PRIVATE SECTOR TRAINING NEEDS ASSESSMENT AND PROPOSED FY 90–92 PRIVATE SECTOR TRAINING PLAN

HUMAN RESOURCES DEVELOPMENT ASSISTANCE (HRDA) PROJECT

USAID/MADAGASCAR

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ACRONYMS

Agence ERE	Agence: Entreprendre et Réussir des Petites et Moyennes Entrerprises
AMDP	Africa Manpower Development Program
APEM	Association pour le Promotion de l'Enterprise Malgache
CFC	Centre de Formation et de Perfectionnement des Cadres
CIDA	Canadian International Development Agency
CEO	Chief Executive Officer
EEC	European Economic Community
EI	Entrepreneurs International
FIV.MPA.MA	Fivondronan' ny Mpandraharaha Malagasy (a Malagasy Business Federation
FMG	Malagasy francs
FY	Fiscal Year
GDRM	Government of the Democratic Republic of Madagascar
GDP	Gross Domestic Product
GEM	Groupement des Enterprises de Madagascar
HRDA	Human Resources Development Assistance Project
IBRD	International Bank for Reconstruction and Development (World Bank)
IESC	International Executive Services Corps
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund

IMaTeP	Institut Malgache des Techniques de Planification
INPF	Institution National de Promotion Formation
INSCAE	Institut National des Sciences Comptables et de l'Administration d'Enterprises
IQC	Indefinite Quantity Contract
JCEM	Jeune Chambre Economique de Madagascar
MAELP	Madagascar Agricultural Export Liberalization Project
NGO	Non-Governmental Organization
PME	Petits et Moyens Enterprises (SME in French)
PSAB	Private Sector Advisory Board
PSTNA	Private Sector Training Needs Assessment
SA.FA.FI	Agricultural Development Department of the Malagasy Lutheran Church
SBA	Small Business Administration
SERDI	Société d'Etudes et de Réalisation pour le Developpment Industriel
SME	Small and Medium-Sized Enterprise
SOE	State-Owned Enterprise
TSA	Training Support Advisor
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization

EXECUTIVE SUMMARY

The purpose of the HRDA Private Sector Training Needs Assessment (PSTNA) conducted in June 1989 was to determine training priorities which will promote private sector development in line with the USAID/Madagascar assistance strategy. USAID strategy focusses on assistance in consolidating and implementing Madagascar's structural adjustment program, including support for trade liberalization and other economic policy reforms, and on assistance to stimulate creation and expansion of private enterprise, with emphasis on the agricultural and agri-business export sectors.

The training needs identified during this assessment will serve as the basis for determining USAID/Madagascar HRDA and other private sector training activities from FY 90 to FY 92. An illustrative three-year draft training plan for HRDA activities has been included in the appendices.

During the assessment, team members met with 41 key players in private sector development, including GDRM agencies, training institutes, banks, accounting and consulting firms, business support organizations, and donors, and with 36 private or semi-private businesses from all sectors, ranging in size from three to 1,320 employees and from 2 million to 30 billion Malagasy francs ($1,250 to $1.8 million) in total sales.

The assessment identified the following major constraints to development of private sector activities, particularly as concerns small to medium-scale enterprises which were targeted under the assessment:

- A number of constraints resulting from liberalization and devaluation, e.g., a serious drop in purchasing power, affecting both producers and consumers; coupled with a rise in foreign exchange terms of imported raw materials and other inputs; leading to falling production and falling revenues

- Difficulty in procuring affordable credit for both working capital and investment

- Inability to update outdated or worn out machinery, for the above reasons, hampering production and quality

- Critical lack of management skills, particularly as relates to business organization and planning, marketing (export and local), and financial management

- A lack of adequately trained and work-experienced management at all levels, including mid-level managers and line supervisors.

The assessment identified the following major training needs:

- For beginning or potential entrepreneurs (including laid-off private or public sector employees, unemployed high school or university graduates, and others): training in entrepreneurial development and business start-up basics

- For managers of existing Small and Medium-sized Enterprises (SMEs): training in principals of management (long-term planning, organizational development, etc.), marketing, and financial management (especially cost accounting and treasury operations)

- For middle-level managers, line supervisors, and senior technicians with supervisory responsibility: leadership and initiative training, work organization, and human relations skills

- For instructors from local training institutions: assistance in developing practical short-term business courses for SMEs

- For staff and key personnel of local business associations and support organizations: organization management and assistance in developing SME promotion and outreach services

- For government ministry, parastatal, and state banking officials: a greater understanding of private enterprise, including knowledge of techniques for privatization and other aspects of private sector development.

In line with USAID development priorities, and based on the results of the training needs assessments, the private sector training needs assessment team identified the following key objectives for USAID/Madagascar private sector training activities:

- **Promotion of private enterprise creation and expansion,** through the development of specialized programs at INSCAE to select and train entrepreneurs in business creation, and to train business owners in management, financial and marketing strategies; through in-plant consultancies by IESC; and through Entrepreneurs International U.S. business internships for selected entrepreneurs.

- **Strengthening of local training institutions,** through development of practical business courses for managers at INSCAE, training for middle-level managers and supervisors at INPF, short-term U.S. study tours and training for selected training staff, and the provision of tuition credits to encourage SME patronage of the training institutions.

- **Strengthening business support organizations,** through customized study tours and short-term training in the U.S., with emphasis on APEM, SIAPEM, and the JCEM.

- **Promoting government understanding of private enterprise and public/private sector dialogue,** through the organization of roundtable discussions between key public sector officials and the business community, and through practical workshops on privatization or other issues of importance to the private sector.

Funding for the HRDA project, drawn from the mission's OYB, will be approximately doubled from previous years, from around $200,000 annually in FY 1988 and FY 1989 to $400,000 annually for FY 1990 to FY 1992.

I. HRDA BACKGROUND

The Human Resources Development Assistance (HRDA) project was initiated in FY 1988. Its stated purpose is to stimulate, facilitate, and support national and regional training programs that will provide technical, scientific, and management personnel and policy planners to strengthen African development institutions, enhance the growth of the private sector, and increase the participation of women in development.

The HRDA project, as compared to the predecessor regional training projects AMDP I and II, has two new targets: first, **50%** of project training (i.e., numbers of trainees) should serve to promote private sector development; second, **35%** of the project trainees should be women. In addition, the project places increased emphasis on the use of third country and in-country training institutions to implement training programs.

USAID Madagascar had developed two annual country training plans for FY 88 and FY 89 under the first two years of the five-year HRDA project. These plans called for limited private sector training, and in 1989 the mission decided to develop a more detailed private sector training strategy.

A two person team, assisted by the HRDA Private Sector Training coordinator during the first week, conducted over 80 interviews in a two-week period, including two GDRM ministries, four training institutes, two accounting and consulting firms, four banks, six donors, seven business support organizations, and 35 private or semi-private firms (Assessment Methodology and contacts are described in Annexes 1-3).

II. USAID DEVELOPMENT PRIORITIES FOR MADAGASCAR

A. USAID Development Priorities

USAID/Madagascar's overriding development priority, as stated in its February 1988 Concept Paper, is:

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

As the concept paper states, increasing rural incomes means "staying the course on the liberalization process," and indeed much of the mission's efforts are directed towards this end. The U.S. is providing balance of payments support for the IBRD/IMF-brokered 1987-90 structural adjustment program.

The U.S. will also use food assistance to support the liberalization process by helping to stabilize prices and markets under conditions of scarcity while the GDRM implements agricultural policy reforms to stimulate domestic production; and will continue to target feeding programs for nutritionally vulnerable groups, e.g., women and children.

A major new initiative is the $18.7 million Madagascar Agricultural Export Liberalization Program (MAELP), which has the goal of reducing policy and procedural impediments to liberalized Malagasy external agricultural markets. The project has two major components: an agricultural sector grant conditional on policy reform, and a project component made up of studies, technical assistance, and training linked to the policy dialogue agenda which is intended to reinforce the implementation of announced policy and procedural changes.

Among the reform objectives are the following: liberalization of export markets for the country's traditional and principle export crops, e.g., coffee, cloves, and pepper; streamlining of administrative requirements for exporting of agricultural products; and continuation of the Open General Licensing (OGL) program, the foreign exchange allocation mechanism that allows producers to have sufficient access to spare parts and inputs.

The project activities include:

- Studies–a rural household income and expenditure survey; technical studies on new export prospects and reforms to the export marketing system; and policy studies to identify specific policy constraints hampering medium and long development of the agricultural sector.

- Training–to strengthen in-country institutions to carry out training of Malagasy entrepreneurs, particularly in marketing and other skills related to expanding export operations; U.S. classroom and on the job business programs for about thirty businessmen from the public and private sectors; study tours, studies, and workshops in support of external agricultural market liberalization; and in-country seminars on topics relevant to Malagasy exporters, e.g., marketing, business start-ups, bank proposal preparation, etc.

- Technical assistance–will be provided for course development for INSCAE, the local management training institute; for the study tours, studies, and workshops; and for business consultancies for the Malagasy private sector.

B. USAID Private Sector Strategy and Its Relationship to Training

While the mission does not have a specific private sector strategy per se, the private sector is intended to be a major beneficiary of the liberalization and other economic policy reforms undertaken by the GDRM with USAID and other donor assistance, as was outlined in the above description of overall development priorities.

The mission considers training to be an essential part of its support for private sector development, as can be seen in the substantial training component in the MAELP project, and the commissioning of this private sector training needs assessment in order to develop an HRDA private sector training strategy.

III. PRIVATE SECTOR ENVIRONMENT

The following is a summary of the environment in which the private sector functions in Madagascar, especially as regards policy, economic and market factors, human resources, and credit. A brief description of the potential growth areas for SMEs is included as well as an evaluation of the key constraints to SME development and how these relate to training. A more detailed discussion of these topics is provided in Annex 4.

A. Policy Environment

A program of financial stabilization measures and policy reform began in the early 1980s with reinforcement by the IMF. The actions undertaken substantially reduced the fiscal deficit, inflation, and the current account deficit. Real GDP grew very modestly from 1983 to 1987; however, the increase was undermined by rapid population growth.

In the mid-1980s, with World Bank and IMF assistance, the GDRM embarked on a structural readjustment program, the major effects of which have been the liberalization of prices, markets, and trade. Progress has been made in a number of areas: devaluation of the seriously overvalued FMG, price controls abolished for industrial and artisanal products, profit margin controls abolished for all products, liberalized import and export procedures, market incentives put into place to stimulate rice production, and a revised Investment Code giving specific advantages to SMEs. Recently (May 1988), banking laws were revised to allow private capital, domestic and foreign, to participate in banking.

Additional reforms under the World Bank's PSAC include the liquidation, restructuring, and divestiture of various parastatal firms (already initiated) in order to streamline that sector, increase in efficiency of allocation and use of government resources, compression of state and parastatal employment, and the removal of administrative obstacles to the expansion and diversification of export activities.

USAID/Madagascar, complementing and reinforcing the policy reform and structural adjustment activities of the World Bank and the IMF, gives balance of payments support to Madagascar, food aid (PL 480) in times of food scarcity, and is instituting its Madagascar Agricultural Export Liberalization Program. This program also targets policy reform and the removal of administrative obstacles in an effort to expand the exports of non-traditional as well as traditional export crops.

B. Economic and Market Factors

Madagascar's economic and market factors underlie the environment in which the private sector operates. Market liberalization so far has had powerful, and largely negative, effects on Madagascar's manufacturers.

1. Madagascar's Economic Performance

Madagascar succeeded in stabilizing its economy between 1982 and 1986, cutting inflation by more than half and registering a very modest increase in GDP starting in 1983. Rapid population growth, however, caused GDP/capita to drop. 1987 and 1988 were not propitious for the economy, as exports fell and, internally, purchasing power dropped an estimated 20%.

Much of the private sector, reflecting the state of the economy and the liberalization moves undertaken, is moribund. In particular, manufacturing is suffering, as are those firms which supply and/or service this sector. Many firms are running well below their design capacity, while some are operating at levels as low as 10-40%.

2. Liberalization and the Vulnerability of SMEs

The desired impact of liberalization in the longer term is a more open and competitive economy, with a growing, effective private sector driven by market forces. Madagascar's case is like that of many other African nations–many inefficient parastatals with de facto monopoly powers, a few one or two company industries also with de facto monopoly powers, and a small, fragile SME subsector–facing the effects of structural adjustment and market liberalization. The private sector has had little time to prepare for the most significant effect of liberalization–the flood of competing, less expensive imported goods.

Madagascar's private sector is fragile, particularly its SME component. The SME subsector lacks scale; financial and productive resources; upstream, downstream and cross linkages; and political power. The lack of scale, financial resources, and linkages means that its staying power, in the face of external competition, is weak. Many SMEs are operating at very low levels of their design capacities, many have serious financial difficulties cutting into their abilities to operate effectively, and some businesses have closed. Other factors which contribute to their vulnerability is their lack of access to bank credit (due in part to their own financial precariousness), continuing onerous taxes, their own inability to market (as distinct from selling) their products, and an environment which is still far from being conducive to growth.

C. Credit

For the start-up SME, bank credit is very difficult to obtain, and for the existing SME with a good business track record, additional credit is hard to get and it is high priced. For start-up

SMEs, the lack of access to credit is largely due to the sheer lack of bankable business propositions, the entrepreneur's inability to bring the requisite amount of equity to the proposition, and the new entrepreneur's lack of management competence. The lack of bankable propositions also appears in the low use of the World Bank's $8 million line of credit targeting agricultural and agri-business activities. This two-year-old facility has somewhat softer terms than market, yet even so, only 16 proposals–in the amount of $3 million–have been financed.

The existing SME has access problems because many SMEs have serious operating and/or financial difficulties and some have failed. The general financial squeeze with associated cash flow problems means that companies are drawing on their capital to stay afloat. This presents a highly risky picture to a banker and he thus can not accommodate the SME. SMEs which grow to be larger than sole proprietorships often suffer from an absence of managerial and financial expertise. As the firm expands, it typically overextends itself on work/production commitments, can not manage its now extended, more complex treasury requirements (i.e., cash, receivables, and payables management) properly, and thus gets into financial difficulty (a squeeze). This SME is not an attractive candidate for lending.

The private sector in general suffers from the banking sector's difficulties. The three state banks have large fractions of their loan portfolios which are non-performing (principally SOEs), and one of the banks (BNI) is virtually insolvent. The low quality of the portfolios, coupled with strict Central Bank ceilings on credit, translates into tight liquidity in the system and less available credit. Furthermore, since the banks are under pressure to clean up (including write-offs) their portfolios, they are averse to most lending, other than highly profitable, low risk, short term commercial lending.

These problems are being currently addressed under the World Bank's Public Sector Adjustment Program, with writeoffs of bad debts, portfolio restructuring, and partial privatization of the state banks. Moreover, a new 100% private commercial bank is due to start operations by the end of 1989, which will inject a sorely needed measure of competition into the sector.

Thus, a stagnant economy, the precariousness of the banking sector, the negative effects of liberalization on much of the private sector, the concomitant growing financial problems of many firms, and the high degree of risk of both the start-up and the operational SME combine to make the banks very inflexible vis-a-vis SME lending. Interestingly, in response to the lack of credit, two embryonic venture capital funds are being established, one of them an outgrowth of the local private sector support organization (APEM and its "parent" GEM). The other will be a UNIDO effort in collaboration with the BNI. Both intend to seek out viable SMEs, and participate with bank loan guarantees and equity positions. The venture capital operations do not see themselves taking active management roles in their clients' operations at this time.

D. Human Resources

Just as acute as the need for credit is the private sector's need for skilled personnel, with hands-on experience at the entrepreneur level and across the entire range of management and technical levels. Given the characteristics of Madagascar's educational system and its history of educating for future public service, it is not surprising that there is very little experienced business management talent available. The lack of practical experience covers all aspects of business operation, resulting in an inadequate reservoir of middle and junior level managers. There is also an absence of management and technical talent where specialized technologies and operations are concerned. The lack of experienced talent also extends to senior management. Business owners and businessmen report that they simply can find neither experienced senior managers nor technicians in Madagascar–those with the requisite skills and experience have left Madagascar to earn a decent living elsewhere.

Insofar as local, immediately usable management talent is concerned, businessmen are unanimous in their complaint that the products of Madagascar's educational and vocational system are steeped in theory, but have no practical experience. As such, they are of no immediate use to the firm and all must be "retrained" by the firm. Furthermore, the smaller firm often does not have the resources necessary to carry the new, inexperienced manager for a period of "retraining."

Another serious shortage is that of good, first line supervisory personnel, with production and personnel management competence. Also missing are technicians who are both technically up to date and who can apply their educational training to the workplace.

The conventional wisdom is that the Malagasy is not an entrepreneur. This is belied, in part, by the fact that there are some true entrepreneurs among the Malagasy. Moreover, his ingenuity and ability to conceive/adapt technologies and ideas translate into some interesting product and market innovations. Entrepreneurial ability must be sought out, developed, and nurtured, and the Malagasy's ingenuity capitalized upon to strengthen the fabric of the private sector.

The bright spot in the human resources area is that labor–unskilled, semiskilled and to a degree, skilled–is abundant and very low cost. The Malagasy worker is eminently trainable, ingenious, and not afraid of hard work. Repair and maintenance (particularly preventive maintenance) skills, and the ability to operate increasingly sophisticated equipment, are partially absent–due to the fact that since 1972 preventive maintenance was not emphasized in the state-run workplace and that Madagascar has been largely living on 1972 state-of-the-art production equipment.

Finally, the matter of training is critical considering the growing urban unemployment caused by a stagnant economy and the flood of university graduates and leavers. This will be exacerbated once the GDRM embarks on the restructuring of the SOE subsector and the reduction in government personnel. The criticality stems from the fact that the formal private sector has little absorptive capacity, given its small size and fragility. The questions now become how to revive the economy, including the formal private sector, how to build the necessary reservoirs of business talent, and how to prepare those leaving and soon to leave the university, SOE, and civil servant systems.

E. Potential Growth Areas for SMEs

Provided there is a favorable resolution of Madagascar's current economic malaise, the potential growth areas for SMEs appear to be:

- Operations ancillary to agricultural production along the entire "food chain" from farmgate to consumer. These operations cover the gamut of manufacturing, processing, storing, transporting, servicing, and marketing activities necessary to grow, move, and transform agricultural products into saleable foodstuffs.

- Operations ancillary to other basic, labor-intensive sectors, such as construction and road building.

- Light manufacturing which can produce final and intermediate goods able to compete in domestic markets by reason of price, quality, and timely supply, and which have the future potential of being able to gain a competitive edge in external markets.

- Services for domestic urban markets for both the private and public sectors, e.g., product repair, maintenance services, business/office services, information services including subcontracting of computer services, high-quality consulting including management accounting, and possibly the assumption of selected government and municipal services.

- Should significant growth in tourism become possible, the entire "tourism chain" becomes a candidate for SMEs–Madagascar has minimal tourist infrastructure in place, and the industry is highly labor-intensive. A tourist requires everything from a decent hotel room with services that work to camera safaris.

F. Key Constraints to Private Sector Development and Their Relationship to Training

The key constraints to SME development which directly affect their training needs are:

1. Human Resources

Since this constraint spans all levels of management, the entrepreneur himself, technical personnel, and, to an extent, labor, it is the primary subject of this assessment and its training plan. The training plan addresses the need for entrepreneurial skill development, management and financial skills, and marketing expertise. This latter is of top priority for the Malagasy business owner and his management if he is to compete successfully in both domestic and foreign markets, and if he is to be capable of seizing and capitalizing on business opportunities.

2. Access to Credit

With more favorable economic and business conditions, and an administrative environment more conducive to business success, SME access to credit can be increased by appropriate, practical training across the range of business skills that help make a business bankable. The training needed, especially for the start-up entrepreneur, covers the entire range of functional business skills, particularly organization and management of the firm, financial management, and marketing. For the new entrepreneur, training should be tied to obtaining bank credit, to ensure that he has successfully completed the training and is starting off with a solid foundation of skills and a "bankable" business activity.

3. GDRM Policy Actions

Freer trade and markets are bringing Madagascar's SMEs into severe competition with imports, and many firms are increasingly unable to compete. The problem extends out from these companies to their suppliers of goods and services, for as the first-affected businesses' activities slow, so do those of suppliers. Marketing and financial management are the key skills needed for manufacturers if they are to meet the competition of imports successfully. Business operations must be made leaner (training in cost accounting and cost control) and competitive (training in the basics of marketing and those techniques and tools which are germane to the Malagasy SME's situation).

4. Economic and Market Factors

Here again marketing training is absolutely critical if the SME, increasingly in competition with foreign goods, is to survive. The Malagasy SME faces a domestic market with declining purchasing power, which means that as the "pie" shrinks, the competition will become all the more fierce. Moreover, in the short term there is only a modest overall potential for market growth.

5. Characteristics of the Private Sector

Constraining characteristics of the Malagasy themselves range from a lack of aggressivity to an inability to organize and effectively operate one's business–especially when it grows and becomes more complex. There is a tendency, born of 17 years of statist control, to want and expect government protection, while at the same time railing against the government. These characteristics call for training in general management/business organization and in the basics of free market enterprise.

IV. EDUCATION, EMPLOYMENT, AND TRAINING RESOURCES AVAILABLE TO THE PRIVATE SECTOR IN MADAGASCAR

A. Educational System and Outputs

There are a large number of schools in Madagascar; over 8,000 primary schools, more than 800 secondary academic and technical high schools, and six universities around the country (all formerly branch campuses of the now-dismantled University of Madagascar). The number of students is steadily increasing, while the quality of education appears to be dropping, as the total number of students passing on exams at all levels has fallen by 25% and more in recent years. An estimated 130,000 Malagasys pass through the educational system yearly to enter the University of Antananarivo and its provincial branches. Of this group, an estimated 30,000 to 50,000 leave the university system each year, of whom only 11,000 are graduates.

B. Employment and Professional Training in Madagascar

Less than half of university graduates find employment once out of school, while university and secondary school leavers find themselves with a bleak horizon of employment possibilities. Job prospects in government are dim, as the GDRM implements austerity measures and trims back the civil service, while the private sector has not yet picked up enough momentum to absorb the large numbers of young people coming on to the job market each year. Although rural to urban migration, coupled with a high birth rate (over 3%), has led to rising urban population, Madagascar is one of the few countries where the flow from urban to rural areas is higher (2:1) than rural to urban migration during times of economic difficulty.

In general the level of professional training is seen as insufficient for the country's human resources needs, particularly given the traditional lack of practical training in the Malagasy school system. This has left many Malagasys with years of education behind them, and yet little or no practical skills or work experience in hand to make them attractive candidates to private businesses, who are in desperate need of such trained people. It is clear that the proper approach to training can go a long way towards turning some of Madagascar's unemployed into valuable workers, while providing the blossoming private sector with much needed entrepreneurial, technical, and managerial talent.

C. Management Training

Although the University of Madagascar has a management ("gestion") program in its Faculty of Law, Economics, Business and Sociology, donors, bankers, and private sector businesses alike criticized the school's largely theoretical orientation, based on the traditional French curriculum, and said graduates of the program had no practical management skills. However, a number of training institutions outside the university system have been set up specifically to provide management training; each has a different orientation and clientele.

1. CFC

The Centre de Formation et de Perfectionnement des Cadres (CFC) was established in 1982 to provide in-service training for senior company managers. Based in Antsirabe, with a branch office in Antananarivo, the center was set up with EEC financing and technical assistance from a London management consulting firm. It is a parastatal "socialist enterprise" under the Ministry of Commerce, but claims to be financially autonomous, relying on tuition fees and donor assistance for its operations. It has ten fulltime faculty and another ten external experts ("vacataires"). Through an EEC-funded technical assistance contract with the Chambre de Commerce de Paris, most of the fulltime faculty has or will benefit from at least three months of training in Europe. The Paris Chamber also provides one fulltime expatriate expert and a number of short consultancies for program development.

CFC offers seminars and workshops running 2-10 days, with a 5-day Monday-Friday format being the most common. Classes are small, usually 15 students taught by one or two trainers, and cover general management topics, human resources management, interpersonal communication, financial management, marketing, and quality. The center offers regular seminars (15 are planned for September-December 1989), as well as customized in-company training and consulting, which is becoming an increasingly larger percentage of its work (e.g., 21 weeks of training for Air Madagascar management and employees in 1988, 25 weeks in 1989). Scheduled seminars run around 200,000 FMG per person for a five-day course.

The center works primarily with parastatal companies, aside from a few of the country's largest private sector firms. The training is mostly for senior level managers, although the center does work with middle-level managers, line supervisors, and other personnel when doing training activities within individual companies.

Evaluations of the center's performance by participants vary widely. Generally, private sector managers found the courses superficial and not technical enough, while parastatal managers (many of whom are appointed civil servants and have no business training or experience) found them to be enlightening. CFC staff admit their marketing and general management expertise is weak, while human resource topics appear to be the center's strong point. The Paris Chamber is working with CFC to reorient its courses towards the private sector, and the IBRD plans to target the center in a program to promote small enterprise creation as part of its APEX loan.

Given the center's current parastatal orientation, CFC could be a appropriate site for workshops on privatization of state-owned companies, and a potential site for training private sector managers once the center's IBRD-backed program is underway.

2. IMaTeP

The Institut Malgache des Techniques de Planification (IMaTeP) was established in 1982 to provide training in macroeconomic planning and management for the public sector. Technical assistance, training for faculty, and some equipment was provided by the UNDP, at its inception. The state-supported institution offers short- and long-term training, research on economic development, and consultancies in the above two activities.

The school has about 30 fulltime faculty, most of whom hold master's or higher degrees, many from U.S. and European universities, and another 30 part-time professors. Largely subsidized by the government (public sector students pay no tuition), IMaTeP provides 25-30% of its own financing. The school has a cooperation agreement with the University of Pittsburgh and linkages with other schools in Holland and elsewhere in Europe. The U.S.-trained Malagasy director is interested in having IMaTeP become a regional training and research center, and says a number of Indian Ocean states and Niger have inquired about sending students there.

The curriculum has four areas of specialization: national planning, sectoral planning, regional planning, and project management. Students must have two years work experience before entering, and follow a two-year program at one of four levels: beginning after the next-to-last year of secondary school, post-secondary school ("Bac") level, after the first two-year cycle of university study, or at master's degree level. Between 60 and 80 students, drawn primarily from government ministries, parastatals, and–more recently–the army, graduate from this program each year.

IMaTeP also has offered 3- to 4-month courses and 2- to 3-week seminars in development project management, public tendering, and other areas of interest to public or private sector clients, and has completed a number of donor-financed economic research projects for government ministries.

Because of its largely theoretical, macroeconomic and public sector orientation, IMaTeP would be most appropriate for public sector training, although its research capacity could be utilized to gather much-needed data on the private sector.

3. INSCAE

The Institut National des Sciences Comptables et d'Administration d'Entreprises (INSCAE) is a national accounting and business administration school established in 1983 by the IBRD, on a North American model with Canadian faculty and technical assistance from an American professor. The school offers fulltime degree programs, night courses, and seminars in accounting, as well as a business administration degree program. It continues to receive support from the Bank, as well as Canada (CIDA) and France, and will be the locus of training activities for USAID/Madagascar's MAELP project. The school has 27 fulltime

Malagasy professors, a number of part-time teachers, and about a half-dozen Canadian and French-sponsored faculty.

INSCAE's accounting program has two cycles: a three-year course for accountants leading to a DSSC (Diplôme Supérieur Spécialisé en Sciences Comptables) accounting degree, followed by a one-year cycle leading to a DESCA (Diplôme d'Etudes en Sciences Comptables Approfondies) degree and full chartered accountant status, available only to the top 20 graduates of the three-year cycle. Entry into the popular program is difficult; according to the director, over 1,200 people applied for 60 slots in the January 1989 first-cycle program. The fee for the program is nominal, 3,000 FMG per month, which partly explains the high application demand. The accounting division also offers night classes which follow the same curriculum, albeit at a much slower pace, and short-term, non-degree seminars in accounting and related topics which are popular with private companies. The school's accounting division also wrote a National Accounting Plan, designed to set the standard for financial accounting in the country.

The school is generally believed have achieved its initial goal of training highly qualified Malagasy accountants, and most graduates, especially those completing the entire four-year program and achieving chartered accountancy status, have had little trouble finding work with banks, accounting firms, and private companies and parastatals. More recently, however, first-cycle graduates have had difficulty finding jobs, particularly at the salary levels they desire, and a number of businesses have expressed the fear that the number of accounting graduates may eventually reach a saturation level within a few years.

INSCAE's two-year business administration program, leading to an MBA, got underway in 1988, and will graduate its first students in 1990. The first year covers general management topics, followed by a 2- to 3-month internship in a local company. Students choose from a variety of specializations during the second year, including marketing, finance, and SME creation. The program uses current MBA teaching methods, including case studies and team and individual projects as well as lecture classes. Applicants must have a university degree, or two years of university study and four years of professional work experience. Over 200 people applied for the 30 slots available in the latest round of admissions, including doctors, university professors, and engineers seeking retraining in business. The school has offered a number of short-term seminars on managerial topics, including one on financial management for SMEs sponsored by the ILO, and is interested in offering more courses of this type. Eventually a regular program of night courses is envisaged. The school also seeks to offer management consulting and technical assistance services to Malagasy businesses.

Although it is too soon to judge the success of the program, it is believed the business program will offer a quality education and provide employable graduates capable of immediately assuming positions of responsibility in the private sector. However many businesses interviewed by the assessment team expressed the need for the school to provide practical training in management techniques, and avoid the highly theoretical curriculum traditionally offered at the University of Madagascar and the university system in France, where many Malagasys receive their education. It was also felt that courses should be taught by people with actual business experience, rather than by those with strictly academic backgrounds. In addition, virtually all businesses interviewed said that although the two-year program provided top quality training for a few, the "creme de la creme," they also felt that affordable, practical short-term courses would do much more to provide a wider range of people, particularly budding entrepreneurs and SME owners, with the business skills so sorely lacking in Madagascar. Finally, a number of donors have expressed reservations about the quality of top management at the school, an issue that may be resolved as donors increase their technical support and general development of the school.

Under USAID/Madagascar's MAELP program, INSCAE has already been designated as the site for a number of training activities and technical assistance geared towards agricultural exporters, including technical assistance to INSCAE for developing its part-time business management courses, English language training, and sponsorship of U.S. study tours and short-term training for INSCAE faculty and students.

As the only Malagasy school devoted expressly to providing management training for the private sector, INSCAE is a logical locus choice for HRDA or other USAID private sector training activities and support. HRDA-funded activities could dovetail neatly with MAELP support for INSCAE's efforts to expand its offerings to the Malagasy private sector.

4. MAELP

Although it is not a training project per se, USAID/Madagascar's Madagascar Agricultural Export Liberalization Project (MAELP) has a $2-million-dollar training and technical assistance component for private sector agricultural exporters which addresses many of the management training needs expressed by the private sector as a whole.

Scheduled to get underway in mid-1989 and run through 1991, the MAELP training component involves: 1) strengthening in-country institutions (e.g., INSCAE) to carry out training of Malagasy entrepreneurs through the development of short-term business courses and seminars and study tours to the U.S. for INSCAE directors and faculty; 2) providing U.S. short-term training and on-the-job business programs for Malagasys; and 3) study tours, studies, and workshops in support of external market liberalization aimed at key Malagasy policy-makers and business people.

MAELP will provide technical assistance in three areas: 1) assisting INSCAE to develop its part-time business management courses, including business English training, and conducting short-term seminars on such topics as marketing or setting up a business; 2) coordinating economic reform related study tour and workshops; and 3) providing business consultancies for the Malagasy private sector in the area of export marketing.

A number of aspects of the MAELP program, including the responsibilities of a Malagasy oversight committee, participant identification and selection mechanisms, and prioritization of specific areas for training and technical assistance, will not be determined until the training contractor has begun work. However, given the nature of overlapping priorities between the MAELP and HRDA projects, coordination between the two is essential. As such USAID/Madagascar's HRDA private sector training strategy will be designed to complement MAELP activities.

D. Technical Training

Technical training in general trades is provided through public and private technical high schools and other small schools specializing in one or more technical areas. As in many countries on the African continent, the quality of training in these schools vary greatly. Most suffer from a lack of equipment and funding, and often end up turning out novices who need further training to become employable workers. Generally, businesses in Madagascar expressed a preference for hiring readily employable graduates from INPF.

1. INPF

Founded in 1974, the Institution National de Promotion Formation (INPF) provides beginning technical training for secondary school leavers, and continuing education programs for workers employed in technical fields. Training is divided into seven general areas: Electrical Works, Refrigeration, Automobile Body Work and Painting, General Mechanical Work and Maintenance, Automobile Engine Repair, Woodworking, and Office Skills (Management, Accounting, and Secretarial). The school has workshops for each of the technical fields, and is oriented toward practical, rather than theoretical, experience.

Beginning students must be at least 18 years old and have completed a 10th grade ("3eme") education to apply, although over 80 percent of 1989 entrants already have a high school diploma. Students take courses over a 9-month period, followed by a 4- to 10-week internship with a local company. The school's director says demand for courses is high; e.g., 200 people applied for 30 slots in the 1989 Electrical Works program. He says graduates from all areas find jobs easily, with the exception of secretarial trainees, who face a saturated job market. The program costs 26,000 FMG per month for the 9-month coursework period (the internship is on a no-fee, no-remuneration basis), and graduates 160 students a year.

INPF also offers continuing technical education courses to company workers, in the same seven subject areas, in modules ranging from two weeks to three months. In addition to the short courses offered throughout the year at the school (45 are listed in the 1989 catalog), INPF also conducts in-service workplace training at the demand of individual companies, for example the sugar refineries in the northern provinces. According to the director, about 400 students participate in these courses a year, drawn from private sector and parastatal companies, and some well-off individuals. Tuition ranges from about 135,000 FMG for a two-week introductory book-keeping course to 525,000 FMG for an 8-week course in electrical appliance repair. Average costs run between 216,000 and 324,000 FMG for most technical courses.

Not included are the considerable transportation costs for the school's bus service, which brings students on a daily 15-kilometer ride to and from downtown Antananarivo. INPF does have a 24-bed dormitory for boarders, and hopes eventually to expand this facility for students coming from outside the capital.

INPF has about 50 fulltime and ten part-time faculty, some of whom have received donor-funded training in Europe. The state-run school has received technical assistance and materials from UNDP, ILO, World Bank, EEC, Switzerland, and France. Two expatriate consultants from the ILO are adjunct faculty and run a pilot program for SSE creation (see section VI for further description of this project).

Companies interviewed for the PSTNA expressed general satisfaction with the quality of training provided by INPF. Most companies employed one or several graduates of the one-year program or had sent employees to the short courses, and preferred these students over those graduated by the country's technical high schools. Criticisms focussed mainly on a lack of appropriate training in certain specialized training areas, usually related to the particular technical needs of the company (e.g., operation and repair of bicycle manufacturing machinery).

One area meriting further examination is INPF's short course offerings for mid-level management, shop foremen, and other workers having supervisory responsibilities. Over a half-dozen courses cover topics ranging from human resources, organizational, and workshop management to supply ordering and storage, simple bookkeeping, and other related subjects. Although most companies interviewed appeared to be unaware of these offerings, an industrial gas company (SOAM) requested in-service training to train senior technical workers in human resources management and supervisory techniques, and was satisfied with the results. It is proposed that the mission examine these courses more closely, and, if deemed necessary, provide outside technical assistance in course development expand INPF's capability to provide practical management skills for line supervisors, shop foremen, and other middle level management.

2. Chamber of Commerce

The Chamber of Commerce, Industry and Agriculture purports to offer evening classes in a number of technical areas, e.g., electricity, electronics, plumbing, and general mechanics, as well as courses in bookkeeping, secretarial skills, and languages (English, French, and Malagasy). However, during its interviews, the assessment team was unable to locate anyone who has taken a class there, and met only a handful of people who knew that the courses existed. As described in more detail in Section VI, the World Bank has plans to resuscitate the Chamber, and the mission may wish to consider future support to any training activities emanating from the reorganization.

V. PRIVATE SECTOR SUPPORT ORGANIZATIONS

A. FIV.MPA.MA

Founded in 1972, FIV.MPA.MA (Fivondronan' ny Mpandraharaha Malagasy) is a federation of Malagasy (as opposed to foreign, local Indo-Pakistani, or Chinese) privately owned businesses. The group has around 350 members, of whom about 85% are in commerce and services, 10% in industry, and 5% in agriculture and other productive activities. The group acts as a spokesperson for its members in discussions with the government on issues regarding the private sector, and coordinates with other groups such as GEM. It offers no training activities, although FIV.MPA.MA expressed interest in training possibilities for its members under HRDA.

B. GEM

The Groupement des Entreprises de Madagascar (GEM) is an employers' association grouping private foreign- and Malagasy-owned companies, as well as the country's state-owned banks, insurance companies, and other parastatals. According to government statistics, GEM has 581 members employing 82,000 workers, thus making it the country's largest representative for business interests in national discussions on economic policy. Many SMEs do not belong to GEM, saying that its membership of large, older established businesses, parastatals, and banks is not sensitive to their needs. However, GEM has an offshoot (APEM) which is attempting to work directly with SMEs.

C. APEM/SIAPEM

The Association pour le Promotion de l'Entreprise Malgache (APEM) was created in 1988 by 30 of GEM's members, including industrialists, consulting firms, banks, and insurance companies. The group, many of whom are U.S.-trained young senior managers ("cadres"), seeks to promote SME creation through advice, seed capital, and credit guarantees to young entrepreneurs. In its first year of operation, APEM gave assistance to six entrepreneurs, of whom only two have been successful to date. Partly as a result of this, the organization plans to increase its current staff of one, to more adequately evaluate requests for assistance and to cope with group's increasing workloads.

APEM is also planning a venture capital arm, to be known as SIAPEM. With an initial capitalization of 500 million FMG, SIAPEM will be a kind of mini-venture capital fund, to help finance business start-ups, provide sufficient backing to secure bank loans, and also take equity positions in selected start-ups. SIAPEM is backed by APEM, and SIDI, the for-profit investment branch of a French NGO, and is hoping to secure funding from the IFC.

APEM freely admits the poor success rate of its guarantee program so far is due largely to its lack of experience in project appraisal and followup. Nonetheless, as one of the few indigenous private business support organizations committed to helping young entrepreneurs, APEM and its affiliate SIAPEM are in an excellent position to identify entrepreneurial talent worthy of training and technical assistance. However, the group itself will need technical assistance and training, in association management, investment analysis, etc., to adequately carry out the tasks it has set for itself. As such, APEM and SIAPEM would be good potential targets for USAID/Madagascar private sector training support, primarily in the area of staff development.

D. JCEM

The Jeune Chambre Economique de Madagascar (JCEM) was founded in 1961 as the local affiliate of Jaycees International. After a period of dormancy in the 1970s and early 1980s, the group was revitalized several years ago by a group of dynamic young senior managers of Malagasy enterprises. Currently the group has 120 members in five offices located in major cities throughout the country, with plans to open two more offices soon.

Since 1987, the JCEM has been active in SME promotion efforts, including the holding of four symposia on SME creation in 1988 which allowed for rare dialogue among a large cross section of public and private sector representatives. The JCEM has also published "Passeport PME," an informative booklet on how to start an SME in Madagascar.

One of JCEM's primary goals is to provide unemployed university graduates or those with some university education the practical experience or training to make them marketable in Madagascar. The group has links with other JCEs in Mauritius, Réunion, and Switzerland, has sent over a dozen university graduates to Europe on short-term in-plant visits and technical training programs, and has helped them find jobs when they return to Madagascar.

The JCEM is included in the SME promotion component of the IBRD's APEX loan, primarily to disseminate information about SME creation, and to locate potential entrepreneurial talent. With its branch offices around the country, the JCEM is one business support organization which is well placed to provide assistance to entrepreneurs in the commercial centers located outside the capital in other provinces, and would be a good candidate for USAID/Madagascar private sector training support, particularly staff training for JCEM.

E. Chamber of Commerce, Industry and Agriculture

Like many Chambers of Commerce in francophone Africa, the Madagascar Chamber is set up on the French model, i.e., a government-run organization, with mandatory membership for all established businesses in the country. While it professes to represent all businesses in

Madagascar, private and parastatal, most private sector operators see it as an arm of the state and do not consider it an active proponent of private sector development. In fact, the Chamber is considered as a more or less dormant organization by the private sector and donors alike. As it is currently structured, it is unlikely that this situation would change.

However the World Bank has plans to extensively restructure the Chamber, turning it into a 100% private organization, providing training, technical assistance, and equipment, and, eventually, moving the IBRD-supported SME promotion unit out of the Finance Ministry and into the Chamber. Given its current moribund state, and the extensive changes which may occur over the next few years, it is not advisable for the mission to put any extensive resources into the Chamber at this time, although USAID/Madagascar may want to consider assistance once the restructuring has taken place.

F. Agence ERE

Agence ERE des PME (Entreprendre et Réussir des Petites et Moyennes Entreprises) is an association proposed by the Ministry of Finance's SME unit in June 1989 to act as a national agency for SME promotion, and intended to coordinate all SME support activities in the country. In initial meetings with representatives from the private sector, banks, and other groups, the ministry proposed creating an NGO made up of representatives of seven groups: the country's banks, consulting firms, business organizations, government ministries, the Chamber of Commerce, training institutions, and smaller women's and other support groups.

However, a number of private sector associations, including GEM, APEM, JCEM, and FIV.MPA.MA, expressed serious reservations about Agence ERE, and threatened to pull out of the proposed association before it was created. These groups said government or government-controlled organizations made up the majority of the steering committee, and thus would not adequately represent private sector interests. They also made public statements saying the Finance Ministry had created the association solely for the purpose of controlling IBRD funds destined for SME development, which must be managed by an NGO. Although at the time of this writing the future of Agence ERE was unclear, it may eventually prove to be an influential actor, with or without private sector representation, in SME promotion activities.

G. Other Support Agencies (Accounting & Consulting Firms, Bank SME units, etc.)

There are a number of private and semi-private organizations which exist ostensibly to assist the private sector; many of these were set up in the rush to cater to new and expanding SMEs in the wake of liberalization. Among those organizations which profess an interest in SME promotion are a number of accounting firms, several dozen private and parastatal consulting firms, individual consultants, and a number of small schools which offer courses in small business creation, management, computers, etc. One consultant has even prepared a kit for potential job-seekers, "Comment Trouver un Emploi," containing tips on career choices, resume presentation, and interviewing skills, which is sold in local supermarkets. Those entities supported by the donor community are discussed under donor activities (See Section VI).

In general, the business community, banks, and donors have reservations about these organizations, which are seen as trying to capitalize on the insecurity and lack of expertise or business acumen among new entrepreneurs suddenly thrust into a rapidly changing private sector environment. A number of consulting firms which do SME project preparation work claimed they could guarantee bank loans for new SMEs. This claim is refuted by several bankers, who found the consultants' dossiers not up to standards, and the bankers empathized with struggling businessmen who had paid large sums of money for an inferior (and often worthless) product.

Nonetheless, as private sector activities increase in Madagascar, the market for these kinds of SME assistance services will increase, and those who are most successful in providing high-quality affordable services to their clients will hopefully emerge as key players in the development of the private sector, and may warrant eventual USAID attention or support.

The bank SME units, set up in two of the state-run banks with IBRD assistance, are a good beginning to providing loans and assistance to SMEs, but they are hampered by a lack of manpower and inadequate training in evaluation and followup of loans. The IBRD will continue to provide assistance to the units, as part of its APEX line of credit.

VI. DONOR ACTIVITY IN SUPPORT OF THE PRIVATE SECTOR

A. IBRD

In addition to the policy reforms engendered under the aegis of the structural adjustment program (e.g., banking reform, trade liberalization, devaluation, etc.), the International Bank for Reconstruction and Development (IBRD) has in recent years provided support for a number of activities more directly aimed at supporting the private sector, including the establishment of and continuing technical assistance to INSCAE, the creation SME assistance units in the local banks, etc.

The Bank is currently readying a $30 million APEX credit line to finance viable majority private sector projects in all productive sectors including commerce, with a $3 million technical assistance and training component, as well as accompanying policy reforms concerning the financial and private enterprise sectors.

The technical assistance and training component includes a number of subcomponents to support ongoing reforms in mining, industry, and finance, and to provide assistance to SMEs. The program includes:

- Training seminars in project evaluation and credit supervision for the banking sector

- Technical assistance for the mining sector, related to the new mining code

- Restructuring of the Chamber of Commerce by ending state control and giving it independent status, as well as modernizing its facilities to better serve its members

- A feasibility study for a one-stop Investment Promotion Center, possibly to be attached to the restructured Chamber

- A communication and motivation campaign, run by the JCEM, and targeted at the creation and expansion of private enterprises, through country-wide promotional tours and the media

- Development of SMEs through several initiatives: in-plant training and in-company visits for SME promoters and technical staff of SMEs, to be run by the JCEM; an Entrepreneurship Development Program, to be run by CFC with outside consultants, and using the ILO model (see B.1 below); revolving funds to help SMEs pay for feasibility studies; a program of general consulting and extension services to SMEs; and technical assistance to the two-year-old SME Assistance Unit in the Ministry of Finance and Economy.

In addition, a separate IBRD Economic Management and Social Action project provides training and employment for small-scale private road construction contractors involved in the HIMO labor-intensive roadbuilding program; and provides a redeployment fund, retraining, and information and referral services for laid-off civil servants.

Finally, the IBRD is currently in the planning stages of a major education project that looks to revitalize the country's technical education capabilities, including the possible creation of a number of specialized upper-level technical schools.

B. UNDP

The United Nations Development Program (UNDP) has two programs providing technical assistance, training, and, in the near future, credit for SMEs.

1. ILO

The International Labour Organization (ILO) is working primarily with micro- and small-scale enterprises in Madagascar, and is interested in providing business consulting services to the informal sector. The ILO has just concluded a pilot project in entrepreneurship development, providing training for young entrepreneurs in business basics and assisting them to get bank loans. A follow-on project beginning in mid-1989 will try to launch 100 new businesses over the next three years, through the provision of technical assistance. The project is run by ILO technical experts working at INPF, although it is independent of INPF's regular curriculum.

The ILO has developed an entrepreneurial development model, which includes analysis of individuals' entrepreneurial capacity, behavioral training, and assistance in preparing a business plans and loan applications.

2. UNIDO

The United Nations Industrial Development Organization (UNIDO) is working through a parastatal consulting firm, Société d'Etudes et de Realisation pour le Développement Industriel (SERDI) to provide technical assistance services on a fee basis to 12-15 SMEs in the industrial sector. The services include feasibility studies; assisting SMEs to find access to credit, including preparation of bank loan applications; and providing in-factory diagnostic consulting services. UNIDO/SERDI has also organized seminars for SMEs with INSCAE, offering practical management and financial information to SME owner/managers.

A $3.5+ million credit program for micro- and small enterprises is due to get underway in the latter half of 1989, with loans of between $500 to $5,000, offered at the local banks' "inflation rate," which is several percentage points cheaper than market rate loans.

A number of businesses interviewed for this training needs assessment were pinpointed by the UNIDO/SERDI technical advisor, who has expressed a strong interest in collaborating with USAID on various SME promotion activities, including training.

C. CIDA

The Canadian International Development Agency (CIDA) was instrumental in providing technical assistance to help set up INSCAE, and currently has $2 million (Canadian) three-year assistance agreement with the school. Two Canadian technical assistants at the school, are soon to be joined by a third, and 11 Malagasy faculty members were sent to Canada for training.

D. The Lutheran Church

SA.FA.FI, the Agricultural Development Department of the Malagasy Lutheran Church, offers integrated rural development and related training on a community level in the country's rural areas. The Church's agriculture extension workers provide technical assistance to villages or church groups interested in starting small grain, vegetable, poultry, and livestock operations. Most of this collective microenterprise production is aimed at providing local food self-sufficiency, although some communities are selling outside their immediate village area. Training is primarily in improving agricultural techniques, and the only business training per se is in how to manage the family cashbox. At the moment the Lutherans appear to be most concerned with improving rural self-sufficiency, and less with the development of markets or income-generating activities. Nonetheless, the Lutherans are well implanted in the rural areas of the country and may eventually prove to be a good resource for locating rural entrepreneurs.

E. Other Donors

France, the European Economic Community (EEC) and other donors also have also given indirect support to the private sector, including the partial financing of foreign partner joint ventures, technical assistance to local training institutions, etc.

VII. ASSESSMENT OF TRAINING NEEDS WITHIN THE PRIVATE SECTOR

A. Profile of Firms Interviewed

During the assessment, the team interviewed 35 firms in Antananarivo. Most of the firms were recommended by local business associations, prominent business owners, UNIDO's Small Industry program, or USAID/Madagascar staff. Most of the firms are from the private formal sector, included, and are categorized as small and medium-sized industries (SMEs). In this report this term has been used to refer to those industries having 25 employees or less ("small"), and those having between 25 and 100 employees ("medium-sized"). The following section describes the characteristics of those firms and their training needs as perceived by their owners/general managers or, in several cases, senior management staff.

The interviews included representatives from all sectors, broken down as follows: agriculture/agribusiness–23 percent, industry/manufacturing–54 percent, commerce and trade–23 percent, services–11 percent, construction–9 percent. A number of entrepreneurs are involved in more than one sector. The high number of manufacturing firms is not necessarily representative of the private sector in Madagascar, and is more a reflection of the business base in the capital.

Interviews were generally held with the firms' owner or general manager in the workplace and lasted one to one and one-half hours. Initial questions dealt with how the firm began and its current operating practices and problems, followed by administration of the questionnaire with its closed end questions.

Most of the firms (66%) were small to medium-sized private corporations, broken down as follows:

12 small-sized firms (1-25 employees)	34%
11 medium-sized firms (25-100 employees)	32%
12 large firms (more than 100 employees)	34%

Most of the firms were family-owned (71%), or privately-owned partnerships (23%), held by Malagasys, or, in several instances, longstanding foreign-born French or Asian residents of Madagascar. Managers of two foreign-owned firms, and four parastatals or public/private joint ventures were also interviewed. Only two firms (6%) export any of their products, and then only 20 percent of their merchandise, although another 23% have plans to begin exporting their current products or new items in the near future, as a result of liberalization of markets.

The level of technology was mostly low (54% percent of firms had a low level of technology, or medium (46%), although four firms (11%) product lines demanding higher technical sophistication. In addition, a number of firms were interested in raising the technical level of their activities to increase the quality of their products (e.g., pharmaceuticals, perfumes, bicycles, etc.)

A full 80 percent of the respondents indicated competition was high, and another 14 percent said it was medium, reflecting the opening up of internal markets to foreign competition. Two firms (6%) indicated a low level of competition, either because of the size of their business or because of the quality of their product. Slightly more than half (54%) said their main competition came from local Malagasy businesses, and almost a third (31%) said there competition was local Asian or Chinese-owned businesses. Foreign competition was strong for 40 percent of the firms, largely local manufacturing concerns that had formerly been protected by the government.

The combined effects of liberalization and devaluation were evident in the companies' balance sheets. Of those owners that responded to a question about growth in sales (63%), eight firms reported a drop in **volume** of goods while **sales figures** (i.e., Malagasy franc amounts) stayed the same or rose over the past few years. Some firms reported a temporary dip in sales in 1987 following the devaluation. Nonetheless, there had been some growth, six percent reported a 15-20 percent rise in sales, while another 22 percent said sales had risen 25-50 percent. Several companies, notably construction firms, said business was booming, with gains of 50-100 percent. Generally speaking, businesses needing foreign inputs said they were easier to find with the opening markets, but more expensive in Malagasy franc terms due to the devaluation. Nonetheless 23 percent said their future prospects were excellent, while another 29 percent said prospects were good, reflecting an optimism that the perturbations in the marketplace were starting to stabilize after shaking out many of the weaker competitors. Yet 17 percent had an average/poor outlook on the future, and a similar number said they were unable to predict their prospects.

The typical management structure in these firms is simple. Most of the firms, large and small, are headed and operated by the owner, often assisted by his family members in secondary management positions. In the medium to large firms the owner/manager usually has a management team, with sales, production, and financial managers, often educated overseas. Small firms are managed almost entirely by the owner, perhaps with an accountant. Most family-run businesses relied on the sons to fill management positions, although a number of daughters had also been given senior responsibilities. Otherwise the team saw few women in senior management positions in private businesses, unlike the public sector.

Most of the owner/managers tended to be "older," i.e., 43 percent were over 50, and the average age was 48, reflecting the preponderance of pre-revolutionary entrepreneurs in the private sector; 46 percent of the owners had over 20 years of business experience, another 37 percent had at least 10 years of experience. Of the businesses themselves, 43 percent were over 20 years old and another 29 percent had been in existence for 10 years or more. Only 14 percent had been created in the past five years, and all but one of those were two years old or less, reflecting an upsurge in new business creation following liberalization.

Owner/managers tended to have a much higher level of education than in other African countries where PSTNAs had been done; 60 percent of the owner/managers had a college degree or higher, of whom eight had some sort of specialized training in management ("gestion") or business, with similar statistics for the management teams. Literacy levels were also higher among workers than in other African countries, although few had gotten beyond the first year or two of secondary school.

B. Constraints to Business as Perceived by Owners/Managers

The principal constraints to business development, as perceived by the owners/managers interviewed, were, in order of priority:

1. Access to Credit (51%)

Complaints concerned the lack of access to bank credit and the high cost of credit, and applies to both working capital and investment. For start-up SMEs, the problem appears to be lack of bankable business propositions and difficulty in providing personal equity. Existing SMEs and larger firms are generally in a cash squeeze, particularly those which rely on foreign inputs and which have seen their assets decline in foreign exchange terms due to the devaluation. Banks have been reluctant to lend to companies which are forced to draw on their capital to stay afloat.

2. Reduced Purchasing Power (51%)

Structural adjustment measures, including the devaluation, have severely reduced overall purchasing power for the general populace, shrinking demand for many products. Likewise those companies with diminishing assets found their own purchasing power diminished.

3. Marketing Factors and Market Size (23%)

The reduced purchasing power and flood of inexpensive imported goods have radically changed the nature of once-protected markets, causing some Malagasy businesses to lose both market size and market share locally. Many firms realized better knowledge of marketing strategies was essential to their survival. Those interested in export business tended to rate lack of marketing knowledge (e.g., potential markets, packaging, quality standards) as a top constraint.

4. Lack of Qualified Personnel (20%)

The concerns most frequently voiced here were a need for trained management personnel, technicians with knowledge of new technology and repair and maintenance skills, and middle-level managers, supervisors, and shop foremen.

5. Technical Problems (20%)

Many firms are operating with old machinery, with the ensuing maintenance and productivity problems, and find it difficult or expensive to get the spare parts. Manufacturers said they need new technology and technicians trained to use it in order to stay competitive with imports.

6. Other

Other constraints expressed included difficulty in obtaining imports/raw materials (17%) due to factors 1 and 2 above, delays in being paid for government contractual work (14%), and government bureaucracy.

C. Training Needs Identified Among Firms Interviewed

The **principal training needs** voiced by the owner/managers were:

For **themselves**: 83 percent said they needed training, and prioritized the following areas:

> **Marketing (54%)**
> **Principles of Management (46%)**
> **Financial Management (43%)**
> **New Production Methods (34%)**
> **Computers/Information Management (26%)**
>
> Other areas mentioned included: maintenance and repair, business law, purchasing, and business English. Most said they would prefer evening classes or half-day sessions, and in-plant consultancies.

For their **managers**: Virtually all business owners with management staff felt they needed training, in the following areas:

> **Marketing (69%)**
> **Principals of Management/Supervision (63%)**
> **Financial Management (60)**
> **Production Methods (54%)**
> **Maintenance and Repair (49%)**
>
> Other areas mentioned included computers, purchasing, bookkeeping, and English for business. Forty percent of the owners wanted to train all of their managers, another 26 percent sought training for at least half of their management staff. Again the preferred format was evening courses (57%), followed by 1-2 week blocks, (26%), and in-plant consultancies to train management staff.

For their **workers**: Most owners (84%) said their workers needed training, in the following areas:

Production and Technical Skills (71%)
Work Methods/Habits/Attitudes (37%)
Maintenance and Repair (20%)
Bookkeeping (14%)

Most managers said on-the-job training was preferable, although six owners said they wished to have their workers trained away from the workplace, in a classroom situation with workers from other companies.

About half of the firms have had experience with local training institutions, primarily accounting courses at INSCAE or technical training at INPF. Generally they felt that INSCAE was providing much needed accounting training, and that INPF offered good technical courses.

Based on discussions with the main players in local private sector development and the 35 interviews described above, the key training needs which could be addressed by USAID/Madagascar under the HRDA project, MAELP or other projects are: business start-up skills for new entrepreneurs; general management, marketing, and financial management skills for existing firms; and improved technical and supervisory skills for middle level managers, supervisors, and line foremen. To accomplish this local training institutes and business associations should be strengthened to better support the private sector.

VIII. TRAINING STRATEGY AND RECOMMENDATIONS

The following section describes proposed USAID/Madagascar general training objectives, audiences, and activities to promote the development of the private sector in Madagascar, based on the results of the private sector training needs assessment. A proposed HRDA private sector training plan for FY 1990-1992, including a detailed schedule of activities and projected costs per fiscal year, is found in Annex 5.

A. Training Objectives

The key private sector training objectives of USAID/Madagascar are to:

- Promote the creation of small and medium sized enterprises and improve the viability already existing SMEs

- Strengthen local training institutions

- Strengthen business support organizations

- Promote greater government understanding of private enterprise, through increased dialogue between the public and private sectors, and through training activities targeted at those government agencies dealing with the private sector.

B. Target Audiences

Target audiences include beginning or potential entrepreneurs (including laid-off private or public sector employees, unemployed high school or university graduates, and others); managers of existing SMEs; SME middle-level managers, line supervisors, shop foremen, and other senior technicians with supervisory responsibility; instructors from local training institutions; staff and key personnel of local business associations and support organizations; and Malagasy private investors and public sector and banking officials involved in the privatization of parastatal industries and other policy reforms related to private sector development.

C. Training Activities

The following description of proposed training activities is broken down according to objective, target audience and schedule.

1. Promote Enterprise Creation and Expansion

As a result of trade liberalization, devaluation of the country's currency, and other economic and policy reforms already enacted or on the way, the potential for development of an active private sector in Madagascar has greatly increased. However, in order to take advantage of the new climate and opportunities, new entrepreneurs and established businesses alike will need training to ready them for the rough-and-tumble world of free market competition. Training institutions which could provide business people with necessary skills will also need reinforcing, in order to offer up to date practical training in business skills. The private sector's greatest training need, and the area which stands to give the most impact across a spectrum of private sector activities and players, is training to promote the creation of new enterprises, to strengthen the viability of existing businesses in a rapidly changing environment, and, eventually, to assist successful businesses to expand. HRDA or other funds could be used to fund a number of training activities to achieve the above objective. The target groups would be: 1) potential new entrepreneurs and 2) existing businesses.

a. Entrepreneurial Development Workshops

It is proposed to fund entrepreneurial development workshops for potential entrepreneurs, similar to the model being used by Management Systems International (MSI), which involves the testing, selection, and training in business basics of groups of 25 potential entrepreneurs. MSI has developed a methodology for such a seminar and regularly holds them in the U.S., the Gambia, Senegal, and elsewhere in Africa, and could bring the workshop to Madagascar, upon request. MSI has conducted the workshop in French and local African languages, and could eventually develop a version in Malagasy, with local assistance.

Normally the initial workshop includes a preparation visit to adapt the workshop to the Madagascan environment, and a series of three workshops held over a period of months/years. At least five participants in the first workshop would be local instructors, who would then assist the U.S. experts during the following two workshops. This approach would allow the full transfer of teaching technology, as the local instructors would be certified as Master Trainers. This allows them to conduct workshops on their own, and train other trainers in workshop methodology, thereby ensuring a multiplier effect, both in Antananarivo and eventually throughout the country. Eventually, the workshop could be conducted entirely by local instructors, preferably in one or two of the outlying provinces. It is recommended that USAID/Madagascar also provide funding for program updates or modifications (e.g., into Malagasy) and supplemental consultations.

It is proposed that the entrepreneurial development workshops be conducted at INSCAE, where previous donor experience has a shown a capability to organize high-quality, targeted short-term programs for SMEs. MSI usually assists with the selection of candidates.

b. Open Forums for Entrepreneurs and Others Active in Private Sector Development

It is proposed that the mission provide funding to cover expenses for a series of 1- to 2-day open forums to be held around the country. The "town meeting" style or roundtable discussions would focus on issues of importance to the private sector (e.g., establishing a business, credit, marketing, etc.), and would be open all comers, e.g., budding entrepreneurs and established SME owner/managers, as well as local branches of business support organizations, NGOs, and local government officials who are interested in private sector development.

The discussions, to be chaired by local branches of business support organizations such as the JCEM or APEM, would serve several purposes and provide:

- A public forum for discussion and directed dialogue on pressing private sector issues

- Exchanges of information and networking on topics relevant to the business community

- A means of bringing potential entrepreneurs or worthwhile SMEs in need of assistance out of the woodwork.

The JCEM could then orient the most promising candidates in these two groups towards HRDA and other training activities and technical assistance. A key priority is that this activity be carried on outside the Antananarivo area, in the other provincial capitals, or in smaller towns, where few support mechanisms exist and entrepreneurial talent goes unnoticed.

The JCEM would be an ideal group to organize such open forums, as it has will soon open two more local branches, making it present in the seven major cities and all the provinces. The activity would fall in line with the JCEM's own and IBRD-funded activities related to SME development (see Section V-D), and would make it one of USAID/Madagascar's (and the country's) chief "talent scouts" for SME development. (APEM could be included as a joint or alternative coordinating organization for this activity). USAID funding would ideally be directed towards covering costs for locally funded activities, and not for the JCEM's central office in Antananarivo.

c. In Plant Technical Assistance

It is recommended that the mission consider funding technical consultations for local private sector firms provided by the International Executive Service Corps (IESC). IESC consultations, usually one month in length, are provided by U.S. executives who volunteer their services, and have proven effective in the developing world in solving operational or management problems of small to medium-scale firms. However, care must be taken to ensure a proper match between the IESC consultant and the participating Malagasy firm.

Many of the medium and larger firms suggested this as one of their preferred formats for training, expressing the need for new management and technical techniques to be brought into the workplace by practitioners.

d. Entrepreneurs International Business Internships in the U.S. for Local SME Managers

It is proposed that SME owners or managers be selected each year to participate in AID's Entrepreneurs International (EI) program. Under this program, in operation since January 1987, entrepreneurs from the developing world are carefully matched with owners of U.S. firms with similar operations. The foreign entrepreneur is "placed" with the U.S. firm during a 2- to 4-week period to study U.S. operations and management in a business with similar problems and concerns. In addition to viewing new technology and methods, the entrepreneur also gains a sense of the dynamics of a business operating in a free market environment.

EI has been quite successful to date and has even resulted in a limited number of U.S./foreign partnerships, investments, and sales contracts.

2. Training and Outreach Services for SMEs at INSCAE and INPF

It is proposed to use USAID funds to develop SME training and outreach capability at INSCAE, targeting existing Malagasy SME owners and managers. A number of options for training have been proposed, most of which could be covered either by the existing MAELP project, by HRDA funds, or other funding mechanisms.

a. Development and Implementation of Courses at INSCAE

USAID/Madagascar is already considering using MAELP and/or HRDA funds to develop short-term courses at INSCAE for entrepreneurs and existing private sector operators. Following is a list of recommended subject areas, based on an assessment of SME managers' expressed needs:

How to set up a business
How to get a bank loan
Principles of management for SMEs
Financial management for SMEs
Marketing for SMEs
Export marketing

Ideally, U.S. or other consultants would come in and develop a course or courses in conjunction with INSCAE faculty, co-teach the course, and leave the materials in-country, thus institutionalizing the module locally and building the school's capacity to work with SMEs. AFR/TR/EHR could assist the mission in locating appropriate institutions or firms to develop such courses.

Responses to the assessment interviews suggest that the SME courses should be implemented two or three times a week in the evening for two to three hours per session, or alternatively as a 1- to 2-week intensive seminar.

SME participation in these courses would be greatly assisted by the provision of partial tuition credits as mentioned above.

b. Human Relations and Leadership Training for Middle and Line Managers and Skilled Technicians at INPF

One of Madagascar's greatest private sector training needs is assistance to those who many Malagasy managers have referred to as the "missing link" in the production chain in Madagascar: middle and line managers, shop foremen, and skilled technicians. These people need training in human relations, leadership and assertiveness skills, work organization, and other areas that allow the them to bridge the managerial gap between senior management and the lowest level of worker in an enterprise. Such training could also lead to low level workers acquiring such skills to advance up the ladder more quickly.

INPF, the country's top technical training school, already offers short-term courses on such topics as participatory management, leadership training, work organization and workshop management, holding productive meetings, warehousing, accident prevention, and others. In addition, the school can organize custom-designed courses to address specific needs (e.g., leadership training for skilled technicians), as at least one Malagasy firm has demanded and received.

This target group could stand greatly to benefit from tuition credits, as many SME owners are even less apt to have funds for training middle-level managers than for training themselves.

If, after the first year, evaluation of training experiences at INPF shows that better or more specialized courses need to be developed to address SME needs, the mission could provide technical assistance to design an appropriate course or courses, in conjunction with INPF faculty. The mission may want to consider collaborating with other donors, or using one of the experts brought in for the MAELP project, or using local consultants or instructors from other training institutions to develop the class, thereby reducing the costs considerably.

c. U.S. Short-Term Training for INSCAE (or INPF) Instructors

USAID/Madagascar already plans to fund specialized short-term training programs in the U.S. for INSCAE (or INPF) staff or adjunct professors, under the MAELP program, and such an activity could be complemented by HRDA involvement as well. It is recommended that the mission provide the training based on an assessment of critical training needs, which could be done under MAELP or HRDA. Examples of such training programs include the International Marketing Institute seminar on market development the Harvard Institute of International Development seminars on international finance, Arthur D. Little Management Education Institute seminars on project analysis; etc.

d. Tuition Credits for SMEs

It is recommended that USAID/Madagascar provide partial tuition credits to a number of SMEs to allow them to participate in training activities at local institutions. Many Malagasy SME managers realize that they need training, but are unable to pay for it due to the loss of purchasing power following the devaluation, poor sales, or other reasons. In order to allow these enterprises to participate in training activities initiated by USAID/Madagascar or other donors, the mission could provide funding for partial tuition credits covering 80% of the course fee demanded by a training institution. Participants would be expected to pay the remaining 20% of tuition, plus registration, materials charges, or any other costs related to the course. Thus potential training candidates would have an incentive to take training courses, while still having to make a significant (in SME terms) contribution for their own training. Such tuition credits could be offered for use at INSCAE, INPF, and possibly other institutions such as CFC. (See Annex 5 for complete description of tuition credit program)

An additional suggestion is for USAID/Madagascar to provide travel and maintenance allowances to training participants who come from outside the capital, to allow them to take advantage of training activities which are given only in the capital. This would apply only to short-term seminars or workshops, and not night classes or long-term training activities.

3. Strengthen Business Support Organizations

Madagascar's business support organizations are either relatively new or just beginning to stretch their wings under the new liberalization program. Although generally well-intentioned, the organizations themselves lack the necessary skills to provide adequate support services to their members. The following training activity would provide training and exposure for association staff and members to increase their capacity to assist their members.

a. Study Tours and Short Term Training for Members and Staff of Business Support Organizations

It is recommended that the mission consider targeting the following support organizations for study tours and/or short-term training in the U.S.: JCEM, APEM and its affiliate SIAPEM.

The groups could greatly benefit from visits to small business development centers, the Small Business Administration, Chambers of Commerce, venture capital funds, and other agencies, organizations or associations that provide support or financing for the private sector.

Also to be considered is the provision of short-term training opportunities for representatives from these organizations in specialized U.S. training programs, such as the Atlanta Francophone Management Seminar, Coverdale workshops in Executive Management, Center for Leadership Development programs in Association Management, etc. (This type of training could also be carried out in third country locations in Africa.)

4. Increase Government Understanding of Private Enterprise

Although the GDRM has, at the highest levels, committed itself to liberalization of the economy, there is still a lingering suspicion on the part of many civil servants towards the private sector, particularly as these government officials see their control over economic activity being turned over to the private sector. Likewise the private sector has a strong distrust of the government, which it holds responsible for the country's economic woes. A key to ensuring the success of liberalization and private sector growth will be to convince the old guard hardliners in the government that a stronger private sector will benefit everyone in Malagasy society. It is proposed that USAID/Madagascar fund two types of activities to promote dialogue between the Government of Madagascar and the private sector, and to develop a common technical understanding of the privatization process.

a. Open Forums/Dialogues Between the Public and Private Sectors

Roundtable discussions aimed at breaking down suspicions between public and private sector could be a key to ensuring the continuing success of the structural adjustment-related policy reforms and, ultimately, the growth of the private sector. Ideally, key government policy makers would join prominent private businessmen and women to discuss the role of the private sector and ways to increase private/public cooperation in Madagascar.

Each forum could have a specific topic appropriately chosen for the participants (privatization, foreign investment, the investment code, SME development, informal sector, etc.), but the underlying goal would be for the two groups to explore together the larger issues of how the private and public sectors will coexist in Madagascar and what concrete steps can be taken to improve the climate for private investment. Depending on the topic and participants, these forums could be held behind closed doors, or in public, like the JCEM-organized symposia held in 1988.

b. Techniques of Privatization

Although there has been some public discussion about privatization, and an assessment of parastatal candidates for the process, USAID/Madagascar sees a lack of technical knowledge on the part of the key government officials as to how to actually carry the process out. Techniques of financial analysis and appraisal for privatization, how to attract investors, and how to put together and negotiate sales packages are all skills which are needed by banking officials, parastatal managers, government officials responsible for privatization programs, and interested Malagasy private investors. One aspect of this activity might be the development of a Handbook on Privatization, providing key information on the subject in an easily accessible form.

D. Regional Training Activities

It is recommended that the mission consider sponsoring Malagasy participants to attend regional private sector conferences or workshops held at various locations in Africa. Previous HRDA regional activities have covered management for women entrepreneurs, policy reform and programs for the informal sector, cooperative development, etc. AFR/TR/EHR encourages USAID/Madagascar to participate in HRDA or other regional activities, as they provide for broad exchange of ideas among entrepreneurs and other key figures in private sector development.

E. Management of Training Activities

The training activities outlined in C, above, will call for an increase in the level of mission effort to handle the numerous in-country activities. The mission will consider hiring an assistant to work with the training officer, in order to coordinate with government agencies, training institutions, and business associations, and liaise with the MAELP project managers. Further discussion of the management of HRDA activities is to be found in Annex 5.

F. Role of the Private Sector Advisory Board

In order to assist USAID/Madagascar to adequately address the needs of the private sector, the mission will consider constituting a Private Sector Advisory Board (PSAB). This group would be similar to the advisory board which is to assist with the MAELP project, but would include more representation from the private sector, through the inclusion of representatives from local business associations. In this way the group will act as the mission's sounding board or barometer for the private sector in Madagascar. A more detailed description of the PSAB is provided in Annex 5.

G. Funding

Funding for the HRDA project, drawn from the mission's OYB, will be approximately doubled from previous years, moving from around $200,000 annually in FY 1988 and FY 1989 to $400,000 annually for FY 1990 to FY 1992. A more detailed budget of proposed HRDA activities is presented in Annex 5.

It is anticipated that over the LOP, at least **50 percent** of the **funds** for HRDA training will be devoted to private sector training activities. Given the orientation towards in-country training for private sector participants, and the lower per-person costs of such training, the mission sees no difficulty in achieving the HRDA target of **50 percent** of **participants** coming from the private sector, or agencies, institutions, or associations that work with the business community.

In fact many of the activities proposed in the training plan in Annex 5 could include public or private sector participants, can be funded from a variety of sources (HRDA private or public sector funds, MAELP, etc.) and can be considered as meeting both public and private sector development goals. This will alleviate concerns that such a program might be "favoring" the private sector to the detriment of the public sector.

H. A.I.D./Washington Backstopping

AFR/TR/EHR will backstop the USAID/Madagascar training office as necessary, through use of its HRDA Regional Training Support Advisor (TSA). The TSA will assist AID mission personnel with implementation of Private Sector Training under HRDA.

The TSA reports directly to the Private Sector Training Coordinator in Washington, and will interact with AID mission personnel, private sector advisory committees, local training institutions, business support associations, and others as necessary.

The TSA will assist USAID mission personnel improve, as needed, their capabilities in performing the following tasks:

- Developing and modifying Country Training Strategies and Plans
- Establish and work with Private Sector Advisory Committees
- Budget for and monitor implementation of HRDA activities

- Facilitate implementation of private sector training under HRDA projects

- Advise missions of best available private sector training in the U.S. and U.S. organizations available for in-country workshops and seminars.

The TSA will help regional training institutions improve, as needed, their capacities to provide appropriate training in support of HRDA goals. This includes:

- Assisting in course development

- Serving as a resource to identify technical resources required to develop course materials

- Facilitating linkages with designated US institutions

- Functioning as a catalyst to advance private sector training and promote its sustainability in these institutions.

The TSA will actively serve as a liaison between AID/Washington and the HRDA missions, communicating issues raised in the field to Washington, as well as providing information to the mission regarding innovative techniques utilized in other HRDA countries. The TSA will also participate in the development of an HRDA project manual outlining procedures used by and resources available to Training Officers in carrying out their HRDA activities.

I. Additional Technical Assistance Available under HRDA

Additional assistance is available to the mission under the LABAT-ANDERSON Inc. HRDA contract. Missions may "buy-in" to the LAI contract for services related to private sector training activities.

Generally speaking, the core-funded TSA should be able to handle much of the technical assistance needed by the mission. However, from time to time the mission may need certain specialized services which fall within LAI's overall scope of work, but which may demand more time or individualized service for the mission than can be provided by the TSA. Instances where an LAI buy-in may be advisable for the mission include:

- Services needed in excess of the four days per quarter of TA allotted to each mission, or services needed at a time when the TSA is fully booked for work in other countries in the region.

- In-depth training needs assessments of target populations highlighted in the PSTNAs; e.g., informal sector, women entrepreneurs, manufacturing sector, agribusiness sector, mid-level and line managers, etc.

- In-depth assessments of local training resources considered in the PSTNAs, to identify immediately available in-country resources and target areas to be strengthened through HRDA assistance; e.g., training of trainers, curriculum development, staff development, etc.

- Identification of training and technical resources available for U.S., third-country, or in-country training; handling of contracting, implementation, and other follow-up with resources in order to facilitate the activity for missions.

- Design and implementation of in-country training activities stemming from needs expressed in the PSTNAs, in the assessments described above, or from other needs which become evident over time. These could include joint development of training courses with local institutions, training of trainers (TOT), etc.

- Organization of in-country conferences, roundtables, and workshops in support of private sector development, based on needs expressed in PSTNAs or yearly Country Training Plans.

- Evaluation of HRDA activities, including evaluation of in-country activities to date, impact of U.S. and third country training on returned participants, impact of TOT on local training institutions or business support organizations, and strategies for improving mission HRDA activity portfolio.

The mission is advised to consider using the buy-in for in-depth assessments, or organization of specific workshops or conferences, as much of the on-going TA and troubleshooting related to implementation should be capably handled by the TSA.

LABAT-ANDERSON can directly provide services for most of the illustrations cited above through its associates roster of short-term consultants. A few of the specialized services required by the missions may be new kinds of training activities, for which there are no existing "off the shelf" programs. When appropriate, LABAT-ANDERSON will provide services through sub-contracting with other individuals, firms, universities, and institutions which will bring their expertise to bear in designing new training to reflect the specific needs of the local private sector.

All of the above services fall within LAI's original scope of work, as defined in the contract, and thus in principle could be provided for through core funds. However, in reality AFR/TR/EHR budgetary restraints prevent core-funded technical assistance from handling each and every mission request. In fact, AFR/TR has already established priority categories among participating HRDA countries, with limitations placed on services available to non-Category 1 countries.

For missions with problems that fall between TSA follow-up visits, or that demand special attention or expertise, using the buy-in facility to identify and contract with the necessary resources may be the most efficient method, from the mission's standpoint.

IX. ADDITIONAL RECOMMENDATIONS FOR PRIVATE SECTOR DEVELOPMENT

One of the important constraints facing the SME in Madagascar is lack of access to credit. This is due in part to the banker's perceived riskiness of the SME, in part the mutual lack of familiarity, and in part because many SMEs simply are not "bankable." USAID, through its training and policy reform efforts, could ease this constraint in a number of ways:

1. Institute collaboration between one or more banks and a local accounting firm to provide simplified, understandable accounting systems for SMEs. An accounting system is part of the basic skills and thinking which legitimize a business in bankers' eyes. Two sources of financing technical assistance and/or training are available:

    - The Private Sector Development Support Program, a Bureau for Private Enterprise centrally funded program, contracted to Ernst & Young. Under this program, the Bureau for Private Enterprise co-finances 50% of the cost with the USAID mission.

    - The Financial Management IQC held by Ernst & Young

2. When Madagascar's economy and banking sector so permit, establish a joint credit arrangement where suppliers of goods and services to business, e.g., a large, solid trading house, plus a bank and USAID come together to form a pool of credit, share the risks and the gains, and USAID provides a partial risk backstop on the order of 25% maximum. The role of the supplier is key to such an arrangement, since it knows its clients' credit-worthiness better than anyone else, and thus brings only the truly sound borrowers to the credit pool of which it is a major partner. It is the credit screen.

3. There is also the practical matter of finding those informal sector businessmen who are of the business size and acumen to "graduate" to the formal sector, and become eligible for bank lending. One effective way of finding these candidates is called "downstreaming." Informal sector businesses often provide goods and services for the formal business sector, particularly for larger companies. For example, the field of construction often is replete with informal sector operators, servicing larger companies ("downstream" of those companies) as builders, electricians, carpenters, plumbers, painters, other subcontractors, etc. Certain of these operators are engaged repeatedly, presumably for the reliability and quality of their work. These are the "downstream" candidates because they come with the imprimatur of the larger company.

4. Monitor the progress of the two nascent venture capital funds, SIAPEM and BONUSINVEST, for possible future training, technical assistance, and funding.

The second area of concern is markets and marketing–the key to the survival of Madagascar's formal manufacturing sector. The entire marketing chain for products and services in demand

(and which should be in demand), domestically and in neighboring countries, should be explored and illuminated. The recommendation of David Wilcock in DAI's August 1987 report, *Agricultural Marketing in Niger...*, for rapid reconnaissance commodity studies should be undertaken for manufactures and services domestically, and for manufactures in neighboring countries. The countries to be explored first should be those with the strongest trade links to Madagascar already, those with the more developed markets, and those with the greatest purchasing powers.

Reconnaissances would include the following activities in order of ease and rapidity:

- Emphasis on what Madagascar already does best–in order to reinforce and increase its hold on markets.

- Search for those markets where Madagascar's penetration and hold can be increased.

- Search for new markets, products, and services, taking advantage of the dynamics of markets (they change), of the lapses of other players, of niches available, and of consumer needs not being adequately met.

The Private Sector Training Needs Assessments made in other African countries found examples of potential new or expanded markets, products, services, and private sector opportunities:

- Municipal garbage collection contracted to private firm–domestic market: Lome

- Manufacture of fire extinguishers and fire-extinguisher/security systems with associated training–domestic market and prospecting neighboring country markets: Dakar

- Lime and whitewash manufacture–domestic market: Lome

- Cookie/biscuit manufacturer–successfully competing with lower priced Nigerian products on basis of quality and packaging–domestic market (successfully competing with Ivoirian products in foreign markets): Niamey

- Computer software/repairs–domestic market and the Ivory Coast: Lome

- Agricultural implements sold to Nigerian customers and distant Nigerien customers on the basis of high quality–domestic and Nigerian markets: Maradi (Niger)

- Gambia Ports Authority–operating under performance contract, with various operations likely to be privatized–domestic market: Banjul

- Manufacture of aluminum doors/windows, corrugated metal products, paints–successful import substitutions–domestic market: Banjul

- Industrial maintenance/cleaning–domestic market: Conakry

- Management of central market–domestic market: Niamey

- Beauty products manufacture–domestic and neighboring country markets: Dakar

- Oil reconditioning–domestic market: Dakar

- Orthopedic shoes manufacture–domestic market: Kinshasa

- Gaskets, other automotive composition/rubber parts manufacture–domestic market: Kinshasa

ANNEX 1: ASSESSMENT METHODOLOGY

The purpose of the private sector training needs assessment was to define a multi-year strategy to promote human resources development within the private sector.

A two-person assessment team, assigned by AID/W, was responsible for the scope of work: a specialist in private sector analysis and the HRDA assistant private sector training coordinator. USAID Madagascar assisted with organization of the team's schedule and arranging interviews. The assessment was completed in three weeks, using the following methodology:

1. Literature Search

Literature on the local private sector (number and size of firms, breakdown by sector, evaluation of future growth potential), recent economic analyses, project appraisals, and other materials were reviewed. (See Annex 6 for Bibliography.)

2. Contacts with Key Private Sector Players and Support Institutions

A tight schedule of meetings during Weeks 1 and 2 was organized with 41 key players in private sector development, including GDRM agencies (Ministry of Plan, Labor), training institutes (INSCAE, IMaTeP, INPF, CFC), banks (BNI, BTM, BFV, BMOI), accounting and consulting firms, and business support organizations (APEM, SIAPEM, JCEM, FIV.MPA.MA, GEM, Chamber of Commerce). Key donors working with the private sector were also included, including the IBRD, UNDP, UNIDO, ILO, and IFC.

3. Interviews with a Representative Sample of SMEs

During Weeks 2 and 3, 35 interviews were conducted with firms, using a prototype questionnaire with 40 close-ended questions. The questionnaires were administered in French to the chief executive officers (CEOs) or senior managers of the firms. The interviews lasted about an hour, including an introductory discussion with the CEO on how he had started his business. (See Annex 2 for the questionnaire and Annex 3 for a list of all persons interviewed.)

4. Tabulation of Questionnaire Results and Review of Preliminary Conclusions

The assessment team regularly reviewed the results of the interviews and discussed impressions with USAID staff during the assessment. At the end of Week 2, results from the questionnaires were tabulated. A list of preliminary conclusions and a draft training plan were prepared for a preliminary meeting with the USAID director and staff. Aspects of the training plan were also discussed with the training institutions named in the plan. This allowed for feedback from these groups on the nature of the proposed training activities.

5. Preparation of the PSTNA Report

A draft of the PSTNA report, including a private sector training plan for the period FY 90-92, and modifications requested by the mission, was prepared and presented to the mission before the team's departure at the end of Week 3. A final draft was completed in Washington by the team, reviewed by AFR/TR/EHR, and sent to USAID/Madagascar for final comments and changes.

ANNEX 2: NEEDS ASSESSMENT QUESTIONNAIRE (ENGLISH AND FRENCH VERSIONS)

DATE: ____________________
INTERVIEWER: ______________

QUESTIONNAIRE FOR PRIVATE SECTOR TRAINING NEEDS ASSESSMENT

NAME: ______________________________________

TITLE: ______________________________________

COMPANY: ____________________________________

ADDRESS/PHONE: ______________________________

A. YOUR COMPANY

1. Date business created: ____________________

2. Initial mode of financing: ________________

3. Which best describes your business:
   - Manufacturing _____
   - Agribusiness _____
   - Construction _____
   - Transport _____
   - Services _____
   - Trade _____

4. Are you: owner _____, senior manager _____, manager _____, other _____?

5. Is your company:
   - Private, family owned _____
   - Private, partnership _____
   - Mixed ownership (private/public) _____
   - Government owned _____
   - Subsidiary of foreign firm _____

6. Percentage sales exported _____________%.

7. Is the technology involved in your company:
   - High _____
   - Average _____
   - Low _____

8. Who is your competition:
   - Local firms _____
   - Other African firms _____
   - Non-African firms _____
   - No competition (monopolies) _____

9. Is competition:
   Strong ____________________________
   Average ___________________________
   None ______________________________

10. What are the major constraints to expanding your business:
   Government regulations _______________
   Credit ___________________________________
   Need for trained personnel ____________
   Need for management consultation _______
   Market size ______________________________
   Economic factors _________________________
   Lack of marketing information __________
   Other ____________________________________

B. <u>YOUR PERSONNEL</u>

1. How many employees in your business:
   Part time __________
   Full time __________

2. How many managers _________ (if appropriate, classify senior, middle, lower)?

3. How many employees have a high school diploma _____?

4. How many have a college degree _____________________?

5. How many have formal business training _____________?

C. <u>OWNER/SENIOR MANAGER'S PROFILE</u>

1. What is your level of education:
   High school (diploma? ____)
   University (diploma? _____)
   Specialized training (type ___________________)

2. How many years of business experience do you have _____ _?

3. What are your personal training needs (rank 5 highest to
1 lowest):
   General management _______________________
   Financial management _____________________
   Marketing/sales __________________________
   Accounting _______________________________
   Purchasing _______________________________
   Management information (computers) ______
   Manufacturing ____________________________
   Repair/maintenance _______________________
   Business law _____________________________
   Other (specify: __________________________)

4. How much time could you devote to training per year? ________

5. How much money would you be willing to pay for 40 hours of instruction________

6. What format is best:
   - 1-2 evenings/week ______
   - Seminar Friday, p.m./Saturday, a.m. ________
   - Consultation ________
   - In company training ________
   - Other ________

D. MANAGEMENT TEAM PROFILE

1. What is the level of education of most of your managers:
   - High school ________
   - University ________
   - Specialized training ______

2. How many years business experience does your average manager have: ________?

3. What are your managers' typical training needs (rank highest 5, lowest 1):
   - General management ________
   - Financial management ________
   - Marketing/sales ________
   - Accounting ________
   - Purchasing ________
   - Management information (computers) ______
   - Manufacturing ________
   - Repair/maintenance ________
   - Other (specify) ________

4. How much time could your managers devote to training per year ________

5. How much money would you be willing to spend on training for your managers per year ________?

6. How many of your managers would you want to train _____(___%)?

7. What would be the best format:
   - 1-2 evening classes/week ______
   - 1 Friday p.m./Saturday a.m. ________
   - In company training ________
   - Other (specify) ________

E. WORKER PROFILE

1. What is the average level of education of your workers ________?

2. How many years of work experience do most have ________ ?

3. Training needs (rank 5 highest to 1 lowest):
   - Reading/writing ___________________
   - Clerical skills ___________________
   - Bookkeeping _______________________
   - Manufacturing/technical skills ____
   - Repair/maintenance ________________
   - Selling skills ____________________
   - Other (specify) ___________________

4. How much money would you be willing to spend on worker training per year ___________________?

5. How many of your workers would you want to train ____(__%)?

6. What is the best format for such training ___________________________?

F. EXPERIENCE WITH LOCAL TRAINING INSTITUTES

What local training institutes have you used and how would you
evaluate their programs ____________________________________
____
____?

G. OTHER INFORMATION

1. Your age ______________.

2. Total sales for your company in 1987 ____________

3. Percentage of sales growth over the last three years ____________.

4. What is the future outlook for your business:
   - Excellent __________
   - Good ______________
   - Fair ______________
   - Poor ______________

QUESTIONNAIRE -- FRENCH VERSION

DATE: ____________________
INTERVIEWEUR: __________

QUESTIONNAIRE POUR EVALUATION DES BESOINS DE FORMATION DU SECTEUR PRIVE

NOM: ______________________________

FONCTION: ______________________________

SOCIETE: ______________________________

ADRESSE/TELEPHONE: ______________________________

A. VOTRE SOCIETE

1. Date de creation ________

2. Mode de financement initial_____________

3. Quelle activite decrit le mieux votre entreprise:
   Fabrication ________ Agri-industrie _________
   Construction _______ Transport ______________
   Commerce __________ Service ________________

4. Etes vous proprietaire _____, directeur general _____, cadre _____, autre _____?

5. Est-ce que votre entreprise est:
   Une entreprise privee familiale ______________________

   Une entreprise privee en societe de personnes _______

   Une entreprise d'economie mixte (privee/publique)____

   Une entreprise publique ____________________________

   Une filiale d'une firme etrangere __________________

6. % des ventes l'exportation ______________.

7. Est-ce que le niveau technique des activities de la societe est:
   Tres technique ______
   Moyennement technique ___
   Peu Technique _______

8. Votre concurrence est-elle surtout:
   Des entreprises locales __________________
   D'autres entreprises africaines __________
   Des entreprises non-africaines ___________
   Pas de concurrence (monopole) __________

9. La concurrence est-elle:
   Forte ________
   Moyenne ________
   Faible ________

10. Quelles sont les principales contraintes a l'expansion de vos affaires?
   Reglementations gouvernmentales ________
   Credit ________
   Besoins en personnel qualifie ________
   Besoins de conseils en gestion ________
   Taille du marche ________
   Facteurs economiques ________
   Besoin de renseignements commerciaux ________
   Autre: ________

B. VOTRE PERSONNEL

1. Effectif total:
   Plein temps ________ Temps Partiel ________

2. Combien de cadres: ________ (si possible donner cadres superieurs, moyens, inferieurs)

3. Combien d'employes ont leur bac ________

4. Combien d'employes ont fait des etudes superieures____

5. Combien d'employes ont fait des etudes superieures de commerce ________

C. PROFIL DU PROPRIETAIRE/DIRECTEUR GENERAL

1. Quel est votre niveau d'instruction
   Lycee (bac? Oui _____ Non _______)
   Etudes superieures (Quel diplome ______)
   Formation specialisee (Laquelle ______)

2. Combien avez-vous d'annees d'experience des affaires?

   ____

3. Quels sont vos besoins personnels de formation? (5 plus grands, 1 plus faibles besoins)
   Gestion generale ________
   Gestion financiere ________
   Marketing/ventes ________
   Comptabilite ________
   Achats ________
   Informatique de gestion ________
   Production ________
   Reparation/entretien ________
   Droit des affaires________
   Autre (lesquels ________)

4. Combien de temps pouvez-vous consacrer a la formation par an ______________________

5. Combien d'argent voudriez-vous payer pour 40 heures de formation?___________

6. Quel format d'instruction vous conviendrait le mieux?
   - 1-2 soirees par semaine____________________________
   - Un seminaire vendredi apres-midi-samedi matin _____
   - Une semaine a la fois______________________________
   - Un conseil particulier _____________________________
   - Une formation dans votre entreprise _______________
   - Autre (Precisez)___________________________________

D. PROFIL DE L'EQUIPE DE GESTION

1. Quel est le niveau d'instruction de vos cadres
   - Lycee (bac?) _____________
   - Etudes superieures _______
   - Formation specialisee ____

2. Combien en moyenne vos cadres ont-ils d'annees d'experience des affaires ____________________?

3. Quels sont les besoins de formation typiques de vos cadres? (5 plus grands, 1 plus faibles besoins)
   - Gestion generale _________________
   - Gestion financiere _______________
   - Marketing/ventes _________________
   - Comptabilite _____________________
   - Achats ___________________________
   - Informatique de gestion __________
   - Production _______________________
   - Reparation/entretien _____________
   - Droit des affaires________________
   - Autre (lesquels) _________________

4. Combien de temps vos cadres peuvent-ils consacrer a la formation par an _____________.

5. Quelle somme d'argent seriez-vous pret a payer par an pour la formation de vos cadres ___________________?

6. Combien de vos cadres aimeriez-vous former ____(__%)?

7. Quel format d'instruction vous conviendrait le mieux?
   1-2 soirees par semaine ______________
   Un seminaire vendredi apres-midi-samedi matin _____
   Une semaine a la fois __________
   Une formation dans votre entreprise_________
   Autre (precisez) ___________________________

E. PROFIL DE L'EMPLOYE

1. Quel est le niveau d'instruction moyen de vos employes ____________?

2. Combien d'annees d'experience ont-ils en general ____________?

3. Besoins de formation (5 les plus grands besoins, 1 les plus faibles)
   Lecture/ecriture _________________________
   Aptitudes d'emploi de bureau _____________
   Tenue des livres compatables _____________
   Aptitudes a la fabrication/technique _____
   Autre (lequel) ___________________________

4. Quelle somme d'argent etes vous pret a depenser par an pour la formation de vos employes _________________?

5. Combien de vos employes aimeriez-vous former ___(__%)?

6. Quel serait le meilleur format d'instruction pour cette formation ____ ____?

F. EXPERIENCE AVEC LES INSTITUTS DE FORMATION LOCAUX

Quels instituts de formation locaux avez-vous utilise et comment evaluriez-vous leurs programmes___________________ ____

G. AUTRES RENSEIGNEMENTS

1. Votre Age: _________________________________

2. Chiffre des Ventes pour votre societe en 1987 __________________________________?

3. % de croissance des ventes pour les trois dernieres annees ____?

4. Quel est le pronostic pour votre entreprise:
   Excellent _____
   Bon ___________
   Moyen _________

ANNEX 3: PERSONS INTERVIEWED

USAID/MADAGASCAR

Mr. Baudouin de Marcken, Director
Ms. Agnes Rakotomalala, Training Officer
Ms. Donna Stauffer, Project Development Officer

USAID/WASHINGTON

Mr. Sam Rae, Former USAID Representative/Madagascar

U.S. EMBASSY/MADAGASCAR

Mr. Don Koran, Economic Officer
Mr. Liam Humphreys, Political Officer

U.S. STATE DEPARTMENT

Mr. Walter Manger, Country Officer/Madagascar

TRAINING INSTITUTES

Mr. Rajaona Andriamananjara, Directeur General, IMaTeP
Mr. Flavian Tody, Director, INSCAE
Mr. Richard Rajaonah, Director, CFC
Mr. Noel Razakaratrimo, Coordinator, CFC

GDRM AGENCIES/OFFICERS

Mrs. Zinah Rasamuel, Chef de Service de la Main d'Oeuvre et de l'Emploi, Ministere de la Fonction Publique, du Travail et des Lois Sociales
Mr. ______________, Directeur Adjoint, Ministere du Plan

PRIVATE SECTOR SUPPORT ORGANIZATIONS

Mr. Seth Ranohisoa, Vice President, FIV.MPA.MA
Mr. Hubert Ratsiandavana, Secretaire General, Chambre de Commerce
Mr. Charles Andriantsitohaina, President, GEM
Mr. Zina Andrianarivelo, Member, APEM
Mr. Freddy Rajaonera, President, Jeune Chambre Economique

Mr. Georges Ranaivosoa, President, Conseil pour la Promotion des Petites et Moyennes Entreprises de Madagascar
Mr. William Ratrema, ACEEM

ACCOUNTING FIRMS

Mme. Madeleine Ramaholimihaso, Cabinet Ramaholimihaso
Mr. Zakazo Ranaivoson, Cabinet Ramaholimihaso

BANKS

Mr. Tantely Andrianrivo, Directeur General, BNI
Mr. Jean Mesnard, Directeur General, BMOI
Mr. Jean Ramasinaivo, Directeur General, BFV
Mr. Ralitera Andriamahery, Directeur du Credit, BFV
Mr. Jean-Marie Henri, Directeur General, BTM

DONORS

Mr. Christopher Ward, IBRD/Antananarivo
Ms. Danielle Robin, FAC
Mr. Paul Blay, IBRD/Washington
Mr. Bernard Pasquier, IBRD/Washington
Mr. Hugh Stevenson, IFC/Washington
Mr. Robert Spurling, UNIDO/Antananarivo
Mr. Pham Minh, UNDP/Antananarivo
Mr. Paul-Andre de la Port UNDP/Antananarivo
Mr. Moucharaf Paraiso, ILO/Antananarivo
Mr. Thales Bouchlas, ILO/Antananarivo

NON-GOVERNMENTAL ORGANIZATIONS

Mr. ______________, SAFAFI

PRIVATE SECTOR FIRMS

AKORA–faucet manufacture, 40 employees**
BOULANGERIE ZOKY BE–bakery, 10 employees
BRASSERIES STAR–brewery, soft drinks, 1320 employees*
CAFE TSY RESY–coffee roasting, 25 employees
CHAUSSURES GABRIEL–shoe manufacture, 6 employees
CHOCOLATERIE ROBERT–confectionery, 152 employees
COMETA–steel imports, 60 employees
ELVAGRIM S.A.–animal product imports, 10 employees

ENT. TANTSINANANA–construction, 250 employees
ENTRAME–bicycle manufacture, 40 employees
ETS. RAMBOA–furniture manufacture, 4 employees
FIMT–school supplies manufacture, 100 employees
IARY–personal products manufacture, 5 employees
LYNY-MINO–tile manufacture, 20 employees
MADAGASCAR MOTORS–Isuzu dealership, 60 employees
MADPRINT–printing, 75 employees
NOUVELLE IMPRIMERIE–printing, 40 employees
ONIVOLA–embroidery, clothing manufacture, 4 employees
PAPMAD–paper, paper products, 880 employees*
PHAEL FLOR–essential oils manufacture, 27 employees
PHARMACIE FIVOARANANA–pharmacy, 4 employees
PHARMAD–pharmaceuticals manufacture, 180 employees
PROCHIMAD–agricultural chemicals manufacture, paint ingredients, 58 employees*
SOCIETE RANOHISOA–construction and hardware imports, 75 employees
SARA–construction, 300 employees
SIDEMA–agricultural equipment manufacture, 250 employees**
SOAM–industrial gasses manufacture, 150 employees
SOCIETE RABOANARIJAONA–manufacture of nails, agricultural products sales, 30 employees
SOMET–SME consulting, 9 employees
SOMEX–insurance adjusters, 40 employees
RAVANDISON ET FILS S.A.–soap manufacture, 105 employees
H. FRAISE FILS & CIE., road building equipment, general imports, 250 employees
TAO TRANO–construction, 3 employees
VINTANA–soccer ball manufacture, 25 employees
VIRIO–automotive batteries manufacture, 62 employees*

* Company with minority state ownership through parastatal organization, but with no management role.

** Company with majority state ownership through parastatal organization, but with no management role.

ANNEX 4: PRIVATE SECTOR ENVIRONMENT

This annex examines the environment in which Madagascar's private sector operates. It sets forth the key constraints which slow private sector development, especially that of SMEs, and recommends areas in which training can help alleviate the constraints.

A. Policy Environment and Economic Performance

1. Policy Environment

Since 1972, Madagascar's economy went through three periods: stagnation until 1980, serious deterioration from 1980 to 1982, and very limited economic growth from 1983 to date. From the early 1970s on, the GDRM followed a socialist path which entailed massive government intervention and interference in the economy via state monopolies, price controls, and economic regulations, which throttled private sector initiative and agricultural development.

By mid-1980, the financial difficulties of the public sector were evident. The GDRM started financial stabilization measures in July 1980, and from 1982 on reinforced the measures with IMF help. These early actions targeted demand management and accomplished the following results: substantial reduction in the fiscal deficit, a large decline in the annual rate of inflation (30% to 13%), and a near 50% reduction in the current account deficit. Real GDP grew slightly over the period 1983-1987, but per capita GDP declined because of the effects of rapid population growth.

With World Bank and IMF assistance, the GDRM undertook various economic restructuring actions which targeted each major sector's structural distortions. The major areas of progress have been in the liberalization of prices, profit margins, markets, and trade. The major steps taken were:

- Two major devaluations of the FM in 1986 and 1987, reducing its real effective exchange rate to approximately one-half its 1978 value.

- The scope of ex-factory price controls has been greatly reduced, and industrial and artisanal product prices are no longer subject to "homologation" (Arrete No. 1925/89, April 4, 1989). Certain agricultural products remain subject to floor prices fixed by the state.

- Anyone can buy/sell all agricultural products except sugar.

- Market incentives put in place to stimulate rice production.

- Only four imported products (flour, matches, tobacco, and alcoholic beverages) remain subject to licensing through the Regie Malgache de Monopoles Fiscaux. Still, this is contrary to liberalization policy.

- All products, whatever their source, are free of profit margin controls (Arrete No. 989/89, February 20, 1989).

- Import procedures have been liberalized as follows:

    1) Replacement of quantitative import restrictions with a simplified tariff structure.

    2) A market-determined foreign exchange allocation system, whereunder access to foreign exchange has been greatly increased. The importer requests foreign exchange directly from his bank and receives the amount requested within one month on average. In principle, there is no limit to the amount that may requested.

    3) Tariffs are being "rationalized," i.e., the average tariff on raw materials which used to be at the same general level as that for finished products, has been reduced from 35% to 10%. Tariffs on finished products are scheduled to decrease in a phased fashion until 1992, at which time they will range from 5% to 50% (as opposed to the current average of 80%).

- Export procedures have been liberalized as follows:

    1) Export taxes were eliminated on all but three major traditional exports (coffee, cloves, and vanilla).

    2) Anyone can export in any quantity; no license needed; the only restriction are on antiquities, tortoise shells, crocodile skins (and associated products), whole tree trunks, rare minerals, and raw vanilla in excess of 500 grams.

- In June 1985, the Investment Code was revised with registered SMEs gaining certain fiscal, tariff, and financial advantages over a period no longer than five years:

    1) Import duty exoneration on equipment associated with creation and/or expansion/diversification of the enterprise.

    2) Exoneration from the "transactions tax" (value added).

    3) Exemption from corporate income tax on non-salary earnings by individuals.

4) Exemption from real estate disclosure tax on bank loans for financing of registered investments.

5) 50% decrease in the tax on real property acquired for business.

6) Three-year exoneration from the "professional tax."

7) Ability, given current regulations in effect, to transfer licensing fees, royalties, technical assistance fees, and dividends overseas.

8) Privileged access to special lines of credit (donor).

Additional reforms under the recently approved World Bank Public Sector Adjustment Program include:

- Reform of Madagascar's banking system, opening it to private capital–underway.

- Streamlining the parastatal sector, including divestiture and privatizations–in initial stage.

- Increasing the efficiency of allocation and use of government resources–starting in 1989.

- Associated "compression" of government and parastatal personnel–not yet begun.

- Removal of administrative obstacles and state monopolies blocking the expansion and diversification of exports–underway.

In concert with the IMF, the World Bank, and other donors, USAID/Madagascar activities include:

- Balance of payments support in conjunction with structural adjustment efforts.

- Food assistance (PL-480) to stabilize prices and markets when Madagascar encounters times of severe food scarcity consonant with the objective of promoting the overall market liberalization process.

- The Madagascar Agricultural Export Liberalization Program (MAELP), which targets policy reform and the reduction of administrative obstacles to freer exports of traditional and non-traditional export crops.

The effects of policy reform and liberalization to date have been mixed. The positive results include improved supplies and lower prices of some consumer goods, with no shortages of basic domestic products, greater ability to import freely, much greater availability of spare parts, and greater competition within the private sector. The negative results strike principally at the manufacturer and at some importers. These results must be viewed within the context of declining purchasing power, due in large part to little increase in salaries over the past four years, and the fact that employment is increasingly difficult to find:

- The manufacturing/industrial sector has been hammered by cheaper imports, including dumped second-quality merchandise(e.g., second hand tires, second line automotive batteries, steel products) and merchandise that comes in the country seriously underinvoiced. Many manufacturers are operating at very low levels of design capacity, and some have turned to substituting imports in lieu of production just to stay afloat.

- Devaluation has caused the prices of imported raw materials and the prices of local intermediate goods with imported content to rise significantly, thus raising the costs of local manufacture and concomitantly squeezing profit margins. In addition, manufacturers face a small domestic market, where only a maximum of 10% of the population is actually in the money economy.

- Manufacturers find themselves in a vicious circle–purchasing power is down, but to be able to compete with foreign imports their principal and immediate tool is product quality. If they have to combat imports via quality, they have to raise their prices to cover the increase in quality.

In conclusion, as manufacturing slows, there is a ripple effect out to the suppliers of goods and services to this sector. Businessmen feel that there will be a severe shakeout among manufacturers within five years. There will also be a concomitant decrease in employment opportunities, just at the time when increasing numbers of new entrants come on the job market.

2. Economic Performance

Since 1983, Madagascar has registered only very modest, sporadic growth in its gross domestic product. Per capital GDP, however, continued to decline because of more rapid population growth. The high inflation rate of 30% in 1982, occasioned by the GDRM's 1978-80 program of large-scale public investment, was reduced to an average of 13% over the period 1983-86, but crept up in 1986 and 1987. The year 1988 and this year must be seen as transition years, for the policy changes put into place to start to have positive economic effects.

As can be seen in Table 1, Madagascar has made very modest progress. The projected GDP growth (1988-1991) notwithstanding, Madagascar will continue to have a significant debt service obligation. The figures in parentheses show the debt service ratio had there not been rescheduling.

Table 1
Madagascar: Progress of Its Economic Reform Program

Year	GDP (% gr. rate)	Inflation	Bal of Pay Current Bal ($-mil)	Debt Service (%)*
1982	n/a	30%	n/a	n/a
1983	0.9	n/a	-303	31.4
1984	1.7	n/a	-265	33.4
1985	2.3	11%	-249	49.2
1986	0.8	15%	-231	45.0
1987	1.4	18%(e)	-242	52.0(105)
1988	3.1(p)	n/a	-310	44.6(p)(88)
1989	4.5(p)	n/a	-348	42.8(p)(80)
1990	4.3(p)	n/a	-388	38.7(p)(71)
1991	4.2(p)	n/a	-373	31.7(p)(59)

(e) Estimated
(p) Projected–World Bank
* Percentage of exports of goods and services plus private transfers necessary to service Madagascar's external debt after debt rescheduling.

Since almost one-half of Madagascar's economy is made up of the agricultural sector, economic progress will depend in large measure on this sector. Progress in the industrial/manufacturing sector will depend on the GDRM's ability to spur economic growth and to promote an environment conducive to business expansion so that the incentives for this sector are in place.

B. The Business Setting

1. Breadth of Business Base

Madagascar's SME subsector is relatively undeveloped, with approximately 350 manufacturers across a wide variety of activities, 250 businesses in the construction field, and 180 in tourist activities (hotels, travel agencies, car rental agencies, etc.). While accurate statistics are not readily available, SMEs from both the formal and informal sectors are engaged in trade, transportation, auto repair, and mining in an important way. The informal sector, as might be expected, is very active in petty commerce and in a large number of artisanal activities. It is estimated that 85% of the active, urban population is engaged in the informal sector. Apparently, informal sector enterprises rarely "graduate" into the formal sector.

The SME subsector suffered over the past 10 years from a combination of government emphasis on large SOEs which drew resources to the parapublic sector, a lack of effective private sector support organizations, outdated (1972 vintage) production equipment and techniques, and a generally sluggish economy.

The SME subsector, formal and informal, has various characteristics which make it important:

- It creates jobs and thus helps absorb urban unemployment.

- It expands the breadth of the formal business base with new activities, e.g., light industry for import-substituting products and intermediate goods, links to rural productive activities, and a variety of service activities, including maintenance, repair, spare parts, communications, the professions, equipment rental, and tourism. It also expands the depth of the formal business base as it builds on existing manufacturing and service activities.

- The smaller business, formal and informal, often builds, manufactures, services, transports, and distributes what the formal larger enterprise needs and produces. These upstream and downstream linkages are very important for the health of the private sector, and offer opportunity for the informal business gradually to enter the formal business sector.

- It also develops cross-linkages, which are part of the glue binding the private sector together, e.g., packaging manufacturers which are essential to a wide variety of manufacturing enterprises.

- It helps develop a pool of qualified labor, which as it grows becomes increasingly mobile, a requirement for any modern economy.

- The informal sector is the wellspring of entrepreneurs, and it is the crucible for entrepreneurs.

- Today's SME is tomorrow's large employer and taxpayer.

2. Infrastructure

Certain elements of Madagascar's business infrastructure (physical and institutional) are in deteriorated or rudimentary states, with the result that the formal business sector, and to some extent, the informal sector, suffer. The modern business is dependent on this infrastructure to be able to move goods rapidly, to communicate quickly, and to take advantage of market opportunities as they arise. For example, Madagascar's poor transportation and communications facilities are a serious impediment to exporters and thus to the economy. While progress is being made on some infrastructural deficiencies, it will be several years before Madagascar's business infrastructure approaches the requirements of a modern, well-functioning private sector.

a. Transportation

This component of Madagascar's infrastructure is a serious constraint.

- Some of the principal roads have been renewed and resurfaced, but cyclones and maintenance are a problem. Maintenance is hampered by budgetary constraints at the Ministry of Public Works, with the result that roads only receive temporary repairs and then fall apart. The Antananarivo-Majunga road should be redone, and the first third of the Antananarivo-Tamatave road needs repair.

- Secondary roads continue to be in poor shape, and the northern part of the country is cut off during the rainy season.

- Roads are very expensive to build because of the terrain. For example, the cost of a coastal highway in the East would be prohibitive since too many tunnels and bridges would be required.

- The private sector truck fleet is being renewed, with both new and used trucks. Large, imported second-hand trucks reportedly are aggravating maintenance problems. Truck transport is expensive, especially when trucks have to travel over roads in poor shape. Indicative freight rates are: 40 FM/kg Antananarivo-Tamatave; 60 FM/kg Antananarivo-Majunga; 80+ FM/kg on secondary roads for a distance similar to Antananarivo-Majunga. Automotive spare parts availability has greatly improved for French and Japanese makes–90% on hand, and shipment from abroad takes only three weeks.

- The bus fleet in Antananarivo is felt to be inadequate for working population's needs. The taxi fleet is adequate.

- Service at the principal ports (Tamatave and Majunga) is improving. Tamatave is much closer to Antananarivo, and accordingly transportation is cheaper. Coastal sea transportation, however, is reported to be unreliable and lacking in adequate freight carrying capacity.

- Rail service has improved (Antananarivo-Tamatave and Antananarivo-Antsirabe) with better management and new locomotives. It faces severe competition, however, from truck transportation.

- Air transportation is a serious constraint both externally and internally. Air Madagascar (Air France) is the only international carrier allowed into Madagascar. This airline has one Boeing 747, two 737s and a small collection of Hawker Siddley and Sea Otter prop aircraft. As such, it lacks adequate freight carrying capacity. Passenger capacity is limited by the number of aircraft both externally and internally. Moreover, it is becoming even more limited as Air Madagascar pilots quit to take higher paying jobs elsewhere. Seats on internal flights are very difficult to get, and the airline, as presently configured, would not be able to handle any significant increase in tourists. Internal air transport by Air Madagascar is expensive as are private charter flights.

b. Electricity and Water

- Electricity is expensive, but fairly reliable. For those companies with operations dependent on refrigeration and/or freezing, backup generators are a necessity. The price of electricity is a function of the category of business and usage.

- Water is reasonably priced (100FM/M3 for domestic water) and the supply is adequate.

c. **Communications**

- Internal telephone communications are unreliable, with problems of maintenance and breakdowns during the rainy season. From the capital to the outside world communications are adequate, but very expensive.

- The private sector has limited up and downstream and cross linkages and needs more. If Madagascar had more linkages there would be more business formation. The traditional tendency is to import what's needed from France, rather than make it locally. For example, there is no glass producing plant in the country to supply the construction and beverage industries.

- There is a great need for supplier and market (buyer) information internally and externally, as well as information on what support institutions there are available to help and train the private sector. For example, many SMEs interviewed were not aware of INPF, nor of the practical courses offered in middle and lower level industrial management topics–a need loudly called for by the private sector.

- While there are many consulting/study firms ready to conduct feasibility and marketing studies for the SME, they generally turn out poor quality work and are high priced for their services.

d. **Other**

- There is one small industrial zone in Antananarivo put up by a small entrepreneur; it provides space, electricity, water, and a railroad spur.

- Certain segments of Madagascar's industry are over-dimensioned (e.g., PAPMAD–Madagascar's paper industry) which now result in extremely low capacity usage rates. Should the economy turn around and grow, however, these segments would be extremely well-positioned to take advantage of the economic growth.

C. Banking/Financial Sector

SMEs cite their lack of access to credit, from working capital to medium/long-term financing as a key constraint to both the healthy operation of their businesses and to their expansion plans. They also cite the inability to get prefinancing when they have a firm contract in hand to produce goods or render services, as well as the inability to get "bridging capital," when they are at a critical expansionary step in their activities. With the GDRM's growing emphasis on the development of the private sector, and widespread donor interest in financial and technical/training assistance to the private sector, why is the small businessman having such credit problems?

1. Characteristics

Madagascar's formal banking sector is comprised of four banks, one of which is a 100% privately owned commercial bank. This bank is due to start full banking operations later this year. The other three are state commercial banks, which will continue to have a quasi-monopoly on the provision of credit until the new bank (BMOI) comes on stream. In May 1988 a new banking law was promulgated which allows new private banks to be part of the system as well as local and/or foreign private capital to participate in the ownership of the existing state banks.

One of the banks (BNI) is virtually insolvent and the other two have large proportions of their portfolios which are non-performing. The bulk of the non-performing credit is to SOEs, unable to service their loans. Under the aegis of the World Bank's Public Sector Adjustment Credit, the BNI is to be restructured and 51% privatized, while both the BFV and the BTM, or one of them, will be 25% privatized in the near future. Under the terms of the World Bank's proposed Financial Sector and Private Enterprise (APEX) Credit, one or the other, or both of these banks will have majority (51%) private ownership by the time of the Credit's second tranche. The alternative to this partial privatization is the establishment of a fifth commercial bank, 100% privately owned.

The remainder of the formal banking and financial sector is comprised of a postal savings and checking system, two state-owned insurance companies and a "national investment fund." On the quasi-formal side, two small embryonic venture capital funds are in the process of formation.

2. SMEs: Credit Policy and Availability

The Central Bank has two rediscount rates, the normal rate being 12% and the preferential rate (for credit granted to export activities and agricultural activities which target food self-sufficiency) of 9%. SME loans, unless they fall in one or the other two aforementioned categories, have the normal rate applied. Even though most interest rates are officially deregulated, Madagascar's Professional Banking Association sets the specific interest rates charged individual borrowers for short-term loans, and the standard rates across all borrowers for medium and long term loans.

The banks state that market interest rates on short-term lending range from a low of 11% if the loan is discounted overseas to a high of 20% for a straight line of credit (decouvert). Medium- and long-term loan interest rates reportedly vary between 12% and 13% for the most financially sound customers and 17%. Businessmen, however, quote rates of 18% to 25% depending on the term and use of the loan, and the quality of the customer. One businessman reports that as competition between banks is starting, there is more access to credit.

Four factors, however, prevent the businessman from gaining access to this availability. First, the high interest rates charged means that the businessman can not make a positive rate of return on longer term investments. Second, those businesses with liabilities denominated in hard foreign currencies are in a precarious financial position due to the two devaluations of the FM, and thus are too risky. Third, businesses hit hard by the effects of liberalization (competing imports) and the high cost of imported raw materials and intermediate products report serious cash flow and growing undercapitalization problems (eating into their capital/retained earnings just to stay afloat), and thus are too risky. And fourth, the general decrease in purchasing power has meant a concomitant decline in revenues in real terms, thus making many companies unattractive for additional lending.

The SME, in particular the start-up SME, has extreme difficulty in obtaining credit today. Even those firms with longstanding relationships with their banks and with track records of profitability report difficulty. Various reasons lie behind the banks' reluctance/inability to lend to SMEs:

- The adverse financial status of the banks themselves and the pressure to clean up their portfolios renders them averse to most lending, other than highly profitable, low-risk short-term commercial lending.

- Strict credit ceilings imposed by the Central Bank, which makes liquidity, i.e., funds available for lending, tight. Banks' liquidity is further hampered by the large volume of non-performing loans.

- The large number of SMEs with serious operating and/or financial difficulties and those that have failed.

- For the small enterprise, the absence of managerial and financial expertise which surfaces as the firm becomes larger and more complex in its operations. Typically, the firm overextends itself on work commitments, can not manage its "treasury" operations properly, and thus gets into financial difficulty.

- The general financial squeeze and associated cash flow problems mean that companies are becoming undercapitalized and are "running on a shoestring."

Start-up SMEs exhibit a range of characteristics which make them poor risks:

- Many simply are not bankable. Their business propositions simply do not accord with reality and the entrepreneurs lack business experience and management ability. For example, the two-year-old World Bank line of credit for agricultural and agribusiness projects has only generated 16 acceptable projects for a total drawdown of $3 million–on an $8 million line of credit.

- The fact that new entrepreneurs do not have sufficient personal equity (30%, or in the case of certain donor credit lines, 20%) to bring to the investment.

- The small number of SMEs which, once financed, actually succeed. The BFV reports that of a total of 300 SME dossiers received since they started a formal SME lending program, only 40 were funded. Of those 40, a number (not available) failed and were the subject of a recent bank study as to the causes of failure. The principal causes were lack of management competence, inability to manage their costs and finances, and, very importantly, lack of marketing expertise.

- The lack of accounting systems–no matter how rudimentary. An accounting system is vital in a banker's eyes, for it both demonstrates a certain financial seriousness on the part of the entrepreneur and allows the banker to monitor the success of the client, and therefrom the safety of the loan.

- A somewhat limited ability of the banks' SME units to identify viable propositions; to assist the fledgling entrepreneur with the necessary business skills; to understand the SME's particular line of business; to work with, monitor, and follow-up with this class of client; and to have the appropriate "work-out" procedures to help get the client out of trouble when he encounters business difficulties.

- Banks generally only see a proposition after it has been through the hands of one of the numerous consulting/study firms in Antananarivo. The banks feel that the quality of the proposals reaching them is low, and that they themselves should be involved with the new entrepreneur from the outset.

Interestingly, very few of the SMEs interviewed financed their start-ups with bank credit. Almost all firms, long as well as recently established used their own capital or non-bank capital (other investors, family) to start. In part their reluctance to go to the banks was based on the fear that their propositions would "disappear," only to resurface in the hands of someone else who was better placed, politically.

3. Banks' Flexibility vis-a-vis SMEs

The banks feel that the majority of SMEs and start-ups simply are not bankable, regardless of the interest rate to be applied to this class of customer. The stagnant economy, the general malaise of the private sector, the growing financial problems of firms, the very serious portfolio problems of the banks themselves, and the high degree of risk (including no donor-backed guarantee to assume all or most of the credit risk) of the start-up firm all combine to make the banks inflexible vis-a-vis lending to the SME.

The banks admit that they are not overly familiar with the SME class of client, and that it is not at all certain that as they become privatized that they will be any more favorable to the SME. The new bank, the BMOI, states that at this juncture, they have no specific ideas about establishing a SME unit in their bank. Their principal lending interests will likely lie, as management put it, "in external trade."

Even with partial privatization of the banking sector, it appears it will be a while before the SME gets a good reception at the banks. The banks exhibited little interest in creative lending mechanisms, such as mutual loan guarantee groups of businessmen in like activities, or of undertaking a "package" of sound small-scale clients with a two- to three-year track record of increasing profitability, and some sort of short-term (one to two years) partial or total guarantee scheme. (See DAI's mid-term evaluation of the USAID Community and Enterprise Development Project in Senegal, June 1987, pp. 85-86 for a description of loan packaging.) The concept that today's small, risky start-up may well be tomorrow's solid customer, with a variety of credit and bank service needs, does not appear to be in thinking of banks today.

In response to this general lack of credit and bank flexibility toward SMEs, two nascent venture capital funds are coming on stream. The private sector support organization, APEM, is creating a venture capital fund (SIAPEM) with the assistance of the IFC and a French NGO's for-profit business subsidiary (SIDI). To be initially capitalized at 500 million FM, SIAPEM will seek out viable SME start-ups, to guarantee their loans with banks or to take equity positions in return for making up that portion of the entrepreneur's required investment that is missing. UNIDO has plans to establish a venture capital fund (BONUSINVEST) for SMEs, with BNI's participation matching UNIDO funds on a one-to-one basis. UNIDO would initially put in $500,000 to $1 million.

D. Human Resources

Given Madagascar's continuing economic stagnation and its growing urban unemployment and underemployment, the question of human resources and how to employ them is key today, and will soon be critical. Approximately 130,000 Malagasy pass through the educational system yearly entering the University and its provincial branches. Estimates are that 30,000 to 50,000 leave the University system each year, of which 11,000 are graduates. The non-graduates are thrown on the job market and it is reported that only one-half of the graduates find employment of any kind.

As Madagascar takes those economic reorganization policy actions which entail the restriction of government employment, the shedding of uneconomic parastatal companies, and voluntary early retirement from government service, the private sector will be increasingly expected to absorb these people. It is incumbent upon Madagascar to avoid the "me-tooism" which characterizes so many African private sectors called upon to absorb graduates, "deflates," and early retirees. Typically, there is a rush into business activities requiring little capital investment and entailing little sophistication–bakeries, small print shops, video stores, transportation, transit and freight forwarding, pharmacies, and petty commerce–with the result that these activities soon become supersaturated, followed by a run of failures.

Tomorrow's criticality stems from the fact that the formal private sector is small, fragile and in poor shape–competitively, and therefrom, financially. Add to this fact Madagascar's educational policy and practice since independence–to educate and groom future civil servants, and it becomes evident that not only is the "source" of demand small, but also the current supply of both true entrepreneurs and immediately employable (usable by business) managers is small.

Businessmen, Malagasy and foreign, state that the need for trained, employable (i.e., able to be productive immediately or with a minimum of company training), personnel is acute–at all levels of management and for technical positions. Since Madagascar has been until very recently an almost completely statist economy, with a large public sector and a very small private, formal manufacturing sector, the reservoir of skilled middle level managers and technicians which existed at independence was little renewed nor added to since then.

The questions therefore are how to revive the formal private sector; how to build the reservoir of talent; how to prepare University students, graduates, and leavers to be able to qualify for private sector employment; and how to retread future departing civil servants and SOE employees. Following are observations on Madagascar's pools of entrepreneurs, management and labor:

1. Entrepreneurs

Both Malagasy and foreigners hold to the conventional wisdom that the Malagasy by nature is not an entrepreneur. He is held to be a good administrator, researcher, "bricoleur," and speculator, but not a real businessman with the management skills, vision, drive, and intestinal fortitude to take large risks over the long haul. The conventional wisdom, however, is partly belied by the fact that there are true entrepreneurs among the Malagasy businessmen in the formal private sector as this assessment team found. Moreover, the Malagasy's ingenuity and ability to conceive/adapt technologies and ideas translate into some interesting product and market innovations. There are also many artisanal entrepreneurs in the informal sector. Of course, as in case of all other countries, the U.S. included, there is more entrepreneurial spirit than there is entrepreneurial ability. The ability is that which must be found, developed, and nurtured. Following are the missing elements, and therein the need for short-term practical training in developing entrepreneurship and management skills.

- The fact that there has been little opportunity for true entrepreneurs to surface and develop, given the thrust of the educational system and the earlier economic "dirigiste" policies of GDRM.

- There is a certain lack of aggressiveness that is missing among many Malagasy entrepreneurs. Aggressiveness, in general, is vital for success in the business world and, in particular, is vital for survival today given the growing flood of less expensive imported products. They are, however, quick to recognize the importance of marketing and the need to understand and use marketing tools if they are to survive.

- The fact that the vast majority of new "entrepreneurs" simply do not know what business is all about, i.e., how to structure and organize a business, what financial responsibility is, the notion of capital, and that a productive enterprise is market-driven over the long term.

- In the small start-up company the organization structure is often just a family structure, with no accounting system, no plan, and no forecasting. The business is run "by the seat of the pants." This management "structure" is adequate when the business is very small and uncomplicated, but unravels when the business grows.

- The fact that much of business training offered to date has been of the classic theoretical type, rather than hands-on, practical, oriented-to-their-problems training. A few entrepreneurs interviewed expressed surprise at the notion of paying for training.

2. Management

"We have workers and senior engineers, but don't have senior technicians, middle management, shop stewards or foremen–all the missing links."

–Malagasy businessman

The consensus of the Malagasy business community, both local and expatriate, is that there is a growing and very serious lack of management personnel and skills at all levels. The business community tends to attribute recent business failures more to poor management than to the poor economic conditions which prevail.

The lack of management personnel and skills is not surprising, given Madagascar's statist history since 1972 and given the type of education (theoretical, academic) Malagasy youth receives in the higher educational system. Thus there is a "labor-skills" gap in the young. Those remaining Malagasy who worked in business prior to 1972 have the middle management skills that so many businesses are seeking. The lack of up-to-date technical skills also stems from 1972 at which time equipment was state of the art–today, Madagascar is 17 years behind. In addition, for a period of about five years, the French language was dropped in school, with not-unexpected adverse consequences. Further aggravating the situation is the fact that it is very difficult to find work-experienced senior managers today.

Following is the situation with which the business community finds itself confronted:

- Capable, experienced top management and skilled senior technicians are virtually impossible to find. Those with the requisite skills and experience have left Madagascar for Europe, the neighboring Indian Ocean islands, and North America, where they can earn a decent living and pursue career advancement. The most recent case in point is that of the departure of Air Madagascar's Boeing 737 pilots. Those managers who are willing to return do so only with an expatriate contract.

- If young senior managers are sent out of the country for training, they may very well not return. This is understandable given that his average monthly salary (500,000 FM)is about one half the minimum wage in France (1 million FM) and his superior has about 10 years to work before retirement, effectively blocking the younger person's career advancement.

- Businessmen are legion in their complaint that they can not find experienced middle managers. Missing is the combination of leadership, human resources capacity, and technical competence to manage specific technical and production activities in a company. Specifically missing are skills and experience in production management, time management, personnel management, and forward planning ability, and a certain absence of initiative and insight.

- Businessmen state that there is not enough contact between training centers and business, with the result that the training offered does not meet the specific needs of business. The type of training businessmen want to see is that which is practical, e.g., inventory management and control, and that which addresses their immediate needs and concerns, e.g., all aspects of marketing, and English, if their markets are or are to be overseas.

- On the technical side, there is an analogous gap–the ability to use one's technical training and education in a practical way.

- There is a serious shortage of good, first-line supervisory personnel (stewards, foremen). The shortage is acute enough that the larger business will pay foremen more than a mid- to high-level government administrator makes. Businessmen feel that the output of technical schools is of little immediate use, but more important is the sheer absence of experienced personnel on the job market at this level.

- There are many people with University degrees, but in the eyes of the businessman, their theoretical training is totally inappropriate and they must be trained (retrained) from the bottom-up. They have little idea of how to apply what they learned in school. Moreover, many new graduates are pretentious enough to think that they immediately qualify for a senior management position. For the SME, by virtue of its smaller size a lean organization, the young graduate's diploma counts for very little.

- Symptomatic of the unemployment situation is that a company will get 150 applicants (young graduates) for one opening, of which a maximum of 12 will survive the initial interview and screening test.

- Also symptomatic of the employment situation is that INSCAE's accounting program this coming January will start with only 50 entrants instead of the usual 70, and the management/administration program has already dropped from 300 to 200. Employment openings are drying up for these higher level graduates.

- There is no lack of engineers of all specialties nor of accountants–but they have no work experience.

- Interestingly, employees know they do not know how to manage and that they are technically behind–in a survey just carried out at a large company (PAPMAD), employees asked for training in management, leadership, interpersonal skills/techniques such as quality circles, new technologies/techniques, and technical updating.

- Obstacles to women in management are starting to drop–one sees a relatively large (compared to most of Africa) number of women in management positions. The increasing number of women in school, plus families needing two salaries just to stay even, help fuel this growth.

3. Labor

The bright spot in the human resources is labor, both unskilled, semi-skilled, and, to a degree, skilled. The Malagasy worker is not afraid of hard work, has the quality of ingenuity, catches on fast, and thus is eminently trainable. Given the serious unemployment problem, Malagasy businesses have no problem finding labor. Additionally, labor costs in Madagascar are among the lowest in the world. By contrast, labor costs three times as much in Mauritius as it does in Madagascar. Unions are reasonable–especially in light of the employment situation; as might be expected, there are no strikes; for the businessman to lay off workers, however, is difficult–he must be prepared to give substantial severance pay.

There are missing skills, however, which can be addressed by appropriate training:

- From 1972 to date, Madagascar has been largely living on 1972 state-of-the-art equipment. Moreover, preventive maintenance was not been emphasized in the workplace. The result today is a shortage of people who can repair and maintain, and operate semi-sophisticated equipment.

- Certain technical/production concepts–such as product standardization and quality control–are absent. This is particularly evident in the smaller firm as well as in the informal sector. A furniture manufacturer may turn out an order of 12 chairs, each one slightly different.

- As production equipment becomes more sophisticated, employers are obliged to retrain almost continually.

As a final commentary on employment in Madagascar, one employer remarked that out of 160 applicants for a secretarial position, 30 had some secretarial training, 120 had none, and the other 10 held doctoral degrees!

E. Economic and Industrial Potential

The consensus of businessmen is that the next five years will be difficult ones. The continuing economic stagnation; the onslaught of imports, legal and illegal; the decline in purchasing power; and the slow progress perceived in providing an environment conducive to growth, coupled with the concomitant decline in the activity of many businesses, give rise to their pessimism. This pessimism is particularly evident among the small and medium-sized manufacturers and those providers of goods and services to the manufacturing sector. The construction sector is the exception, stating that the increase of donor funds and projects, as well as wealthy individuals' money making a reappearance, has resulted in a boom.

Among the medium sized and larger companies, there are many which have a great deal of excess capacity and which are innovative. Should the economy restart and grow, these companies will be well-positioned to take advantage of such growth.

Following is a capsule description of the major productive sectors of the economy and their general potential for growth as well as the potential for SMEs:

SECTOR **POTENTIAL FOR GROWTH**
(% of GDP)

Agriculture (42% of GDP in 1987)

- Good for rice provided overall economy improves, market liberalization continues, and supporting physical and financial infrastructures are improved. Possibility of future rice export. Also potential for other cereals.

- Fair for meat production if adequate production and distribution facilities can be established. Possibility of meat exports to EEC if can meet European standards. BONGOU specialty meat products demonstrate challenge Madagascar must meet if it is to successfully enter advanced markets: comparative advantage of Hungarians and Israelis, product no different in taste than many inexpensive similar products, and poor labeling which does not attract customer away from competing products.

- Fair to good for cotton depending on world prices. Two parastatal cotton companies operating, one effectively.

- Limited for fruits and vegetables for European winter markets since Madagascar would be late starter in this market and does not have sufficient air freight capacity to move all produce available and meet European market timing requirement, i.e., end of week. Possibilities for nut crops. Butter beans and maize to Indian Ocean islands.

- Modest for traditional export crops and tied to world prices and big world suppliers. Vanilla in competition with synthetic vanilla. Largest clove customer (Indonesia for its Kretek cigarettes) now grows its own, leaving Madagascar as last resort supplier in case of Indonesian crop failure.

- Excellent for export of frozen fish and crustaceans (especially shrimp) to Europe and Japan. European market unable to supply itself from local waters, while demand continues to grow steadily. Excellent for ancillary activities such as ship repair, chandlery, and provisioning, e.g., SECREN at Diego Suarez.

Manufacturing (including mining) (16% of GDP in 1987)

- Poor for many consumer products due to flood of imports.

- Modest for textiles given foreign competition and low consumer purchasing power. Some export potential for combed cloth. Some export potential for garment manufacture due to low labor costs, preferential EEC treatment, and no U.S. quotas. Comparative locational disadvantage and many competitor countries, however.

- Possibilities for export processing zones to take advantage of very low labor costs and high-quality labor. Problem is lack of all supporting infrastructure, comparative locational disadvantage of Madagascar, especially if going to be final product assembly point.

- Fair for light industry tied into rural productive activities and along the food chain from farmgate to market, e.g., agricultural equipment, storage, cold chain, some processing--all dependent on state of economy and rise in purchasing power. Possibilities for electronics assembly due to low labor costs, but hampered by lack of supporting infrastructure.

- Possibilities for artisanal niches in Europe, e.g, embroidered products. Depends on ability of Malagasys to research markets and meet market quantity and quality requirements, on timely basis.

Informal Manufacturing (n/a)

- Currently good for products directly and indirectly tied to construction sector–iron work, carpentry, furniture, simple hardware, construction materials.

Construction (n/a)

- Currently excellent given donor inflow of funds and projects and inflow of funds from the wealthy. Longer-term potential in low-cost housing.

Transportation (n/a)

- Depends on state of economy, state of road infrastructure and number of unemployed, "early" retirees and graduates who enter this activity (relatively easy entry). With widespread road improvement, trucking, long-distance buses, and associated service/spares opportunities arise.

Tourism (n/a)

- Modest at best. Highly dependent on creation of all supporting infrastructure, especially in-country air transport. Need for decent hotels and provision of all activities and services which tourists require. Also requires professional promotional efforts. Too many "better-equipped" countries closer to European and North American markets, and competition is fierce.

Mining (% of GDP included with manufacturing)

- Good for ilemite (titanium dioxide); very large high-quality find in Southeast. Need port to evacuate. Only competitors are Australia and South Africa.

- Potential for petroleum. Amoco and Shell exploration efforts, however, highly dependent on world prices for petroleum and products. Also dependent on infrastructure to evacuate.

- Chromite still being examined; coal exploration in East.

Services (includes other private sector) (32% of GDP in 1986)

- Moderate, dependent on turn in economy and subsequent growth. Domestic urban markets: product repair, spare parts, maintenance; training in computer and allied business areas; EDP sales/service; and possibly contracting out certain government and municipal activities.

Commerce (n/a)

- Uncertain–depends on state of overall economy and on numbers of unemployed who enter this activity (entry extremely easy).

Provided the economy is rejuvenated, the areas of most potential for SMEs (including larger informal sector enterprises) appear to be:

- Operations ancillary to agricultural production, i.e., agricultural equipment/tools, agricultural services, provision of agricultural inputs, storage/cold chain construction, selected food processing for both domestic and foreign markets, transport, institutional food markets.

- Operations ancillary to other basic sectors, provided there is resolution of the current malaise of Madagascar's economy and the business environment. Construction is a good example of a basic sector for which there is a wide variety of labor-intensive activities along the "construction chain": building materials, paint, iron/wood intermediate and finished products, glass products, simple hardware, office and home furnishings.

- Light industries which service urban domestic markets where product quality and timely supply are important purchase criteria: e.g., metal and wood products, simple hardware, certain food products (for example, processed meat products), paper products, school and office supplies, certain simple automotive replacement parts. Also, import substitution products which can successfully compete with imports on price and/or quality basis.

- Services for domestic urban markets, i.e., to both private and public sectors: maintenance, repair, office and building services, including security; high quality consulting, including management accounting; selected training not being addressed by government and donor projects; subcontracting of computer and word-processing services.

- Operations ancillary to growth in tourism should this sector become feasible: rehabilitation of existing hotels, new hotels with water, energy, local food supplies, garbage disposal; restaurants, entertainment, tours, tour guides, minibus transportation, convenient shopping, upgraded in-country air transportation, tennis, boating, fishing, hunting, camera safaris, etc.

Economic and business stagnation, low purchasing power, small domestic markets, inexperience in international markets, and the growing importance of imported goods mean that the choice of profitable SME activities is largely limited to certain domestic needs. Moreover, the Malagasy businessman first needs to learn to market his product at home and successfully combat competing imported products. Once he has done this he will be better prepared to enter tougher arenas of product competition. The Malagasy businessman needs to grasp and understand the full range of marketing tools necessary, i.e., serious market research to find/develop/create markets, and to find market niches (where there are product shortfalls, quality differences, price differences, etc.); the establishment of market intelligence systems so that he can spot and/or create market opportunities; study of the consumer and what products/product attributes are wanted; and finally, the ability to move fast.

A market factor raised by a number of businessmen was that of product quality. The influx of imports, occasioned by economic liberalization, has brought enough second quality, and in some cases, shoddy, products onto the market that Malagasy businessmen do recognize quality as a desirable product attribute and are starting to use it as a tool to combat imports. In most countries undergoing economic liberalization, the SME is forced to avoid head-on price competition with lower priced, lower quality, simple consumer items. SMEs, however, if they are to survive, must develop marketing expertise and an agility to blunt the flood of imports, to capitalize on existing market opportunities, and even to create new opportunities for themselves.

F. Key Constraints to Private Sector Development

Private sector development, and in particular that of SMEs, is affected by seven major types of constraints, five of which directly affect the training needs of SMEs.

	Type of Constraint	Degree of Bearing on SME Training
1.	Lack of Qualified Personnel	Strong
2.	Access to Credit	Strong
3.	Government Policy Actions	Strong
4.	Economic and Market Factors	Strong
5.	Administrative/Bureaucratic Factors	Minimal
6.	Business Formation and Taxation	Minimal
7.	Characteristics of the Private Sector	Strong

1. Lack of Qualified Personnel

The lack of qualified personnel, ranging from lower to top management, is acute in Madagascar. Also, true entrepreneurs do not abound. Madagascar's 17 years of statism, the nature of her educational system, the persistent economic stagnation, the low remuneration (relative to opportunities in Europe and in the neighboring Indian Ocean islands) for management positions, and the relatively small size of the domestic, urban economy, all translate into a severe shortage of trained, experienced people.

While there is more entrepreneurial spirit than ability among the Malagasy, there are entrepreneurs. A trait of the Malagasy is ingenuity coupled with the ability to translate the ingenuity into reality. Malagasy with true entrepreneurial potential must be sought out and trained and their fledgling businesses must be nurtured. This need becomes even more critical with the growing number of university graduates and leavers entering a very thin job market, and the future numbers of early retirees from government service and redundant employees from the parapublic sector who will be an additional burden on the job market. A screening mechanism is necessary to sift these entrants and determine who has the best chance of success. Once sifted, entrepreneurship training can begin. Later, matching of new Malagasy entrepreneurs with other African countries' entrepreneurs in like activities and of like scale can take place so that "lateral learning" will occur.

Even more serious is the severe lack of experienced managerial talent, coupled with the flood of new entrants to the job market, who have no practical business skills. Also, the vast majority of these people, as anywhere else in the world, are not innate entrepreneurs. The basic requirement, therefore, is that a flourishing economy replace today's stagnant one, and that the private sector operates in an economic, legal, and administrative environment conducive to its success, thereby able to provide more, appropriate employment.

Businessmen correctly state that the three most critical lacks are general management and organizational skills, financial management skills, and marketing skills. Marketing skills are absolutely key to the manufacturing sector's success, especially as it faces growing competition from imports, and as it wants to enter new, more demanding markets. Here, the training required should include a solid understanding of the principles of each of the above mentioned functional business areas, blended with a heavy dose of practical application in actual business settings.

As Madagascar's private sector adopts new production and service technologies, the need for well-trained technical personnel and skilled labor becomes increasingly important. Also needed, and largely missing today, are first-line supervisory personnel. Thus the practical training requirements cover not only the gamut of preventive maintenance, repair and ability to understand and operate production equipment, but also more specialized skills.

2. Access to Credit

The universal complaint of the SME, existing and new, is that credit is almost impossible to obtain from the banks. A stagnant economy, the growing financial shakiness of much of the private sector, the serious loan portfolio problems of the banking sector, strict credit ceilings imposed by the Central Bank, and the lack of bankable business propositions account for the very little credit accorded.

Given more favorable business conditions, the typical SME lack of access to credit can mitigated by appropriate, practical training in areas which will make the SME more "bankable." Such training entails the gamut of basic business skills, i.e., business proposal and loan application preparation, market/feasibility studies, simple accounting/financial management systems, and understanding the concepts of financial responsibility and capital, as well as credit and its uses/repayment. The effectiveness of such training is often ensured by linking it to obtaining credit, i.e., bank credit is accorded only to viable enterprises (start-up and existing) which have successfully completed the prescribed training.

The training developed and offered should be geared to the factors that will make a business "bankable" to a bank. An example of such a factor, seen through a banker's eyes, is the firm's accounting system. The mere fact that a business has a written accounting system, albeit rudimentary, helps "legitimize" the business in the eyes of the bank. The bank feels more secure, knowing that it can see to what purpose the loan was put, how the business is performing, and therefrom how secure its loan is.

3. Government Policy Actions

The principal policy actions undertaken by the GDRM which affect SME manufacturing activities, the activities of some legal traders, and the activities of the suppliers of services, raw materials and components to industry, are market liberalization–making trade freer and ridding the economy of import monopolies (de jure and de facto)–and devaluation. These were correct steps. In many product areas, however, Madagascar has (had) protected industries. Apparently, as in many other African countries undergoing structural adjustment, the potential effects of trade liberalization on Madagascar's SMEs were neither explored nor anticipated. Local companies find themselves increasingly unable to compete with imported goods, many of second line quality (and price). Moreover, there is a ripple effect on other companies which are suppliers of goods and services to the primary companies affected.

The effects of liberalization have direct training implications for the SME. For the Malagasy SME to be competitive under these new conditions, training in the following range of disciplines is urgent:

- Marketing, including marketing research, and all the relevant marketing tools and techniques–to protect and expand current markets, and to find and enter new markets.

- Financial management and cost accounting–to attain leaner operations via cost-cutting and cost control.

- Inventory and production management–to match, at least-cost, raw material and intermediate goods supply with market demand.

- Planning and rapid response both to problems and opportunities.

4. Economic and Market Factors

Economic and market factors are of critical concern to the Malagasy businessman. A relatively small, fragmented domestic market is being swamped by imports, eroded by declining purchasing power, and stifled by a stagnant economy. These factors are affecting the very survival of many manufacturers, and are beginning to squeeze some operating merchants and traders. Many businesses are operating at levels well below their plants' design capacity. In short, Madagascar's manufacturing sector risks falling in disarray.

Madagascar's manufacturing sector will need time to rebound, and it will continue to face growing competition from imports. As mentioned above, SMEs will be forced to "lean down," to produce competitive products, and will have to learn to market their products, as distinct from selling them. Many Malagasy firms interviewed had little idea of how to combat import competition, little idea of the tools at their disposal, and even less idea of how to put together a marketing strategy that would allow them to fight back. Marketing training, in all its aspects, is an urgent priority for the SME:

- Market research and the development of market information, both domestic and export, to find market niches, to capitalize on desired product attributes, e.g., product quality, price, packaging, appearance, delivery, seasonality, etc.

- Use of marketing tools, e.g., market segmentation–if product quality is a desired attribute, "cream the market," leaving the low end of the market for the cheap foreign goods.

- Use of other marketing tools, e.g., product differentiation to tap different segments of a market, package size and packaging differentiation to capture different price segments and downscale/upscale segments of the market,[1] and pricing strategies to undercut competition, to capture different market segments, and to enter new markets.

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1 A Nigerien biscuit/cookie manufacturer is employing just these techniques, successfully competing with Nigerian imports which are 20% cheaper in Niger, and going head-to-head with Ivoirian biscuits in Burkina Faso, Mali, Togo and Gabon on the bases of taste and quality.

5. Administrative/Bureaucratic Factors

While these factors have little direct bearing on training for SMEs, they continue to be important constraints to growth of SMEs. Following are the principal complaints about GDRM administration and bureaucracy:

- The slowness with which the GDRM is instituting changes which will help the formal private sector develop. To the businessman, the GDRM's pronouncements vis-a-vis helping the private sector continue to be lip service. The government is still (since 1985) talking about revising the current Investment Code.

- The overly complex and time-consuming procedures involved when one deals with the government.

- Businessmen want "the rules of the game" to be the same for everyone.

- The lack of "fairness," "automaticity," and "transparency" in government dealing with business–the operation of the Investment Code is frequently cited as the prime example, as exemptions are granted by the government on a "case-by-case" basis. Each ministry, except the Ministry of Agriculture, which has yet to be heard from, developed different criteria for applying the Investment Code.

- The "murkiness" of operation of the Investment Code discourages foreign investors–who come, look, turn around, and go. Under the current code it is still not possible to repatriate dividends and capital fully. Fairness, automaticity and transparency of operation are needed if the psychology of distrust of the State is to be mitigated. Foreign investors remember well the nationalization of Caltex, Esso, and others. The GDRM needs to develop a track record of fair and open dealings with investors, both national and foreign. At the present time, the economics of a foreign investment have to be so good as to overcome Madagascar's bad reputation.

- The growing petty corruption at all levels–caused by the decline in purchasing power. One businessman talks of "tout une panoplie d'escroquerie."

- The government's continuing tendency to want to control the private sector. The recent experience with the organization "Agence ERE"–set up to handle the proposed World Bank line of credit for SMEs–in which the private sector held a minority position and subsequently walked out of, expressing the sentiment that Agence ERE was simply a means to control the funds and dole them out to friends and relatives.

- The delay in collecting receivables from the government–now averaging six months. This puts additional financial burden on an already weakened manufacturing sector.

- The fear of a swing back to "the left," i.e., the return of pervasive state control.

6. Business Formation and Taxation

Business formation for the Malagasy who does not want to avail himself of benefits under the Investment Code and establishes his business as a sole proprietorship or as a limited liability company is a fairly simple matter. The new businessman registers his company in the Business Register and with the government statistics office, declares his existence to the tax authorities, pays a variable Professional Tax to establish the business, and finally has the establishment of his business published in the Official Journal of the government. This process is fairly automatic, taking 15-30 days, and only requiring that the businessman "push the paper through the system." Reportedly, no "emoluments" are required to get this work done. Establishing a limited liability company is slightly more complex, entailing all the steps of a sole proprietorship, plus establishing a company charter and payment of a tax ranging from 2% to 6% on the declared capital of the company. Establishing a corporation is much more complicated, entailing upwards of 10 administrative steps before arriving at the stage of registration in the Business Register. Corporate formation can take two to three months. Registration under the Investment Code takes significantly longer, as negotiation is necessary and registration is by no means automatic.

A heavy, complex tax system is an inheritance from the French concept of an all-powerful fiscal authority and inspectorate, based on the old French anti-business bias, best summed up as "anyone who is on their own must be cheating." The GDRM, like many francophone African governments, does not really understand that a tax system can be used to stimulate the private sector, as well as collect revenues for the government. The one modest change made affecting locally headquartered businesses is the reduction of the tax on profits from 45% to 35% for agricultural, mining, industrial, hotel, and artisanal operations. All companies pay a transactions tax–a tax on value added of 15%, regardless of the profit or loss status of the business. This is particularly onerous for the start-up SME(except those with Investment Code status), which by virtue of being a start-up likely will not be in a profit making position in the very early years of operation. This is a very good incentive for the businessman to remain "invisible" in the informal sector, paying little or nor taxes, or to engage in "creative" accounting to reduce his tax burden.

7. Characteristics of the Private Sector

Madagascar's private sector has characteristics which are themselves constraints and which have strong implications for training. These characteristics range from "mentalities" or perceptions of business to the way in which businesses are organized or run. Following are the principal characteristics which impede the development of SMEs:

- A certain and somewhat widespread (though certainly not as widespread and pernicious as in West Africa) lack of understanding of the true nature of a productive, producing enterprise. This shows up in start-up SMEs, where the owner runs the business on a "family enterprise" basis, by the seat of his pants, with little organization and management. When his business expands from one and two contracts to be met to ten customers to be satisfied in a short period of time, his lack of management and organizing skills become very evident.

- This lack of understanding also shows up in existing medium-sized enterprises, where the owner often will diversify into business activities about which he knows very little, and has even less experience. This is fairly typical of the established Malagasy businessman who started his business activities in commerce/trading and subsequently went into manufacturing. Now, he is either responding to the consequences of market liberalization to protect himself, or spotting an opportunity where he can get in fast–without much consideration of the requirements and pitfalls of the new, and often very different, business activity.

- A certain lack of aggressiveness and understanding of what free competition is all about, although certainly not affecting all Malagasy entrepreneurs. The lack of aggressiveness seems to be partly innate (Malagasy are not hard-nosed businessmen, by and large) and partly due to the state protection they have enjoyed for 17 years. The protection element surfaces in repeated calls for various forms of state protection (from the state they so distrust) via establishment of "product standards" and "professional standards" to blunt what is, in most cases, just normal, competitive activities of other players.

- A certain distrust among Malagasy businessmen which shows up in today's necessity for written contracts, where 10-15 years ago, one's word was sufficient. This is evidently due to the growing corruption, the former "dossier-stealing," and the continuing fear of a return to pervasive government control. There is also a feeling among some Malagasy businessmen that the Malagasy businessman does not understand business very well, and thus he prefers to link up with Indo-Pakistani businessmen on the grounds that they have a better understanding of business (and also bring more investment to the business venture).

- A modest reluctance to giving employees training, based on the fear that once trained, the employee will leave his employ for greener pastures.

- A lack of awareness of the outside world and exterior markets, characterized by little understanding of the demanding requirements of those markets.

The training implications of these characteristics are first, the basics of free market enterprise and the development of entrepreneurial abilities; second, training in the basics of operational, personnel (delegation of authority and responsibility, for example) and, especially, financial management as the enterprise progresses in scale of operations; and third, the need for mutual understanding by business and government of the roles and obligations of each to the society, the economy and each other.

ANNEX 5: PROPOSED HRDA TRAINING PLAN

The following training plan describes HRDA training objectives, audiences, and activities to promote the development of the private sector in Madagascar, and covers the period FY 1990-1992.

A. Training Objectives

The key objectives of the HRDA private sector training plan are to:

1) Promote the creation of small and medium sized enterprises and improve the viability already existing SMEs

2) Strengthen local training institutions

3) Strengthen business support organizations

4) Promote greater government understanding of private enterprise, through increased dialogue between the public and private sectors, and through training activities targeted at those government agencies dealing with the private sector.

B. Target Audiences

Target audiences include beginning or potential entrepreneurs (including laid-off private or public sector employees, unemployed high school or university graduates and others); managers of existing SMEs; SME middle-level managers, line supervisors, shop foremen, and other senior technicians with supervisory responsibility; instructors from local training institutions; staff and key personnel of local business associations and support organizations; and Malagasy private investors and public sector and banking officials involved in the privatization of parastatal industries and other policy reforms related to private sector development.

C. Training Activities

The following description of proposed training activities is broken down according to objective, target audience, and schedule. The detailed schedule of activity and projected costs per fiscal year (FY 1990-1992) are provided in tables at the end of this section.

Objective 1: Promote Enterprise Creation and Expansion

The HRDA project will fund a number of training activities to achieve the above objective. The three target groups of this objective will be: 1) potential new entrepreneurs, 2) existing entrepreneurs, and 3) training institutions working with SMEs.

1.1 Entrepreneurial Development Workshops

HRDA will fund entrepreneurial development workshops for potential entrepreneurs, similar to the model being used by Management Systems International (MSI), which involves the testing, selection, and training in business basics for groups of 25 potential entrepreneurs. MSI has developed a methodology for such a seminar and regularly holds them in the U.S., the Gambia, Senegal, and elsewhere in Africa, and could bring the workshop to Madagascar, upon request. MSI has conducted the workshop in French and local African languages, and could eventually develop a version in Malagasy, with local assistance.

Normally the initial workshop includes a preparation visit to adapt the workshop to the Madagascan environment, and a series of three workshops held over a period of months/years. At least five participants in the first workshop would be local instructors, who would then assist the U.S. experts during the following two workshops. This approach allows for the full transfer of teaching technology, as the local instructors would be certified as Master Trainers. They will then be able to conduct workshops on their own, and train other trainers in workshop methodology, thereby ensuring a multiplier effect, both in Antananarivo and eventually throughout the country. It is hoped that in ensuing years, the workshop will be conducted entirely by local instructors, preferably in one or two of the outlying provinces.

The entrepreneurial development workshop will be conducted at INSCAE, where previous donor experience has a shown a capability to organize high-quality, targeted short-term programs for SMEs. The PSAB will be responsible for selecting an initial list of potential candidates, which will be narrowed down to a final selection with the assistance of the visiting entrepreneurial development team.

In order to carry out the three workshops while leaving HRDA funds for other activities, the assessment team advises that MAELP or other mission funds be used for one of the workshops in the series. This would allow the local trainers to complete their certification, while still leaving HRDA funds for them to offer the workshop on their own in FY 92 and afterwards.

One workshop will be funded with HRDA FY 90 funds at a projected unit cost of $90,000, allowing for a preparation visit to adapt the workshop to the Madagascan environment. A second workshop is proposed for FY 91 at a projected unit cost of $60,000, assuming implementation by U.S. experts working with local trainers. Assuming MAELP or other funding for a third workshop with U.S. assistance, the plan indicates one workshop conducted by local trainers, costed at $30,000, for FY 92. USAID/Madagascar may also consider providing funding for program updates or modifications (e.g., into Malagasy), supplemental consultations, or other costs related to implementation during ensuing years, depending on the determined need and success of the course.

1.2 Open Forums for Entrepreneurs and Others Active in Private Sector Development

HRDA will provide funding to cover expenses for a series of 1- or 2-day open forums to be held around the country. The "town meeting" style or roundtable discussions will focus on issues of importance to the private sector (e.g., establishing a business, credit, marketing, etc.), and would be open all comers, e.g., budding entrepreneurs and established SME owner/managers, as well as local branches of business support organizations, NGOs, and local government officials who are interested in private sector development.

The discussions, to be chaired by local branches of business support organizations such as the JCEM or APEM, would serve several purposes:

1) A public forum for discussion and directed dialogue on pressing private sector issues

2) Exchanges of information and networking on topics relevant to the business community

3) A means of bringing potential entrepreneurs or worthwhile SMEs in need of assistance out of the woodwork. The JCEM could then orient the most promising candidates in these two groups towards HRDA and other training activities and technical assistance. A key priority is that this activity be carried on outside the Antananarivo area, in the other provincial capitals or in smaller towns, where few support mechanisms exist and entrepreneurial talent goes unnoticed.

HRDA proposes the JCEM be chosen as the group to organize such open forums, as it was to open two more local branches making it present in the seven major cities and all the provinces. The activity would fall in line with the JCEM's own and donor-funded activities related to SME development (see Section V-D), and would make it one of USAID/Madagascar's (and the country's) chief "talent scouts" for SME development. (APEM could be included as a joint or alternative coordinating organization for this activity).

HRDA proposes funding this activity at a unit cost of $2,500 for each conference. One conference is proposed for FY 90, and two each for FY 91 and FY 92, with the funds going to cover costs for local organizing activities outside of Antananarivo.

1.3 IESC In-Plant Technical Assistance

HRDA will fund up to two annual technical consultations for local private sector firms provided by the International Executive Service Corps (IESC). IESC consultations, provided by U.S. executives who volunteer their services, have proven effective in the developing world in solving operational or management problems of small to medium-scale firms.

The HRDA budget allows for one month-long consultation for FY 90, and two per year for FY 91 and FY 92, at a unit cost of $10,000, to cover travel and per diem of the consultant. Candidates for such assistance will be selected by the Private Sector Advisory Board, based on written requests submitted to them by interested SMEs. (Other U.S. voluntary consultation services may also be considered under this activity)

1.4 Entrepreneurs International Business Internships in the U.S. for Local SME Managers

Up to two SME owners or managers will be selected each year to participate in AID's Entrepreneurs International (EI) program, at a cost of $8,000 per participant. Under this program, in operation since January 1987, entrepreneurs from the developing world are carefully matched with owners of U.S. firms with similar operations. The foreign entrepreneur is "placed" with the U.S. firm during a two to four week period to study U.S. operations and management in a similar problems and concerns.

EI has been quite successful to date and has even resulted in a limited number of U.S./foreign partnerships, investments and sales contracts.

Candidates for the EI programs (who must speak English) will be selected by the Private Sector Advisory Board, based on written requests received from interested parties.

Objective 2: Strengthen Local Training Institutions

HRDA funds will be used to develop SME training and outreach capability at INSCAE, targeting existing Malagasy SME owners and managers. This activity is intended to complement the private sector training activities envisioned under the MAELP project. Thus a number of options for HRDA training have been proposed, some of which may modified depending on the nature of training activities begun under the MAELP project.

2.1 Development and Implementation of Courses at INSCAE

Depending on the nature of training set up by the MAELP project, HRDA funds may be used to develop short-term courses in one or more of the following areas:

- How to set up a Business
- How to get a Bank Loan
- Principles of Management for SMEs
- Financial Management for SMEs

- Marketing for SMEs
- Export Marketing

Ideally, U.S. or other consultants would come in and develop the course in conjunction with INSCAE faculty, co-teach the course and leave the materials in-country, thus institutionalizing the module locally and building the school's capacity to work with SMEs.

Responses to the assessment interviews suggest that those courses should be implemented two or three times a week in the evening for two hours each session, or possibly as a 1- to 2-week intensive seminar.

HRDA will fund the development and delivery of one course in FY 91, at an estimated cost of $60,000, assuming the use of U.S.-based consultants. Another $60,000 is budgeted for FY 92, which may be used to develop a second course with outside assistance, or two courses developed by local consultants, with an overall goal of institutionalizing at least three new courses at INSCAE over the life of project.

2.2 Human Relations and Leadership Training for Middle and Line Managers and Skilled Technicians (at INPF)

HRDA will provide tuition credits and/or (if necessary) provide funds to develop courses to provide training for those people many Malagasy business owners have referred to as the "missing link" in the production chain in Madagascar. Middle and line managers, shop foremen, and skilled technicians need training in human relations, leadership and assertiveness skills, work organization, and other areas that allow the person to bridge the managerial gap between senior management and the lowest level of worker in an enterprise. Such training could also lead to low-level workers acquiring such skills to advance up the ladder more quickly.

INPF, the country's top technical training school already offers short-term courses on such topics as participatory management, leadership training, work organization and workshop management, holding productive meetings, warehousing, accident prevention, and others. In addition, the school can organize custom-designed courses to address specific needs (e.g., leadership training for skilled technicians), as at least one Malagasy firm demanded and received.

It is proposed that HRDA provide 10 partial tuition credits (as described in 2.4 below) to allow SMEs to send middle and line managers or senior technicians with managerial potential to appropriate courses at INPF.

If, after the first year, evaluation of training experiences at INPF show that better or more specialized courses need to be developed to address SME needs, HRDA could provide up to $60,000 to fund technical assistance to design an appropriate course or courses, in conjunction with INPF faculty. The mission may want to consider collaborating with other donors, or using one of the experts brought in for the MAELP project, or using local consultants or instructors from other training institutions to develop the class, thereby reducing the costs considerably.

2.3 U.S. Short-Term Training for INSCAE (or INPF) Instructors

Again, depending on the outcome of similar training activities planned for MAELP, HRDA funds may be used to provide specialized short-term training programs or study tours in the U.S. or the region for INSCAE (or INPF) staff or adjunct professors, based on identified needs.

Such visits might include visits to the Snider Entrepreneurial Center at Wharton, the World Trade Center's World Trade Institute in New York, programs such as the International Marketing Institute's seminar on market development, WTI's export promotion seminars, Harvard Institute of International Development seminars on international finance, Arthur D. Little project analysis seminars; case-oriented study programs like those offered by Thunderbird School of Management in Arizona; or programs aimed at helping instructors improve their teaching skills or curriculum in business subjects (e.g., a case-writing workshop).

HRDA will fund study tours and short courses at a unit cost of $10,000 each for five training institution staff members in FY 90, two in FY 91, and four in FY 92.

2.4 Tuition Credits for SMEs

HRDA will provide partial tuition credits to a number of SMEs to allow them to participate in training activities at local institutions. Many Malagasy SME managers realize that they need training, but are unable to pay for it due to the loss of purchasing power following the devaluation, poor sales, or other reasons. In order to allow these enterprises to participate in HRDA-initiated and other training activities, HRDA will provide funding for partial tuition credits covering 80% of the course fee demanded by a training institution. Participants will be expected to pay the remaining 20% of tuition, plus registration, materials charges, or any other costs related to the course. Thus potential training candidates will have an incentive to take training courses, without still having to make a significant contribution for their own training.

HRDA will fund 40 tuition credits per year at an estimated unit cost of about $125 each (approximately 200,000 FMG), to be used at INSCAE, INPF, and possibly other institutions such as CFC. (See section E.3 below for complete description of tuition credit program.)

An additional proposal is a subsidy to provide travel and maintenance to training participants who come from outside the capital, to allow them to take advantage of training activities which are given only in the capital. This would apply only to short-term seminars or workshops, and not night classes or long-term training activities.

Objective 3: Strengthen Business Support Organizations

3.1 Study Tours and Short-Term Training for Members and Staff of Business Support Organizations

HRDA will target the following support organizations for study tours and/or short term training in the U.S.: JCEM, APEM and its affiliate SIAPEM.

The mission will provide financing for study tours by representatives from JCEM, APEM, and SIAPEM to evaluate various U.S. Chambers of Commerce, trade associations, and business promotion offices. This exposure is intended to help these groups facilitate a more clearly defined role for their own organizations and to explore a variety of ways of meeting those objectives. The visits could include the U.S. Chamber of Commerce's Center for Leadership Development, CIPE, the SBA, city or state International Trade Offices, IESC, and the World Trade Center's World Trade Institute. Visits to Women's World Banking and other professional women's organizations with outreach services could also be included. If these study tours become on ongoing activity, efforts will be made to ensure that staff from regional offices of the associations also benefit from the experience, and that it not be limited to top management in the capital.

HRDA funds could also could be used for short-term training opportunities for representatives from these organizations in specialized U.S. training programs, such as the Atlanta Francophone Management Seminar, Coverdale workshops in Executive Management, Center for Leadership Development programs in Association Management, etc. (This kind of training could also be carried out in third country locations, such as CESAG in Senegal.)

HRDA will also provide funding for short-term training opportunities for representatives from these organizations in specialized U.S. or third country training programs, such as the Atlanta Francophone Management Seminar, Coverdale Workshops in Executive Management, Center for Leadership Development programs in Association Management, Export Marketing courses at the International Marketing Institute or World Trade Center Institute, or other similar courses.

HRDA will fund study tours or short courses for four participants in FY 90, three in FY 91, and four in FY 92, at a unit cost of $10,000 per short course or study tour.

Objective 4: Increase Government Understanding of Private Enterprise

HRDA will fund two types of activities to encourage the Government of Madagascar and the private sector to understand each other better, and to develop a common technical understanding of the privatization process.

4.1 Open Forums/Dialogues Between the Public and Private Sectors

HRDA funds will be used to support roundtable discussions aimed at breaking down suspicions between the public and private sector. These discussions could be a key to ensuring the continuing success of the structural adjustment-related policy reforms and, ultimately, the growth of the private sector. Ideally, key government policy makers would join prominent private businessmen and women to openly and frankly discuss the role of the private sector, current constraints facing the business community, and ways to increase private/public cooperation in Madagascar.

Each forum could have a specific topic appropriately chosen for the 10-20 participants (privatization, foreign investment, the investment code, SME development, informal sector, etc.), but the underlying goal would be for the two groups to explore together the larger issues of how the private and public sectors will coexist in Madagascar, and what concrete steps can be taken to improve the climate for private investment. The mission will consider holding initial seminars for top government officials and business owners, to bring together the policy makers and influential thinkers. Later seminars would focus on middle-level government officials actually charged with carrying out activities related to the business community, and businesses which deal with those officials. Depending on the topic and participants, these forums could be held behind closed doors, or in public, like the JCEM-organized symposia held in 1988.

The cost this activity, which would use local resources, is estimated at about $5,000 per seminar. It is proposed that this cost be split evenly between HRDA private and public sector funds, given the joint participation. HRDA private sector funds will provide $5,000 annually, to cover <u>50%</u> of the costs of <u>two</u> seminars per year in FY 90 and 91, and <u>one</u> seminar in FY 92.

4.2 Techniques of Privatization

Although there has been some public discussion about privatization, and an assessment of parastatal candidates for the process, USAID/Madagascar sees a lack of technical knowledge on the part of the key government officials as to how to actually carry the process out. Techniques of financial analysis and appraisal for privatization, how to attract investors, and how to put together and negotiate sales packages are all skills which are needed by banking officials, parastatal managers, government officials responsible for privatization programs, and interested Malagasy private investors. One aspect of this activity might be the development of a Handbook on Privatization, providing key information on the subject in an easily accessible form.

Given the orientation towards government officials for this activity, it is proposed that this activity be funded by HRDA public sector funds, at a cost of $60,000 to provide a one-time consultancy for the workshop and/or development of a handbook. As such, this activity is not included in the private sector training activity budget, although it is included in this description as an activity which will enhance the development of the private sector.

D. Regional Training Activities

USAID HRDA funds will be used to send Malagasy participants to HRDA regional private sector conferences or workshops which will be held at various locations in Africa. Previous regional activities have covered management for women entrepreneurs, policy reform and programs for the informal sector, cooperative development, etc. AFR/TR/EHR encourages USAID/Madagascar to participate in such regional activities, which provide for broad exchange of ideas among entrepreneurs and other key figures in private sector development.

HRDA will fund four participants per year for such activities. Costs per participant are estimated at $2,500 to cover travel and per diem expenses of the participants. Registration and other workshop costs will be covered through HRDA core funds.

E. Funding

The following summary reflects projected funding levels over the remaining life of HRDA. (The amounts for public sector training are illustrative and are based on the assumed buy-in level over the life of the project.)

	Private Sector	**Public Sector**	**Total**
FY 90	$ 219,250	$ 180,750	$ 400,000
FY 91	$ 242,550	$ 157,450	$ 400,000
FY 92	$ 240,496	$ 159,504	$ 400,000
Totals:	$ 702,296 (58% of total)	$ 497,704 (42% of total)	$1,200,000

Table 1
SCHEDULE OF HRDA PRIVATE SECTOR TRAINING ACTIVITIES

OBJECTIVE	FY 1990	FY 1991	FY 1992
1. PROMOTE PRIVATE ENTERPRISE CREATION AND EXPANSION			
1.1 Entrepreneurial Development Program at INSCAE	1 Program $90,000	1 Program $60,000	1 Program $30,000
1.2 Local Open Forums (with JCEM)	1 Forum $2,500	2 Forums $5,000	2 Forums $5,000
1.3 IESC Technical Assistance	1 Month TA $10,000	2 Months TA $20,000	2 Months TA $20,000
1.4 Entrepreneurs International	1 Internship $8,000	2 Internships $16,000	2 Internships $16,000
2. STRENGTHEN TRAINING INSTITUTIONS (INSCAE, INPF)			
2.1. SME Course Development (INSCAE, INPF, CFC)		1 Course $60,000	2 Courses $30,000 $30,000
2.2 Training for Middle Managers (INPF) (calculated as part of 2.4 below)	Tuition Credits	Tuition Credits	Tuition Credits
2.3 U.S. Study Tours and Short-Term Training for Training Staff (INSCAE)	5 tours $50,000	2 tours $20,000	4 tours $40,000
2.4 Tuition Credits (for INSCAE, INPF, other institutions)	30 credits $3,750	40 credits $5,000	40 credits $5,000

Table 1–Continued
SCHEDULE OF HRDA PRIVATE SECTOR TRAINING ACTIVITIES

3.	**STRENGTHEN BUSINESS SUPPORT ORGANIZATIONS**			
3.1	U.S. Study Tours and Short-Term Training for Business Associations (APEM, SIAPEM, JCEM, etc.)	4 Tours $40,000	3 Tours $30,000	4 Tours $40,000
4.	**PROMOTE GOVERNMENT UNDERSTANDING OF PRIVATE ENTERPRISE**			
4.1	Govt Open Forums ($5,000 each, HRDA Public Sector Funds will cover other 50%; see Training Plan)	2 Forums $5,000	2 Forums $5,000	1 Forum $2,500
4.2	Privatization Workshop	1 Workshop ($60,000 from HRDA public sector funds, not calculated in totals below)		
5. REGIONAL TRAINING				
	HRDA and Other Workshops	4 Regional $10,000	4 Regional $10,000	4 Regional $10,000
TRAINING SUPPORT				
	Asst Private Sector Training Coordinator	(covered under Mission operating funds from local currency trust fund, not included in total below)		
TOTAL		$219,250	$231,000	$228,500
INFLATION (5%)			$ 11,550	$ 11,990
GRAND TOTAL		**$219,250**	**$242,550**	**$240,496**
Percentage of Proposed Total Annual HRDA Buy-In ($400,000)		55%	58%	57%

F. Management of HRDA activities

Management of the HRDA program is much more labor-intensive than any of its predecessor projects (AMDP I and II). The training plan calls for more in-country training than USAID has been doing under similar projects. HRDA activities for FY 90-92 will include numerous in-country training activities, including the tuition credit program, and the selection and processing of a significant number of candidates for study tours and short-term training in the U.S., and for HRDA regional training programs in Africa. FY 90 activities will also include the recruiting of a Private Sector Training Assistant, establishment of the Private Sector Advisory Board, and definition of a recruitment and selection procedure for private sector activities.

The USAID/Madagascar Training Officer, assisted by the Private Sector Training Assistant, will be required to oversee the above responsibilities, and to interface effectively with the PSAB, business support organizations, local training institutes, other donor-financed SME projects, and other available resources.

1. Training Support Personnel

The training activities outlined in C, above, call for numerous in-country activities, assume the constitution of a Private Sector Advisory Board (PSAB), and reflect a need for coordination of all the activities. Continuous coordination and monitoring of the PSAB, the tuition credit program, preparation and followup of in-country activities, liaison with local training institutions, and other related activities justify the hiring of an assistant to work with the HRDA training officer. The assistant could be paid out of the mission's local-currency operating funds, or out of HRDA funds. A monthly salary of 200,000 FMG (plus normal local-hire benefits) is proposed.

2. Role of the Private Sector Advisory Board

In order to assist USAID/Madagascar to adequately address the needs of the private sector, a key element of the HRDA private sector training strategy is the constitution of a Private Sector Advisory Board (PSAB). The PSAB, made up of private entrepreneurs and representatives of organizations and institutions working directly with the business community, will recruit and select training participants; evaluate the quality, nature, and direction of activities planned under HRDA; and, ultimately, act as the mission's sounding board/barometer for the private sector in Madagascar.

The PSAB should meet regularly (e.g., quarterly) to determine the schedule and venue of future programs, to assist in evaluating past programs, and to help recruit and select candidates for upcoming programs. The PSAB will also be responsible for determining the means of advertising training activities, and for keeping all key players in private sector development in Madagascar informed. All decisions of the PSAB will be transmitted to the USAID/Madagascar Training Officer for approval.

It is recommended that the PSAB be composed of no more than six persons, with the USAID/Madagascar Training Officer or Training Assistant serving as the board's technical advisor. The following organizations and types of individuals are recommended as board members:

- APEM (Association pour le Promotion de l'Entreprise Malgache)
- JCEM (Jeune Chambre Economique de Madagascar)
- FIV.MPA.MA
- INSCAE training coordinator
- Two SME owner/managers

At least two of the committee members, including one of the entrepreneurs, should be women.

PSAB members should consider themselves a committee of peers, representing their fellow entrepreneurs, and charged with practically implementing a pragmatic program of training activities based on the expressed needs of the private sector. Efforts should be made to avoid creating a "debating society," or worse, a group which rehashes the turf battles and suspicions inherent among the different constituencies (public and private) which have taken on the responsibility of aiding SME development (N.B., reducing these tensions is one of the goals of the training program--see Section C, Objective 4).

In order for the board to gain the necessary credibility in the private sector, and effectively carry out its work, it is advisable to keep the PSAB composed entirely of private sector individuals, with the exception of the representative for the training institutions. However, if prevailing conditions necessitate government participation, a government official could also be included on the board, preferably a proactive and pro-private sector person, who might be drawn from one of the ministry or bank SME promotion units.

It is proposed that the mission provide a small local-currency budget to the PSAB to cover expenses for publicity for training activities, and other logistical expenses.

3. Recruitment and Selection

Recruitment and selection of participants will be a key to the success of the program. The PSAB, when constituted, will play a major role in publicizing training opportunities, recruiting participants from the private sector, and selecting participants.

a. Publicity

The PSAB will be responsible for fully informing the local private sector community of program opportunities, through newspaper ads, radio announcements, and notices posted at key locations, (e.g., the offices of the Chamber of Commerce and other business support organizations), as well as through personal, informal contacts in the local business community. Funds will be made available by the mission for costs incurred for advertising, leaflet reproduction, etc., and the private sector training assistant may be called upon to provide clerical assistance for producing such materials.

b. Selection Criteria

The PSAB should establish selection criteria for candidates 1) for U.S. internships and short-term training opportunities, within the established AID guidelines, including Handbook 10 where applicable, and 2) for local training, within established mission guidelines. Candidates should be selected both for their individual qualifications and on the profile of their firms (i.e., growth and job creation potential, sectors of activity, etc,). For U.S. and third country training, care should be taken to give priority to candidates who have not previously benefited from overseas training (i.e., the "big families").

As SMEs have been selected as the primary target audience for HRDA activities, the PSAB will need to establish a working definition of what constitutes an SME (size of business, gross sales, etc.), and is advised to confer with other key players promoting SME development (e.g., IBRD, UNDP, the bank and ministry SME promotion units, etc.), to come up with a widely acceptable definition, and therefrom, a set of criteria to determine those needing training assistance.

c. Application and Selection Procedure

Potential participants would be expected to submit a letter requesting a specific training activity, along with an application form, to be devised by the PSAB in collaboration with the mission. The form would contain key information on the individual's training and work experience, information about his or her company, and an explanation of why the training activity is needed and how the knowledge/skills gained will be put to use afterwards. The forms would be used to determine a candidate's eligibility for the particular training activity, and would also serve as the basis for building a mission data base on private sector operators and their training needs.

The Private Sector Training Assistant, under the guidance of the HRDA Training Officer, will be responsible for collecting applications, evaluating them for completeness, and turning them over to the PSAB to make its selection. The PSAB will select candidates and transmit their decision to the HRDA training officer for final approval. Once candidates are selected, the mission will complete the necessary paperwork, while the PSAB will be responsible of informing participants of their selection.

This general process should be used, with any modifications deemed necessary by the mission or PSAB, for the selection of all candidates for U.S., third country or in-country training or study tours. Where technical assistance is required to complete an activity (e.g., course development by outside or local experts), the PSAB will evaluate the candidates and forward their choice to the mission, which will make the final approval and handle the administrative and contracting aspects of the T.A. Where support is to be given to a particular institution or association to organize an activity or activities, the PSAB should delegate one of its members (who may also be a representative of that institution or association) to liaise with the organization concerned, and should target one person within that organization to coordinate all HRDA activities.

d. Tuition Credit Program

The tuition credit program will be organized as follows:

USAID/Madagascar will sign a yearly agreement authorizing a certain number of scholarships to be provided to specific institutions (e.g., INSCAE, INPF, CFC) at a predetermined price. The institution will then present a bill for each participant enrolled under this procedure. It is recommended (for ease of implementation) that USAID/Madagascar negotiate a flat rate (regardless of the course content) with each institution, or kind of training activity (i.e., one-week seminar, 10-week night classes, fulltime semester-length course). As it is intended that the participant be expected to pay a certain part of his or her tuition (e.g., 20%), it would be simplest to also set a flat rate for the student's contribution, over and above registration fees or other incidental costs.

As the courses offered by the different institutions vary in length and starting dates, and as 40 of such tuition credits are proposed for funding each year, the mission and PSAB may want to use a simplified version of the selection and approval procedure (see section 3.c above) for requests to attend regularly scheduled non-HRDA-sponsored courses. For example, while requiring the same letter and application form for such requests, the PSAB may want to meet on a more frequent but less formal basis, perhaps with a quorum of three plus the USAID training officer, strictly to consider such requests, which should require less consideration than approval of candidates for specially programmed HRDA activities.

4. Evaluation and Follow-up

Evaluation and follow-up of the private sector component of HRDA is an important aspect of the project, as it is for any training program. All participants will be expected to complete an evaluation form, to be devised by the PSAB in collaboration with the mission, which will be used to determine the quality and effectiveness of the training.

Returned private sector participants (or those who have completed an in-country training activity specifically developed or organized by HRDA) should be interviewed immediately upon returning from their training, and a written report of each evaluation should be made, both for USAID and the PSAB. The PSAB should consider these evaluations when preparing for future programs, and should adjust subsequent activities as necessary, within the guidelines of the project.

In the case of participants who have merely benefitted from tuition credits for regularly scheduled training activities at local institutions, the participant's evaluation form may be deemed sufficient for reporting purposes, unless the mission feels it is necessary to interview some or all of these people.

Periodically, groups of returned participants should be invited to discuss aspects of their training and possible follow-on activities with the PSAB and HRDA training coordinator.

ANNEX 6: FY 89 HRDA ACTIVITIES

	Estimated Dollar Cost USAID	GDRM
A. U.S. Short Term-Training		
1. University of Pittsburgh: Francophone Development Management Seminar (FDMS): 1 participant	15,670	3,000
2. University of Michigan: Seminar on Economic Development: 2 participants		6,000
3. Atlanta Management Institute: Negotiation and Management of Counterpart Funds: 1 participant	12,000	3,000
4. Arizona Sonora Field School:		
Community Forests: 1 participant	9,540	1,000
Small-Scale Irrigation and Water Management: 1 participant	9,660	1,000
B. Third Country Short Term Training		
Approx. six conferences or workshops of relevance to A.I.D. Program in Madagascar	32,000	2,866
C. In-Country Training		
1. Entrepreneurship and Management of Women's productive activities: 25 participants (5 from public sector, 20 from private sector)	40,000	22,000
2. Design and management of joint development-conservation of biological diversity projects: 25 participants (10 from MPAEF, 15 from NGOs)	40,000	24,800
Total FY89 Program Cost	200,000	66,666

ANNEX 7: BIBLIOGRAPHY

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