack of teachers and supplies. If the quality of labor market entrants declines, Madagascar will lose its appeal as a low-wage but skilled labor force.

4. Financing Growth

Gross Domestic Saving as a percentage of GDP was 11 percent in 1989 in Madagascar, Figure II.4. The comparable figure for low-income countries (excluding China and India) was 18 percent. Clearly, one reason for low savings rate is the low income level of households. The average savings rate can be expected to increase in the future if per capita income rises. A second factor for the low savings rate is the state of the financial sector. Until recently, the public sector played a preponderant role in mobilizing domestic and foreign resources and in allocating them to investment projects. As the private sector's role in the economy increases, the financial system will have to assume a greater role in mobilization and allocation of resources and in ensuring efficiency in investment.

Institutions in the 1990s will need to mobilize small-scale savings. Recent evidence indicates increased monetization of the rural sector in response to liberalization of the economy. Madagascar lacks an effective large-scale grassroots savings system that can capture the considerable savings potential of the rural and informal sectors.

Figure II.4



The major source of public savings is the surplus in the current operations of the central government, estimated at about 2.2 percent of GDP in 1989 and 4.5 percent in 1990. Public enterprise reform also contributes to public sector savings directly through reducing transfers from the central government and indirectly through improving the economic performance of the sector as a whole. Increases in public revenue will depend on reform of the taxation system. Expenditures must be kept in line with revenues.

Resources mobilized from domestic sources will not be adequate to finance required investments during and beyond the CPSP period. Gross domestic investment is below the low income country average of 17.5 percent and below the level necessary to create jobs for entrants into the labor force. Foreign aid will contribute to closing the savings/investment gap in the public sector. The source of funds to close the private sector savings/investment gap must be foreign savings. Commercial banks are unlikely to resume lending on a significant scale in sub-Saharan Africa in the near term. Foreign direct investment (including the repatriation of capital held abroad by Malagasy) is left as the only major potential source of investment financing. Domestic savings, foreign aid and foreign direct investment, taken together, comprise the resources that will be available for investment. Public authorities will indirectly determine the level of foreign direct investment by their selection of macroeconomic policies, their administration of the legal, regulatory and judicial system and the efficiency of public investment. Foreign direct investment in Madagascar was $7 million in 1989 and $14 million in 1990. Planning levels called for $28 million in 1991 but the actual figure will be well below that due to the political disruptions. To achieve a one percentage point increase in the Investment/GDP ratio requires $20 million in investment. For Madagascar to achieve the low-income country average ratio of 18 percent requires an additional annual flow on the order of $140 million, or fourteen times greater than the level of foreign direct investment that was achieved in 1990.

5. Reducing Market Failures

Markets fail because there are inadequate numbers of buyers or sellers, or because of a lack of information, or because transactions costs are too high. All these causes of market failure are found in Madagascar. As a result, market linkages are weak. Market links are the transmission mechanisms by which income growth in one area or sector raises incomes in other areas or sectors. Successful income generating activities will remain "enclaves" unless market failures are reduced so that a network of market linkages can emerge. (Regional isolation is exhaustively detailed in UNDP, Régions et Développement, 7 vols, 1991. Market failures are documented in J.E. Austin associates, 1991; Berg, 1990; CERDI, 1990; Kristjanson, et al, 1991; Pryor, 1990; see Annex 7 for bibliography.)

Much of the Malagasy economy is operating below capacity because markets are fragmented. The poor state of two sets of infrastructure are the cause of the fragmentation; physical infrastructure and institutional infrastructure.

Market fragmentation exist in four spheres; interregional, intersectoral, rural-urban, and Madagascar with the rest of the world.

Interregional fragmentation has divided zones of high economic potential into low-income enclaves barely able to get above subsistence agriculture. Transportation and communication among these zones are difficult -- in some cases impossible. Several examples give a sense of this isolation.

- Lac Alaotra region. Located northwest of Tamatave, Lac Alaotra is a major rice producing area. The road linking the zone to the Antananarivo-Tamatave road is 65 miles long. Travel time to reach the main road during the dry season is 10-15 hours. The road is not passable during the rainy season. Farmgate rice prices are forty percent lower in Lac Alaotra than in the other major rice surplus producing area -- Marovoay.

- East Coast region. This region produces most of the traditional agricultural exports: coffee, cloves, and pepper. Transportation costs are high throughout the region. One study found that each ten kilometer distance from a market reduced the producer price of coffee by 20-25 percent (Kristjanson, et al, The Rural Marketing System in Madagascar, 1991). In the same region, the completion of a rural feeder road led to a doubling in the number of coffee collectors visiting a village (Bernier, et al, Production and Marketing of Export Crops in Madagascar: Survey Results, 1991).

- Mahajanga region. Mahajanga is a major west coast port city. Telephone communication between Mahajanga and Antananarivo is unreliable. Business information is transmitted via taxi-brousse. Round-trip information flow takes four days. Businesses located in Mahajanga do not have access to market information on a par with their competitors in the capital city.

Intersectoral fragmentation is perpetuated by the inadequate legal, regulatory and judicial infrastructure. Contract enforcement and adjudication are so weak in Madagascar that firms exhibit a preference for their traditional foreign suppliers over new Malagasy sources. High transaction costs for contract enforcement lead firms to provide their own ancillary services (transportation, customs clearance, etc.). Potential economies of scale in the provision of services are lost and firms unable to self-finance ancillary services have fewer suppliers to choose from.

Madagascar's isolation from the rest of the world stems from deliberate government policy during the socialist period. Trade links were cut to accelerate import-substitution investments. As the economy has opened, Malagasy businesses have had to learn how to operate in world markets. Knowledge of prices, costs, quality standards, and financing options must be researched. A small number of trading companies which survived the socialist period maintain control over much of the import/export trade. Poor and costly communications systems and limitations on hard currency access for business travel perpetuate the dominance of these firms.

Fragmented markets create and perpetuate monopolies and cartels in a full range of businesses; from paddy rice collectors to commercial banking. Private monopolies have replaced abolished public monopolies. Analysts in Madagascar are agreed that these monopolies can be reduced by improving the transportation, communication, legal and financial systems.

6. Exploiting Regional Comparative Advantage in Agriculture

Madagascar contains a half-dozen agro-climatic zones within which the process of income growth could begin. The deterioration of infrastructure and the suppression of market activities during the socialist period drove these zones into conditions of autarky and virtual subsistence agriculture. Agriculture in these zones was cut off from technological advance for fifteen years. Technology and production practices in the rural economy are predominantly traditional; low labor productivity, low levels of capital and intermediate inputs, resulting in low yields and deteriorating product quality. Despite this legacy, some of these zones have begun to respond positively to market liberalization. The following thumbnail sketches of these zones give a sense of their diversity and potential (Estimates of the economic profitability of agricultural commodities in the zones is presented in AIRD, Regional Specialization and Agriculture Growth in Madagascar, 2 Vols, 1992, the zones are fully described in UNDP, 1991). (Map 2.)

NORTH. The North is a region of considerable agricultural potential owing to a combination of rich soils and favorable micro-climates. On the other hand, it is largely isolated from the rest of the country by the very poor condition of the roads that extend to the south. Only 10 percent of the truck traffic moves outside the province of Antsiranana. Travel time to the capital is three days during the dry season. In addition, much of the potentially productive area of the region is badly served by local roads. Antsiranana has an excellent deep water port, which links it with other Madagascar ports via coastal trade. Roads from the port city are poor, reducing the importance of this port.

The population of the region is somewhat in excess of 400,000 inhabitants, with an average population of 21 inhabitants per square kilometer. Immigration from other areas of the country is relatively important because of the availability of land and because of the demand for workers by the state owned sugar plantation and various privately-owned agricultural enterprises.

Half of the area under cultivation is devoted to rice. Yields range from less than one ton per hectare for upland rainfed rice to 2.5 tons per hectare for irrigated rice. Livestock is a relatively widespread activity. Groundnuts and maize are produced; the maize primarily for poultry feed. Vegetables are produced for local markets. The region produces a variety of industrial crops (sugar, cotton, tobacco and cashews) as well as export crops (coffee, cocoa, vanilla, peppers and essential oils).

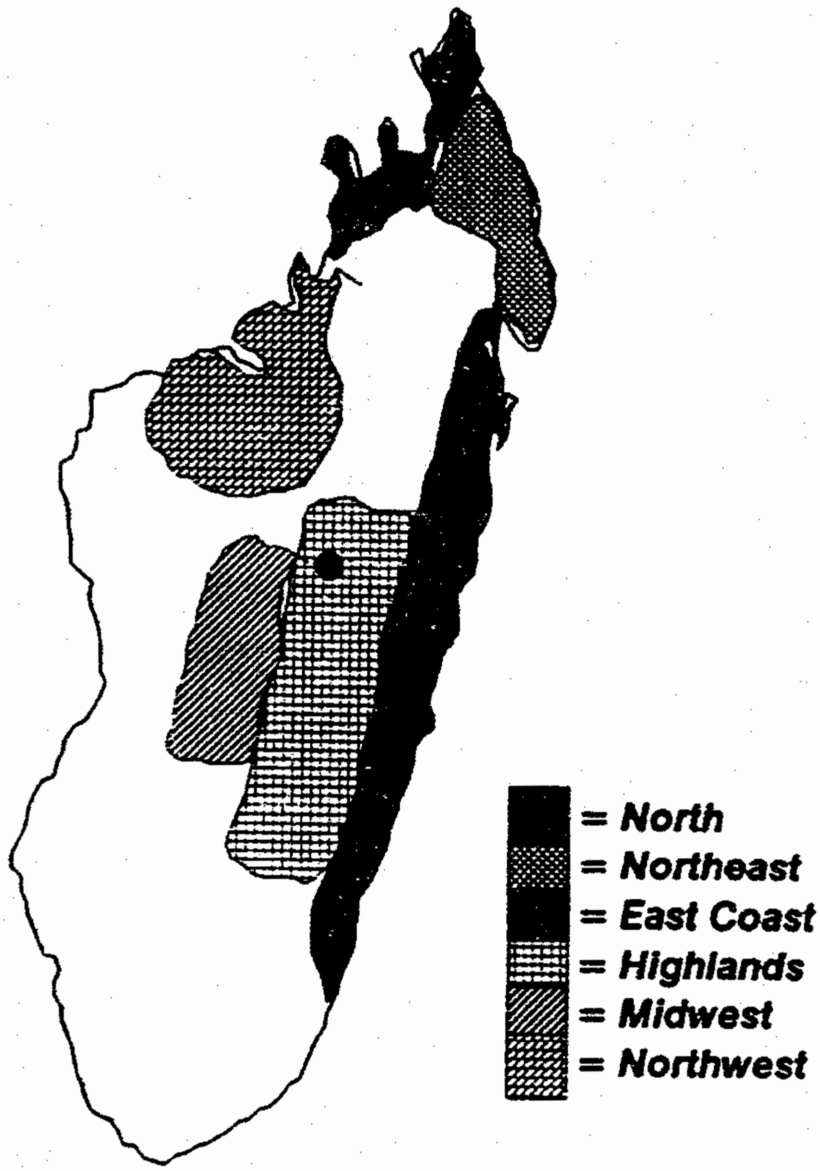
NORTHEAST. This area is roughly bounded by the towns of Vohemar, Andapa and the Masoala peninsula. The zone contains several subzones. To the north, the climate is relatively dry and traditional livestock raising is widespread. Plantation culture is common in the moister central area. This area is known as the vanilla triangle -- 90 percent of total vanilla production occurs in this area. A fertile valley along the western side of the vanilla triangle supports the region's rice production. Finally, at the southern end is the Masoala Peninsula; a relatively unpopulated rainforest.

The population of the Northeast is 680,000. Population density is 30 persons per square kilometer.

Half of the cultivated area is devoted to food crops, primarily rice. Rice yields are from one to 2.5 tons per hectare, depending on type of production. Manioc, maize and sweet potatoes are grown as supplementary food crops. Cash crops include vanilla, coffee, cloves, pepper, cocoa and essential oils. Madagascar has a strong comparative advantage in the production of vanilla,

Map 2

High Potential Zones



but is in the process of losing its market share because of inappropriate tax/pricing policies. Industrial crops produced in the Northeast include groundnuts, tobacco, copra, sugar and palm oil.

This zone is even more isolated than the northern zone. Road travel to the south of Madagascar must first travel to the Northern zone and then confront the poor conditions described above. Much of the zone is cut off from Antsiranana, the regional capital, during the rainy season.

NORTHWEST. The Northwest is a large basin centered on the two bays of Bombetoka and Mahajamba. Four ecological areas with different economic activities are arranged concentrically around the basin center; mangroves - fishing; plateau - livestock pastures, cashews; plains and swamps - rice; baiboho (flatlands along the rivers) - rice, cotton, tobacco, tomato, groundnuts. Mahajanga is the only sea port, cargo loading platforms are located in several towns along the rivers. The population of the northwest is 730,000, and average density is 13.8 people per square kilometer. The rice growing area around Marovoay has a population density in excess of 20. Marovoay produces two rice crops per year. Under conditions of well-controlled irrigation, yields of 4.5 tons per hectare are achieved. Average yields are around 2.3 tons per hectare. Mahajanga is one of the oldest trading centers in Madagascar and has a long-established system of physical and commercial infrastructure that has helped maintain its importance in trade. The level of in-migration, not only from other regions of Madagascar, but also from the Middle East and South Asia, has stimulated an increasing diversity of goods in the market.

THE HIGHLANDS. The Highlands form the central spine of the island. They are home to three of Madagascar's seven major cities, including the capital city. The region averages 1425 meters above sea level, although the terrain is highly uneven. The northern highlands has a more developed transportation infrastructure than most regions. Five national roads converge on Antananarivo. Antananarivo has a rail link with the port city of Tamatave. There are more than 3.7 million inhabitants of the Highlands, more than 107 inhabitants per square kilometer. Migration flows out of the Highlands as people search for unclaimed land. Rice is the principal crop on the hillsides. Maize, roots and tubers, and potatoes are also grown. There is an increasing number of small-scale garden vegetable and fruit crops, such as onions, tomatoes, pineapple and peaches, which are being developed for the market in Antananarivo. Table and wine grapes are produced in the Fianarantsoa region.

THE MIDWEST. The Midwest region encompasses the area to the west of the highlands, along the center of the island. The topology is characterized by small hills and valleys and larger stretches of plains. The hilltops and plains are largely used for pasture and have little tree cover. Rice is grown on terraced hillsides and in the valley bottomlands. The volcanic soils of the eastern portion are especially well suited for the cultivation of garden vegetable crops. The area's population is 817,000. Average population density is 15.2 people per square kilometer, although the variance from east to west and north to south is significant. Most of the agricultural production is for home consumption. The marketing of agricultural products has been severely restricted by the difficulties in transportation.

The primary crop in the Midwest is rice, followed by maize and manioc. However, most of the land is devoted to livestock production. Since liberalization, Arabica coffee and vegetable crops are being developed for market sale. A market for vegetables is developing to supply urban markets in the highlands. In particular, tomatoes, potatoes, carrots and onions are being grown.

THE EAST COAST. The East Coast zone extends from the town of Maroantsetra in the north to Farafangana in the south. The zone can be divided into four distinct subzones that run roughly parallel to the coastline, lowland and swamps areas, alluvial plains, low hills and finally the high hills which form the base of the central plateau. The East Coast is connected to the highlands by two national roads and two railroads (one of each in the northern portion and in the southern portion of the East Coast). The Canal des Pangalanes was recently rehabilitated and is navigable from Tamatave to Mananjary. The country's major port, Tamatave, is in this zone, as well as secondary ports at Manakara and Mananjary. The East Coast is much more densely populated than is Madagascar on the average, with densities in some rural areas exceeding 100 persons per square kilometer.

Rice is the principal food staple and dominant crop. Coffee is the major cash crop, but a variety of fruits and spices are also grown for cash. Bananas, lychees, mangoes and citrus fruits have been exported from the zone. Agricultural practices have traditionally relied on tavy. The zone includes the major source of commercial rice production, Lac Alaotra.

Other zones do not have short-term prospects for significant income growth. The West, South and Southwest have very low population densities, the most acute infrastructure deficiencies, and serious problems of lawlessness (in the west) which discourage in-migration.

The analysis done by AIRD of comparative costs and incentives in agriculture presents a broad pattern of regional comparative advantage. It suggests that the coastal areas have a strong advantage in production of cash crops for export, whereas the Highlands and the Midwest should concentrate on production for the domestic market.

Among the crops that can be profitably exported from the coastal regions are coffee, vanilla, cloves, cocoa, cotton, groundnuts, cashews, manioc, pepper, butter beans and groundnut oil. Among the agricultural products produced in the Highlands or the Midwest, only potatoes, pork and Arabica coffee appear to have a potential comparative advantage for export. On the other hand, the list of products that can profitably be substitutes for imports includes rice, maize, potatoes, wheat, triticale, barley, milk, Arabica coffee, pork and tomato paste.

The analysis did not include a number of agricultural activities that would appear to be profitable, but for which data is not available; dried beans, tropical fruits, temperate fruits, fresh and frozen vegetables, foie gras, tobacco, sugar, coconut, oil palm and poultry.

Madagascar's decisionmakers must recognize and exploit the opportunities available for increasing rural incomes by taking advantage of each region's comparative advantage. The market liberalization that has begun to produce positive impacts in the regions must be followed up by infrastructure investments, agricultural research, advice and assistance to exporters and to local business associations.

7. Unleashing the Private Sector

The private sector that is emerging under market liberalization is a key to Madagascar's growth prospects. Most private sector activity remains centered around labor-intensive, family-owned operations characterized by low productivity. (See J.E. Austin Associates, Madagascar: MAPS for a fuller description of the private sector.) Small firms dominate the private sector and the economy in general. Of the approximately 30,500 registered and active firms in 1987, only six percent employ more than 10 people.

The modern private sector employs only five percent of the total work force; it provides employment for 70 percent of the workers in the modern sector. Of those employed in the modern private sector, nearly 24 percent are involved in industrial activities.

In general, small private firms in Madagascar tend to sell their products directly to consumers or to other small firms. Large firms appear to buy overwhelmingly from other large Malagasy firms or from overseas suppliers. Agribusinesses are the exception to this trend, often buying from small farmers and operators.

Malagasy investors own about 90 percent of all registered firms. These firms tend to be small; 94 percent of Malagasy-owned enterprises employ fewer than 10 persons. 57 percent of firms employing under five people are women-owned. By contrast, the average foreign-owned firm employs about 140 persons.

Most enterprises are located around Antananarivo, and over 50 percent of the formal wage earners reside in and around the capital. A number of export-oriented businesses are located in the costal areas, especially in and near the port of Tamatave.

In 1991 (at the time of the MAPS survey) the majority of private entrepreneurs in Madagascar believed the business climate had improved significantly. Capacity utilization had been increasing steadily over the last three years; increasing from 56 percent in 1988 to 65 percent in the first half of 1991. Malagasy entrepreneurs appear to be taking advantage of new opportunities and are moving into new areas of business. Small firms, especially, have experienced high growth in the areas of agribusiness, fisheries/aquaculture, mining of non-traditional minerals, and garments.

Overall, however, the private sector response is still tentative. Surveyed firms assert that government tax policies and regulations, the legal system, poor transport and communications systems and finance are constraints to private sector expansion.

The speed and scope of the private sector's response to opportunities will be determined by how these bottlenecks are addressed. While private sector organizations are increasingly advocating, modernization and simplification of regulatory systems and increased budgetary allocations to infrastructure, public sector decisions will decide whether the bottlenecks can be eliminated.

Madagascar has a vibrant group of business associations that offer a channel to assist and inform the business community and to motivate and institutionalize economic reforms. More than a dozen business associations are actively representing private sector interest. Government of Madagascar collaboration with such associations in the design and implementation of public policy must take place for private enterprises to realize their potential.

D. Prospects

1. Madagascar's Growth Potential

Gross Domestic Product per capita increased in 1988, 1989 and 1990. Although the annual increases were modest, this was the first instance of three consecutive years of per capita growth since the 1960s. The income growth was all the more impressive as it coincided with a continuing decline in the country's terms of trade. Sound macroeconomic policies were in place and the economy was moving beyond stabilization.

The political disruptions of 1991, including six months of government paralysis, broke the fragile growth trend. Real GDP fell by 3.8 percent. The government's fiscal position suffered a serious deterioration. The tax revenue/GDP ratio fell from 9.4 percent to 6.5 percent. The country's balance of payments position deteriorated. The fiscal and external imbalances are now sufficiently large that the economy must undergo another period of stabilization.

Assessing Madagascar's medium-term growth prospects is more difficult in 1992 than it was in 1990. The underlying factors, resource endowments and external market conditions are relatively unchanged. Indications are that all major political groupings support the liberal, free-market policies that are being pursued in Madagascar, but this must be confirmed by the policies put in place by the government of the Third Republic.

Longer-term growth prospects are more dependent on the efficient use of Madagascar's resource base than the level of external donor support. A six percent growth rate can be achieved by the end of the decade. Madagascar compares favorably with most other African countries, in competitiveness, economic policy, resource endowment and quality of labor force. Its economic prospects are, thus, somewhat more favorable than those for sub-Saharan Africa as a whole. A growth rate of six percent would permit both gradual but steady increase in per capita private consumption and an improvement in domestic savings performance.

Some sectors have already demonstrated the type of dynamism that can induce broad-based growth. Rice production and marketing increased significantly when rice pricing and marketing regulations were eliminated. The supply response in the industrial sector has been less dramatic but encouraging. A noteworthy change in the economy is the increased outward orientation of the historically import-substituting industry. The successful macroeconomic stabilization and, in particular, the devaluations and liberalization of import and export procedures, have stimulated private sector development in the garment, knitwear and food processing industries. Private investment increased from a trivial amount in 1987 to around six percent of GDP in 1988 and 1989.

2. GOM Development Strategy

The Government of Madagascar does not have a document which elaborates the country's medium to long-term development strategy. Since the mid-1980s the economic philosophy has clearly shifted from central control to a market-based system. Policy makers have concentrated on preparing and implementing the components of the structural adjustment program described above. Despite the lack of a statement of development strategy, some general directions of government policy can be discerned from GOM initiatives and resource allocation decisions. A new investment code and the establishment of a free trade zone encourage an opening of the economy to world factor and product markets. The new investment code contains provisions to benefit medium-size enterprises based on the number of new jobs created. The government is exploring ways of simplifying the investment approval process.

Agricultural research is being revived and directed to both food crops and export crops after a twenty-year period of neglect.

Public resources are being redirected away from industrial investments and into social overhead capital. Thirty percent of the investment budget is allocated to transportation and communications; twelve percent is allocated to social projects (education, health and community services). The combined share of agriculture, industry, energy and mining has declined from 52 percent in 1984 to 43 percent in 1991.

A clearer picture of the country's development strategy should emerge after the installation of the Third Republic. If it extends and strengthens the trends of the last five years, the country will have a strategy consistent with its resource endowments and current level of development.

3. External Support

Donor support to Madagascar increased during the 1980s concomitant with the liberalization of the economy. The level of official development assistance (ODA) disbursements reached $445 million in 1990, compared to $180 million in 1985. France provided the largest level of assistance ($160 million - 36%), followed by the World Bank (14%), the European Community (10%), the U.S. (6%), the Swiss (6%) and the African Development Bank (5%). Nearly 30% of ODA is provided in the form of balance of payments support. The economic sector receiving the largest share is Agriculture, Forest, and Fishing at 25%. Transportation is second at 9%. Sectoral distributions are not stable from year to year -- the share of Agriculture, Forest and Fishing was 13% in 1989. Approximately 60% of ODA is provided as grants; 40% is provided as loans. About 20% goes into technical assistance.

The main donors in our program areas are the World Bank across all objectives; the Swiss and the UNDP in the environment, and in regional development; the FED in commercial agriculture, and infrastructure development; UNFPA in family planning.

Madagascar is a Consultative Group country but the CG has only met once in 1987. Formal coordination has been lacking in the past. This year's disruptions in the economy and assistance programs have led to intensified donor consultations and effective coordination vis-a-vis the transition government in the areas of famine relief, environment action plan implementation, local currency programming, and structural adjustment.

The transition government has been eager to reactivate assistance flows, but, unable to get its economic team organized, was unable to conclude negotiations with the IMF and World Bank on the third phase of its Enhanced Structural Adjustment Facility (ESAF) before it lapsed, or on a one year Stand-By. This failure coupled with the accumulated donor resources in the pipeline (the World Bank alone has $340 million undisbursed) has delayed any major new structural adjustment credits or tranches from the World Bank and the

French. Only the FED has proceeded with a $22 million STABEX program this year.

New donor commitments in support of the Balance of Payments and economic reform are not likely to resume until the Third Republic is installed. Most donors are concentrating on implementation of existing programs, accelerating disbursements, and concluding agreements on technical programs suspended last year due to the political disruptions.

There exists a strong consensus among key donors on the need for much closer, sector level coordination to encourage and support the GOM to continue to implement reforms and improve the effectiveness of assistance. This coming year should see a particularly active donor consultation process centered around formulating a macro-economic policy framework, budget reform, and public investment plans and priorities as the Government of the Third Republic assumes its mandate. A CG meeting would be a natural result of this process.

E. Implications for U.S. Assistance Strategy

Sustained income growth in Madagascar will be contemporaneous with a transformation of the economy. Three aspects of the transformation stand out. First, the economy is now atomistic and fragmented. The lack of adequate transport and communications and an inappropriate legal, judicial and regulatory framework perpetuate fragmentation. Regional and global economic integration is the sine qua non of sustained income growth via income and employment multipliers.

The second critical aspect of structural transformation in Madagascar is the shift out of low-technology subsistence agriculture to specialized commercial agriculture. Technology and production practices in the rural economy are predominantly traditional, i.e. low labor productivity and low levels of capital and intermediate inputs. Low on-farm technology produces low yields and deteriorating product quality. Improvements in planting techniques, seeds, credit and input availability are needed to upgrade production practices.

The third critical aspect of structural transformation is the shift from an inward-looking to an open economy. The capital stock of Madagascar accumulated during the years of inward-looking socialism provides a poor base for economic growth. The "invest to the hilt program" of the late 1970s included a fertilizer plant in Tamatave which has never functioned, a Soviet-built flour mill which never opened, a palm oil factory operating at twenty percent of capacity, and an automobile factory in Fianarantsoa which produced 90 cars in 1990 and 4 cars in 1991 at a cost double comparable imported cars. Smaller firms in the economy are increasing their outward orientation and are gradually converting some of their import-substituting activities to exporting. Serious efforts are underway in the garment manufacturing and footwear subsectors. The more capital-intensive firms, however, have far less flexibility to adapt to the changing environment, have been slower to adjust and have been requesting additional tariff protection. Investments by Malagasy and foreign investors can provide the technologies and management skills needed to employ Madagascar's resources according to its evolving comparative advantage.

A successful U.S. assistance program in Madagascar will contribute to this transformation, build on and develop the existing strengths of the society and economy. This section presents the implications for a U.S. assistance strategy which have emerged from the assessment of past policies, current trends and dynamics, and the challenges and prospects facing Madagascar.

A complete transformation of the economy toward private, export-led growth is Madagascar's best development option. The urban-based, import substituting heavy industry development model pursued in the decade 1975-1985 was a failure. As an exporter, low labor costs and relative productivity/trainability of the labor force, climate, minerals, fisheries, plants and forest products are Madagascar's principal comparative advantages. Its disadvantages are stunted market linkages, poor telecommunications and transport connections, high cost, unreliability and infrequency of transport, corruption and red tape, poor organization, weak decision-making systems and the current political uncertainty.

The impact of international and regional isolation due to lack of infrastructure and misguided central government economic and investment policies has stunted the country's growth and deprived it of sharing in world development trends, experiences, and technological progress. Madagascar's isolation from development trends and progress places it at a stage akin to Thailand or the Philippines 20-30 years ago and Guinea today. This next decade is the critical one, if Madagascar is to set a course of sustainable, broad-based market-led growth.

Interregional trade at home fueled by commercial agricultural development, especially in high potential zones, coupled with increases in export trade provide logical stages for economic diversification, private investment, rural transformation, and economic growth.

The transformation of a subsistence, rural economy and inward-looking, fragmented market system will require rural income growth (on and off-farm), secondary town development, the rehabilitation and extension of infrastructure, input supply, and the expansion of small scale enterprises, and stepped up investments in labor intensive manufacturing, transportation and services.

Low rice prices founded on productivity gains in production are essential to maintaining the country's labor competitiveness while simultaneously increasing real incomes. A competitive rice market is key to a broad-based agriculture development and probably to political stability.

Poverty reduction and household income gains via employment growth will require sound development strategies in both the agricultural, commercial and industrial sectors. Previous and continuing rural-urban migration preclude an exclusive agricultural focus to the country's development strategy. Off-farm employment is increasingly part of agricultural household survival strategies.

Inequality is so skewed our aid must be given with explicit attention to its impact on poor. Since market outcomes reflect the distribution of assets, our assistance needs to help expand asset ownership among all groups and to increase competition.

Public sector performance and efficiency are extremely weak. There is a need to re-orient the public sector from its essential control function to one of facilitator/referee of private sector development. There is a need to introduce more discipline and transparency in public finance. Governance is an obvious and necessary theme of the Mission's strategy.

Limited domestic savings imply that the resources for near-term investment will have to come largely from foreign aid and foreign direct investment. Greater private investment will require greater savings mobilization and a more efficient banking sector.

The policy framework for the regulation of business is not conducive to sustained broad-based growth. The regulations constraining labor mobility, transfer of assets to foreigners, financial restructuring, bankruptcy as well as the absence of effective property, contract and tort laws and the ineffective judicial system have all curtailed the private sector response to the changing economic environment. Madagascar needs to replace the rule of person with the rule of law.

The Mission has concluded that our interventions in the agricultural sector require spatial focus so that our program is not spread too thinly around the country. Interventions targeted at high potential agricultural regions can help to accelerate national economic growth. Linkage models for the Malagasy economy show that a policy based on the diversification and commercialization of the small-farms will accelerate the development of the entire rural economy, increase the size of the domestic market, as well as provide sizable off-farm employment opportunities (Dorosh et al, Agricultural Growth Linkages in Madagascar, UNDP/World Bank, 1991).

Two zones have been chosen as initial high potential target zones. The selection was based on a rapid assessment of all six zones' development potential. The Mission intends to select a third high potential zone. The third zone will be chosen after the opportunity to observe the responses of the first two zones to this approach.

The six zones were evaluated according to the following criteria.

Development Criteria

- zone contains a major city (population of 100,000);
- zone population density of at least 30 persons per square kilometer;
- at least one zone selected is a major rice producer;

- transportation investment requirements are rehabilitation and not new design/construction, and a donor is prepared to fund the rehabilitation of the principal routes;
- zone has potential for surplus production of a marketable agricultural commodity (for domestic market or export);
- zone has a dynamic private sector and a local administration committed to development;
- zone offers links to our environmental program;

Equity Criteria

- at least one zone is off the High Plateau;
- per capita income is below the national average

III. U.S. ASSISTANCE STRATEGY

A. Strategy Development

In formulating this assistance strategy and program outline, the Mission began from the starting point that (1) Madagascar meets the criteria for selection as a Bureau focus country and (2) its continued positive performance implies a level of expanded assistance over the next decade. Moreover, with the recent experience of a significant political liberalization and blossoming of democratic institutions which have followed the earlier, albeit sometimes uneven, movement toward a market economy, we see the potential makings of a development success story. Thus, we have crafted a broad program strategy which emphasizes economic growth in addition to the already approved strategic areas of environment and family planning.

At the same time, we are well aware that the democratic transition process is a fragile one and could well falter. Its very fragility is a compelling reason for some of our short-term economic and democracy support. Moreover, since we will not be implementing the major new elements of our CPSP until late FY 93, there will be sufficient time to get an accurate reading on transition progress and to make appropriate program adjustments.

The fact that USAID/Madagascar is fairly "new" Mission and has an established program in only two sectors gives us the freedom to design and implement this assistance strategy based on a new set of political and economic conditions in the country. The Mission re-opened its program in 1984 after an absence of 12 years. At that time, the program was focused on food-aid and local currency financing of several small interventions in agriculture. In 1985, the Madagascar Agriculture Rehabilitation Support Program (MARS) was initiated, consisting of a $12.2 million commodity import program and a $2 million project component of training and studies to support the mid-term recovery of the agriculture sector. This was followed by the Madagascar Agricultural Export Liberalization (MAELP) Program in 1988 which provided $28 million in balance of payment support for continued policy reform in agricultural market and price liberalization.

Both MARS and MAELP helped to increase foreign exchange allocations for imports of key agricultural and rural transportation inputs required for the rehabilitation effort, and financed the development of better information systems and analyses, leading toward improved policy determination and selection of project priorities. They helped to "open the door" for the Mission in the productive sector, and to set up working relationships with the government for examining targets for further assistance. We are at the stage where the first generation of assistance programs has ended. We can now launch a more focused program of assistance capitalizing on increased knowledge of development constraints and opportunities, as well as applying valuable lessons learned on the design and management of broad sector support cash transfers, CIPs, and local currency management.

Because Madagascar is a complex assistance milieu for any external donor, we developed our CPSP using a comprehensive and participatory process which made use of a broad set of internal and external resources, identified a set of strategic objective and target intervention selection criteria, and a have laid out a group of critical strategy development and implementation assumptions. These appear in the following sections.

1. Process

Beginning last January, the Mission followed a wide-ranging participatory process (Annex 1) designed to produce not only a solid strategic product, but one which had Mission full ownership. A 19-person multi-disciplinary core team of DH and FSN staff, including Embassy and USIS personnel, participated in data analysis and deliberation. All sessions were open to all DH and FSN staff.

Internal and outside resources were used to complement and provide additional inputs and for further vetting throughout the process. Non-Mission contacts were from the World Bank, AID/W, AFR/ARTS, AFR/ONI, REDSO/ESA, RHUDO, local private sector, France, U.S. and the Government of Madagascar. A four-person steering group, composed of the Director, Deputy Director, Program Economist and Agricultural Development Officer, guided the process, producing consolidated outputs for discussion at each stage based on group input.

The Whither Madagascar? document (started last November) was developed in iterative fashion to provide a common statistical and analytical framework for Mission staff. Mission management also insisted that the entire CPSP team be conversant on AID's program planning techniques and vocabulary. This was followed by a Management Systems International (MSI) consultancy in May to develop preliminary indicators for both the CPSP and our initial API this fall.

Throughout February, the Mission went through a series of brainstorming sessions to further our knowledge of specific sectors and to identify potential areas for AID intervention. Brainstorming sessions included: Public Sector Efficiency, Industrial Development, Education and Human Resources, Tourism, Infrastructure, Agribusiness and Exports, Agricultural Options, Rice as an Engine of Growth, Socio-cultural Aspects of Madagascar's Development, Energy and Renewable Resources, Democracy/Governance and Political Environment, Financial Markets, Primary Health, Investment Climate, Food Security and Food Aid, and Small and Medium Enterprise Development. Each presentation focused on a common set of questions:

- Does the sector have significant growth potential in Madagascar?
- What factors are constraining growth (including public administration and management)?

- What are the government and other donors doing to encourage growth of the sector?

- What, if anything, should USAID do in the sector and what is USAID's comparative advantage in doing so relative to other donors?

- What can be said about the impact of a USAID strategy focus in this sector in terms of alleviating poverty; increasing household income, including women; expanding employment opportunities, including women; and contributing to overall economic growth?

The brainstorming sessions expanded our collective wisdom and identified possible areas of strategic interest. We also used it as an opportunity to come to closure on those areas where USAID would not play a role. Discarded options (discussed in Annex 2) include primary health care, education, tourism, industrial development, green revolution in rice, livestock and fisheries. Afterwards the Steering Group developed a synthesis piece which summarized the major analytical findings and was vetted by the full CPSP team.

As part of the CPSP inquiry, mission staff (often with RHUDO and/or REDSO/ESA representation) took field trips to analyze the potential for AID interventions in Lac Aloatra, Mahajanga, the "Vanilla Triangle" in the northeast, Ambositra, the mid-west, Ansirabe, and Fianaransoa. They met with a cross section of entrepreneurs, local government, business and farmer associations, technical ministry representatives, and other donor project staff.

Satisfied with the relevance of the DFA goal for the country goal, we placed our efforts on defining a sub-goal(s) and strategic objectives within the givens of the approved population and environment programs. After further internal vetting, meeting with the AID/W senior team, and further work with MSI, we came up with a strategic framework of two sub-goals and four strategic objectives. At present, the Mission is continuing to flesh out indicators at all levels, identify data gaps, undertake selected CPSP baseline studies and analyses (e.g., DHS survey, invest-ment process, rice policy), and is working on FY 93 new starts.

2. Criteria

The pieces of our strategic framework were identified and selected using a filter made of the following criteria:

- The economic significance of the element in terms of its contribution to GDP growth and realizing the country's potential;

- GOM absorptive capacity;

- AID comparative advantage;

- Likely return on investment in the medium to long term;

- Implementation feasibility without increases in USAID USDH staff beyond those already planned;

- Synergism with the other program elements of environment and population;

- Impact of benefits beyond the highlands and on the rural poor; and

- The potential for advancing U.S. commercial interests;

3. Assumptions

In an uncertain political and economic transition, we are faced with a series of unknowns and question marks. To provide ourselves with some points of reference as we move into uncharted waters, we have developed a set of key assumptions related to the design and implementation of our assistance strategy. These will be monitored carefully to ensure that the strategic framework remains both valid and viable.

1. The transition will succeed in establishing a stable Third Republic with a popular mandate to govern;

2. Establishment of the Third Republic will be bumpy, and therefore require flexibility and alertness on our part to opportunities and unfolding developments.

3. The new government will reach early agreement on a macro-economic policy framework with the IMF and the World Bank;

4. Regional development and decentralization will be a philosophical and operational tenet of the new Republic;

5. Given that Madagascar's development is at a stage more comparable to the 1960's, the country needs to re-address first generation problems like food security, poverty, population, and infrastructure development.

6. The next five years are critical for laying the foundation for realizing this country's promise and potential.

7. USAID has much to offer, but there are no quick economic fixes; we must recognize that we are at the start of a 20-25 year assistance effort in Madagascar.

8. Madagascar will be a focus country for U.S. assistance because of high potential and environmental concerns, so long as it maintains commitment and progress in liberalizing its economy and political system.

9. We need to recognize that quick disbursing and quick response resources will be needed over the next 12-18 months to help the economy recover and the Third Republic get established.

B. Strategy Outlines

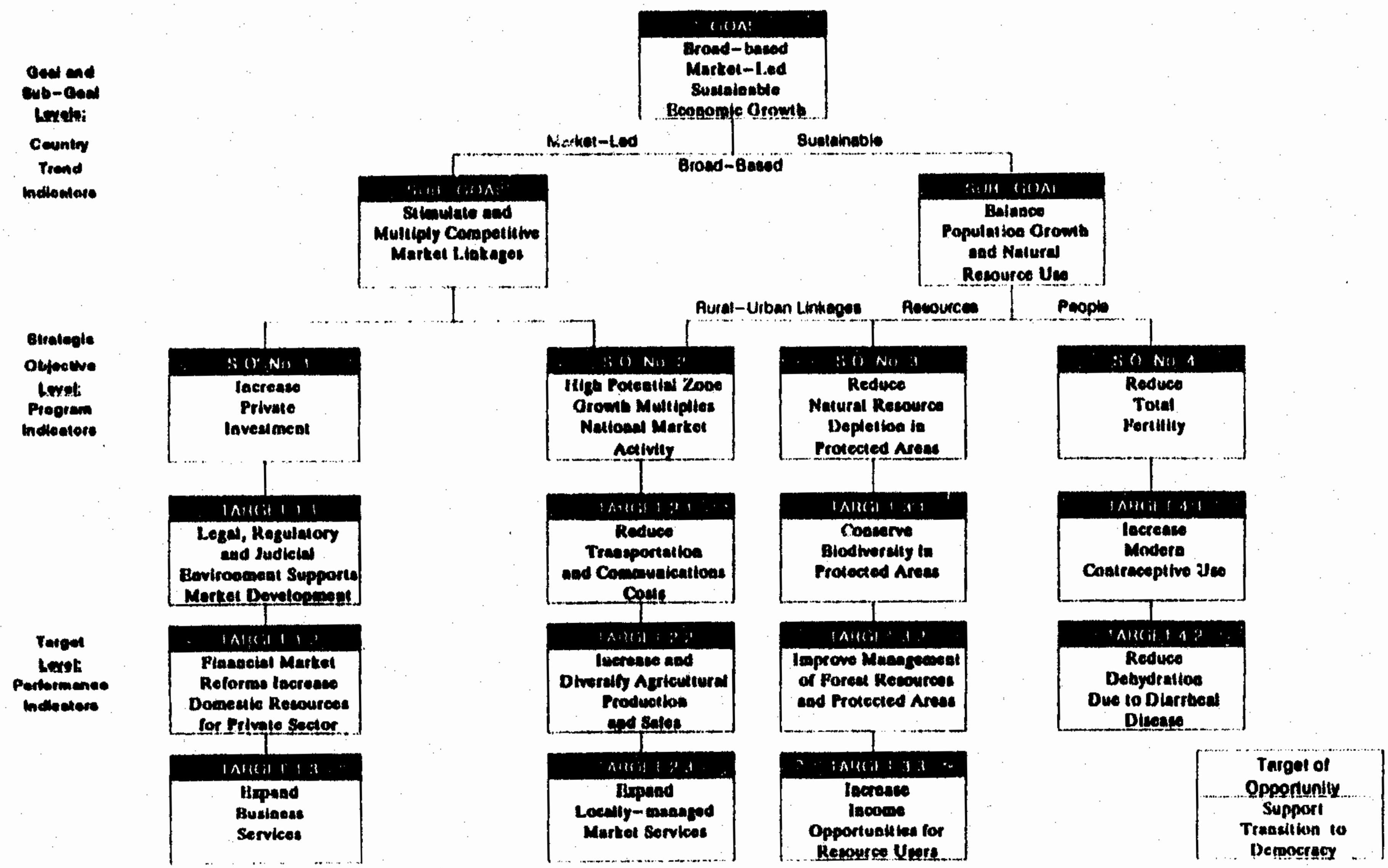
USAID/Madagascar's full Country Program Strategic Framework appears on the next page. This section walks the reader through our reasons and logic for choice of the goal, sub-goals, individual strategic objectives as well as the single target of opportunity. More program detail and context, including discussion of targets, is provided in Section III.C, Program Priorities, while program indicators are set out in Table V.1 in Section V, Performance Monitoring and Evaluation.

GOAL:
Broad-based Market-led Sustainable Economic Growth

Goal: Toward the end of the last decade, Madagascar began moving from an inward-looking, state-managed economy under one party rule to an outward looking, market-driven private economy. At the same time a parallel political process which led to the unprecedented transfer of power in 1991 has created a peaceful transition which is moving toward a pluralistic, more transparent and decentralized democratic form of government.

In support of this difficult transition, the Mission has chosen to mirror the DFA goal as its program goal. This choice recognizes the primordial need to increase the private sector's role and participation within a market economy, while redefining the role of the State. At the same time, individual, group and regional equity and income issues must remain at the forefront as the country attempts to reverse the downward spiral of impoverishment. Moving downward on the strategic framework, our first sub-goal focuses on market-led economic growth. The second, discussed later, focuses on the sustainability of economic growth.

Figure III.1
USAID/MADAGASCAR
COUNTRY PROGRAM STRATEGIC FRAMEWORK



SUB-GOAL 1:
Stimulate and Multiply Competitive Market Linkages

Sub-Goal 1: The economy of Madagascar is highly atomistic and fragmented, essentially a collection of economic enclaves, caused by lack of physical and institutional infrastructure. As a result, income and employment multipliers are inoperative. Efforts to sustain a growth process without stimulating and multiplying market linkages cannot succeed. Thus, we have chosen the sub-goal of "stimulate and multiply competitive market linkages."

Madagascar's decrepit physical and institutional infrastructure imposes high transaction costs on business people, thereby keeping markets fragmented. USAID/Madagascar will work to encourage market efficiency by reducing the transaction costs of entry and exit and by reducing the costs of doing business between regions, between sectors, between rural and urban areas, and between Madagascar and the rest of the World. USAID/Madagascar's interventions in support of this sub-goal will focus on correcting market failures. As a result of detailed discussions with the senior AID/W team this past March, we have dis-aggregated our interventions under the market linkages sub-goal into two strategic objectives. The first is "Increase Private Investment."

S.O. 1:
Increase Private Investment

Rationale: Private investment levels, a sine qua non for both economic growth and development of competitive market linkages, in Madagascar are extremely low. Currently, restrictions in the financial markets, including abrupt policy changes, inconsistent application of regulations, lack of investment services, red tape, and unfair competition from the public sector, prevent private sector investment needs from being met.

Strategy: Initial Mission strategy will focus on policy and accompanying regulatory reforms that support market and financial sector development. Specific interventions will aim at improving the business and investment environment, increasing the flow of resources available to the private sector, and expanding business support services. As the program is implemented and a new environment is created by enacted reforms, it is likely that other interventions will be added to respond to emerging needs.

S.O. 2:
High Potential Zone Growth Multiplies National Market Activity

Rationale: The second strategic objective under the competitive market linkages sub-goal is "high potential zone growth multiplies national market activity." A number of areas in Madagascar that have great potential of producing a surplus for domestic and export markets. This was the case in the first decade after independence. However, deterioration of infrastructure and increased centralization and non-responsiveness of government services left various regions isolated and unable to fully participate in the economy, even when surpluses are produced and effective demand is present.

Strategy: The strategy is to help link surplus-producing areas with the rest of the country and with world markets in order to create market linkages which will have multiplier effects on economic activity throughout Madagascar. This strategy is not an integrated rural development scheme. Rather it focuses on key inputs that are needed in two or three high potential zones to stimulate self-sustaining market links. Activities in support of this objective will be aimed at reducing communications and transport costs; increasing and diversifying agricultural production and commercialization; and expanding locally managed market support services.

SUB-GOAL 2:
Balance Population Growth and Natural Resource Use

Sub-Goal 2: As noted earlier, this sub-goal focuses on sustainability of economic growth. The primary threat to sustainability of growth in Madagascar is the increasing population pressure on the land combined with use of inappropriate agricultural and land management practices. Establishing a balance between population growth and natural resource use in support of economic growth is a long-term sub-goal which will require USAID involvement over a twenty year period. Our interventions will confront both sources of the present imbalance: environmentally-destructive practices in the rural economy and the rate of population increase. Supporting this sub-goal are two strategic objectives.

S.O. 3:
Increase Sustainable Natural Resource Use in Target Areas

Rationale: Madagascar's natural resource base is seriously threatened. The scale and intensity of deforestation, soil erosion and associated declines in soil productivity are enormous. Continued use of current agricultural and natural resource practices jeopardizes the economic well-being of the island and its peoples.

Strategy: The Mission has chosen several critical interventions as part of the Government of Madagascar's innovative multi-donor Environmental Action Plan (EAP). Activities in support of this objective will (a) conserve biodiversity in protected areas; (b) improve the sustainable management of both forests and protected areas; and (c) increase income opportunities for resource users.

S.O. 4: Reduce Total Fertility

Rationale: Demographic studies in the early 1950s concluded that Madagascar's population, four million at that time, was at the edge of exceeding the island's natural resource carrying capacity using traditional agricultural practices. In the interim the population has tripled. Despite a high child mortality rate, the current annual population growth rate of 3.2% will double the 1992 total of 12 million people in 22 years! In addition to the accelerating negative impact on natural resources, such a growth rate requires unprecedented increases in jobs, health care services and schools, all of which are inadequate to meet present needs.

Strategy: Total fertility can be reduced by increased contraceptive prevalence which could have been the selected strategic objective. However, Mission analysis supported by survey data and studies indicate a significant pent-up demand for contraceptive knowledge and products as well as private and public delivery mechanisms which are ready to support rapid expansion of services (see APPROPOP Project Paper). Accordingly, we have chosen a higher level strategic objective of reducing total fertility. The second part of the strategy, albeit not co-equal, is to reduce the contribution of diarrheal disease to child mortality. By increasing the survival of children, families will be encouraged to have less children.

Target of Opportunity: Support Transition to Democracy

Rationale: The legitimacy of the Second Republic disappeared in the second half of 1991. We are now in the transitional period between the Second and Third Republics. The Malagasy people expect the Third Republic to be more open, decentralized, representative, transparent and accountable than its predecessor while continuing economic liberalization. Such characteristics will also have positive impact on the economic and business environments. Thus, for both economic and democratic reasons, USAID/Madagascar will actively search for ways to support the transition to democracy and to improve governance.

Strategy: The Mission considers a wait-and-see approach to be inappropriate at this critical juncture in Madagascar's economic and political development. Thus, we will continue to seek targeted opportunities to support the democratic transition, particularly ones that are technical and supportive of the transition process. USAID provided support for the National Forum, from which a consensus on the general form of the Third Republic emerged, and will provide further support for the electoral process, including civic education and electoral observer training. Support will continue after the elections in the form of targeted assistance for the new governing institutions. At the same time, the Mission will integrate key underlying themes of democracy and good governance, such as rule of law, accountability, decentralized decision-making, information, effective civil society and participation into our overall portfolio. All interventions have been and will continue to be thoroughly coordinated with the Embassy and USIS.

C. Program Priorities

1. Increase Private Investment

Malagasy and foreign investors will exploit profitable opportunities only when they have confidence that abrupt policy changes or ad hoc and inconsistent policy implementation will not expropriate their financial returns. USAID/Madagascar will work with both the government and the private sector toward a fair and transparent investment regime. We will work at both the macro framework level and at the local level in high potential agricultural areas. Private cartels can be broken and entrepreneurs can establish market linkages only when the "rules of the game" are clear and agreed upon. We will encourage the development of public fora for the dialogue which must precede policy development. We will help improve financial markets and encourage the growth of business services. We will also be alert to opportunities to promote and support direct U.S. foreign investment in such areas as telecommunications and heavy construction.

a. Targets

> **Target 1.1:**
> **Legal, Regulatory and Judicial Framework Supports Market Development**

Background/Rationale: The Mission will focus on three targets in support of increased private investment. First, we will work toward a legal, regulatory and judicial (LRJ) environment supporting market development. The body of civil law in market economies deals with rights and responsibilities of private property. Socialist economies have less need of a body of laws to regulate and adjudicate property rights. The socialist period in Madagascar saw the decay of civil law and civil law administration. The decaying structure itself is based on

French laws of the last century. The LRJ framework requires modernization across a broad range of areas in order for this framework to foster rather than impede competition and the development of civil society. Economic and policy analysis should contribute to the design of business regulations.

GOM Commitment: The Ministry of the Economy sees its role as the advocate of an improved business environment and it initiated a dialogue with the Mission. The extent of a commitment to a more open, transparent and equitable regulatory system in other concerned ministries will be determined as the dialogue is enlarged.

Other Donors: The World Bank plans to initiate an investment promotion adjustment loan have been put on hold by implementation delays in the current public enterprise adjustment credit. UNIDO supports efforts to increase private industrial investment but does not intervene in policy issues.

AID Interventions: Strategy implementation will begin with assessments of the approval process for investment as well as the content and application of current business laws in collaboration with the Ministry of the Economy. Technical assistance will help the GOM to improve property, contract and tort laws. USAID and the GOM will explore innovative ways to reduce transaction costs of commercial dispute adjudication (see Annex 3). In addition, economic and policy analysis support will be provided to the economic ministries.

Policy Agenda:

1. The investment approval process
2. Contract and property law
3. Contract adjudication procedures
4. Budgetary allocations to the legal system
5. Anti-trust regulations
6. Telecommunications and transportation liberalization

Target 1.2: Financial Market Reforms Increase Domestic Resources for Private Sector

Background/Rationale: The financial sector is underdeveloped in relation to the real economy. The commercial banks provide banking services to the import/export trade, parastatals, government and a small fraction of private producers and consumers, mainly in the capital. A hierarchy of financial institutions does not exist. Competition in rice marketing is inhibited by the lack of credit to small-scale collectors. Small and medium-scale enterprises (SMEs) are prevented from entering markets or expanding production by the lack of working capital and investment credits. Savers, especially in rural areas, do not have access to financial institutions offering positive interest rates on savings.

Monetary policy is developed and implemented as an adjunct to fiscal policy. The level of Central Bank advances to the Treasury derive from the government's financing requirements rather than from an independent assessment of the credit requirements of the economy. This subordination of monetary policy to fiscal policy retards financial sector development.

GOM Commitment: The Government has adopted the financial sector reform program outline that was prepared jointly by a GOM/World Bank technical team.

Other Donors: The lead donor in this area is the World Bank which is currently developing a major financial sector reform effort and has requested AID collaboration.

AID Interventions: USAID/Madagascar will support Central Bank initiatives to improve monetary management and commercial bank supervision as well as a policy framework which encourages private sector investment in banking and auxiliary financial service provision. We will work to reform and energize the national savings bank.

Policy Agenda:

1. Central Bank/Ministry of Treasury relations

2. Use of indirect monetary controls

3. Wider range of financial instruments

4. Competitiveness of financial markets

5. National Savings Bank (Caisse d'Epargne) autonomy

Target 1.3: Expand Business Services

Background/Rationale: Third, we will work to expand the range of services and technologies available to private business. Madagascar's self-imposed isolation cut businesses off from innovations in world markets for almost twenty years. New, expanding firms need access to accounting services, financial advice, market information and appropriate technology in order to compete successfully in local, regional and world markets.

GOM Commitment: The government has encouraged donors to work directly with the private sector to upgrade skills, services and technologies. As an example, the Mission's Madagascar Export Liberalization Support (MAELSP) project's efforts with arabica coffee grower associations have received broad GOM support.

Other Donors: UNDP has carried out some small pilot efforts. In the past, the World Bank supported the initial development and operations of INSCAE, a private sector training institution, but has no new business service activities planned at present.

AID Interventions: The types of interventions that we envision are: strengthening local accounting and auditing firms; support to business associations in the areas of market information systems, communications, investment promotion and feasibility studies; loan guarantees; and labor-intensive technology transfers to private manufacturing firms. USAID will encourage and facilitate broad private-public dialogue (see Annex 3).

Policy Agenda: None at present

2. High Potential Zone Growth

Activities under our second strategic objective are intended to accelerate the production and flow of surplus agricultural commodities from selected high potential zones, and to improve market efficiency. The marketing of surplus commodities will create and strengthen economic linkages within the selected zones, between the zones and other regions of the country, and with export markets. The expansion of regional trade will help to break down regional isolation and fragmented markets throughout Madagascar, and will integrate the regional economies into the national economy. Competitive trade of both food and export crops will be increased, and physical and institutional market infrastructure will be improved.

As surplus markets for agricultural commodities develop, service industries such as vehicle repair centers, hotels, banks, etc. will prosper. Employment will be created as well through the expansion of marketing and processing of agricultural products for export and domestic consumption. Local governments with the authority to collect and use locally generated revenues, as well as having improved capacity to identify revenue sources and better manage the funds, will expand and better maintain market facilities and services. As users of market services begin to benefit from improved market infrastructure, they will invest in productive and market expansion activities.

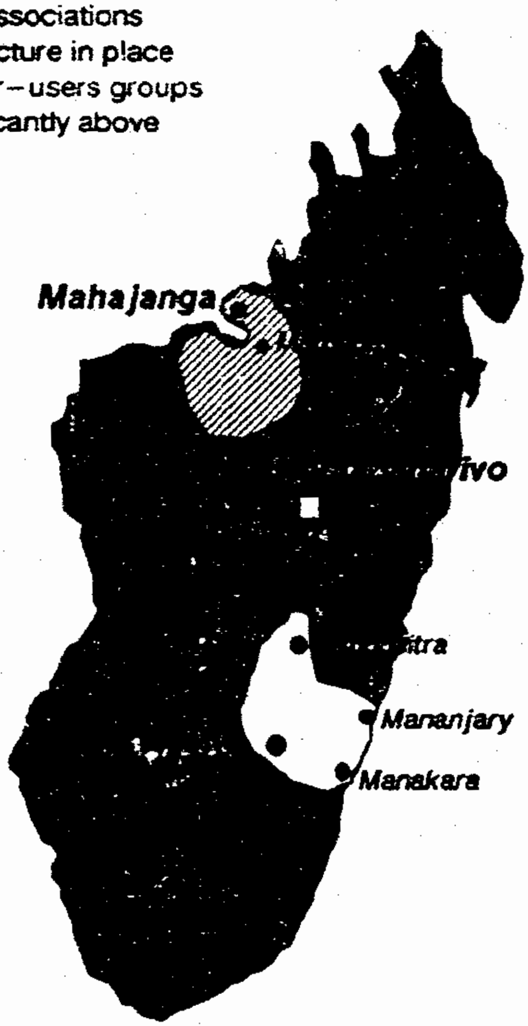
Activities under this strategic objective will take place in two "zones of intervention." These zones are subsets of the six zones described in Section II.C.6 (see Map III.1). They are:

Map 3

Strategic Objective 2: Zones of Intervention

MAHAJANGA

* Marovoay: rice surplus area – three crops per year possible
* Major urban market/trade center
* Direct port access
* Competitive rice market
* Major regional exporter pre–1980's
* Active business associations
* Irrigation infrastructure in place with private water–users groups
* Rice yields significantly above national average



FIANARANTSOA

* Major urban market
* Off–season crop potential
* Active business associations
* High population density
* Traditional export zone
* Links to AID environment program
* Low–income zone
* Two seaports and railroad
* Potential low–cost transport remedial interventions

1. The Southern Highland zone of Fianarantsoa and the contiguous portion of the East Coast between Mananjary and Manankara; and

2. The Northwest coastal zone of Mahajanga including the Maroavay rice-growing region.

Activities under this strategic objective will support price and market liberalization policy reforms started in the mid-1980s to provide farmers with opportunities to increase production of surplus rice, off-season crops, and non-traditional export crops. Non-rice agricultural activities in the central highlands, and rice production and related activities in the northwest, where market conditions are favorable, have already begun to respond positively to these incentives.

a. Targets

Target 2.1: Reduce Transportation and Communications Costs

Background/Rationale: Under Target 2.1, transportation and communication costs will be reduced through investment in the rehabilitation and maintenance of road and communication infrastructure. This target will accelerate the circulation of market information, and the flow of goods to stimulate and strengthen regional market integration into the national economy.

GOM Commitment: The GOM's commitment to road maintenance, major institutional changes at the Ministry of Transport and Public Works, and the development of adequate local capacity have only slowly been gaining momentum. A just published World Bank evaluation of its latest highway programs noted minimal progress vis-a-vis maintenance capacity under the 5th Highway Program ($24 million), but marked improvement under the ongoing 6th ($45 million). Some local governments are exploring the possibility of collecting road tolls and user charges for infrastructure rehabilitation and maintenance, and private transporters have indicated a willingness to organize for the revenue collection and maintenance of roads connecting market centers.

In the communications arena, the GOM is well aware of the need to modernize in order to participate effectively in world markets. The Embassy has already targeted and sent under AID funding the Minister and Secretary-General of Posts and Telecommunications (PTT) to the United States for major technology conferences. An ambitious five-year expansion plan which includes significant privatization of Madagascar's telecommunications will be unveiled in October. GOM officials have assured the Embassy that U.S. firms will be able to compete for new contracts in a fair and open environment.

Other Donors: The World Bank is the lead donor in road development through its series of national highway programs. The GTZ is the other major donor in roads in Mahajanga. The development of road maintenance capacity, particularly at the local level, has been a coordinated policy effort by all road infrastructure donors over the past several years. The key will be how to best put such a policy into practice using public-private partnerships. USAID will work with the GOM, World Bank and other donors on the rehabilitation and maintenance of road infrastructure supporting our high potential zones as part of the IBRD's 8th Highway Project currently under design.

In the communications arena the lead donors are the IBRD and the French. The World Bank has taken the lead in carrying out a communications sector assessment to assure coordination of inputs and appropriate technical choices. Despite an antiquated and non-functional telecommunications system, Madagascar has the opportunity to leapfrog several generations of technology and to modernize its system at a much cheaper cost.

AID Interventions: Local currency generated through a planned FY 93 CIP under the Commercial Agricultural Promotion (CAP) Project and a future Title III program will be used as matching funds to improve road and communications infrastructure and maintenance by private firms. The CAP project will also undertake telecommunications feasibility studies.

Policy Agenda:

1. Decentralized road maintenance and construction capacity;

2. Regulation and privatization of telecommunication systems; and

3. Road maintenance finance.

Target 2.2: Increase and Diversity Agricultural Production and Sales

Background/Rationale: Under Target No. 2.2, agricultural production and sales will be increased and diversified in high potential zones. Through this target, commodities and markets will be identified and developed to permit surplus production from high potential zones to fuel inter-regional trade. Market linkages will be strengthened by reducing transaction costs for entrepreneurs searching for cheaper inputs and more profitable product markets.

GOM Commitment: Discussions with the Minister of Agriculture have confirmed a strong interest by the government in the concept of high potential zone agricultural growth and regional specialization. The Ministry of Research has already instituted multi-disciplinary research teams which are using a farming systems approach to develop an applied research agenda in high potential zones which meet the needs of producers, processors, and consumers. The Ministry of Agriculture has drawn up a plan for the privatization of the seed industry to produce quality rice, fruit and vegetable seed to support agricultural diversification and intensification. The government has continued to maintain domestic and export commodity price and market liberalization policies put in place in the late 1980s which provide the incentives for increased production of marketable commodities.

Other Donors: The World Bank is finalizing an agricultural sector assessment which was prepared with the input of several donors operating in the sector.

Several donors have adopted a regional specialization approach. The GTZ is active in irrigated rice production, and in the organization of producer and water-users associations in the Maravoay area. The Swiss are implementing rural development interventions in Morondava, and have indicated their willingness to support road rehabilitation in the Fianarantsoa zone once USAID begins interventions in that area. The FED is active in the northeast vanilla triangle zone with road rehabilitation and palm oil and coconut production.

The FED and the World Bank are both preparing export promotion programs which mirror the non-traditional export commodity approach started by USAID under the MAELSP Project.

AID Interventions: Our major intervention will be the CAP Project. Commodities to be imported under a planned $24 million Commodity Import Program element of the CAP Project may include improved seed, fertilizer, equipment for road rehabilitation and maintenance, farm implements, tool and die machines, industrial inputs, and telecommunications equipment. These commodities will be targeted to intensified production and trade of surplus commodities in our two high potential zones as much as possible. Local currency generations may be used for credit guarantees for higher-risk agricultural lending.

The CAP Project will also provide support to business entities and associations of producers, processors, transporters and exporters. This support will assist associations to organize for more cost efficient access to new technologies, production inputs, market information, and market outlets.

The Mission is already helping to accelerate the production and marketing of non-traditional agricultural exports by identifying promising commodities and market opportunities for up to five commodity lines. These interventions, supported under the MAELSP Project, are financing pilot activities to help producer associations to test market some of these products, and to improve their production and quality with the help of technical assistance and supply of machines for processing.

The Mission's ongoing International Rice Research Institute project is supporting the government's new emphasis on regional research specialization, and is intensifying the promotion of small rice production and processing machines manufactured by local firms. The project is also concentrating on the farmer adoption of rice-based cropping systems which feature the production of an off-season cash crop after rice.

Policy Agenda:

1. Rice policies;

2. Seed policies;

3. Export-related policies for non-traditional exports;

4. Rural credit and savings; and

6. Land tenure.

Target 2.3: Expand Locally-managed Market Services

Background/Rationale: Under Target No. 2.3, local-level management and provision of market services will be expanded. Through this target, the necessary organizational structures and operations for efficient supply and maintenance of market information, transportation infrastructure and other marketing services will be supported to accelerate local production and investments in related value-added activities. Target 2.3 complements the other two targets under Strategic Objective No. 2 for high potential zone growth. Whereas Target 2.2 supports the production of marketable goods, and Target 2.1 facilitates the physical links between markets, this target will assure the sustainable rehabilitation and maintenance of infrastructure and services by locally-based public and private sector entities.

GOM Commitment: The government has already indicated its willingness for local governments to collect and manage locally-based revenues as noted in the agreed policy agenda of USAID's environmental policy program. Local governments in the cities of Mahajanga and Fianarantsoa have been collaborating with associations of private operators to explore ways to jointly improve the provision and management of market services and facilities.

Other Donors: There has been little donor activity in this area.

AID Interventions: Interventions for improved local-level management and provision of market services and facilities are contemplated in the planned Market Infrastructure and Expansion (MIX) project (see Annex 4). Tentative project areas are:

(1) Revenue collection and management, including feasibility studies to identify possible sources, means of collection, and uses of locally generated revenues;

(2) Training in market services management, and revenue collection and

accounting systems;

(3) Matching grants to serve as seed money for market sites and services; and

(4) Municipal management training for public administrators in areas outside financial management.

Policy Agenda:

1. Decentralized .scal systems;

2. Provision of public goods and services by the private sector; and

3. Municipal management.

3. Reduce Natural Resource Depletion in Protected Areas

The Mission's second sub-goal emphasizes the necessary balance between population growth and the use of natural resources. Contributing to this are activities under our third strategic objective, reducing natural resource depletion in protected areas. Target-level activities will result in better natural resource management and biodiversity conservation in and around targeted protected areas. These activities can develop sustained rural income growth and national economic growth. In this respect, natural resources, such as soils, water, forests, and biodiversity, will be treated as economic assets which must be sustained to generate the flow of future income. Policy and targeted income generation interventions to support local-level management of natural resources will complement efforts to increase regional market activity in neighboring high potential agricultural zones.

The resulting impact at the strategic objective level will help Madagascar better harmonize the population's needs for forest and other natural resource products with the available supply. Increased knowledge of natural resource depletion, its causes, and potential solutions will help to develop improved planning and management by resource users. This strategic objective recognizes that, even in the long-term, it may not be possible to restore those resources already lost. Rather, the objective is to protect and better manage what is left to assure their future contribution to sustainable economic growth.

a. Targets

Background/Rationale: Target 3.1 is conserve biodiversity in selected protected areas. At the field level, activities will focus on integrated conservation and development programs. We will also strengthen (a) those institutions responsible for coordination and coherence of national environmental policy, including biodiversity, and project and formulation, and (b) those entities charged with oversight of environmental impact assessments.

Target 3.1: Conserve Biodiversity in Protected Areas

GOM Commitment: The Government of Madagascar formally recognized the rapid deterioration of the country's natural resource base with the enunciation of the 1984 "Malagasy Strategy for Conservation and Sustainable Development." The first major step in making this strategy operational was the development with donor support of the Environmental Action Plan (EAP) in 1989. This was formalized the following year with the adoption of the Malagasy Environmental Charter creating the National Office of Environment which is responsible for coordinating and implementing the 15-year EAP.

Other Donors: In recognition of the importance of the country's natural resources and biodiversity, the $108 million National Environmental Action Plan (EAP) reads like a donor and PVO alphabet soup. Under the lead of the IBRD, other players are IDA, Norway, Switzerland, GTZ, UNESCO, FAC (France), FED, ADB, World Wildlife Fund, Conservation International, and UNDP.

AID Interventions: USAID/Madagascar has accepted the responsibility as principal donor on the biodiversity component of the EAP. Most of Madagascar's biodiversity, which is important on a global scale, is found in the remaining forest areas. By 1995, a system of 50 protected areas will be set up to conserve a representative sample of this biodiversity.

Our principal vehicle for working at the operational level is the $29 million Sustainable Approaches for Viable Environmental Management project. More detail on the SAVEM project can be found in the Project Paper, approved on September 26, 1990. SAVEM will support combined biodiversity conservation and development activities in and around six of these protected areas. These interventions will result in:

1. The rate of decrease of depletion of biodiversity and natural habitat stabilized in up to six protected areas;

2. National commitment to biodiversity strengthened through improved implementation of the EAP;

3. The operational strengthening of the association charged with management and coordination of interventions in all parks and reserves;

4. Improved knowledge of biodiversity status and threats; and

5. Effective policies for biodiversity conservation and protected areas management instituted through improved capacity for environmental policy formulation, analysis and evaluation; and better defined roles for national associations and government departments.

Biodiversity conservation is further supported by the 1992 Knowledge and Effective Policies for Environmental Management NPA ($33 million) and project

($9 million). While KEPEM and SAVEM share the same goal [to establish sustainable human and natural ecosystems in areas of Madagascar where biodiversity is threatened], KEPEM has a broader focus than just protected areas and thus deals with the more generalized incentive systems affecting decision-making relative to environmental conservation. Specifically KEPEM will address the policy and institutional changes necessary to make conservation sustainable in the long term. These will provide the broader framework in which SAVEM will operate and ultimately be more sustainable. Detail on the KEPEM project, especially the policy matrix, can be found in the PAAD and PP, approved on May 27, 1992.

Policy Agenda:

1. Increased GOM capacity for environmental coordination and implementation of the EAP;

2. Legislation detailing community and NGO rights and responsibilities regarding local management of natural resources;

3. Regulations channeling local and central financial resources to protected areas and their peripheral zones.

Target 3.2: Improve Management of Forest Resources and Protected Areas

Background/Rationale: Target 3.2 aims at improving the management of forest resources and protected areas. This target will address policy and equity issues as well as institutional reforms for local management of natural resources, and sustainable income generation and use from forest products. Threatened natural resources cannot be protected by excluding people. The balance in the people-land relationship requires systems of resource control that encourage wise management in peripheral zones.

GOM Commitment: Discussed above under Target 3.1.

Other Donors: Discussed above under Target 3.1.

AID Interventions: The KEPEM and SAVEM initiatives apply to this target as well. USAID-supported activities will encourage local initiatives to manage natural resources in ways that provide incomes to local residents and at the same time ensure resource renewal in the surrounding zones and natural forests to reduce pressure on protected areas. These interventions will result in:

1. Management plans developed and initiated in up to six protected areas, and at least one natural forest;

2. Increased resources for forests and protected areas through the appointment of Nature Protection Agents, and the collection of forest and

protected area revenue;

3. Improved natural resource management in peripheral zones;

4. Fewer infractions in protected areas and a reduction in slash and burn agriculture; and

5. Increased coordination of activities in and around protected areas.

Policy Agenda:

1. Increasing capacity for environmental policy analysis and formulation as well as coordination/implementation of the EAP;

2. Increasing share of National Office of the Environment (ONE) operating costs being covered by the GOM; 20% at the end of KEPEM program;

3. Procedures, legislation and implementing regulations for the detailed environmental review of all major public and private sector development projects, including those in sensitive areas such as coastal zones, wetlands and natural forests;

4. Strengthening legislative incentives for local-level control of natural resources;

5. Legislation allowing NGOs to organize, raise and spend funds, and serve as effective partners with local groups in sustainable natural resources management.

6. Regulations to support market valuation of forest resources (including replacement cost) and to increase forest revenue collection.

7. Establishing and operating a $12 million National Environmental Endowment Fund managed by a Malagasy NGO foundation to provide continuous access to financial resources for long-term efforts to manage Madagascar's natural resources.

Target 3.3: Increase Income Opportunities for Resource Users

Background/Rationale: Under Target 3.3. income opportunities for resource users will be increased. This target will help to take pressure off protected areas by identifying and developing alternative sources of income and employment for populations living around these areas, who are often the poorest of Madagascar's poor. Alternative production systems which include environmental conservation will be adopted only if they offer higher incomes or a better standard of living to resource users. Otherwise, they will stay caught in a vicious circle of resource destructive production systems which yield small incomes. Alternative systems include new ways of utilizing traditional products or the development of new products. Interventions will focus on the same protected areas and peripheral zones found under Targets 3.1 and 3.2.

GOM Commitment: Under the EAP, the Government of Madagascar supported the creation of the National Association for the Management of Protected Areas (ANGAP) and has given ANGAP the authority to develop policies for biodiversity conservation. In recognition of the need to link the protection of natural resources with economic development, ONE and ANGAP are studying the economic prospects for sustainable exploitation of indigenous species, including identifying markets.

Other Donors: USAID/Madagascar is taking the lead among other donors in this new area of harvesting biodiversity as a source of income growth at the local level. To date, only the UNDP has financed a small project to test the sustainability of harvesting native animal species (e.g., crocodiles).

AID Interventions: Initial AID interventions will be through integrated conservation-development activities financed through Protected Area Development Grants (PADGs) under the SAVEM project. The development side of these activities will introduce new techniques and/or products that will enable people to raise their standard of living while simultaneously reducing environmental destruction. With more implementation experience, the Mission will examine the feasibility for eco-enterprise development and marketing.

Policy Agenda:

1. Legislation and control of trade in native plant and animal species.

4. Reduce Total Fertility

Madagascar's high rate of population growth is a major contributor to the country's declining standard of living. It also severely threatens Madagascar's rich and unique ecology, especially in terms of the increase of consumption of fuelwood, which accounts for over 80 percent of total energy use.

To reverse this downward trend in the quality of life, our fourth strategic objective aims at a reduction in the total fertility rate to a level consistent with each family's desired family size and the country's natural resources. This can only be accomplished by, among other critical choices, a rapid and sustained increase in the use of modern contraception as measured by the contraceptive prevalence rate (CPR) supported by a parallel reduction in infant morbidity and mo.tality.

a. Targets

Target 4.1: Increase Modern Contraceptive Use

Background/Rationale: The Mission proposes two targets in the population and health sectors. The principal target is to increase contraceptive use from less than 2 percent today to 12 percent in 1996, and to 18 percent in 1999. To this end, we have designed a demand driven project, the first stage of a 20-25 year effort, which will support rapid expansion of effective and efficient service delivery mechanisms, using the public, NGO and private sectors, to respond to pent up demand for family planning services and products.

GOM Commitment: Following years of pro-natalist policies, the government of Madagascar has become increasingly aware of the severe implications of rapid population growth. This awareness was translated into a major milestone in 1990 when the GOM approved its first National Population Policy (NPP) which recognizes the negative impact of high population growth rates and the need for expanded family planning activities. This was further supported by the NPP and the GOM operational decision to integrate family planning services into the maternal and child health (MCH) program.

Other Donors: The World Bank, EEC, French, Swiss, UNFPA, WHO and UNICEF are the major contributors to a new $100 million multi-donor health sector support program. Part of this effort, led by UNFPA, is earmarked for MCH/family planning, specifically expanding family planning services from 130 to 500 GOM health centers in five years. The Mission has worked closely with all the donors, especially the Bank and UNFPA, to assure that its new activities complement and reinforce this health sector effort.

Besides AID, UNFPA and the International Planned Parenthood Federation (IPPF) are the major providers of family planning assistance to Madagascar. The Mission's recently signed family planning project was thoroughly vetted with both parties throughout the design process. The Mission also chairs quarterly family planning coordination meetings all the family planning NGOs.

AID Interventions: The cornerstone of our fertility reduction objective is the $33 million Population Support Project (APPROPOP) whose purpose is to rapidly expand the availability and accessibility of high-quality acceptable family planning services throughout Madagascar. To obtain significant near-term impact, a critical mass of project and host country resources will be applied with the aim of a seven-fold increase in the number of clinical service sites and a ten-fold increase in the number of non-clinical sites (pharmacies, dispensaries, small shops, etc.) by 1999.

The project will concentrate initial service delivery efforts on Antananarivo and Fianarantsoa. These are the two most densely populated regions and have the best short-term service delivery potential. In later years and especially subsequent project phases, service delivery will be expanded to other regions, especially rural areas, as appropriate and feasible. Resources will be channeled to those Malagasy institutions, be they private businesses, PVOs/NGOs, or public sector agencies, that are most successful in family planning outreach and service delivery. APPROPOP will use a range of resource transfer arrangements -- direct grants, technical assistance, commodity transfer and training. The FY 95 Mass Education and Development Information Assistance (MEDIA) project will likely be an additional resource in expanding IE&C (information, education and communication) messages to the broadest possible audience (see description in Annex 5).

APPROPOP will also expand technical capacity in selected Malagasy institutions, designated as Centers Of Excellence. These, in turn, will provide technical assistance and other resources to public, parastatal, NGO, and private-for-profit institutions which will deliver the bulk of family planning services under the project. Family planning services will be of high quality and be provided by adequately trained, supervised, and motivated personnel in conjunction with adequate informational materials, supplies, equipment, and contraceptives. The services will also be provided in a culturally acceptable and attractive way, so as to encourage continued use. Family planning services will be provided within reasonable physical distance and economic access of prospective clients to reinforce and sustain continued use.

A detailed description of the APPROPOP project including the full set of technical analyses can be found in the Project Paper, approved on May 21, 1992.

Policy Agenda: The Mission's primary agenda is to reinforce the implementation of the National Population Policy. Specific policy-related activities are as follows:

1. Help the GOM build a societal consensus on the National Population Policy as well as the need for rapid family planning services expansion.

2. The use of national and regional-level planning and impact assessments based on accurate survey and studies. These would include Demographic and Health Surveys (DHS), the next National Census (set for 1993), and directed policy studies in such areas as user drop-out rates and Knowledge, Attitude and Practice (KAP).

3. Integration of health and family planning services throughout Madagascar.

Background/Rationale: The Mission's second target is to reduce dehydration due to diarrheal disease. A national diarrheal survey conducted in 1989 found that diarrhea was associated with approximately 32% of deaths of children under five years of age. The Infant Mortality Rate (IMR) is estimated at 125/1000 live births (World Bank, 1990). In order to fully accept national family object-ives, which implies giving birth to fewer children, couples need the

Target 4.2:
Reduce
Dehydration
Due to
Diarrheal Disease

assurance that the children they do have will survive. This requires an obvious reduction in infant mortality. Low cost, low technology solutions exist which can greatly decrease the current level of infant mortality.

Control of Diarrheal Disease (CDD) has been signaled out from among a broad array of maternal and child interventions because of its relative success in Madagascar, AID's worldwide experience and competence in the field, and because of the enormous potential for jointly strengthening family planning and diarrheal control through an integrated approach.

GOM Commitment: Since 1989, with support of the National CDD Program, nine diarrhea training units have been established in provincial and national hospitals and 204 oral rehydration therapy (ORT) corners have been established nationwide with the objectives to train mothers in ORT and promote the usage of government-produced rehydration packets. The national CDD coordinator has introduced ORT into the third-year medical school curriculum. Approximately one hundred physicians have been trained in the WHO "Supervisory Skills" module.

Other Donors: The World Health Organization has supported CDD training and supervision since 1990 with plans to cover 100% of health works with new training by the end of 1992.

AID Interventions: APPROPOP will support the national diarrhea program in its attempt to reduce episodes of diarrhea and in the management of dehydration as a result of severe cases. This will be done through a $1 million buy-in to AID's central PRITECH II project and its follow-on project to support the GOM's national program for CDD. This will include support to social marketing (packaging and advertising) of oral rehydration packets which would be integrated with the social marketing of condoms for protection against unwanted pregnancies and sexually transmitted diseases, including AIDS.

Policy Agenda:

1. Integration of MCH/family planning services;

2. Private investment in production and sales of oral rehydration therapies.

5. Support for Transition to Democracy

Background/Rationale: USAID, in close coordination with the Embassy and USIS, will provide specific support for the democracy transition in Madagascar as a target of opportunity. Clearly, the political liberalization process in Madagascar is in flux and the outcomes are still unsure. However, stability, greater participation, political competition leading to accountability and rule of

Target of Opportunity: Support for Transition to Democracy

law are all necessary conditions to attain our long-term goal and USAID must support the on-going democratization process now.

Many key underlying conditions for democracy and improved governance are already part of the Mission's program. These represent important threads holding together the fabric of democratic societies. These include:

- accountability/transparency/low corruption
- information/openness/media
- rule of law/legal reform/enabling environment
- effective civil society/new business groups/new role in public policy dialogue/pluralism
- decentralization/local government/participation of local groups
- civic education, through NGOs, schools, churches, etc.

These conditions are interrelated. For example, any society needs openness and free press to increase accountability of government, they need strong business associations to help define and push through a legal environment conducive to local investment. Support for these areas of democracy and governance are found throughout the program, especially under strategic objectives one and two. Also, accountability and transparency, role of NGOs, decentralized decision making and increased information will be cross-cutting themes in both design and implementation across the Mission program.

GOM Commitment: The transitional government sees as its mandate the holding of free and fair elections and the ushering in of the Third Republic. The government is committed to carrying out elections, and moving toward a more democratic, pluralistic society. There are many forces vying for power and therefore trying to influence the outcome of the referendum and electoral process. The outcome is still uncertain, violence is possible, and the Malagasy will continue to set their own timetable based on their cultural consensus process. If the constitution is approved, and if presidential and legislative elections are held, then the process for a transition to democracy will be more solid and on its way.

Other Donors: Several donors support the democratic transition in Madagascar, especially through electoral assistance in the near term. These include the French, Swiss, UNDP and EEC and range from substantial material support (grant of $1 million from the French) to technical assistance (two months UNDP election expert) to election observers (EEC is providing over 30 international observers for the referendum). Support for the transition to democracy is high on other donors' agendas and USAID, along with the entire country team, will work closely with other donors during the electoral period and then following the elections in support of democratic institutions and processes.

AID Interventions: Specific assistance for the transition to democracy will be carried out through two regional funds and one bilateral project related to both democracy and development. Other resources such as training funds, may be used as opportunities arise.

1. USAID/Madagascar, in close coordination with the Embassy, will continue to support the transition to democracy through electoral assistance for the referendum and upcoming elections. Mission has requested assistance through the Africa Regional Electoral Assistance Fund (AREAF) for the planned presidential and legislative elections;

2. In addition, small, targeted grants under the Regional Democracy and Human Rights Fund will provide important assistance to local NGOs involved in civic education, human rights education and monitoring, civic education, and judicial reform. Consistent with Africa Bureau policy, the Embassy will manage human rights activities while USAID will provide ideas and support; and

3. Finally, the MEDIA project will support increased information, education and communication related to the Mission's four strategic areas as well as the democratic transition. The mission will encourage and support broad civic education, formulation and discussion of new ideas concerning free markets and policy changes, environmental and family planning messages, broader-based policy dialogue among the new groups in civil society, and a more professional press. Activities will be demand driven depending on the demands of the portfolio and the democratic transition. One of the best means of promoting political and economic accountability, human rights, a broad consensus on important public policy questions, and increased participation is through information and the media; and this project will be vital in supporting that movement.

IV. PORTFOLIO IMPLICATIONS

A. Program Profile

To carry out our strategy's four objectives, we envisage a portfolio of roughly 13 major activities in conjunction with three portfolio support activities. These activities will work synergistically, often supporting more than one objective or target in order to maximize program efficiency and impact. The portfolio profile will evolve with our strategy; how it looks like now is shown in Table IV.1.

B. Managing The Policy Agenda

In implementing our CPSP, USAID/Madagascar will have a substantial policy agenda which is summarized in Table IV.2. We plan to manage this process by a combination of front office and technical office leadership and collaboration, supported by our new Office of Program Development and Assessment (PDA). In addition to being a program and project service entity, PDA will also be charged with coordinating the Mission policy and research agendas. Under the leadership of the Program Economist, PDA will managing our information resources, including technical and program databases, and have responsibility for the overall impact assessment and program evaluation.

Facilitating information sharing and coordination will be initial implementation of a Local Area Network (LAN) in September of FY 92. This will be followed by a direct e-mail link to AID/W and REDSO/ESA in the first quarter of the next fiscal year. Under current procurement plans, we intend to have all Mission professional and key support personnel on the network by the end of FY 93. We will also be bringing additional automation staff on board to develop and manage applications and databases in concert with Africa Bureau, IRM and other field mission staff.

Our goal is to be the most effective user of automation services in the Agency within three years. Thus, we intend to have a support platform of information, people and automation resources to allow individual officers to manage and carry out their specific policy analysis and dialogue agendas.

TABLE IV.1
USAID/MADAGASCAR PORTFOLIO PROFILE

PROGRAM AREAS Interventions	ASSISTANCE MODE	RELATED TARGET(S)
A. INCREASE PRIVATE INVESTMENT		
1. Financial Market Development (FMD)	NPA/PA	1.1, 1.2
2. Bus. Expansion Services (BEST)	PA/Guarantees	1.1, 1.3
B. HPZ DEVELOPMENT/INTEGRATION		
3. Ag Export Lib. Support (MAELSP)	PA	2.2
4. Rice research (IRRI)	PA	2.2
5. Com. Ag. Promotion (CAP)	NPA/Title III/PA	2.1, 2.2, 2.3
6. Mkt Infra Expansion (MIX)	PA	2.1, 2.2, 2.3
C. ENVIRONMENTAL MANAGEMENT		
7. Sus. Approaches Env Mgt (SAVEM)	PA	3.1, 3.3
8. Knowledge/Eff Pol Env Mgt (KEPEM)	NPA/PA	3.1, 3.2
9. Eco-Enterprise	PA	3.3
10. Debt Swaps	Hybrid	3.1, 3.2
D. FAMILY PLANNING		
11. Family Planning Support (APPROPOP)	PA	4.1, 4.2
12. MCH/Nutrition	Title II	4.2
13. Family Planning Support (APPROPOP)	NPA	4.1
E. PORTFOLIO SUPPORT		
1. Human Resources Dev. (HRDA)	Regional PA	All
2. Afr Trg for Leadrshp/Skills (ATLAS)	Regional PA	All
3. Mass Educ/Dev Info Asst (MEDIA)	PA	All
F. DEMOCRACY/GOVERNANCE		
1. Afr Reg Election Asst Fund (AREAF)	Regional PA	Target of Opportunity
2. Human Rights	Regional PA	

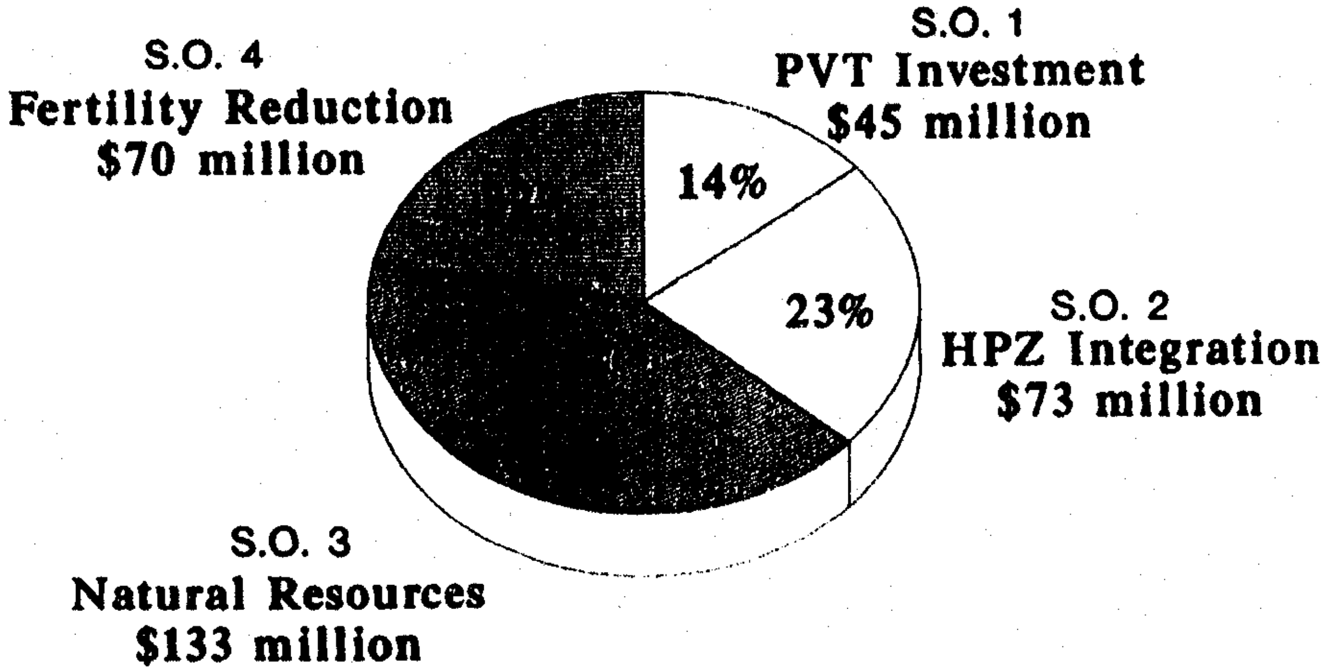
Table IV.2: Policy Agenda Summary

AGENDA TOPIC	INSTRUMENT
S.O. 1: Increasing Private Investment	
▸ Pro-business LRJ framework	BEST/FMD
▸ Open and competitive markets	BEST
▸ Financial market development	FMD
▸ Role of the Central Bank	FMD
S.O. 2: High Potential Zone Integration	
▸ Infrastructure upgrading and maintenance	CAP, MIX
▸ Rice policies	IRRI, CAP
▸ Local mgt and control of financial resources	CAP, MIX
▸ Non-traditional export policies	CAP, MAELSP
▸ Rural credit and savings	CAP, MIX
▸ Privatization	CAP, MIX
▸ Local government capacity	MIX
S.O. 3: Reduce Natural Resource Depletion	
▸ Environmental analysis/formulation/review	SAVEM, KEPEM
▸ Legislation/incentives for local resource control	KEPEM
▸ National Environmental Endowment Fund	KEPEM
▸ Market valuation of forest resources	KEPEM
▸ Land tenure	KEPEM
▸ Eco-trade	KEPEM, TRADEM
S.O. 4: Reduce Total Fertility	
▸ National Population Policy consensus	APPROPOP
▸ Data collection, analysis and utilization policies	APPROPOP
▸ Health/family planning service integration	APPROPOP

C. Resource Allocation Plan

Planned strategy resources total $337.3 million through 1998. Leaving aside portfolio support activities (4.9 percent), our resource allocation plan devotes just under 37 percent to our two economic growth objectives, 41 percent to environ-mental conservation, and 22 percent to family planning (See Graph IV.1).

Figure IV.1
RESOURCE ALLOCATION
BY STRATEGIC OBJECTIVE



TOTAL PIE = $321 million through 1998

In line with Madagascar's focus country status, we are assuming an average annual DFA level of roughly $40-45 million over the CPSP period. The last two years, however, have been purposely left "underfunded" as it is premature to identify whether ongoing or new activities will require funding. These will be supplemented by other sources of funding as shown in Table IV.3. We also expect to generate and program in support of this strategy about $64 million equivalent local currency.

Table IV.3: CPSP Resource Projections

Funding Source	Total Funding (millions)
DFA: Development Fund for Africa	$258.0
AEPRP: African Economic Policy Reform Program	$14.5
PL 480: Title III	$18.0
PL 480: Title II	$20.0
Guarantee Programs	$19.0
Total Resources	$329.5

Clearly we will need to adjust our plans to actual resource availabilities. Table IV.4 provides an indication of how projected resources would be allocated over our portfolio in support of strategic objectives. The last two years, as noted earlier, are placeholders for those activities we are sure will continue; the balance of new funds would be programmed for new or ongoing activities once we are further into the CPSP period.

Our current mortgage which mainly relates to Strategic Objectives 3 and 4 represents about 20 percent of our projected resources. This leaves a balance of 80 percent to devote new programs to implement the strategy. We expect to strike a balance between our mortgage and pipeline in keeping with Bureau guidelines by balancing our portfolio between quick disbursing Non-Project Assistance and slower disbursing project assistance and by incrementally funding our programs to align resource needs with resource availabilities from year to year.

Table IV.4

USAID/Madagascar

Resource Allocation By Strategic Objective FY 1992–98

Activity Title	Year Authorized	LOP	< FY 92	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
			Actual and Planned Obligations ($ millions)							
S.O. 1: Increase Private Investment										
Financial Market Development (AEPRP)	1993	14.5	–	–	14.5	–	–	–	–	–
Bus. Expansion Services & Technology: BEST	1994	12.0	–	–	–	4.0	4.0	4.0	–	–
Private Sector Loan Guarantees	1994	19.0	–	–	–	3.0	4.0	4.0	4.0	4.0
	SO #1 Totals =	45.5	0.0	0.0	14.5	7.0	8.0	8.0	4.0	4.0
S.O. 2: High Potential Zone Integration										
Ag. Export Liberalization Support: MAELSP	1988	6.4	2.7	3.7	–	–	–	–	–	–
Int'l Rice Research Institute: IRRI	1990	5.6	5.6	–	–	–	–	–	–	–
Commercial Agriculture Production: CAP	1993	48.0	–	–	18.0	14.0	13.0	3.0	–	–
Market Infrastructure Expansion: MIX	1994	13.0	–	–	–	5.0	5.0	3.0	–	–
	SO #2 Totals =	73.0	8.3	3.7	18.0	19.0	18.0	6.0	0.0	0.0
S.O. 3: Reduce Environmental Depletion										
Environmental Grants	1988–90	4.6	4.6	–	–	–	–	–	–	–
Sus. Approaches via Environmental Mgt: SAVEM	1990	29.7	13.3	4.0	8.0	4.4	–	–	–	–
Debt for Nature Swaps (2)	1989, 1992	6.5	1.0	1.5	4.0	–	–	–	–	–
Knowledge/Effective Pols for Env Mgt: KEPEM	1992	42.0	–	18.0	6.0	8.0	10.0	–	–	–
Eco–Enterprise Development: TRADEM	1995	10.0	–	–	–	–	5.0	5.0	–	–
SAVEM II	1996	40.0	–	–	–	–	–	15.0	10.0	15.0
	SO #3 Totals =	132.8	18.9	23.5	18.0	12.4	15.0	20.0	10.0	15.0
S.O. 4: Reduce Total Fertility										
Population Sector Support: APPROPOP	1992	33.0	–	10.0	–	7.6	6.4	6.0	3.0	–
PL 480 Title II/Nutrition Program with CRS	1990	20.6	–	2.5	3.0	3.0	3.0	3.0	3.0	3.0
Population NPA	1995	16.0	–	–	–	–	6.0	6.0	4.0	–
	SO #4 Totals =	69.5	0.0	12.5	3.0	10.6	15.4	15.0	10.0	3.0
Portfolio Support to All Objectives										
Human Resources Development	1988	4.5	1.3	0.2	0.5	0.7	0.3	0.5	1.0	–
African Training for Leadership & Skills: ATLAS	1990	5.0	–	1.2	1.2	1.2	1.4	–	–	–
Mass Education & Dev. Info. Assistance: MEDIA	1995	7.0	–	–	–	–	4.0	–	3.0	–
	Portfolio Support	16.5	1.3	1.4	1.7	1.9	5.7	0.5	4.0	0.0
Total Resource Transfers =		337.3	28.5	41.1	55.2	50.9	62.1	49.5	28.0	22.0

D. Organization, Operations, Staffing

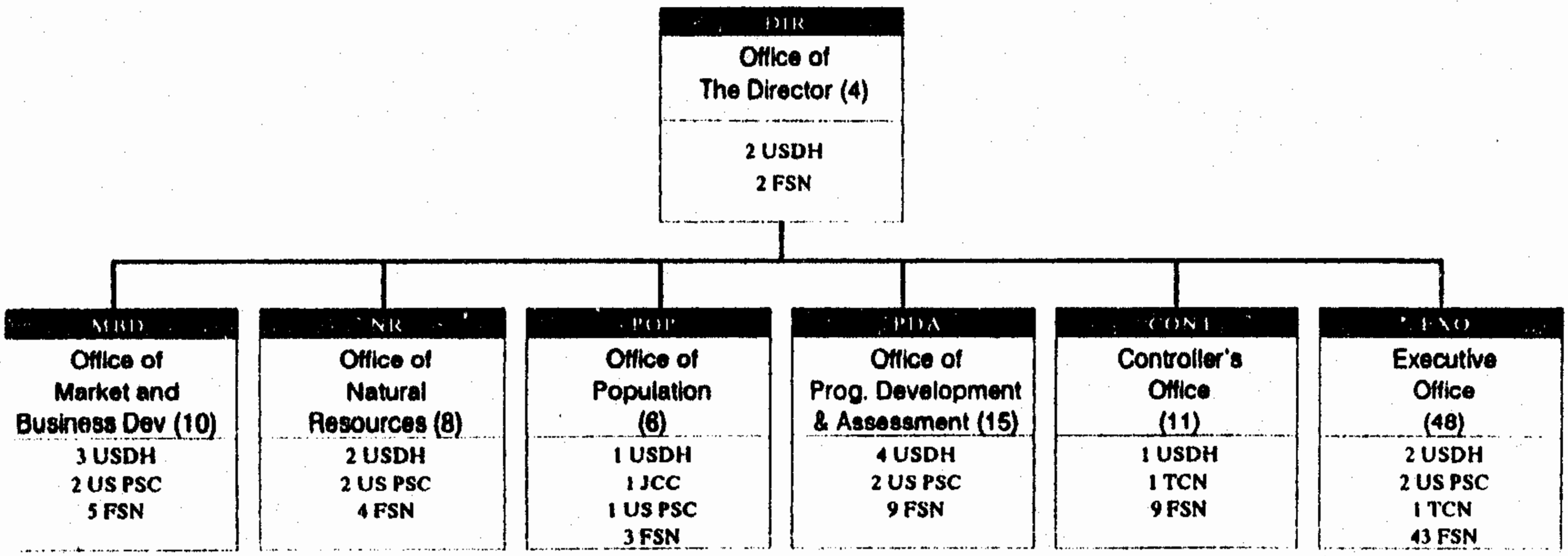
In order to carry out its CPSP, the Mission has proposed a reorganization. The three technical offices will be supported by a combined Program and Project Development Office responsible for program development and assessment. Such a reorganization is further needed because the Mission's program level has doubled and its staff has increased four-fold since 1990 as a result of the decision to makeMadagascar a Bureau focus country with a Mission having full delegation of authority. The Mission has gone from an AID Representative Office with annual program obligations of $19 million and a staff of 29 to a full Mission with annual obligations of $45 million and a current staff of 83.

Most of the Mission's rapid growth in staff is behind us. We see the need to add three new USDH positions to carry out the strategy and deepen our staff capability in furtherance of the reorganization plan. Other modest increases in our US and FSN PSC staff are planned to enable us to manage our new projects and support Mission operations. This will bring Mission staff to a total of 102, including 15 USDH, 10 USPSC, 1 JCC, 74 FSN's and 2 TCNs. In addition, we expect to have about 25 US institutional contractors. The new organization chart follows this page. The Mission submitted its reorganization and staffing package to the Africa Bureau in late June. Review and, we trust, approval will have taken place by the time this CPSP is reviewed.

We will be able to cover the operating expenses required by this staff through a combination of OE, Trust Funds, and program funds. Our OE budget will average around $3.6 million through 1995 with almost a third covered by Trust Funds. In comparing our total operating expenses to our program levels for FY 94, it will cost 11 cents to move each dollar of program funds.

As we launch our strategy and consolidate Mission organization we expect to effect management efficiencies while assuring prudent management and account-ability of our programs. The Mission has already taken steps to clarify roles and responsibilities, issued 30 mission orders this calendar year establishing operating procedures, developed its new and inexperienced staff, made its institutional contractors self-supporting, tightened up internal controls, introduced automated systems for project tracking, financial management, and administrative functions. We have also reinforced our productive relations with REDSO/EA, drawing on their design, contracting, procurement and legal services. To enhance our operational capacity we are recommending establishment of a regional contracts officer position as part of the reorganization and will be closely studying the merits of establishing an independent accounting station. With CPSP approval under our belts, we plan to hold a team-building strategy implementation workshop in the late fall or early spring.

Figure IV.2
USAID/Madagascar
Proposed Organization Staffing Summary (102)
FY 1993



The early stage of development that characterizes Madagascar with its uneven and weak institutional capacities, coupled with our relative newness as a donor here, requires a relatively heavy hands-on approach to project and contract management supported by an assertive evaluation program and a proactive audit plan. As Madagascar's institutions develop we will be alert to opportunities to move more responsibilities over to the host country and to proven cooperators.

During the CPSP process, Mission staff spent considerable time thinking about the principles and operational guidelines under which we will implement our CPSP. They are as follows:

- We will seek to be a catalyst for democratic and market reforms, using the quality of our ideas matched with substantial assistance resources to leverage change.

- We will seek to promote innovative partnerships among private, NGO, and public entities. We will insist on managerial performance as well as technical capacity.

- We will foster competition among implementors for resources based on performance.

- Over time we will minimize long-term technical assistance, develop a short-term stable of Madagascar hands, and cultivate the growth of local technical/analytical capacities.

- We will actively seek ways to engage Gray Amendment and 8(a) entities in all aspects of CPSP implementation.

- All host-country implementors must demonstrate their financial stake in AID-funded activities. In the case of the GOM, project support must be on-budget and included as a line item in the public investment budget.

- We will keep accountability for resources in the forefront during all stages of design and implementation.

- We will emphasize transparency in government, especially with regard to financial accountability and decision-making and rely on a pro-active audit program.

- We accept that capacity building will be a necessary component of all AID interventions.

- We will rely to the greatest extent on local-level organizations to implement activities.

- We recognize that data-collection, analysis and measurement of performance and impact are both a management imperative and a development investment.

- We will work at the wholesale, rather than retail level in dealing with the private businesses and NGO's.

- In our ongoing dialogue with public and private actors, we will present and reinforce a vision of what a transformed Madagascar will look like and how all parties can benefit.

- We will coordinate with other donors at the macro and sectoral levels and develop common positions and action agendas with regard to governance, local currency use, financial accountability, sustainability and sectoral policies.

- We will strike a balance in our portfolio between innovation and risk taking, reinforcing successful approaches.

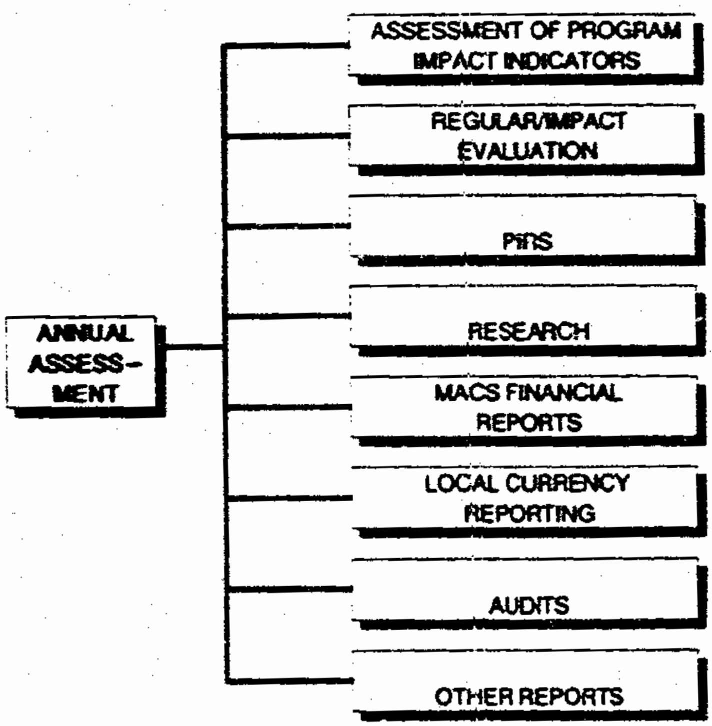
- We will look for cost effective, less staff intensive approaches by relying on quality contractors, grantees, and local entities.

V. PERFORMANCE MONITORING AND EVALUATION PLAN

The Mission will be managing the program for results. Our program management system takes into account the recent Africa Bureau redelegation of certain programming functions to the field and the movement toward performance-based budgeting and Mission-AID/W performance contracts. Performance monitoring and evaluation are an essential element of the management system, enabling Bureau and Mission management to measure results and adjust priorities and resource allocation accordingly.

The centerpiece of our management system is the annual assessment, planned for each March, which will rely on eight separate reporting or tracking modules to tell us how the country and the programs are progressing against CPSP objectives, assessment of program impact (API) indicators, and financial controls. The Mission will also meet with senior Government of Madagascar officials following the annual assessment to make sure the GOM is fully aware of A.I.D.'s program results.

Figure V.1
PROGRAM MANAGEMENT SYSTEM



The entire Mission will play an active role in the ongoing monitoring, reporting and evaluation process. The Mission's reorganization puts responsibility and coordination of programming, project design, evaluation, and performance monitoring into one office to better integrate and synergize these activities. Under this office, the Mission is planning to set up an Information Resources Management Unit and hire a full-time Information Resources Coordinator. This unit will work closely with all Mission and contractor staff to ensure that appropriate information systems are in place and running related to our performance monitoring and evaluation needs. Also, the unit will synthesize and organize data and information from evaluations, research, PIRs and other documents for the Mission.

Assessment of Program Impact

USAID/Madagascar has developed measurable performance objectives, targets and preliminary specific indicators. The API system will permit measurement above the project level on the Mission's progress in implementing our strategy and in achieving our goals. The preliminary indicators are presented in Table V.1. The degree of specificity of indicators is greater for Strategic Objectives 3 and 4 than is the case for Strategic Objectives 1 and 2. This difference reflects the differences in program development among objectives; environmental and family planning programs have been initiated while most programs under Strategic Objectives 1 and 2 are at the concept stage.

The base-line data will be collected this coming year and the data on the indicators will be collected semi-annually thereafter by project staff working in conjunction with the Mission economist. Indicators of program progress towards the strategic objectives will feed directly into and be an important part of the annual assessment of performance. There remains considerable work to define indicators for our new strategy objectives and to put in operation the API system. The next steps include:

- Quantify indicators at all levels.

- Establish baseline levels for each indicator with data disaggregated by gender as much as possible.

- Identify data sources and data collection responsibilities. In some cases, individual USAID projects will generate the necessary data; in other cases, national data may suffice.

- Prepare reporting formats and procedures.

- Discuss data needs with collaborating organizations (contractors, cooperating agencies, government agencies, etc.) to ensure their agreement with timing of data collection and understanding of overall objectives at each level.

The Mission will review the monitoring and evaluation systems of individual projects to ensure that such systems are as useful as possible in collecting, analyzing and presenting information on the designated program-level indicators.

The Mission will submit an API in the fall of 1992, using the preliminary indicators presented in this section. The 1993 API will contain a full set of indicators for all four objectives and their respective targets. The Mission has received assistance on API development from MSI and AFR/ARTS/FARA. We intend to request additional assistance from FARA during FY 1993 for natural resource indicators. The development of Strategic Objective 1 and 2 indicators will be incorporated into program/project design.

In addition, the strategy presented in this CPSP provides opportunities for measuring the gender related effects of the program through gender disaggregation of all results which are measured in human terms. USAID/Madagascar will follow closely the Agency requirement that gender disaggregation be used wherever USAID is directly responsible for data collection. In addition, the Mission will include gender specialists, where feasible, on new project designs and evaluations.

Project Implementation Reports

The in-house Project Implementation Reports (PIR) will be an important management and monitoring tool for the Mission. PIRs will be a major input for the annual assessment and the annual budget submission (ABS) in May. The PIRs will also be an important source of information for the API. PIRs for submission to Washington will be done in mid-October drawing on end of fiscal year figures. Project officers will summarize issues in order to highlight strengths or weaknesses. The project review committees will make decisions on any necessary implementation action or modifications of the project. These PIR's will be updated and reviewed in-house in April, taking into account Bureau PIR comments. The MACS system will provide cross-portfolio financial information to assist in identifying areas needing attention and to track expenditures against planned budgets.

Evaluation

Evaluations will also play a key role in the overall program management and performance monitoring system. Each Mission project will be evaluated regularly with the results feeding into the overall GOM/USAID decision making process, the annual assessment and new project and program designs. The three new major USAID projects, SAVEM, KEPEM and APPROPOP, are scheduled for evaluation within the next 30 months. The Mission is also carrying out impact evaluations of the environmental grants to U.S. PVOs.

As much as possible, future evaluations will include in their scopes of work the generation of program level information on program indicators and/or the review of existing program monitoring procedures. In addition, future evaluations will include gender-specific assessments as required by AID and as needed to fully evaluate the project and program impacts on women.

In addition, the Mission will carry out impact evaluations of different sectors or program modalities. For example, a joint USAID/UNICEF impact evaluation of the immunization program was carried out in FY 1992.

Research

Evaluations will be supplemented through ongoing research. The Mission will continue to set and execute an explicit research agenda to advance our understanding of Madagascar's development dynamics, policy priorities, sectoral interplay, and regional potentials and progress and to monitor socio-economic change. Several research activities are ongoing and others will be started related to our new strategic areas of intervention.

Research activities currently planned which will inform new programs and develop important databases include:

- Investment promotion/business environment
- Financial sector/Central bank reform
- Agricultural input markets
- Market town assessment
- Rice production linkages
- Rice policy
- Business service delivery systems
- Political development assessment

TABLE V.1.
Preliminary Program Indicators

Goal: **Broad–based market–led sustainable economic growth**	– GNP per capita – Annual growth rate of GDP – Private consumption growth rate (Amounts and distribution)

Sub–goal 1: **Stimulate and multiply competitive market linkages**	– Input/output matrix analysis (measures of degrees of entropy) Every 3 years – Price analysis of rice markets (Annually) – Export/import levels (by port) – Availability of goods in rural areas – Trade volumes between selected market centers – Market volumes by commodities – Growth rates in sectors or zones	Sub–goal 2: **Balance population growth and natural resource use**	– Population growth rate – Rate of degradation of natural resource base Deforestation Biodiversity maintenance Soil degradation rates
Increase private investment.	– Level of foreign direct investment –% increase in domestic private investment # of jobs created (disaggregated)	**Increase sustainable natural resource use in target areas**	– Reduction in deforestation in target areas – Stabilized biodiversity – Increase in income from improved production systems (disaggregated) – Increase in public awareness of value of resource (disaggregated)
Target 1.1: Legal, regulatory, and judicial environment supports market development.	Illustrative indicators TBD	Target 3.1:Conserve biodiversity in protected areas	– Rate of decrease of depletion of biodiversity,extent and variety of natural habitats – Policy on protected areas – Effective body for coordination & policy formulation in place
Target 1.2: Financial market reforms increase domestic resources for private sector	– Central Bank operations independent of Treasury(types of operations TBD) – Central Bank Charter adopted – Nos. of men and women savers at CEM in HPZs – Credit allocation to private sectors – CEM deposit levels (HPZ and nation-wide)	Target 3.2:Improve management of forest resources and protected areas	– # and area protected areas under management plans – Reduced has. of forests lost to slash and burn (tavy) – Improved restoration of savoka – Area of natural forest managed under plans – Increase in stumpage fees collected – % increase of revenues in NFF expended on forest management – % increase in entry fees used for PAs
		Target 3.3: Increase income opportunities for resource users	– # and types of activities (disaggregated users) – $ value of economic activities created (disaggregated) –# of new businesses created (disaggregated) – Increase in agricultural production through intensification – Increase in employment in PAs/forests (disaggregated)
High potential zone growth multiplies national market activity	– Flows of goods and services by origin & type – Amounts of key indicator products from zones appearing in other markets (incl. off season crops)	**Reduce total fertility**	TFR reduced from 6.6 (1992) to 5.6 (1999)
		Target 4.1 Increased modern contraceptive use	–CPR increases from 3% in 1992 to 11% in 1996, 18% in 1999
Target 2.1:Reduce transportation and communication costs	– Reduced transport cost to & from HPZs – Reduced transport cost/unit – Reduced communications cost		
Target 2.2:Increase and diversify agricultural production and sales	– Increase in # of hectares cultivated during off–season – Increase in production of major crop grown in the HPZ – Increase in variety and quantity of crops entering market centers – Increase in value of agriculture input sales – Increase in numbers of collectors entering the market (disaggregated) – Value, amounts and markets of exports	Target 4.2 Reduced dehydration due to diarrheal diseases	– Nos. of mothers using ORT increases from ---- in 1992 to ---- in ---- – Height/age ratios in target groups increase from ---- to ---- by ----
Target 2.3:Expand locally–managed market services	To be determined		

ANNEX 1

USAID/Madagascar

CPSP Development Process

Date	Mission	Other Donors	Host Country	External Resources
1991 4th Q	– KEPEM/APPROPO Analyses – Outline/begin Whither Madagascar			
1992 Jan. 2			– Rice Marketing w/ largest private importer	
15		– UNDP econ advisor: Dr. Van Tuyen		– REDSO/ESA Ag. Policy Options Paper
16				
17				
20	– Ag Synthesis Paper completed			
21		– WB: Financial Sector Reform		
22			– FOFIFA: Ag. Diversification/Intensification	
23	– Whither Madagascar? draft completed		– Meeting with Minister of Health – Meeting with Minister of Water/Forests	
24			– Meeting w/Minister of Population	– WWF: Discussion on biogas potential
25				
26				
27	– APPROPOP PP Review			
28	– KEPEM PAAD Review		– Meeting wit[illegible]ter of Scientific Research	
29	– CPSP Kickoff/Organizational Meeting	– Meeting with UNFPA Res. Rep.		
30	– Review of Whither? first draft			
31		– Reception for DIR/DDIR	– Reception: DIR/DD w/ govt/priv sector/ngo	– Meeting with CARE Representative – WWF: Discussion on ecotourism
Feb. 1				– Meeting with DHS Technical Advisor
2				
3		– Meeting with Swiss Cooperation – WB: Mtg. with Ag. Proje. Director (Clough)		
4		– FAO: Ag sector interventions/plans		– Meeting with World Wildlife
5	– Objective Tree/API mechanics			
6	– Session on Democracy, Governance, Human Rights, and Political Transition	– Donor Coordination Meeting		
7			– Meeting with Director, IMATEP	– Mtg w/ IRRI re production increases
10		– WB: Food Security/SECALIN Project (Sherb	– Meeting with Minister of Economy	
11	– Session: Primary Health		– INSCAE: Private Sector Mtg.	– Support from SEATS Project Coordinator – Mtg w/ Conservation Int'l re solar energy
12	– Session: Education/Human Resources			
13	– Session: Investment Climate	– Coordination Dinner w/ FED – UNDP: support from Eco-trade advisor	– Meeting with Minister of Transportation – Mtg with ONE on eco-trade – CPSP discussion with MPop/MOH officials	
14	– Session: Agribusiness/Exports			
17				
18	– Session: Public Sector Efficiency	– UNDP: Further discussions on eco-trade	– Meeting with Minister of Finance	
19	– Session: Infrastructure (Telecom/Transport)	– Meeting with FAC		
20	– Session: Financial Markets	– Coordination with IMF Representative		
21	– Session: Tourism	– Donor/GOM Coordination Meeting	– Donor/GOM Coordination Meeting	
22		– WB: Health Sector Review		
23			– Mtg. w/ COROI ag industry re Lac Aloatra	
24	– Session: Industrial Development/Exports	– Session presented by WB Res Rep		– Meeting with IFES re Election Assistance

USAID/Madagascar
CPSP Development Process

Date	Mission	Other Donors	Host Country	External Resources
26	- Session: Rice as Engine of Growth			- Meeting with Missouri Botanical Garden
26	- Session: Food Security and Food Aid		- Mtg w/ CI re Lac Alaotra eco status	
	- Session: Small/Medium Scale Enterprises			- Session presented by B. Durr of CEC
27	- Renewable Resources, Energy, Waste Mgt.			
27	- Trip to Lac Alotra			
28	- Trip to Lac Alotra		GSEPM: Private Sector/Donor Presentation	
29				
Mar. 2				
3	- Session: Socio-Economic Factors in Dvlp			- Session presented by Pierre Verin
	- Steering Group: Synthesis Preparation			
4	- Steering Group: Synthesis Preparation			
5	- Synthesis Session I: Options	- Swiss Coop: Rice & Lac Alotra		- Support from Ben Stoner, AFR/ARTS/FARA
6	- Session: Synthesis II	- WB, Blarel: Agricultural Sector Strategy	Meeting with Minister of Universities	- IFES Debriefing
	- Objective Tree Development by 3 Groups			
9	- Presentation of Whither to Amb. Walker			- Meeting with World Wildlife Fund
	- Objective Tree Development by 3 Groups			
10	- Objective Tree Development by 3 Groups	- FAO: Ag Policy and Sector Issues	- CPSP explained to Family Planning NGOs	
	- Presentation of Group Objective Trees			
11	- Mtg w/ State, AF/EA Director, M.Cheshes			
12	- Trip to Mahajunga/Marovoay			
	- Environ. Group reworks leg two			
13	- Steering Group: Objective Tree finalization	- FAC: Further Program Discussions		
	- Program Objective Tree Refinement			
16		- WB: Ag Sector Analysis Presentation	- Mtg. with GOM Bur. Statistics for ag stats	
17	- Final review of KEPEM PAAD/issues			
18	- Private Sector Feedback to Whither?		- Reps: Stedic, Inscae, Fivmpama, Omnium	
19	- IRRI Evaluation Presentation/Center visit			
	- Presentation of Obj. Tree to Ambassador			
20		- UNDP: Coordination lunch		
23	- Country Team Dem/Gov Working Group			- Support from AFR/ONI/DG, WHammink
24				
25		- Donor Mtg. on Local Currency		- PDorosh, Cornell Presentation
26		- Presentation to Donor community	- MFA mtg. on Election Assistance	
27	- Delegation arrives; leave for Ansirabe			
28	- Drive/visit to Ranamafaona Reserve			
29	- Return to Tana via Fianrantsoa			
30	- Synthesis Presentation	- Donor Lunch: WB, IMF, EC, FAC, Japan		
	- Dinner for Delegation w/ CPSP team			
31	- Strategy Presentation			

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ANNEX 2

DISCARDED OPTIONS

In the course of our CPSP brainstorming and analysis, we considered a broad range of possible interventions. After careful consideration, we discarded the following options for strategic interventions.

1. PRIMARY HEALTH CARE

Despite obvious need, USAID/Madagascar will not address primary health care and delivery, because:

-- We know very little about the sector. It would require substantial lead time to develop appropriate data and a sectoral strategy.

-- The health sector has so many problems, the pay off on our assistance would be long term and uncertain.

-- The World Bank has a major health program in the works.

-- Available Mission resources preclude taking on both Health and Population programs. We believe it makes more sense to focus on fertility reduction with subordinate attention to related health aspects (e.g. Child Survival, cost recovery policy, private service delivery).

2. EDUCATION SECTOR

We do not propose to address this sector because:

-- Education in Madagascar requires major long-term investment in reform and upgrading which is high in cost, a long way in the future in terms of return on investment.

-- USAID's comparative advantage is relatively weak, especially vis-a-vis the French in Madagascar, in addressing reform and improvement of the francophone education system.

-- Until the economy picks up the Government cannot finance education's high operating expenses.

-- The World Bank and the French are addressing this sector.

Human resources development through participant training programs will, however, be an integral part of our strategy implementation.

3. TOURISM

This sector was ruled out because:

-- Despite its obvious potential many other constraints such as infrastructure development, telecommunications, air transport, hotel infrastructure must be addressed before this sector can really develop beyond 35,000 tourists a year.

-- Government policy in this sector is unclear and the issue of environmental impact of mass tourism needs to be resolved.

-- USAID has no particular comparative advantage in this sector.

-- The private sector is quick to respond to opportunities for profit in this sector without donor assistance.

USAID's objectives and resource availabilities are best served by integrating eco-tourism development into our environmental objectives and interventions.

4. INDUSTRIAL DEVELOPMENT

This sector is not a promising focus for our strategy, because:

-- The most dynamic industries are textiles, garments, shoes and leather products all of which have restrictions on USAID direct assistance.

-- Agro-industry which is among the most promising industrial sub-sectors, can be addressed as part of our agribusiness/ commercial agriculture focus.

5. GREEN REVOLUTION IN RICE

We dismissed the hypothesis that Madagascar could replicate the Philippines Masagana 99 rice program, because:

-- There are relatively few areas that could benefit from this high intensive approach.

-- The conditions for a complete package of technology, inputs, credit, land reform, etc are not ripe.

-- GOM commitment is not behind this.

-- Any USAID efforts in rice commercialization can be done as part of a broader objective.

6. LIVESTOCK

This sector was discarded for the following reasons:

-- USAID has no prior involvement in the sector in Madagascar, and comparatively little expertise to offer. The little we know about the sector would require substantial research and analysis to develop appropriate baseline data and a sectoral strategy.

-- USAID would be a relatively minor player in the donor field, and our impact would be uncertain given the deterioration of the sector over the past 25 years.

-- A recommended livestock sector strategy involving privatization of veterinary medicine, the liberalization of supply and distribution of drugs and vaccines, quarantine services, and the financing of slaughter houses for meat export to Europe is contained in a recently approved project to be implemented by the government with the assistance of a large number of donors (World Bank, EEC, FAC, and ADB).

7. FISHERIES

Interventions in this sector seemed promising but were discarded for the following reasons:

-- This is a relatively new area of sub-sector growth which, for the present, seems to be operating fairly efficiently.

-- Much of the growth is due to a substantial increase in maritime fishing benefitting from an export orientation, low level of taxation, and presence of a comparative advantage in production dominated by Japanese investment.

-- The major area of concern is the potential for over-exploitation which will be regulated and monitored through KEPEM policy reform which requires environmental impact assessments for future investment projects.

ANNEX 3

Business Expansion through Services and Technology (BEST) Project

FY 1994 Start

<u>Purpose:</u> To create a supportive environment and access to the services and technology needed for private sector expansion.

<u>Rationale:</u> Job growth is not keeping pace with labor force growth in Madagascar. A high level of private investment can close the gap between labor demand and supply. This project will work toward a legal and regulatory environment that encourages private investments by both Malagasy and foreigners. The emphasis will be placed on reasonable, equitable and transparent treatment of all business enterprises by public authorities, discontinuing the current practice of special benefits for new investors. Business enterprises are isolated from potential suppliers and product markets. Information on market opportunities and technologies does not circulate adequately in the Malagasy economy. Business associations, which should provide these services, are in the formative stage. Strengthening these associations will be the means by which USAID will support the efforts of individual entrepreneurs to increase output and employment.

<u>Components:</u>

1. **Public Sector Component.** Legal and economic advisors will assist the Government of Madagascar to update property, contract, and tort laws. The project will encourage the Government of Madagascar to rely on simple, low-cost procedures to adjudicate business disputes and to reduce transactions costs for enterprises and to allocate adequate resources to the judicial branch of government so that decisions are rendered quickly and impartially. The project will also address simplification of investment approvals and the establishment of investment promotion services.

The project will establish or strengthen links between policy analysis and the drafting of regulations affecting the private sector by the providing technical assistance, training and commodities to selected economic ministries.

2. **Private Sector Component.**

   a. <u>Business Services</u>. The Project will provide technical assistance, training and commodities to business associations primarily those located in high-potential zones as defined in the CPSP strategy. This support will enable the associations to serve the interests of their members with information, communications facilities, training opportunities and advocacy of members' interests in public fora.

b. <u>Technology Transfer.</u> The project will assist entrepreneurs to find machinery and production processes in the US and in newly industrializing countries which are appropriate for the Malagasy economy. For example, the project will foster links between Malagasy firms and technology development centers in Asia via exchange programs and study tours. Seed capital financing for acquisition of new technologies will be available through the project.

<u>Budget</u>

Technical Assistance	\$3.5 million
Training	2.0
Seed Capital	2.0
Business Association Grants	1.5
Technology Feasibility Studies	2.0
Commodities	1.0
	\$12.0 million

ANNEX 4

Market Infrastructure Expansion Project (MIX)

Project Concept

PURPOSE: To improve local level management and provision of market services and facilities.

DURATION: FY 1994 - FY 1999

COMPONENTS:

1. Revenue Management. Includes mobilization, administration and use of locally generated revenues for market infrastructure rehabilitation and maintenance. Component will consist of:

- a) Feasibility studies in up to 6 selected cities to identify possible sources, means of collection, and uses of locally generated revenues. Studies may include the feasibility of toll roads, and private maintenance of roads and bridges.

- b) Technical Assistance for establishing revenue collection and management systems, designing and administering feasibility studies for local level market revenue potential, and preparing market services management plans.

- Budget: \$3.25 million for studies
  \$1.25 million for Technical Assistance

2. Training for preparation and implementation of market services management plans, and setting up and administering revenue collection and accountability systems.

- Budget: \$1.5 million

3. Matching Grants to serve as seed money in setting up market sites and services. Investments in market services will be demand driven, and may include infrastructure improvement such as rehabilitation of water supply, storage, electricity, drainage, and processing equipment as well as industrial parks, incubators, etc..

- Budget: \$5.0 million

4. Municipal Management Training for public administrators in areas outside financial management.

- Budget: \$0.5 million

Total Budget with 10% contingency: \$13 million.

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ANNEX 5

MASS EDUCATION AND DEVELOPMENT INFORMATION ASSISTANCE (MEDIA)

FY 1995 START

Purpose: To support increased information, education and communication (IEC) in Madagascar related to the Mission's four strategic areas as well as the democratic transition.

Rationale: Madagascar is undergoing a difficult and simultaneous economic liberalization and transformation and political liberalization. The recently freed-up press is vibrant but still nascent. New private associations are forming and starting to get involved in the public arena. As the country moves towards a market economy, increased information and communication is absolutely necessary to unleash the private sector. At the same time, as Madagascar continues on its transition to a more democratic, pluralistic society and government, openness and information will be vital in assuring accountability, transparency and informed public policy debates. In addition, with the new freedoms of press and association, opportunities abound for increased use of IEC to get across key development messages related to family planning and the environment.

Preliminary Project Description: The MEDIA project will encourage and support broad civic education, formulation and discussion of new ideas concerning free markets and policy changes, environmental and family planning messages, broader-based policy dialogue among the new groups in civil society, and a more professional press. Activities will be demand-driven depending on the demands of the portfolio and the democratic transition and opportunities to make a difference. The project will attempt to synergize and facilitate IEC across a broad range of topics using the most appropriate methods for Madagascar. The MEDIA project will complement the Mission's on-going projects by building the competency and facilities for broader IEC activities in Madagascar. It is envisioned that the project will support a broad range of IEC tools such as cartoons, posters, radio programs, videos, print media, etc.

Budget: ($000)

--	Technical Assistance	$1,000
--	Reproduction Materials	2,000
--	Broadcasting (radio or other)	500
--	Transmission/Reproduction Equipment	2,000
--	Training	1,000
--	Contingency	500
	Total Estimated Budget	$7,000

ANNEX 6

MADAGASCAR
PROMOTING PLURALISM
IN SUPPORT OF STRATEGIC OBJECTIVES

STRATEGIC OBJECTIVES	PRIVATE INVESTMENT	REGIONAL INTEGRATION	NATURAL RESOURCES	FAMILY PLANNING	DEMOCRACY/ GOVERNANCE
Public Sector Organization	Ministry of Finance Ministry of Economy Central Bank Ministry of Commerce & Industry INSCAE IMATEP Academie Malgache PM/BDE ISCAM	Ministry of Planning Ministry of Agriculture Ministry of Commece & Industry Local Gov'ts	Min State ARD Min of Water & Forests National ENV Office(ONE)	Min Plan & Budget Min Population Min Health PM/BDE	P.M. Min Interior Local Gov'ts Nat'l Parliament
NGO Sector		NGO Federation FIANA	ANGAP WWF CI MBG Duke/N.C. State SAFAFI COMODE	FISA Community NGO's	CNOE ODN HR Leadership
Business Sector	GEM FIVMPAMA MBA Assoc. Accountants Assoc. Junior Chamber of Entrepreneurs BMOI BNI FIARO	GO-MAN, MAJUNGA Local FIVMPAMA Exporter Associations OMNIUM Local JCE's Local PVT Bank Branches		JIRAMA (Parastatal)	Business Advocate Groups

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ANNEX 7

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