

PN 9207-141

LSN 79075

MADAGASCAR MAPS REPORT - INITIAL PHASE

DRAFT REPORT

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U.S. Agency for International Development*

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*Sponsored by: Private Enterprise Development Support Project II
Project Number 940-2028.03
Prime Contractor: Ernst & Young*

December 1990

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1. INTRODUCTION

The private sector strategy assessment being done in Madagascar at the request of the USAID Mission utilizes the Manual for Action in the Private Sector (MAPS) methodology. The MAPS assessment approach is used by the Office of Market Development and Investment in the Africa Bureau of A.I.D. (AFR/MDI) to help match USAID programs with private sector environments in selected countries. The assessment in Madagascar which will span a five month period between December 1990 and May 1991 will:

- o Review the current Mission Strategy and the role of private sector support activities within it.
- o Describe the role of the local Private Sector and key private sector players within the changing social and macroeconomic environment.
- o Catalogue and diagnose the environment for business in the country and identify opportunities and constraints to private sector growth.
- o Help facilitate a continuous dialogue with the Private Sector to analyze and identify key areas of support initiatives implied and possible under the existing environment and resources available.

The MAPS assessment team to Madagascar consisted of Dr. Tessie San Martin and Mr. Michael Grossman of J.E. Austin Associates, Mr. Robert Haslach of Management Systems International, and Ms. Jane Seifert, financial sector analyst for, AFR/MDI. Mr. Richard Forbes, the Private Sector Coordinator for USAID/Madagascar, and Mrs. Jeannine Kazacos of USAID/Madagascar, ably backstopped and supported the team along with other Mission personnel.

1.1 Methodology for the Strategy Assessment

In the initial phase of the strategy design process the Team conducted over 30 interviews with a range of entrepreneurs, government officials and donor organizations (Annex A has a list of the persons contacted by the Team and detailed minutes of these interviews). The key findings and implications of these preliminary dialogue activities are discussed in the second part of this report.

Using the information gathered from these interviews, the Team determined the appropriate scope of additional research activities necessary to develop a strategy well informed by local needs and conditions. Terms of reference for the survey and for the collection and processing of descriptive data on the private

sector were developed, interviews were conducted with local consulting firms, and two local subcontractors selected.

The main research activities to be undertaken as part of the MAPS assessment will entail a quantification of the evolving role of the private sector in the country, especially as it responds to the on-going structural adjustment and economic liberalization process. This activity will seek to synthesize for the Team and the Mission the result of an increasing number of donor sponsored research activities related to the SAP, and in particular to facilitate dialogue between the private sector, donors and the Government of the Democratic Republic of Madagascar (GDRM) during this adjustment process. This research activity will involve the collection of information from secondary sources, and is estimated to last four weeks. In addition the Team believes that a systematic survey of formal and informal sector enterprises nationwide will be necessary to establish basic parameters for action in the formal and informal sectors. The survey will require roughly six weeks to complete and involve approximately 350 entrepreneurs. Finally, the Team will also be investigating critical aspects of the institutional and enabling environment for business. This will include an analysis of the manner in which recent policy changes have affected (or not) the manner in which business is conducted and business relationships within the country. This activity will rely on secondary source information (such as business directories and annual company reports revealing cross-ownership patterns), but most importantly on in-depth interviews with local and foreign entrepreneurs.

It is anticipated that both the description and survey work will begin in early to mid January of 1991 and be completed by mid to late April. The results of this research will help in every step to facilitate and guide the dialogue with the private sector and ultimately will help design new private sector support activities. The preparation of the final report will take a further two to three weeks with completion scheduled for mid to late May 1991. A detailed time table of activities related to the MAPS implementation in Madagascar is discussed in section four of this report.

2. FINDINGS

There are four categories of preliminary findings which have resulted from the team's efforts during this first phase. These findings suggest areas of inquiry which will be further probed in the description, survey and dialogue phases of the MAPS process. In addition, they provide information which might be useful to the Mission at this particular point in time and for designing future dialogue activities related to current projects such as HRDA, as the basis for terms of reference for private sector related research to be undertaken by GEMINI or RHUDO, and as the basis for establishing closer coordination with the actions of other donors.

The four categories are:

- o Findings related to the Mission's own portfolio of activities and its relation to private sector;
- o Findings related to the activities being undertaken by other donors which directly or indirectly support private sector;
- o Findings related to recent changes in the macroeconomic environment and the implications of the same for developing a private sector strategy;
- o Findings related to the ownership structure of the private sector and the climate for conducting business in the country;

The findings which follow, however, must be taken as preliminary. They are meant to provide a basic blueprint for the Team's and the Mission's actions in private sector development over the next five months. The MAPS research and dialogue process, as it evolves over the next five months, as well as research activities connected with the design of other parts of the Mission portfolio, will enable the Mission address the issues raised here in a more comprehensive and systematic manner. In addition, the MAPS research and dialogue process itself will in all probability raise a number of issues which are not considered in the Teams initial visit. Finally, USAID/Madagascar, as it continues to refine its own program designs and implementation strategies over the coming months, may also find a number of additional issues which will require further exploration as the private sector program takes shape.

2.1 The Mission Strategy and the Private Sector

A number of developments in the political and economic environment have made this a particularly auspicious time to undertake a private sector strategy assessment in Madagascar. Within the last 18 months, the GDRM has put in place a number of policies which are already raising the level of business activity and interest in private sector investment, both by Malagasy and foreign entrepreneurs. New Investment Code (IC) and export processing zone (EPZ) laws have been approved. A new private bank (BMOI) has opened and there is talk of privatizing, at least in part, two of the remaining three parastatal commercial banks in the country. A number of new investment missions, including recent ones from France and Japan, have taken place and more (including one of US firms based in South Africa) are scheduled for the future.

Moreover, the Mission is in the process of finalizing designs for programs in the environment, agriculture and family planning, all of which have potential implications and linkages for private sector support. In addition the Mission has already started support for a private sector dialogue process through the HRDA program to discuss implementing problems with the IC and EPZ laws. This dialogue process capitalizes on growing Malagasy business interest in promoting their interests through more effective fora for information and idea exchange with the GDRM. While the Team was in-country, a number of important private sector-GDRM dialogue activities took place, including one sponsored by a fairly new private sector lobby group (CONECS), and a colloquium on business law sponsored by important public and private institutions; a series of sessions on the socio-economic environment sponsored by the council of churches in the country also took place.

The MAPS process, which clarifies Mission objectives and seeks to identify means to accomplish those objectives through the private sector, is a particularly useful tool in this environment of change and increasingly open and intensive dialogue. It is useful in policy discussions with the government and promotes understanding within government of the effect of public policy on private sector activity. It also provides the private sector with a forum in which to express its own development priorities to donors and the GDRM, so that more cohesive and comprehensive policies and projects may be developed.

The first step in the MAPS process is the articulation of USAID's strategy, particularly as it relates to the private sector. Given the fact that the Mission is still at a stage of designing its sector programs, these strategy statements must be taken as tentative. Nevertheless the Team feels that even a preliminary analysis of the Mission programs goals and objectives is useful, because it begins to identify areas where private sector

initiatives can usefully serve to enhance the effectiveness of other sector programs.

The Team reviewed Mission documents, including its draft CPSP, and FY 92 ABS, and consulted with USAID/Madagascar officials. A first attempt to articulate this strategy is presented in Exhibit 1. Observations which follow from this exhibit suggest that the final private sector strategy can help the Mission:

EXHIBIT 1

MISSION STRATEGY, GOALS AND OBJECTIVES

MISSION STRATEGY:

"TO SUPPORT THE MALAGASY IN THEIR EFFORTS TO ACHIEVE ECONOMIC AND SOCIAL WELL-BEING BY STRENGTHENING THEIR CAPACITY TO FULLY PARTICIPATE IN THE DEVELOPMENT PROCESS:

GOALS:

1. ASSIST MALAGASY EFFORTS TO INCREASE RURAL INCOMES, IMPROVE QUALITY OF LIFE AND NUTRITIONAL LEVELS, IN WAYS THAT ARE SUSTAINABLE AND CONSISTENT WITH THE CONSERVATION OF ITS NATURAL RESOURCE BASE.

Objectives:

- a. Strengthen coordination between GDRM, NGO and private sector institutions active in promoting community based conservation efforts (SAVEM).
- b. Support development of national environmental plan (SAVEM).
- c. Support Malagasy individuals and communities interested in conserving the biodiversity in the priority areas (DFN, KAPEM).
- d. Minimize economic dislocation caused by conservation and environmental protection programs.

EXHIBIT 1

MISSION STRATEGY, GOALS AND OBJECTIVES

GOALS:

2. INCREASE AGRICULTURE PRODUCTION AND GROWTH OF NON-TRADITIONAL EXPORTS BY HELPING MALAGASY TO IDENTIFY AND IMPLEMENT CRITICAL POLICY CHANGES AND DEVELOP AND DISSEMINATE APPROPRIATE TECHNOLOGY.

Objectives:

- a. Increase private sector exports of NTEs (Ag. Export Liberalization) 2.7 mn
- b. Stimulate investment in agriculture by supporting policy changes that increase the efficiency of ag sector. (Ag export Liberalization-2.7; Ag Investment Diversification and Policy Analysis; Food for Progress)
- c. Increase the productivity and intensification of food production, particularly rice (IRRI).

3. ENCOURAGE DECLINE OF POPULATION GROWTH RATE.

Objectives:

- a. Assist Malagasy PVOs implement and expand IEC programs in family planning.
- b. Support private sector delivery mechanisms.
- c. Improve GDRM population data collection and analysis.

EXHIBIT 1

MISSION STRATEGY, GOALS AND OBJECTIVES

4. SUPPORT THE GROWTH AND DIVERSIFICATION OF THE MALAGASY PRIVATE SECTOR.

Tentative objectives:

- a. Establish institutional mechanism to help Malagasy entrepreneurs respond effectively to the economic liberalization process.
- b. Support structures that facilitate entrepreneurs' access to critical inputs: technology, markets, skilled managerial labor and credit.
- c. Support opportunities for private sector growth in non traditional areas of activity.

1. Encourage the growth and diversification of private sector actors in a variety of settings. While a significant portion of the Mission's resources are or will be channeled through public sector institutions, a fair amount of project activities relate directly to the private sector. The success of all the Mission's programs,¹ not just the private sector portfolio, in fact rest on the extent to which mechanisms exist to allow the broadening and diversification of the private sector.
2. Encourage structures which increase the efficiency of markets, such as increased flow and quality of information. All programs currently envisioned by the Mission rely on establishing institutions that encourage and foster an on-going process of policy liberalization and change, and at the same time establish mechanisms that will allow the various actors involved, and particularly the private sector, to respond effectively to this changing policy environment. This argues for, to the greatest extent possible, the encouragement of intensive information dissemination campaigns and structures, as well as market based delivery mechanisms.
3. Encourage information flows across different sectors of economic activity. Given the profound interrelationship between all the goals and objectives in each of the key areas of Mission action, monitoring and evaluation systems (MES) within the Mission which allow and encourage information exchange across sectoral programs become paramount. The Mission has thus acted prudently by planning the Development Education and Evaluation project (687-0114). This project should help establish an interrelated set of MES systems which will allow for the systematic sharing of information between institutions involved in all Mission programs, and will allow local and Mission staff across sectoral programs to benefit from the experience and knowledge acquired in all Mission activities, not just those which concern their sector. The Mission can use the private sector to help it develop and implement information systems which will be self-sustainable and ultimately replicable by generating information of value and use to local actors and end users, not simply to meet internal Mission reporting requirements.
4. Reduce administrative decision-making structures to make allocation decisions. Given the fact that the Mission is at

¹And by success we refer not just to the extent to which program goals are met to the extent to which program initiated actions are sustainable in the long-run and replicable nationwide.

the moment understaffed, and the complexity of the programs being carried out, the private sector program must also be seen as a tool to help minimize the administrative burden of project implementation. The Mission can use its private sector portfolio to help it develop structures which will allow it to rely increasingly on market based allocative systems rather than on administrative decisions (e.g. performance and market based systems to determine the optimal allocation of technical assistance).

5. Increase the chances for sustainability and replicability of donor programs. Given the economic situation in the country and the severe limitations it imposes on the GDRM, channeling assistance through the private sector becomes a key tool for reducing recurring cost burdens on the government imposed by donor programs and for insuring the sustainability of activities beyond the life of the projects.

2.2 Private Sector Support Activities by Other Donors

The Team conducted interviews with major donors (including the IMF, the UNDP and la Caisse Centrale), as well as a review of the most recent World Bank and IMF studies. The key findings from this review follow:

1. The UN and World Bank system (as noted in the memoranda of conversations in Annex A of this report) is currently designing its country-wide assistance strategy. On the basis of this assessment, it will determine the appropriate scope and role of private sector development. In preparation for this strategy development activity, it is undertaking a nation-wide census of economic, public and community development activities at the county level. It will also be cataloguing the current state of market flows, social and economic infrastructure at the county level. The interim report of this census is now available. The final report is due sometime in June. This census will be extremely valuable for the program design process of other donor agencies, as it will provide details on needs and opportunities, as well as potential implementing agents available at the local and regional level.

Current UN sponsored programs for assisting the private sector in general and the SMSEs in particular are:

- a) UNIDO, through a parapublic consulting firm, SERDI, is providing technical assistance at market costs to 12-15 SMSEs in the industrial sector. Originally their assistance was limited to industrial sector firms in the Antananarivo area, but they now have clients

throughout the country, in projects covering everything from aquaculture to tourism. The project is sustainable at this point.

- b) ILO is implementing a pilot project in entrepreneurship development, which began by selecting 30 among 250 SMSE entrepreneurs and provided them with TA to undertake their own feasibility studies. As of early 1989 only 4 of these projects had reached an implementation stage and another 15 in the Tana area stood a chance of obtaining finance. ILO is confident enough in its approach however, that it is planning to extend the pilot program to 4 regional centers by the end of 1990 to create 100 new SMSEs at a cost of US\$700,000. The Team will update these figures, but the numbers reflect the costs and difficulty of preparing and forming entrepreneurs.
- c) Starting in 1991 the World Bank, through the IDA, will also be providing special lines of credit for SMSEs (totaling US\$45.0 million through 1997) administered through the Credit Department in the Central Bank to the commercial banks. The purpose of this APEX credit is to help complement the various SMSE donor assistance programs currently in existence. Any financial intermediary accredited by the Central Bank, and willing to have its financial statements audited by the IDA, would be eligible. All existing commercial banks are expected to fulfill these criteria. The lines of credit would be available to finance fixed assets and permanent working capital for private and mixed enterprises (though with at least 51 percent of private capital), for activities in all productive sectors.

The project will include a US\$ 3.0 million technical assistance fund over the life of the project to strengthen the financial sector's lending capability (training in project lending for example). The fund would also serve to strengthen and/or restructure the Chamber of Commerce, Industry and Agriculture, with the hope that it will then be able to assume a leadership role in communicating and coordinating the allocation of this fund to SMSEs. In addition the project would be providing funds to the Junior Chamber of Commerce for an information, education and communication program to attract project proposals which could be funded by the TA facility. The TA would also help to establish the "guichet unique" or investment promotion center (IPC) to help expedite administrative procedures for the IC.

Finally, the TA program would also seek to integrate the TA support being provided by other donors such as UNIDO, ILO, FED, la Caisse and CIDA. The TA fund would serve to: a) provide overseas in-plant training and in-company visits for SMSE promoters and technical staff for SMSEs (a total expected IDA contribution of US\$210,000); b) co-finance for SMSEs to underwrite part of the costs of obtaining the assistance of a cabinet in preparing the dossiers for obtaining financing or IC status (total expected IDA contribution of US\$350,000); c) subsidize up to 75 percent of the cost (up to a maximum annual contribution of US\$800 for TA plus US\$400 for travel per SMSE) of obtaining expert assistance from local consulting firms in areas as diverse as management, operations, marketing, etc (total estimated costs of US\$640,000); d) provide short-term technical services support for the SMSE assistance unit of the Ministry of Plan and Economy, which would be acting as the executing institution for the program of extension services to the SMSEs described above (total IDA contribution of US\$150,000).

- d) The IFC, along with the French and other donors have helped to capitalize SIPEM, a venture capital operation for young entrepreneurs begun by APEM (Association pour la Promotion de l'Entreprise Malgache), an institution started by the GEM (Groupement des Entreprises de Madagascar) which rallied 30 industrialists, consulting firms and banks to provide technical advice, seed capital and credit guarantees to young entrepreneurs. According to some reports from the interviews, SIPEM takes only majority positions and has rules regarding the resales of shares (the entrepreneur has always the right of first refusal). According to representatives of APEM, SIPEM has invested in 15-20 such ventures per year. Its total capitalization is well below FIARO's (a privately managed subsidiary of the state-owned insurance company ARC) base of FMG 6 billion.
2. La Caisse Centrale de Cooperation Economique (CCCE), which traditionally works with the World Bank and the IMF in balance of payments grants and loans, started working with the private sector in the past 3-4 years. It works through the Central Bank with a line of credit (FF 150MM) allocated in FMG to the commercial banks as needed and directly with the commercial banks (FF 100MM) in French Francs for export-oriented projects. The CCCE also has an affiliate that invests in venture capital projects (PROPACO), which has looked at various projects in Madagascar.
3. Other donors: The Canadian International Development Agency (CIDA) was instrumental in creating the Institut Nationale

des Sciences Comptables et de l'Administration de L'Entreprise (INSCAE), the business school in Madagascar, in 1981. It still helps by supporting faculty and other technical advisors.

Implications for USAID Private Sector Assistance

While, as noted above, the Team has not yet finalized its assessment of all donor programs, a review of the major private sector activities currently being implemented or envisioned raise a number of issues for consideration as the Mission proceeds to design its private sector assistance program:

- o The Ministry of Plan and Economy's SMSE Assistance Unit (AU) has been a notorious underachiever. The same is true of the Chamber of Commerce, Industry and Agriculture (CCIA). Is channeling technical assistance funds destined for the private sector through these institutions, and expecting them to become able coordinators and implementors of the SMSE TA funds reasonable? On the other hand, there are an increasing number of energetic and viable private sector coordinating bodies emerging (CONECS, the Concertation, the HRDA special committee). Might it not be wise to channel at least part of the assistance through these bodies? The survey being proposed under the MAPS assessment, part of which seeks to assess the effectiveness of existing private and public sector business support institutions nationwide, will help answer these questions (see Annex C in this report).

- o What types of incentives are built into the system to insure that the funds will be allocated to those activities offering the best return, and will ultimately produce good quality technical assistance services? In order for the IDA's TA fund to be self-sustainable and ultimately replicable, it must be based on entrepreneurial decisions which respond to market based incentives and emerging opportunities provided by the economic liberalization process. Neither the CCIA, nor the AU nor the JCEM, all of which would be doing most of the promotion and coordinating work in the TA fund, ultimately have any stake in the performance of the firms which are identified, nor in the performance of the fund itself. Moreover, given the present structure of the project, there is nothing that gives the cabinets providing the TA an on-going interest in the welfare of the firms being advised. Quality controls for the TA being distributed, to be really effective, must be again based on the profit motives of the entrepreneurs (SMSEs and the cabinets alike) involved. The MAPS strategy assessment process will work with the local private sector to help identify alternative implementing mechanisms for

allocating resources to the private sector, to the extent that these do or can exist given the business climate and conditions.

- o The ILO project, while interesting, appears unreasonably expensive. The Team has not had the time to investigate fully the ILO entrepreneurship development program, and is thus not able to ascertain the causes for the relatively poor return per dollar invested. On the other hand USAID in Africa has experimented with similar entrepreneurial development programs. The USAID/Madagascar Private Sector Coordinator could seek the assistance of MDI and PRE to access experts in this field to evaluate the possibility of complementing ILO resources in this area, and perhaps even help improve their operations. The Team will seek to obtain additional information on the ILO model as well.
- o The one-stop IPC, while a possible solution to the problems faced by the entrepreneurs, given the current information problems and implementation problems with the IC, is not by far the only solution. The simplest one of course, would be to simplify the process to such an extent that an IPC becomes irrelevant. Or to simply provide funds for a widespread information dissemination effort and the printing of forms (along with instructions) which need to be filled to qualify for the IC or the EPZ regime. To avoid a potential monopoly situation, the forms and information dissemination capabilities can be made available to all private sector institutions which now exist, including CONECS, GEM, APEM, JCEM, FIV. MPA. MA, and so forth. In any case there may again be alternatives to a "guichet unique" which merit exploration, and the Mission, through its Private Sector Coordinator and such dialogue fora as HRDA, can continue to discuss these issues with donors.

2.3 Macroeconomic Overview and Implications for the Private Sector

Madagascar has a population of ten million that is growing at roughly 3% per year and had a per capita income of \$225 in 1987.² Madagascar remains one of the poorest countries in the world. Historically, the Malagasy economy displayed modest growth from Independence in 1960 to 1972, stagnation from 1972-80, deterioration between 1980 and 1982 and financial stabilization from 1983 to 1988 and modest growth between 1988-90. The approximately 4% real growth that occurred in 1988-89 was the first per capita income growth in almost two decades. Agriculture continues to be the key sector in the economy, employing 88% of the population, creating 40% of the GDP and generating 80% of export earnings.

The poor economic performance of the 1970s stemmed largely from economic policies, which emphasized a much increased role for the public sector, with industrialization as the central objective, agriculture in a supporting role, the nationalization of foreign owned enterprises, extensive consumer subsidies and controls over private economic activity. Nevertheless, according to the World Bank, the Government of the Democratic Republic of Madagascar (GDRM), pursued until 1978 cautious financial policies that kept the fiscal deficit low, held the balance of payments in approximate equilibrium and resulted in a debt service of only 4%.

Between 1978 and 1980 the GDRM embarked on a policy of massive public investment to stimulate domestic industrialization. It was poorly coordinated, concentrated on economically non-viable projects and was financed in large degree by external borrowing. This policy, combined with declining terms of trade and stagnant domestic revenues produced a fiscal deficit of over 18% of GDP in 1980, an inflation rate of 30%, a decline in per capita income and a large increase in the external debt burden that continues to severely constrain economic recovery.

In July 1980, the GDRM initiated measures aimed at financial stabilization and from 1982 reinforced these measures with IMF assistance. From 1981 to 1986 policy adjustment centered largely on reducing inflation, curbing monetary excesses and reducing fiscal deficits. The overall public sector deficit was reduced from 18% of GDP in 1980 to under 4% by 1986. Budgetary deficits were eliminated in 1983 and each year since, the GDRM has

² The MAPS Team drew heavily on World Bank sources for macroeconomic data and analysis in this initial overview. In Phase II of the MAPS exercise, a thorough analysis of the economy and the role of the private sector at the macro, sectoral and sub-sectoral levels will be performed.

contributed a small amount to development expenditures. The annual monetary growth rate decelerated to 13% in 1985 compared to 21% in 1981. Domestic inflation dropped from 30% in 1981-82 to 13% in 1983-86 to 9% at the end of 1990. On the external side, the current account deficit was cut almost in half from its 1981 level of US\$425 million to a level of 8.7% of GDP in 1990. With exports stagnating and scheduled external interest payments almost doubling, the brunt of adjustments fell on imports which dropped by almost half in real terms between 1982-89. Real GDP, which had contracted by 10% between 1980 and 1982, starting growing in 1983 and reached growth rates of 0.8% in 1986, 1.4% in 1987 and 4% in 1988, but due to high population growth did not register real per capita increases until the last half of 1988.

The year 1988 was a period of transition during which many of the World Bank and IMF policy prerequisites for sustained growth were put into place. While there were promising signs of supply response to these policies (which are discussed in Section 1.2 below GDRM economic policies), infrastructural bottlenecks, a high level of business uncertainty, a further decline in the terms of trade, continued administrative restrictions, some export controls and a banking sector still bound by non-performing portfolios of loans to the public sector, limited growth prospects. The second half of 1988 was the first year of the decade that imports did not decline. However, this process has so far reversed itself that in the latter half of 1990, the removal of import controls resulted in poorly managed importing that has according to the IMF "bankrupted the country."³ However, the sum of the positive policy changes and consumer and business response to them permitted the GDRM, the IMF and the World Bank to forecast real 4.5% annual growth through 1991.

Implications for Private Sector Development

The withdrawal of the State from economic activities has left the private sector with an opportunity for development. Eighteen years of socialism and the sociological tradition of consensus based action limit the entrepreneurial spirit of the Malagasy business community. However, the country is starting a phase of economic growth where emphasis will be on the development of export-oriented labor intensive industrial production. While the development of Malagasy private industry is severely constrained by management resources and the availability of appropriate training mechanisms as well as access to credit and transport, there is a willingness among the Malagasy population to develop private enterprise.

³Christian Schiller, IMF Resident Representative in interview with author, December 10, 1990.

However, the evolving policy liberalization that the GDRM is undertaking apparently has had little effect at the firm, especially the small-firm, level. While there is little question of the GDRM commitment to the reform of the policy environment and for altering the structure of incentives toward market oriented mechanisms, the effects of the policy changes documented by the World Bank and others has not acted as a stimulant to private sector activity to the degree that had been envisioned.

Sectoral Profiles

Since 1985, Madagascar's macroeconomic and industrial policy that affects private sector development has been completely re-oriented in an attempt to reverse the previous system of planned economic management adopted in the 1970s. Recognizing its own limitations in its ability to efficiently allocate resources, the GDRM has sought to increase its reliance on the market system to promote development objectives. This shift in policies has altered the economic environment and incentive structure in which the Malagasy private sector operates and has potential implications in the agricultural and industrial sectors which have been more closely examined in the sectoral discussions below. Therefore, today the private sector is at a crossroads, as it faces the challenge of restructuring in order to survive in the new free market.

Agriculture

Employing 85% of the population and accounting for more than 80% of export earnings, agriculture is the most important contributor to the economy. Due to its ecological diversity, most tropical and temperate crops can be found in Madagascar. Less than 5% of land area is cultivated, of which more than half is under rice, which accounts for more than 30% of agricultural production value. Recent deregulation of rice markets have helped increase production since the mid-1980s, but yields per hectare remain well below world averages.

In value terms, beef cattle herding provides the second most important product accounting for 16% of agricultural GDP. Industrial crops, notably sugar and cotton contribute approximately 7%. Traditional export crops (primarily coffee, cloves, vanilla and pepper) accounted for 15% of production value, but 70% of export earnings, with coffee alone providing 50% in 1984. A combination of low producer prices, over-taxation by government, a monopolistic parastatal marketing system and serious decline in quality caused a reduction in production until 1988 so that these products represented only 48% of export earnings in 1989. In 1989, with the collapse of the International Coffee Agreement, Malagasy coffee exports did increase and for the first time in a decade and land use has increased and formerly abandoned agro-processing facilities have

been revitalized in both coffee and pepper production. Indonesia which is Madagascar's primary market for cloves is steadily increasing its own clove production and importing correspondingly less, while the international vanilla market is being threatened by synthetic vanilla production.

The GDRM began liberalizing internal trade in rice in 1983. In 1985, official maximum producer prices for paddy were replaced by floor prices, effectively letting market forces determine the producer price. Floor prices for paddy, wheat, soybeans and coffee and fixed prices for sugarcane and cloves were placed by indicative prices in 1986-87. On the consumer side, retail prices for rice were decontrolled in 1987. Official distribution of rice was abolished in 1987; public sector rice imports were channelled exclusively through the buffer stock, whose purpose was to limit price fluctuations during the dry season or under unexpected weather conditions, and to supply certain elements of the population. Internal and external trade liberalization for export crops began in 1988. The state monopoly on agricultural exports was eliminated in all crops except vanilla.

Implications for Private Sector Development

The transportation and communication infrastructure is apparently a major constraint to the development of a more efficient internal market and for reaching export markets for non-traditional exports. Many non-traditional exports are now being shipped by air. According to the AID funded HIID analysis, while there is no current capacity constraint in air transport (except in litchi season), with the expansion of exports the availability of air cargo space may become an important bottleneck. In addition, air freight rates are three times those of Kenya largely due to the low volume of traffic and the Air France-Air Madagascar monopoly. In terms of knowledge of markets, it has been reported that FOFIFA's ability to respond to the need for local agricultural research to support diversified export and urban market agriculture is very weak and likely to remain so for the next five to seven years. The integration of agricultural production and urban markets, then, will continue to be constrained by poor communication between urban demand centers and rural producers.

The policy liberalization process outlined above has resulted in a slight revival of agricultural growth, although severe exogenous shocks, i.e. large swings in the price of coffee and a decline in the world price of cloves due to Indonesia's partial withdrawal from the world market. However, since 1984, average annual growth in the agricultural sector has increased to 2.8% per year, a marked improvement over the level of the 1970s, but still not enough to compensate for the high population growth rate. Most of the growth has occurred in the fisheries sub-sector, which has been growing at an average rate of 4.9%; by

contrast, crop production has grown at a more modest rate of 1.5% annually.

The performance of the fisheries sub-sector is due primarily die to its export orientation, its openness to foreign investors and know-how, its low-level of taxation and its hitherto under-exploited natural resources and low labor costs. Increased crop production has been hampered by the very poor infrastructure, particularly in the high-potential regions that are oriented toward exporting (Northern Provinces and East Coast). Among the crops, rice which is grown in the infrastructurally developed regions of the High Plateau has shown the most marked response to the liberalization.

Trade and marketing reform has been an important first step in the development of effective linkages between the agricultural production and the agro-processing sectors that make up the most important sub-sectors of Malagasy industry. However, further growth will require additional reforms to remove remaining GDRM monopolies and measures to address the structural problems faced by the agricultural sector, particularly in terms of infrastructure.

Industry

Industrial production was weak in the early 1970s with little or no growth. It picked up by 1974, so that the implementation of the inward-looking strategy coincided with a favorable environment in the industrial sector. The next burst of industrial activity peaked in 1979 with the introduction of an ambitious public investment program. This all-out investment program fuelled import demand of intermediate goods. Although the industrial sector maintained its production for the few years after the beginning of the inward-looking period, the downturn was obvious by 1980, and unmitigated until 1982, by which time industrial production had dropped by 25% from its 1979 level.

The Malagasy manufacturing sector is smaller in size than those of other low-income countries in Sub-Saharan Africa, accounting for 11% of GDP in 1984. The contribution of manufacturing has remained almost constant since 1972, the year the GDRM brought the industrial sector under direct state control. The industrial sector, which accounted for 2% of total employment in 1960 increased its share to 4% by 1980. Manufacturing is concentrated in light industry: production of consumer goods contributed 83% to manufacturing output in 1985. This concentration ratio is much higher than other low-income African countries. Intermediate and capital goods have been a negligible and decreasing part of manufacturing production, while heavier industries (metals, machinery, electrical and transport equipment) accounted for less than 11% of manufacturing output in 1985.

In 1989, there were 360 manufacturing enterprises in Madagascar (excluding artisanal production), more than half of which are located in Antananarivo. They employ about 100,000 people or 2.6% of the economically active population. As a result of nationalization, a large share of industry came under GDRM control by the late 1970s. The State holds shares in over 100 enterprises. Virtually all large industrial enterprises are government owned. Those in which the GDRM holds a majority position account for an estimated 65% of industrial output and a similar share of employment. However, the recent rhetorical emphasis on privatization may lead to a decreased state role in industrial production.

The industrial sector is dominated by the activities of two subsectors: food processing and textiles/garments. The food processing industries are dominated by the activities of sugar production, fish canning and the brewery, with sugar production alone accounting for 50% of the value of the output in this subsector. The two major state-owned sugar companies were rehabilitated in 1985 with French partnership.

The textile industry is likewise dominated by two firms in which the GDRM is the principal shareholder, but which are managed by private foreign companies with IFC involvement. This sector recently underwent extensive rehabilitation and extension and employ roughly 7000, which represents half of the total subsector employment. However, this subsector has been hurt by the rapid liberalization of the import regime. However, the devaluation of the Malagasy franc promises some export opportunities for labor intensive industries like clothing manufacture as some firms take advantage of low labor costs to shift production from a domestic orientation to exportation.

In addition to textiles and food processing, other subsectors comprise household chemicals, construction materials, petroleum refining and some intermediate goods such as metal and paper products.

Implications for Private Sector Development

Madagascar's production for domestic consumption is constrained by the small size of the local market and very low-levels of purchasing power. The development of labor-intensive industrial production for exports is not limited by these factors. In addition, the concentration on Madagascar's comparative advantage in labor-intensive industries will help assure that inefficient capital-intensive industries producing products of poor quality will not be re-established behind protective trade barriers. In addition, the absorption of labor into labor intensive industries will take pressure off the land and allow farmers to increase productivity and conserve the unique natural resource base.

The growth of urban based industry will be a stimulus for the diversification of agriculture as farmers on the High Plateau will produce more fruits and vegetables, meat and dairy products for the urban markets.

Constraints to private industrial development once again include transportation and communication. The development of private export-oriented industrial products depends a great deal on the ability of producers to get their products from the production site (primarily in and around Tana) to the port at Tamatave. The Tana-Tamatave road will be completed in the next four years at which point it will most likely be adequate for most manufactured goods transport.

The World Bank describes initial reaction of aggregate industrial production to the policy liberalization process has been anemic. Industrial output stagnated during 1985-87 and growth only accelerated slightly in 1988-89. Overall employment in the modern sector stagnated.

Services

The Financial Sector

In Madagascar, the banking sector has been, in effect, the financial system. In 1990 it consisted of a Central Bank (BC), 3 state owned banks and one private commercial bank.

The BC was established in 1973 following Madagascar's decision to leave the Franc Zone. In 1975 the 4 existing private banks (largely foreign owned or foreign affiliates) were nationalized and in 1977 restructured into 3 commercial banks, each with a specific sectoral responsibility: BNI for industry, BTM for agriculture, and BFV for commerce. In point of fact, these banks have acted more as a consortium, have never played more than a minor role in their nominal sphere of influence and have similar portfolios in terms of risk. All three banks have been in a difficult situation for a number of years as a significant

percentage of their loan portfolios (on average 42 percent of the total portfolio, varying between 30 and 60 percent for each bank) is non performing, or in practice frozen through successive rollovers of short-term loans with little likelihood of repayment. Taking into account on-balance sheet loans in the doubtful and write-off categories, off-balance sheet or contingent liabilities to the same clients, and depending on the value assigned to government guarantees, IDA estimated that by the end of 1988, the 3 banks required additional provisions for bad loans of between FMG 89 billion and FMG 149 billion. The IMF/World Bank and the CCCE/PAS helped the banks restructure during the course of 1989-90. The restructuring included a write-off of FMG 32.5 billion and CCCE-PAS infusion of FF 80 billion.

As part of the restructuring process a new banking law was enacted in 1988 allowing the private sector, both local and foreign, to own shares of Malagasy banks. The effect of these changes has been immediate.

In September 1989, the BNP affiliate, BMOI (Banque Malgache de l'Ocean Indien), opened in temporary quarters in Antananarivo. Of the capital, 37.5 percent is owned by the BNP through an affiliate and 37.5 percent by SFOM, a Swiss consortium bank owned by BNP, Dresdner and Banque Bruxelles-Lambert. Private Malagasy capital accounts for 25%: FIARO and Mr. Charles Andriantsitohaina own 7.5 percent each, and 10 percent is held by small Malagasy holders. BMOI has concentrated its first year on taking advantage of its international network in building up its portfolio. Hence it has 10 percent of the market, but 20 percent of the export/import market.

BNI is being privatized by Credit Lyonnais' purchase of 51 percent of the stock. Additional shares will be sold to Banque de la Reunion (2 percent), Banque Indosuez (2 percent), the IFC (10 percent), and the GDRM (25 percent). The Italian bank, Banco de Torino e San Paulo, purchased 25% of BFV a year ago. (N.B. This is all in compliance with IBRD conditionality related to the banking restructuring.) There is no privatization activity foreseen at this time for the BTM. There are other banks, including a South African bank, that are looking at the possibility of investing in Madagascar.

In terms of infrastructure, the BTM has largest network of branches nationwide (74); the next largest network of branches is owned by BFV, 25. Thus BTM is best positioned to mobilize rural savings and channel it into productive rural based enterprises. In our interviews with BTM we learned that they are in the process of decentralizing their operations, providing greater decision-making authority to the branch managers. They have also begun a rural credit department with the express purpose of providing start-up, expansion and physical plant loans to SMSEs

in the rural sector using loan guarantees provided by the UNDP (and they hope other donors such as USAID). But this decentralization will not come on line in the immediate future and faces significant obstacles such as the poor communication infrastructure (see Annex A for more details).

Implications for Private Sector Development

1. The move towards the private sector and towards more open market policies has already had positive repercussions in the financial sector in Madagascar: Business people in the Tana community remarked several times that service was faster and better at the BMOI, the new private sector affiliate of BNP. The BMOI has brochures in its waiting rooms announcing new bank products. These include a series of savings/loan schemes to save during a fixed period and then have access to various forms of credit (including housing credits) for a fixed second term and an IRA-like savings scheme for retirement.

But evaluation of the seemingly positive response of investors, particularly foreign, to the financial sector restructuring, must remain cautious. To date, the decisions made to invest in the Malagasy banking sector have been largely political. When the French government decided to encourage French industry to reinvest in Madagascar, BNP, a French government-owned bank, was encouraged to reprivatize its former affiliate BNI, which was nationalized in 1973. BNP declined, but agreed to open a new affiliate on condition that not a single person from the Malagasy banking system (except for the former Director General, who had spent the last 20 years running his own consulting firm in Tana) be hired. Credit Lyonnais was also offered the option of investing in the BNI; they also declined -- more than once. After political pressure at the highest levels (Credit Lyonnais is also state-owned), they agreed on condition that the portfolio be audited a second time by a Peat Marwick affiliate and cleaned up before the deal is closed.⁴ BNI and Credit Lyonnais are now negotiating in Paris and hope to open the new bank by the end of January.

⁴N.B. Normally it is easier to start a new bank than to take over an old one. As one North-African banker said to a Sahelien counterpart who was asking him to invest in a defunct Sahelien bank: "We're both Africans. We bury our dead and create new grandchildren." The North-African did not invest long term in the Sahelien bank; he gave a two-year management contract to the bank and went to another country where he set up his own, new bank.

Moreover, while the banks involved put conditionality on their investment decisions, neither mentioned a marketing study, the most basic of documents for an investment decision. The South African investors looking at the sector are private and are taking a harder look (apparently), but their decision might also be considered somewhat political as their investment mission immediately followed the resumption of political ties and the de Klerk-Ratsiraka summit.

On the other hand, it was interesting to learn that, while the non-banking financial sector (a postal savings and checking system, two state insurance companies and a national investment fund) has historically been moribund, the BNP local "public offer" (i.e., to the Malagasy public) of 10% of its shares was oversubscribed by a factor of five. This warms the financial heart in several ways: first, it confirms "the money under the mattress" theory. Second, it proves that the savings mobilization may not be the central problem - the issue is providing avenues for productive and lucrative alternative investments. Third, it proves how truly simple financial intermediation is: One does not need to establish a stock exchange to sell shares; one only needs to put an advertisement in the local papers and have someone neutral (usually the trust department of a commercial bank) keeping the track of the shares.

2. Recent donor activity in the financial sector, while critical to the long-term survival of the financial sector, may also be fostering a dependence mentality; local banks seem to rely solely on solutions based on quick inflows of foreign funds. The director of agricultural credit at BTM, for example, pointed out that to make real development oriented loans they needed greater infusions of loan and risk guarantees from donors. But in the long run what the BTM (and the other local banks) really need is to restructure their portfolio, 90 percent of which is in short-term (less than 2 year) deposits. As long as the BTM fails to develop alternative financial instruments, such as certificates of deposits, that would allow them to restructure their deposit base, donor money will continue to be stop gap measures. The World Bank is providing a technical assistance facility with the new APEX credit line for training bank officers (primarily BC) in project lending. They should also be providing technical services to the local commercial banks to help them develop and mobilize longer term deposit base. There also seem to be critical regulatory issues which need to be addressed in this regard; e.g. apparently at the moment regulations only allow the central government to offer Treasury obligations.

Tourism

Madagascar's tourist industry has growing the last several years as the GDRM switched from virtual opposition to tourism to the encouragement of it. The island's unique flora and fauna, varied scenery, exotic culture and virgin coastline constitute strong assets proven attractive to French, German and Italian tourists. GDRM statistics show foreign tourist arrivals increased from 15,000 in 1983 to 30,000 in 1988. The GDRM goal is to have 100,000 tourist arrivals within five years but severe transport and infrastructural constraints remain to be addressed. The resumption of diplomatic relations with South Africa promises to bring the return of South African tourists who had previously favored Madagascar as a tourist resort. Several small and medium size hotel projects are in the works and the Savana and Pullman chains plan an extremely ambitious plan to construct a total of 1700 new hotel rooms around the country within 5 years at the cost of \$180 million.

Implications for Private Sector Development

While the tourist sector does show promise, the transportation constraints severely handicap Madagascar's attractiveness in relation to other Indian Ocean locales. The Air France-Air Madagascar monopoly makes Madagascar an inconvenient place to visit and limits the attractiveness of the country to European package tourists. The development of eco-tourism will be dependent on the development of infrastructure for tourism in the reserves.

2.4 The Business Climate: Doing Business In Madagascar

One of the issues which the MAPS process will be exploring in great detail concerns the competitive environment for business. The Team believes that a successful private sector program is one which creates real opportunities for entrepreneurial growth and diversification. Only then can the private sector truly become a force for development, helping to open avenues for individuals hitherto closed and helping to support other social objectives. The extent to which economic liberalization leads to real entrepreneurial growth and diversification depends on more than just "getting the prices right" and restructuring the financial sector. In fact, the analysis which follows suggests that economic liberalization has thus far done relatively little to affect the real competitive environment for business in Madagascar. It also suggests that while the possibilities for lucrative new investment certainly exists, most investors, local and foreign, will find Madagascar a difficult environment in which to operate. This is not to say that things have not changed, but that they change slowly, and that private sector development programs must have enough built-in flexibility to respond to openings and opportunities for entrepreneurial growth as the economic liberalization process proceeds. Again the observations offered below are tentative, meant to illustrate some preliminary findings regarding the climate for investment in the country. They raise a number of issues which will receive more systematic treatment during the months of dialogue and research ahead.

The Brick Making Industry: A Case Study in Business Operations and Entrepreneurial Opportunities in Madagascar

Brick is the preferred building material in Madagascar. There are two brick factories, 70 kilometers apart: one is located near the Presidential residence outside of Antananarivo. The other is near the south end of the central plateau near Antsirabe. The first factory is owned by a group of local investors, most of whom have other interests also in the construction and building materials business. It employs 80 workers, all of whom live in very rural settlements near the factory. They are paid FMG 40,000 per month, except for the foreman, accountant and plant manager, who receive more. The statutory minimum wage (SMIG) is FMG 38,000 per month. Workers regularly ask for advances on salary from the manager or from friends, as they are typically supporting a family of eight. The plant manager readily agrees that the wages he is directed to pay are clearly insufficient to feed his workers' families. They usually work an eight hour day, starting at 7:00am, but lately have worked a 10 hour day, due to increased demand. They produce large size industrial bricks (honeycomb interior structure), roof tiles, and standard 22x11x11cm bricks. The factory can easily

sell all it produces, and could easily double production and sell it. But it does not.

The factory is actually a large open air shed located between the road and the source of volcanic clay, dug from the hillsides nearby. The clay is dug by hand, wheelbarrowed across the pitted fields, and dumped into a mine car which is winched up the slope the first mixing pit. Five men stand in a large pit all day and separate two grades of clay with shovels and feed the mixture in an archimedes screw extruder, which then feeds the mixture into a blender.

The final blend is formed into standard lumps for the roof tile press, which is operated by three men: one to place the lump into the hand press, one to pull the lever and the third to take the formed tile out and place it on a drying rack. From there the tiles dry until ready for firing in a wood fired oven, some fifty yards long. Firing takes one day, consumes 3 tons of wood at FMG 30,000 per ton. The brick operation is much the same.

The three pieces of powered machinery, the vast brick ovens other hand equipment and production schedule is precisely the same that was left on the site when the owner returned to France thirty years ago. When a gear breaks a tooth, as happens on a predictable schedule, the spare is hand made in a machine shop in Antananarivo from the broken part as pattern, at much the same cost, FMG 200,000, as a spare part imported from France. The only value to have the part made locally is that it requires a week rather than several months to obtain.

The factory is at full capacity. It sells everything that it makes without any marketing effort. The factory cannot run two shifts because has inadequate lighting and the manager is not certain whether the JIRAMA (state utility) would permit them to co-generate from the constantly running power take-off belts. Buyers who are not shareholders or well-known customers must order bricks and tiles about four months in advance. Tiles sells for FMG 57 a piece, bricks for FMG 100.

When the foreman and manager were asked what they would need to increase production, both answered, separately: a direct order from the owners. When asked about new products of clay they might produce, none could think of any. Both responded that the owners are receiving interesting dividends the way things now stand, are not investing in any new equipment (such as the electric-fired oven the foreman would like to have), and know, in any case, that the proximate supply of clay will be exhausted by 1994 and that the factory will have to be re-located near a new source of clay. The owners have not encouraged any of their employees to innovate, but to follow orders.

What is the competition? In the first place, the other brick factory to the south. But as transport costs are high (due to bad road conditions, lack of trucks, and high fuel cost) the two factories sell within their own territory. In any case, the Malagasy home builder is able to and does buy artisan brick at FMG 55 apiece. Made by small rice farmers present everywhere on the plateau, these bricks are made much the same way as in the brick factory and represent an important source of income for the rice farmers. They own their own land, dig the clay by hand, mold it into the 22x11x11cm standard size by hand, and leave it to dry in ricks in their fields. When they have enough, they fire it in pyramid structures built on site with wood they gather themselves or buy from local wood dealers. The contractor buys fired brick from the roadside and pays according to quality. There is increased artisan production just prior to the December-March rainy season when supply becomes scarce. The rice farmers then use the resulting pits, either for new paddy, or for passive fish farms. Matters have been thus, apparently for many decades, and appear able to remain so for decades to come.

There are two cement plants now operating, but their delivered unit cost is higher than the cost of imported cement from South Africa, Indonesia and Iran (the three current sources now that USSR has dropped out). There is no local source of float glass, plumbing and electric conduit pipe, bathroom fixtures, electric cable. Lighting fixtures are largely imported from PRC as are electric bulbs. JIRAMA has a monopoly on local bulb production, but contractors reject their product for low quality.

At least one Malagasy entrepreneur has an plan to start a competing brick factory, not far from Antananarivo, which will use a slightly more modern technology, including electric-fired ovens. He also is interested in starting a paving block factory using a simple circular saw in order to get a contract with the government to resurface local roads. The cost of asphalt is high, and stone is plentiful on the plateau. The only local production of paving blocks and patio blocks ceased operating some years ago.

This Malagasy entrepreneur will not approach the owners of the present factory, and will not seek any form of cooperation with them. He believes that the Malagasy are, by nature, too individualistic to cooperate with each other. He would prefer to work with foreign investors and foreign capital. When asked whether it would make business sense to start a float glass factory, he pointed out that the supply of sand is on the coast, and that he is a plateau stock. Coastal people, he felt, would not permit him to set up an operation there, but would permit foreigners. It is the case that the Chinese dominate the east coast and the Indians the west. Plateau people remain on the plateau. They are limited, therefore, to the market available

among the portion of the people who live on the plateau, most of whom live at the poverty level.

Foreigners are not necessarily his personal salvation. He has learned not to expect any subcontracting from the foreign construction firms in Madagascar (Colas, SOGEA, Chapin, Gambogi, Korean contractors, and others), even when they are fulfilling GDRM contracts. His experience is that each hires from its own country.

Rajabali Azad, a key local businessman and investor of Indian origin, said that at present the major construction deals are done by Hong Kong, Singapore and Italian companies. He suggested to the GDRM that it provide advantages to builders, especially the Malagasy bourgeoisie, to encourage them to invest and to build.

The Malagasy entrepreneur explained several times that he needs credit to expand, but has little good to say about the four local banks. In the first place, he is convinced that the Indians have especially the BNI and BFV in their pockets, literally. He is certain they pay personal premiums to bank officials to obtain loans and credit in advance of Malagasy borrowers. BTM is a government bank and he does not fit their political profile. BMOI requires a non-interest bearing deposit of FMG 500,000 as a condition to accept new clients. This sum becomes a personal guarantee fund to cover the client's bad checks. The contractor keeps his cash in a box, or in materials for new projects. Experience has taught him that his money is not available from a bank when he wants it, as the Central Bank often issues stop orders on local banks, blocking access to his funds. Also, short term credit, when available, costs him another cash deposit and 22% interest. He will gather the funds to start his new projects and enterprises from family members and from cash flow.

The above vignette illustrates several points:

1. Distrust is a significant factor in the present business climate. From all respondents, personal observation and press discussion, it appears evident to an outside observer that each significant sector of the economy (Malagasy businessmen, Indians, government officials) neither trusts the other nor is prepared to take significant personal risk. It was striking how close to the surface is the memory of the French colonial period, when indigenous operators were prevented from participating in significant economic activity. The French are regarded as unable to change their mentality of dirigiste, top-down control of economic activity. This is not likely to change, despite the warm embrace given to such French businessmen as the Pila and

Fraise families, perhaps in recognition of their personal attachment to the Malagasy soil.

More significant, perhaps, is the mistrust of all Indians. These businessmen are not viewed as rooted in the Malagasy soil, but rather opportunistic exploiters of the bad fortune of indigenous people, which includes the bribing of weak people. An article in one newspaper reported that while Indians make up only 0.9% of the business population, they control about 48% of the wealth. This fact was often repeated, as proof of the real source of woe, by numerous Malagasy respondents. When this writer remarked to a Malagasy businessman that the hotel where he was staying was recently purchased and successfully renovated by an Indian businessman, whose family had been here for several generations, all he could say was, "See?" Another Malagasy respondent remarked that the mosques are where the deals are done. And the money they make they keep at home rather than in the bank. Indians have access to credit as they pay the banker, himself, a premium. They also finance the government's election campaigns, he believed. He also was certain that the head of state prefers all other people (Indians included) over the plateau people. That is because he has kinky hair and hates the straight hair people, the respondent said, stroking his smooth hair. He supports the Indians in order to stick it to the plateau people. The trouble is that, even though he put coastal people in at the top of everything, they have to be supported by the naturally more clever plateau people and resentment is thus unending.

Mistrust among plateau Malagasy, as well as the mistrust between plateau and coastal, is perhaps the most significant factor in the present business climate. The local papers reported that the January 1989 population was 10,990,000. Of these 54.9% are 20 years or younger and 43.3% 15 years or younger. Less than 40% of the population, or 4.4 million, is economically active. With a mean family size of 7, and a high poverty rate, there are very few indigenous buyers and sellers of goods and services. And when the Malagasy population is disinclined to do business with itself, the result is extremely limited economic opportunity. One Malagasy respondent was not certain it would be worth his while to join and take part in the association of Malagasy business people, FivMpaMa. While the leadership of that organization agreed that his main task was to create some form of unity among his membership. After fifteen years of enforced cooperation under largely unqualified and often venal Malagasy political leadership, the main attitude observed was to avoid all association and alliance if possible, and association and alliance with the indigenous power elite in any case.

2. Lack of access to investment credit was a constant complaint among Malagasy and Indian businessmen as well as the bankers. It was not clear precisely what was intended by this complaint. Clearly there is a lack of hard currency. There is a need to purchase capital equipment and basic consumer goods. There is a hunger for all products which were kept off the market for more than a decade of socialist solidarity. Yet there is cash among the population, in the form of (improved) real estate (the preferred investment) and mattress money. Organizing what is available and directing its most efficient investment for economic growth, appears to be the main issue. The BTM revealed its PER plan, directed to small rural enterprises. The Director for Rural Credit, however, had not yet approached the basic issue, which is that his network of some 70 branch managers would be responsible for seeking and making these loans without the least training. BTM's branches do not have direct communication with headquarters, have to send their paperwork to Antananarivo by airplane for approval, and have not been reformed from dispensers of (government) largess to the agrarian population to rural development officers.

One Indian businessman complained that his loan request for US\$6 million was met with US\$1 million. He chalked it up to the basic stupidity of Malagasy bankers, stemming from the fact that they are not, in fact, bankers at all. He may have a point, at least insofar as the BMOI is concerned. When it opened in late 1989 and early 1990, it was said that their main hiring criterion was new employees had not previously worked for a Malagasy bank.

3. It is not clear that people here make any distinction among grants of working capital, risk or venture capital, straight investment and credit lines.
4. The near-monopoly in many sectors, noted in the case study of the brick industry, is a more disturbing factor. Adding the French colonial period to the fifteen years of State ownership, the result is an economy which has permitted the presence of a few suppliers, and buyers, of key goods and services. Privatization is a fashionable word at present, but what it means for the opening of competitive opportunity is less clear. An analysis of cross-ownership reveals a fine and mutually supporting web of oligarchies stretched across the Malagasy economy in order to catch any small game which may happen along.
5. There are structural barriers to innovation, as well. Since everything that was produced or imported, of any quality, found a ready market, there is little tradition of product innovation, improvement or substitution, except in the

artisan sector. One of the finest local products is small oil lamp made from soda and aerosol cans. The handle to hold it, funnel to fill it with oil and the tube for the wick are hand made and hand soldered to the can. The product is well designed for use and, well throughout, makes use of readily available materials, and has a ready market. The same may be said of the bricks, and of other recycled products. Whether this spirit can be transferred to the formal sector in this climate is another question.

Concentration of Wealth

The Team has undertaken a preliminary analysis of cross-ownership patterns in the business sector. Understanding "who owns whom" is critical for developing a strategy for facilitating entry and diversification in the private sector. While the analysis is not complete at this point, we have included a rough listing of the major corporations and their shares in other corporations or businesses in Annex D to this report. In addition Exhibit 2 illustrates the cross-ownership network of one major Malagasy company, COROI.

3. IMPLICATIONS: RESEARCH AND ACTION AGENDA

The preceding observations suggest a number of actions which the Mission can undertake immediately and during the time the remaining MAPS research activities take place starting in January to May 1991. The Private Sector Coordinator, Mr. Richard Forbes, will be able to take the lead in these activities. These observations must necessarily remain as preliminary hypotheses, and additional more systematic research will be undertaken over the next few months to verify or discount them. Nevertheless, the team does feel that consideration should be given to the suggestions which follow, as they have the potential to contribute positively to the on-going dialogue among the GDRM, local entrepreneurs and donors on the role of the Malagasy private sector.

1. Work with the World Bank, la Caisse and UNDP in their efforts to design and implement lines of credit for the industrial and agro-industrial sectors. The Mission might try to influence the choice of the implementing institutions especially for the TA funds allocated to entrepreneurial assistance. The issue of the use of TA to help local banks develop alternative investment instruments to restructure their deposit base and the best mechanism to do this should also be discussed.

Action Proposed: Mission dialogue with the IBRD, the UNDP, la Caisse, local banks.

2. Support on-going communication and information exchanges with UNDP and other donors involved in small-scale enterprise (SSE) promotion activities. Undertake follow-up discussions with Maurice D'Avignon on the ILO entrepreneurial development activities; exchange information on the experience with USAID-funded entrepreneurial development programs (e.g. the experience of MSI entrepreneurial development programs in Africa may be a starting points.)

Action Proposed: Analyze present SSE sector promotion efforts and models, with the assistance of AFR/MDI and PRE if desired. Dialogue with donors to explore alternative implementing agents for SMSE support activities to the SMSE Assistance Unit at the Ministry of Planning. Identify ways of involving small scale entrepreneurs in the policy dialogue process.

3. Postpone a longer-term research activity in the informal sector (specifically the GEMINI informal sector study) until UNDP census and the MAPS description are completed. The MAPS study will synthesize available data on private sector activity in the country, providing the GEMINI Team with a framework for choosing the areas (including geographic and economic) of research. The MAPS survey will include informal sector firms, and will provide preliminary results regarding their critical constraints. Finally the UNDP study will provide a detailed head count of the economic activity at the formal and informal level in every county. After these studies are completed the Mission will be in a much stronger position to develop detailed terms of reference for a focused informal sector assessment if it seems that such a study is still warranted. In the interim the Mission may want to explore with Fred O'Regan at MDI the possibility of bringing someone through to discuss in greater detail with the UNDP their research methodology, how it would relate with the GEMINI methodology, and specific areas of inquiry that GEMINI could help fill for donors once the UNDP study is completed.

Action proposed: Maintain contact with UNDP. Obtain information from MDI regarding the types of research issues GEMINI could explore and the methodologies used to address these.

3. Examine the legal and judicial aspects of establishing and operating business in Madagascar. In the last 18 months a number of laws have been established to help expedite business operations in the country. The GDRM has apparently met basic some basic policy changes in privatization and export liberalization required by

donors. But the perception of entrepreneurs and donors alike is that the implementation of these laws remains incomplete. For new laws to be implemented appropriately, individuals must have recourse to a judicial system which makes it easy to have their rights enforced. The Mission has begun a study to explore the current state of governance (institutional profile) in the country. One of the aspects of this study will be an assessment of the reliability of contracts and property law under the court system. It is critical to understand how these issues play out at the local and county level as before designing a private sector program, especially as one begins to think about possible decentralization strategies for private sector activities. Moreover, the Malagasy themselves have been holding a number of seminars on business and administrative laws and their effect on business operations. Other donor projects in this area should be examined to the extent possible, and the results shared through an existing donor coordination mechanism.

Action Proposed: Follow up on the results of the various local colloquia on business law and governance being conducted at the present time. Use donor coordinating mechanisms to share information on the same. Coordinate the institutional profile work with the research activities being currently undertaken by MAPS and other Mission-sponsored studies.

4. Explore the possibility of supporting present and potential indigenous private sector venture capital and other finance facilities for indigenous entrepreneurs. The private sector coordinator can begin by trying to examine the pipeline of project proposals which have been submitted to FIARO and SIPEM, if the institutions allow it. Follow-up meetings and sessions with local entrepreneurs interested in establishing local private financial facilities should be held (e.g. with M. Desire Ralijaona, who is interested in starting a new private bank with local capital). The lack of venture capital seems to be an almost universal constraint in LDCs, and noted in interviews conducted during the past few weeks. AID/W, through AFR/MDI or AID/PRE, can provide additional expert assistance through the Africa Venture Capital project.

Action Proposed: Review constraints to 1988 Private Sector Development recommendation for equity participation facility. Discuss current situation with IFC and PROPACO, who have recently been in country, before making a determination and, to the extent

possible, coordinate equity investment strategy with them. If environmental or internal constraints have been significantly addressed, request AID/W assistance to study the feasibility of assisting private venture capital facilities in the country.

5. Fully investigate the availability and use of non-Mission resources to support attainment of private sector objectives. The Private Sector Coordinator can be charged with this investigation. Such programs as the Africa Project Development Facility (APDF/Nairobi), IESC, and the African Venture Capital Project, REDSO/ESA, AID/PRE Privatization project, in which A.I.D. has a stake may be coaxed into becoming more active in Madagascar in the short-run or as a follow-up to the MAPS activities.

Action Proposed: Review available non-Mission resources and initiate dialogues with the various AID/W and REDSO offices through the new Private Sector Coordinator.

6. Work with RHUDO to identify a housing finance expert to participate in the follow-on MAPS activities. The interest of the Mission in the support of a housing finance institution is evident. The MAPS Team has fully discussed the capabilities of the present team to address the issues related to such an institution with the Mission and with the Regional Housing Officer. It will be necessary to complement the activities of the MAPS Team, however, with an expert in housing finance.

Action Proposed: Work with RHUDO to identify French speaking housing finance specialists available. Review draft scope of work prepared by RHUDO for housing finance specialist. This individual will work with the MAPS Team to integrate housing finance concerns within the developing Mission private enterprise strategy.

7. Pursue private sector contacts developed during this field trip. As the preceding section indicated, it is misleading to refer to "a private sector" in Madagascar. There are in reality many, and the ways these are interconnected is not always clear or apparent. The key activity of the Private Sector Coordinator over the coming months is to build his network of contacts and "insider" information within all the private sector communities operating in the country. This knowledge is going to be instrumental in the months ahead, as the Mission refines its approach to private sector development and as it supports future investment Missions. This will help develop the Mission's network of information sources about key players and provide a conduit for testing

out informally hypotheses and ideas regarding possible actions and strategies for supporting Malagasy private sector development. The list of companies provided in Annex D and the detailed memoranda of conversations provided in Annex A, will serve as a base for these follow-up actions. Regular consultations with the embassy economic and commercial officers would also be desirable.

8. Follow-up financial sector contacts. It will be critical that the Mission continue the dialogue with the players in this community. A well developed network of contacts in this regard will be useful for guiding Mission efforts and refining Mission approaches to privatization, establishing/complementing housing finance efforts, and finding joint venture partners for American investors.

4. MAPS IMPLEMENTATION - TIME TABLE

Below is a time table being proposed for the rest of the MAPS implementation.

The suggested overall MAPS implementation schedule follows:

TIME TABLE -- MAPS IMPLEMENTATION

TASK	Dec.		Jan				Feb.				March				April			
	1	2	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
1. Strategy Art.																		
o Orientation	X																	
o MAPS design	X	X																
o Presentation		X																
2. Description																		
o Outline TOR		X																
o Identify local contractors		X																
o Contract		X																
o Data collect'n			X	X	X	X	X											
o Data analysis						X	X	X	X	X	X	X	X					
o Graphics prod'n												X	X					
o Presentation																		X
3. Diagnosis																		
o Outline TOR		X																
o Identify local contractors		X																
o Contract		X																
o Draft instrum't		X																
o Refine & test survey instrum't							X	X										
o Implement sur.							X	X	X	X	X	X						
o Data entry & processing										X	X	X						
o Data analysis													X	X				
o Graphics prod'n												X	X					
o Presentation																		X
4. Dialogue																		
o identify prvt. sctr leaders	X	X	X	X	X	X	X	X	X	X	X	X	X	X				
o Informal conslt	X	X	X	X	X	X	X	X	X	X	X	X	X	X				
o Focus groups																	X	X
o Presentation																		X
5. Prvt. Sector Strategy Dev'mt																		
o Id. GDRM prior	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
o Id donor prior	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
o Match Mission obj's to MAPS results																X	X	X
o Options menu															X	X	X	X
o Feasibility															X	X	X	
Coordinate																		
USAID/Wash. support	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X

ANNEX A
MEMORANDA OF CONVERSATIONS

**MEMORANDA OF CONVERSATIONS
MAPS PHASE 1**

I. Phyllis Dichter-Forbes (Mission Director), Richard Forbes (Private Sector Coordinator), John Roberts (Deputy Director), John Thomas (Agricultural/Environmental Officer), Janine Kazakos (TDY-Administration Officer)
MAPS Team: San Martin, Haslach, Seifert, Grossman
December 4, 1990

Until April 1989, the Mission had not been interested in the private sector. Population and the environment had been the areas of interest in a highly focused/very tight program that was typical of the "new AID". A lot of money would be focused on very specific areas. The new Ambassador wanted to change this and have the private sector involved. His interest was in attracting US investment and developing a middle class of entrepreneurs that would be a positive force for social change.

In January 1990, the economy started to turn up and AID would like to find a way to harness the dynamism the society and economy has shown since this period and harness it for development. Export-led growth would be appropriate to the Malagasy situation (i.e. rich natural resources, cheap skilled/dexterous labor, small internal market) but with the public sector's receding role in the economy and the private sector's small relative size and lack of experience due to 18 years of socialism, the private sector would need assistance and USAID is anxious to be able to provide that assistance.

The Mission has identified a number of opportunities but does not yet have a vision for action. MAPS will assist them identifying how to implement the actions. (It is after all the Manual for Action in the Private Sector. The areas of opportunity the Mission has identified:

- o Finance: Opportunities for banking reform, rural credit, small enterprise credit, encouraging long-term credit;
- o Agricultural Private Sector: stimulating markets and agro-industrial chain of activities (i.e. processing, transport, marketing, commercialization) and tie these activities into the Mission rural development strategy;
- o Secondary City Development: Most donor activity is centered in Tana and is assisting the Merina aristocracy. Mission would like to encourage increased indigenous investments in the regions outside the Plateau. Mission feels it is very important for MAPS to expand outside Tana area. Even if no new projects are implemented outside the capital, the process is very important for learning what is out there.
- o Foreign Investment Promotion: For investments the Malagasy can normally raise 15-20% of the capital necessary locally and don't want to sell 80% equity to foreigners. How can the Mission assist in leveraging funds for local investment and how can the Mission develop a willingness to accept foreign investment?

Mission expects three things from MAPS:

1. An understanding of what is going on? Where are the private sector activities currently, what are the emerging opportunities for private sector development, what are the constraints to private sector development? What are other donors doing?
2. An understanding of the choices for private sector development. What are the potential areas of assistance? What will it cost the Mission? What level of effort is necessary for success? What are the risks associated with each activity?
3. An increased dialogue with Malagasy actors. Malagasy sees the US as a force for democracy and reason. Would like the US presence here to be a forum for debate of the issues that are being faced here in the evolving political environment-- i.e. economic liberalization, political liberalization. "Charging up the dialogue" between the Malagasy private sector and public sector is very important to the Mission.

Mission is currently funding a Human Resources Development Assistance Project. As part of this, a steering committee for scholarship allocation was formed which then gained its own momentum and has set up a colloquium between the public and private sectors hosted by INSCAE (a local Management Training institution). The Prime Minister is very interested in private sector development and would like to meet with the MAPS team to discuss Michael Porter. He explained to Mission Director that to dialogue with the Malagasy one must move very slowly to stimulate their interest--best to hold a series of meetings--some of them outside Tana with entrepreneurs who are rarely heard from in the capital.

Mission is also working in the environmental area: Madagascar is a very unique eco-system with one of the highest degrees of endemism in the world (90%). Mission is working to develop 5-6 national parks and support community activities that support conservation. Mission would like MAPS to identify possible linkages between environmental programs and private sector development. SAVEM park management project combines economic development and conservation but not enough. There is a need to determine how the Mission can minimize the economic dislocations of conservation.

There is increasing interest in foreign investment but there is still some distrust of foreigners and foreign ownership of the economy, although xenophobia has died down some. The socialist regime has a number of different wings: hard-line socialists, free marketers in socialist clothing (the Minister of Finance); free market believers but who are afraid of leaving 90% of Malagasy behind (the President) and real free market advocates (the Minister of Economy and Plan).

There is pronounced modern and traditional dichotomy in the country and the Mission would like to find a way to address

private sector development without spoiling the traditional way of Malagasy life. But the other side of that coin is finding a way of developing the private sector within the constraints of traditional Malagasy life: i.e., land tenure questions and traditional holy days when no one works for a month while they exhume their dead relatives.

Mission would like to write its CPSP by June. MAPS should be finished by May to inform the CPSP process. The Ambassador would also like an investment team out here after June so the project should be able to inform the Mission in what areas investors might be interested.

II. Henri Andriamanana, SP MIEL. MAPS Team: San Martin, Haslach, Forbes, Grossman 12/4/90

The contact stated that he intended to start a savings and loan society, or a mutual credit society. There is no such system in Madagascar. Only the top 2-3% had benefited from housing loans in the past. His target market encompasses 60% of households. There is a high demand for housing. The problem is low buying power. Although there is a need for start up funds, the World Bank is reluctant to assist.

The local saying is that, even if you have nothing, if you have a house you are somebody. The typical urban resident family rents. The national average # per household is 5.2 people. Typically one finds small landlords who own 2-3 houses and rent them out.

He seeks to group the urban squatters together to make them buyers and owners; he does not plan or expect anyone to grant them title to the land they are squatting simply due to longevity.

[QUESTION: how much land, and where, does Andriamanana own?]

Households savings is now down to 10-11% from previous 20% due to increased spending on perishables. He dealt with his concept of "substitute savings," which includes that part they would not have to spend if they owned a house.

The first phase for the program is that the bank buys and builds and sells housing; this will last 2-3 years. He plans that in Year Four, the organization will be solely a credit institution which recommends clients to developers.

[QUESTION: What are Andriamanana's connections to developers?]

He mentioned a present hurdle: too much money chasing a limited housing stock.

How would this work? He expects clients will save for 12-42 months @ 4.5%. There will be a 5.5 point spread, as he will lend at 10% for 12 to 25 years, readjustable at 5 year intervals. Presently BTM pays 11-12% on passbook savings and lends at 15-16%. When challenged on the obvious discrepancy, he said that the incentive for people to use his service is the lower lending

rate on longer term money: lower rate locked in for longer period.

Andriamanana is looking at French law on societe mutuelle as a model. He also responded to our suggestion/query about payroll deduction coupled to employer contribution as a benefit/controlled income source.

How much do you need? US \$16 million, with US \$2.5 m start-up capital. Investor will earn 4-5%.

Expects 30,000 FMG, or 25% of monthly income (120,000FMG?)
Typical house costs FMG 8 m [or 5.5 years income]
The promotion of Small-Medium firms is a hot button, but financial system does not exist for capital formation.
Andriamanana likened FIARO financial corporation to ARO, as a parastatal. SIPEM created by the GEM and is therefore private. Where would Andriamanana put his own cash? He would invest in the free industrial zone and draw on the student population for management. He would concentrate on beryllium, cadmium, titanium and agriculture. The latter due to Madagascar's tropical to mediterranean climate, suitable for apple juice, pineapple (which led him to consider role of Delmonte in Kenya). One questioner pointed out that Delmonte requires land ownership in order to control its plantations and costs. Andriamanana replied that needs to use a local owner or nominee to settle the land ownership issue.

AMIHA, association of textile factories cotton merchants, Swiss are buying wine on a guaranteed basis which they sell here and in Mauritius; they organized the merchant coop. Mauritians and South Africans are working together in SATPRO; Mauritians are entering economy via South African connections. Floreal mentioned as example. Malagasy sends cotton to Mauritius, which weaves it and sends greige goods back to Madagascar for conversion and assembly. They are talking about tax havens and offshore banking here in order to offer competition to Mauritius, but, again, the financial system is the key.

CONECS is former PAMA. GEM begat APEM begat SIAPEM which is a venture capital group on a voluntary basis and is not working to Andriamanana's satisfaction.

III. Elyette Rasendrasirofo, Performance, Cabinet de Formation.
MAPS Team: San Martin, Haslach, Grossman, Seifert, Forbes
12/4/90

1. Mme. Rasendrasirofo is currently helping USAID/Madagascar identify and recruit FSNs. Formerly, she held the position of training and personnel development officer for the National Investment Fund. She also has contracts with a variety of private and SOEs (including Air Madagascar and a small textile firm), to improve their own personnel recruitment and training and development programs. She says that this is a fairly new field in Madagascar; the country has well qualified technicians, but not very good management

training capability. While the government was socialist this did not seem to matter much, but with an increasing emphasis in efficiency and competition those firms which want to succeed are increasingly seeing the need to pay attention to this aspect of their operations. She does not have much competition at the moment. The GDRM runs a center for Executive Training. IESCE provides training for the private sector, but this is more technically oriented. According to Mme Rasendratrirofo there are no good courses offered in human resources development in the country.

2. Mme Rasendratrirofo believes that the Malagasy are not very good at delegating or building clear chains of command. Much depends on building consensus, establishing personal relationships, avoiding confrontations. The old and wise are usually deferred to, making it difficult for young managers to establish any sort of authority relationships with their older subordinates. But she points out that these traditional human relations and values have little room in a modern enterprise; a competitive firm requires quick decision-making authority, leaving little time to build consensus, be diplomatic and explain orders. On the other hand, to really succeed in Madagascar company management must accept the social reality and learn to build its staff and esprit around it.
3. She believes that her methodology for helping firms deal with these management issues is the most comprehensive and the only one that works. Her Cabinet staff first spends almost a full year observing the various managers at work, filming and taking notes on their behaviors and their relationships with others. After documenting the problems, they hold a series of workshops and sessions with the managers to discuss their actions and management styles, and their effect on their employees. Using these discussions and observations they begin building authority systems and chains of commands which are suited for and adapted to the reality and the characteristics of social relationships in the country. When asked how one would measure the success of her work within a company, she was not sure, but felt it would reflect perhaps in lower turnover.
4. Part of the problem in Malagasy industry is that there is in fact relatively little industrial tradition. Many of the unskilled factory workers step literally from the rice paddy to the factory. No one in the family has ever worked in a factory before. The Malagasy businessmen are starting to understand that technology is often not enough.
5. She finds that female workers actually adapt easier to the conditions in the factory or a modern workplace than men. The Malagasy society tends to favor male children heavily and spoil them. The women are used to submitting to some regimen and are more disciplined. Mme Rasendratrirofo also noted that there are no special laws or customs obstructing access to credit (such as in Lesotho where married females are considered minors and cannot legally enter contracts). In this sense she believes that there is less discrimination

on paper in Madagascar than there is in other countries. On the other hand, she noted that there are no large female entrepreneurs or women-owned enterprises.

Women also form a small minority of the overall workforce, though a much larger proportion of the executive or white collar labor force. Most of the unskilled female labor is in textile. Most of the female entrepreneurial activity is at the artisanal level, basically informal firms.

6. Firms in Madagascar normally experience very high turnover rates. Absenteeism is particularly high in the winter months, when there is a return to the villages for a number of rites. She stated that many of not most workers expect leave at this time, and if they do not get it, they would rather simply abandon their job; they can always return to the village to work in their fields. Work is not a priority, over certain central family values. Therefore firms wishing to work in Madagascar must think about how to effect compromise and how to plan for absenteeism.
 7. It is important to think about entrepreneurial education at the earliest levels. It is too late to be targeting entrepreneurial training and development at the adult level. Children in the high school level must be taught about and made aware of the opportunities and challenges of the business world. She was very interested in the Junior Achievement program, or some sort of similar program which would bring the children in contact with local businesspeople and introduce them early on to options existing in the business world. It is also important to get children acquainted with such basic notions as team work. Internships would be particularly helpful in this regard.
- IV. Zina Andrianarivelo, Henri Fraise Fils et Cie, and Vice-President of Association pour la Promotion des Entrepreneurs Malgache (APEM).
MAPS Team: San Martin, Haslach, Seifert, Grossman
December 5, 1990

APEM was founded three years ago and is mostly composed of young university graduates who have difficulty finding jobs. Existing private sector is not creating sufficient jobs and the government is employing less people due to privatization and IMF mandated reforms. Many young people have good ideas but lack the resources, capital, skills, training, contacts, etc. to put them into action. APEM works to assist them.

Currently APEM is working with Swiss and French industrial associations in a debt-for-credit swap. The Europeans buy Malagasy debt and give it to APEM who gives it to members to use as collateral with local commercial banks. APEM has also founded Societe d'Investissements pour la Promotion des Entreprises Malgaches (SIPEM) a venture capital company which is getting TA from IFC and EEC. SIPEM takes equity but attempts to get rid of it as fast as possible so the entrepreneur is really responsible for the success or failure of the business. Currently 15-20 projects. SIPEM is a development oriented institution within an

investment company. Looking at the long-term development of the projects--not interested in short-term profits. SIPEM is aimed at PMIs FMg 1-20 million range--not competing with FIARO which is aimed at larger companies. SIPEM will only take minority position and wants to make sure entrepreneur retains majority position in the company. SIPEM also provides management counseling to its investees as a service in exchange for equity. There is a desperate need for management and technical training here. SIPEM cannot provide the level of short-term TA and longer-term training that is necessary as all officers work on a voluntary basis. They are hoping that the USAID HRDA project will identify management and business training as a priority.

Economic liberalization has provided the consumer with a wider range of choices due to increased imports. Malagasy entrepreneurs need marketing training. Never had to market their products before liberalization--they were all that was available so everything was sold. Now marketing has become crucial and the Malagasy are simply not able to compete.

Two management schools exist: INSCAE and new one ISCAM. INSCAE is primarily oriented toward MBA type degree with accounting and finance concentrations. ISCAM is oriented toward general management and technical management of business. Provides two year course for middle management training which is a critical need. There is generally good upper management that has been trained in Europe and good workers but skilled middle management that can communicate effectively with the two groups has historically been lacking.

Finance is also an historical problem facing Malagasy business, especially now in the time of IMF mandated credit controls. APEM assists members in getting contacts with banks. Currently two new private banks are being set up with a mix of local and foreign capital.

Indo-Pakistani dominance of economy is a problem for the development of an indigenous private sector. Indians and Pakistanis are dominant actors in the economy. They are responsible for a good deal of capital flight as they send their money out of Madagascar. They have also been very successful at circumventing the laws put in place to curb their dominance of the economy and in fact many have succeeded in buying property.

The lack of a strong information network is also a problem. There is a serious lack of information and transparency. There is a lot of behind the scenes business activities here. Must have a good personal network and personal relationships to succeed in business. There is not a lot of public information exchange in the newspapers. This explains the number of business associations that are springing up--APEM, GEM, CONECS, etc.

New investment code guarantees against nationalization and has encouraged investment, especially from Mauritius where labor is getting expensive. All new investment is export-oriented as domestic market is too small and there has been a decline of the purchasing power of the population.

V. Robert (Bob) Spurling--Promotion de Petites et Moyennes Entreprises, SERDI--United Nations Development Program. MAPS Team: San Martin, Seifert, Haslach, Forbes, Grossman December 5, 1990

UNDP funds a project to make a local small and medium enterprise support institution viable on commercial basis. Placed Spurling at "Promotion PMI" within SERDI a local consulting firm. Promotion PMI aims to provide management and engineering services to small firms on a commercial basis.

By charter, Promotion PMI is at a structural disadvantage as it must collect 50% of its fees in advance and the local competition often does not.

PPMI provides training and management assistance to firms and helps set up enterprises for clients and small foreign investors and assists in moving the paperwork through the government. It is a very cumbersome process whereby 26 steps are required for a SARL (only 18 are needed for a sole proprietorship). Causes very high up-front costs for the enterprises but means a lot for work for local cabinet like PPMI. They have an agreement with SERDI that 50% of their time will be billable. This year they passed the 50% mark in August. Last year they billed FMg 29 million, currently this year they have billed so far FMg 51 million.

1989 was an election year--there was not a lot of business activity as there was fear of unrest and people were waiting to see what the new investment code would offer. PPMI used this slack period for internal staff training. Immediately after elections and subsequent announcement of new investment code work load really took off. Currently completing studies in four weeks that had previously devoted six months to. The benefits of the staff training period have been evident in the volume and quality of work in 1990.

Recently developed guide and video tape on investment in Madagascar for Ministry of Industry--they are planning a similar investment promotion piece with Peat Marwick (KPMG) for international investors. The new investment code has attracted a lot of investors both international and offshore but primarily of short-term nature as the investors want to get money out before the grace period/tax holiday of the investment code expires. Foreign investment is also inhibited by the fact that foreigners still cannot buy property--can lease for 20-25 years on a renewable basis from the government but investors are wary of not being able to own property.

FIARO, a venture capital organization is offering a kind of loophole for the investor who is wary of the problem of land tenure. At the break-up of several large holding companies, FIARO (which is owned by the parastatal insurance company ARO) bought a great deal of property. Now FIARO is offering the property to foreign investors. It is unclear at this point if they are having any success.

4/6

PPMI identifies the cost of land and infrastructure to be a major constraint to small scale enterprises. Banks will finance 70% of investment for short-terms at 16-17% interest and small entrepreneurs cannot afford the investment. PPMI sees the answer as business incubators where the cost of investment could be shared between a number of enterprises.

Some longer term capital is becoming available on a first-come first-served basis from the CCE and World Bank APEX funds in commercial banks but interest rates are very high, although export oriented businesses can get a lower interest rates (13-15% for short-term, unclear on long-term rates).

UNIDO is sponsoring meeting between local large firms, local small firms and foreign investors. There is a new UNIDO head who is very interested in private sector development. Feeling is that private sector development must be export driven as local market is too small to accept new products and absorb enough to stimulate growth. In addition, liberalization of import code has hurt Malagasy producers who cannot compete with imported products in terms of price. Most intermediate goods are imported so there is little difference in the price between locally produced goods and imported goods. In addition, government import policy really favors completed goods as finished good is taxed at X% and importation of raw materials to produce goods locally is taxed at a higher rate. Some products have the advantage of using local raw materials and can compete on price, i.e. chocolate, but there are very few.

UNDP is currently in the process of censusing all business activity in the country. It is imagined the process will be finished in February.

VI. Charles Andriantsitohaina; President of GEM, Virio Ets, Prochimad, uncle of Zina Andrianarivelo-Razafy from Fraise
MAPS Team: Seifert, Haslach, San Martin, Forbes, Grossman

He began with a tour d'horizon of the past & present political/economic situation of his country and what GEM wants: a priori consultations on economic issues and legislation prior to its submission to the ANP. He holds a liberal view: minimal role of government confined to security and similar issues. The process was put into motion via private discussion when GEM asked for private audience with PDRM in 1983.

Banks:

BFV bought for 40% by the Banco de Torino; Credit Lyonnais and the BLB/Dresdner Bank also buying into other institutions.
KEY: to know what the government has done, is doing and will do: transparency and equality of treatment among private and public entities and operators. In 1987 a Privatization Committee was created, but it was stacked [in favor of government?]. State organizations are still privileged in terms of communications, transport, etc. One cannot find the names of the true shareholders, even though the Minister de Tutelles has a list. State companies are taken over and given to one of the Groups and GEM learns a posteriori that this has happened. All state companies

are in terrible shape and cannot be privatized in the true sense; there has been miscalculation of demand, buying power, and import on speculation. There are now 2,000 motor vehicles stuck in Customs as their importers cannot pay for them. He sees a cascade of bankruptcies; L/Cs are denied after being granted. Hard money stock for 50 days. The importers had counted on the power of the parallel market and used cash they had stashed abroad to import. Statistics show that they couldn't have used domestically held funds. There is a voluntary informal sector which prefers to operate off-book. The Indo-Pakistanis are very active: 0.9% of the population, have 45-50% control of the private economy, and domicile themselves in Hong Kong, Canada [Rajabali?] and Singapore. Commerce, racketeering and loan sharking in hard currency in order to gain control. He avers there is dumping to give South Africans control by killing off indigenous industry. GEM Executive Committee meets monthly. It will request higher tariffs on unfinished goods than on raw materials rather than the opposite, which is the present state of affairs, and which is killing the substitution industries, including the food production industries.

[OBSERVATION: He suggests by his manner and tone that he is operating in a buyer's market among the foreign aid donors.]

He sees this chain: Taiwan - South Africa - Madagascar, usually involving Hong Kong Chinese.

The main purpose of the Free Zone is employment creation. The Indians have come to sell cheap machinery, as have the South Africans: sell but not invest.

The Christian community is a strong force for pressure on the PDRM. The Council of Churches FFKM is regrouping as a force as it provides a place to speak. [Ed - Interesting parallel with the role of churches in the last years of the DDR]

Newspapers:

Tribune - freer than others
Midi - legitimist, covers crimes, etc
Journal - populist

VII. Jerome Sauvage, Private Sector - UNDP.

MAPS Team: Seifert, Haslach, San Martin, Forbes. 12/6/90

1. The UNDP is in the process of reviewing their countrywide strategy and the role of their private sector programs within it. Sauvage acknowledges that private sector development is an area where the UNDP has relatively little experience; accordingly, they have decided to spend a fair amount of resources researching first before developing such a strategy.
2. At the present time their private sector assistance programs basically concentrate in providing loan guarantees and technical assistance (TA). The UNDP currently provides a US\$2.0 mn guarantee fund through the BTM in rural credit and complements this with its TA projects (a revolving TA fund). Last year they were supposed to have begun a US\$3.5

mn micro and small industrial enterprise (SMSE) lending program, also operating through commercial banks, providing loans ranging between US\$500-US\$5,000 per enterprise. But this program never got off the ground, for a variety of technical and administrative reasons. The UNDP felt in particular that it would be necessary to first explore the types of alternative forms of lending available in the country. In this regard the UNDP is investigating the idea of starting group lending programs for the micro and small entrepreneurs, using "solidarity groups" lending models used with some success in Asia and Latin America. (Note: Kenya and other African countries have also used this model with some degree of success. In Kenya, the Council for International Development is designing such a program in Western region; in South Africa, the Get Ahead Foundation uses this structure for lending to informal microentrepreneurs with very good results. But such programs rely on some pre-existing notion of the group lending concept, such as the tontines in West Africa or the stokvels in South Africa, which do not seem to exist in Madagascar. Sauvage acknowledges that they would indeed be starting from scratch and that this may present some difficulties for any such programs).

One thing they have learned over the past year is that the credit lines for the medium scale enterprises (from APEX) is severely underutilized. Sauvage also noted that the same enterprises tend to receive several credit lines and in some instances these lines are being used by foreign using Malagasy as fronts.

3. While BTM, as all banks, have severe problems, and are ineffective extending credit to SMSEs, some branches seem to be working better than others in this respect. Sauvage pointed out the case of the BTM branch in Diego which has 40 percent of the total BTM portfolio for small and small enterprises and has very good repayment rates. It is not clear however who exactly is obtaining the loans. Generally it is difficult for a Malagasy to obtain a loan from a bank. The banks prefer to lend to Indians and Chinese.
4. UNDP is planning to start a US\$5.0 mn (to replace the US\$3.5 mn that was never implemented last year) loan guarantee fund for SMSEs, with the accent on medium sized firms. Sauvage hopes that this guarantee fund, which will be channeled through the commercial banks, will help to assure the Malagasy SMSE a greater share of the credit. Their goal is to assist 1000 entrepreneurs in 2 years. The problem is that such lending requires also a significant amount of TA to help prepare the entrepreneur to ask for a loan and then follow him/her up. Thus it can become a very expensive proposition for the banks. To work, banks must either be assured a large enough spread, in which case the credit may become very expensive, and/or provide some sort of separate and probably subsidized TA facility to help and work with entrepreneurs applying for and using the credit. The former is usually not acceptable, not necessarily because the entrepreneur cannot pay it (since often times, they are

paying substantially higher rates to middlemen or suppliers) but because it may not be politically acceptable. The latter is often not sustainable over the long run. Thus they must still work out the details of this TA component (Note: USAID has fairly extensive experience setting up these guarantee and TA funds in other countries . Sauvage would be willing and eager to collaborate with USAID and other donors in the design of this program. Perhaps one option for USAID in the future would be to support a TA fund that would help insure entrepreneurs access to expertise, assisting in the preparation of business plans, plant and equipment design, etc.).

Maurice D'Avignon, of the ILO has been working on a much smaller scale enterprise lending program, which is supposed to have been quite successful. The program is very intensive in that it first works to identify potential entrepreneurs, by having them fill out a form which helps them articulate clearly their proposals and ideas, as well as estimate their own credit needs. The Team will go visit D'Avignon.

5. Sauvage noted that over the last 5 years the local and county administrations have been totally abandoned by the central government. There is no or very limited transport, communications with the center of the country. Therefore a donor has to perforce adopt a regional and decentralized approach.
6. Many problems remain with the investment code (IC). The main one, from the point of view of the French investors, is that foreigners cannot own land. There is also the lack of transparency in the system. An entrepreneur does not know how much it will cost to present a dossier to the GDRM and/or to a bank; they do not know when they can expect approval or in the case of banks, the interest rate which they can expect to pay. Apparently, obtaining GDRM approval for an investment or a bank loan depends more on the cabinet which helps to prepare the dossier for the entrepreneur. Things go much better if they work with certain key firms that are better connected with the GDRM.

Sauvage, as others have noted, stated that under the present nebulous system of investment and loan approval, people are generally afraid to present dossiers lest their ideas be stolen. Apparently in several instances an entrepreneur's project will be held up indefinitely in a GDRM office, while a bit later a very similar project presented by someone better connected will get approved. The HRDA dialogue sessions also pointed to this problem and suggested that the entrepreneur be given some sort of a receipt for the dossier, describing the type of project proposal submitted.

7. The French investment Mission which visited the country recently was primarily interested in housing and industry. Recently 4 French industrialists obtained an agreement for investment in textiles from the Ministry of Planning.

8. The PME (Petite et Moyenne Entreprise) Council in the Ministry of Planning is basically defunct. It is supposed to coordinate the APEX credit lines, but has not done much. Nevertheless the UNDP is still willing to consider anchoring and implementing their entire private sector portfolio through this ministry because they see little alternative (Note: the UNDP is used to working primarily if not exclusively government institutions, but placing implementation of a private sector development program in the hands of public officials may not be the most prudent approach. One of the purposes of the MAPS process is to identify and work with alternative private sector implementing agents. The Mission may want to coordinate and work closely with the UNDP project design team over the next few months to help them at least be aware that there may be alternative implementing agents for channeling private sector assistance).
9. The UNDP too is trying to determine where private sector assistance fits within their overall portfolio. They hope that this will be clarified after their census of industry and other activities and infrastructure currently being carried out by a Tunisian firm will yield some of these answers, and in fact will provide a blueprint for assistance in all areas of the country that will help inform the strategy for other donors.
10. It will also be important to consider the legal and judicial system.

VIII. Olivier RAZAFINDRATANDRA
MAPS Team: Haslach
December 7, 1990

This man's chief interest is Lion's International, then his (former?) presidency of the Automobile Club of Madagascar, and office in the Madagascar-America society. He also owns the Imprimerie Volamahitsy, which was not included in the 1989 Rindra guide to Madagascar businesses.

He began by telling me that the changes in the USSR effected the basic change which forced GDRM to change, as well as IMF, WB requirements. He said that vanilla shipments continued to the USA because the East (socialist) countries could not pay (hard currency?) He pointed out that, for instance, North Korea would buy Madagascar coffee cheaply and then resell it at a better price, at sea, to hard currency buyers and cheat Madagascar out of potential earnings. North Korean workers and technicians came here to work but demanded payment in hard currency. And now we see South Korean vehicles entering the market through RSA, with Mauritius acting as the middleman in the trade. Madagascar's basic need is to know anything, the first think, about foreign markets. In the past, all information went to the Minister of Commerce and then stopped there. The Export Guichet at the Ministry of External Commerce was noted but he knew nothing about it.

PROCOOPS, he offered, is owned by the President and family: they are well informed. Lions from Mauritius and Reunion, wishing to do business here, were steered to PROCOOPS, he said he knew. There is also a PROCOOPS International, located in Paris. HIDROMA, which markets parts for automobiles, is a PROCOOPS subsidiary.

In fact what is happening is that the "nomenclatura Malgache" is placing family members at the head of firms. St George of the Ministry of Commerce is of Indian descent and favors Indians, he averred. He repeated statistics from recent newspaper article that 0.9% of Madagascar's economic operators are Indian but control 45% of the turnover. The West side of Madagascar is Indian territory (agricultural) while the East side is Chinese. The Chinese and Indians lend cash to small holders to plant and harvest, and then pay their debtors 200-300FMG for produce worth 800 FMG per unit. "They are evil people," he said. And they pay the peasants in stacks of 500 FMG notes, which they can't actually count. This happens in cloves, vanilla, coffee, etc.

As to informal sources of business information, respondent said that the mosques are where the deals are done. And the money they make they keep at home rather than in the bank. Indians have access to credit as they pay the banker, himself, a premium. They also finance the government's election campaigns.

CONECS president is a nephew of respondent on his wife's side. As to what to do for the start-up Malagasy entrepreneur, respondent noted that "they" are starting a support fund to help. He would advise them to go into precious stones and mechanics. But money is still a real problem. There are only five rich families. The President seized vanilla, cloves, coffee, etc. The Celeste Hotel was seized by the President and his wife. The President prefers all other people (Indians included) over the plateau people. That is because he has kinky hair and hates the straight hair people, respondent said, stroking his smooth hair. He supports the Indians in order to stick it to the plateau people. The trouble is that, even though he put coastal people in at the top of everything, they have to be supported by more clever plateau people and resentment is thus unending.

As to what his response is to the problem, respondent noted that Lions has 17 clubs around the island. He travels to them all and recommends they open their membership to coastal people, to bring them up and get them introduced into this larger world. Lions holds congresses in Antananarivo where there is an interesting exchange of information.

When asked to characterize newspapers:

Journal de Madagascar: pro-government and financed by government

Tribune: independent but critical of government

Midi: half and half with reserved criticism

Suggested as additional source: Le Crois de Madagascar, Jeu l'Echo.

IX. Gerard RAJAONARY (Negoce-Representation), Nicolas E. DELMOTTE (Directeur Financier Groupe Hiridjee Ykbal) Ykbal Hiridjee (Chairman Ets Rheman)
MAPS Team: Haslach, Seifert
12/7/90

GROUPE Hiridjee Ykbal
Ets Rheman
Malagasy Shipping Line
Enduma
Michelin rep
Trimeta
Fitim
Vymar
Alphatek
Tradifi-France
Africa-Singapore Trading & Shipping Pte Ltd

Rheman started 50 years ago as an industrial firm. No sign of any Rheman on the premises now. Firm works with Europe, SE Asia and RSA. It has a credit line request with Chase. Seifert passed time with Chase friends she met at Hilton upon arrival: contact with Rheman from them. Firm exports coffee, cloves, nutmeg, pepper, semi-precious stones, but no vanilla.

Also provides oil, cement, construction iron and steel, has a plastic bag factory, jute bag factory, textile cotton, thread and greige goods, looking at former Holiday Inn, now State owned hotel, at Nosy Be: renovate and sign management contract. Company learned about this opportunity through contacts as there has been no public offer or tender from GDRM.

This firm does not have adequate contacts with or knowledge of distributors in foreign markets. Communication (technical aspects) is a real constraint. Told that GDRM is working on a plan to restructure telecom, the first step being the creation of an autonomous PTT by moving present PTT functions outside of the political ministry, and the second being the sale of part of the GDRM's shares in that PTT.

On privatization, was told that the official story is that a separate privatization entity is in place and reports directly to the Prime Minister. The actual situation is that each Ministry is taking its own steps, for its own reasons, under its own criteria to privatize "its" company outside the official structure. Ykbal Hiridjee (Chairman) stated that typically he sees the State retaining a 45% share in a "privatized" company, while the remaining 55% will be distributed among many private parties. He said that the requirement to put up 30% in cash for a project, in order to get financing, has meant that he has no projects. The short term issue is lack of foreign exchange, while in the long term there is/will be credit.

X. RAJABALI Azad, investor, owner of BATA S.S.
MAPS Team: Haslach, Seifert
12/7/90

[biographical note: Rajabali is the son of a first cousin of Azad Hassam Ismail

Rajabali began by explaining that his family has been in Madagascar for two generations, that he is a Malagasy national and believes in the country. It is not Africa, it is not Asia: it is 1) both, 2) large, 3) an island, and 4) has great potential in agriculture and minerals. But it has a per capita monthly income of 150FF. The opening with South African is positive, he thought, but RSA's internal political problems are worrying. The key to RSA is that it is a source of technology and a market for Malagasy agricultural products. Many RSA companies are coming but France will play a large role, as the French have forgotten about the nationalizations.

One speaks of democracy, Rajabali continued, but discipline is necessary; disorganization is the greater danger. Structure is needed, especially for industrial development. For textile, the capital requirement is high. Rajabali wishes the Madagascar Government to build factories and lease them to investors, and he has said this to the government. He points to the Mauritius example. Credit costs him 17-18% to build. He believes Madagascar should provide a 6-7 year buffer to allow local industry to emerge. His group is already doing textile export business with the United States. he expects to ship \$2 million worth of flannel work shirts to FORTEX in Los Angeles in 1991. He made the contact through Mauritius friends.

Rajabali's total group of companies numbers ten at present, and he has plans to expand to other sectors.

Construction: at present the major deals are done by Hong Kong, Singapore and Italian companies. He suggested to the GDRM that it provide advantages to builders, especially the Malagasy bourgeoisie, to encourage them to invest and to build. He stated there are 5 million Indians here and suggested they get the right to a 50 year lease on land.

Investment. He wants the Guichet Unique ... "you wouldn't believe how corrupt this government is." An organization must guide investments, an organization like the MEDIA in Mauritius. Local people need advise, they have no experience in working with a dossier, and they typically are not risk takers.

When pressed for key investment sectors. he stated: tourism. It turned out that tourism was on his mind as he expects to get land cleared on Sainte Marie (east coast island) "for free" in order to start construction of 80 two story deluxe beach bungalows in order to siphon off some of Mauritius' luxury tourism by 1) South Africans, and 2) Europeans. He already owns the Hotel de France in which the MAPS team resides.

Rajabali then showed us a map of Madagascar which had been covered. It looked like a hedgehog, covered with little flags marking operations of his group of companies, uniformly distributed over the island. he then waxed poetical and emotional about the West of the country, comparing it to the US West. He was in coffee 20 years ago but got out of it. He believes spare parts offer an opportunity.

Madagascar has ten perhaps fifteen big companies and 1,000 SME-I. On the privatization Rajabali was not very encouraging. If you buy a State company, what do you get? A terrible structure and people who can't do anything. He would rather start his own, green field. And South Africa is coming, while there is no sign of the Malagasy doing anything. The credit policy should be oriented to construction and industry. But there is no financial structure here to make a local success possible. He has plans to expand. But when he presented his case for a \$6 million loan, all he got was \$1 million, an insult. Luckily, he does yoga regularly and remains serene, he said. The banks have been extremely stupid. They made loans for consumer goods through stupidity more than anything else: they are not real bankers.

BATA - he explained that he bought out BATA with Canadian money with the government's permission. In the context of the whole conversation, this cash appears to be connected with family who fled to Canada after the last anti-Indian pogrom.

Rajabali took us outside to view the vast expansion now under way: an enormous building, a la warehouse construction: concrete block support walls (blocks made on site with a dinky little cement mixer and, apparently, a lot of hand labor), which bear laminated wood beams and rafters imported from France. All construction is in house: architecture, engineering, all. He has ten French engineers in house [one was kept waiting in the anteroom]. This building will be the country's first mega-supermarket, with asphalt parking for 500 cars. A South African retailer (in partnership with Rajabali) will get the old BATA soccerball building for a store. The mega-supermarket appears to be modeled on the Swiss and French model. Interesting to know whether market dynamics, shopping patterns, etc will permit this to work. At least his land costs nothing. He said he bought out BATA as much for the land as anything.

Rajabali was very pleased with the impression he made on us and graciously agreed to help in any way possible. He plays golf, hunts, and deepsea fishing, as well as Yoga. He has a cousin in Atlanta who owns a hotel ... "perhaps the Maryland, or something like that."

XI. Mr Pierce Ren, Far East Group
MAPS Team: San Martin
12/7/90

1. I was able to speak to the Far East Group representative through an interpreter at the reception which took place in John Davison's house. The Far East Group take credit for the creation of the concept of export free zones (EPZs) in Madagascar. They believe that it was their lobbying which convinced the GDRM to pass the law. They have also been able to convince the GDRM to keep the EPZ 100 percent privately owned, though they hinted that they have had to give certain officials "cuts" of the action in order to make the whole thing fly. They are so convinced of their good relationship with the GDRM that they are guaranteeing all

EPZ investors and all companies which establish in their EPZs all their capital, and the ability to repatriate all their dividends without any problem.

2. The inauguration of the EPZ is somewhat behind schedule because the GDRM has been running behind in their commitment to lay the physical infrastructure for the EPZ. It was not clear who, the FEG or the GDRM, was responsible for all the physical plant and equipment. I've been told through other sources that the FEG expected the GDRM to undertake all physical infrastructure work, though the FEG rep gave me to understand that the FEG would be putting up the buildings, though the GDRM would lay the water, electricity and other basic infrastructure.
3. The FEG is not interested in managing the operation once they have gotten off the ground. They are currently undertaking discussions with diverse groups of Japanese, Taiwanese and European investors who might be interested in taking the EPZ management operations next year. He did not mention any specific names.
4. They have not had problems selling EPZ space. In fact they have well over 20 companies signed up and ready to start operations. The FEG representative said it has been difficult and risky to undertake this operation in Madagascar but now feels confident this will be very successful and they will be able to make a good profit in a fairly short period of time. The major problem has been overcoming construction delays.
5. It would be interesting to see what the actual locale looks like. John Davison was going to visit the site in some weeks. Forbes should follow this up and get Davison's impressions.

XII. Francois Peyredieu du Charlat, Directeur de l'Agence de Madagascar Caisse Centrale de Cooperation Economique (CCCE)
MAPS Team: Seifert
12/7/90

1. History: The Caisse was started in 1941 by the General de Gaulle. In 1958, the French colonies were granted independence and in 1968 the French created the Ministere de Cooperation, which makes subsidized loans and oversees the CCCE, which makes normal loans. In June 1990, Madagascar's loans were forgiven. The CCCE will probably make only grants to the government in 1991, while the private sector portfolio will be loans. On the government side, the CCCE works largely with the World Bank and the IMF on SAL/balance of payment loans/grants. It expects to disburse FF500-1000 million of BOP grants in 1991. The Caisse does not have any conditionality for these grants; it disburses immediately after signing in one tranche.

2. Private Sector: Until 1984-85, the Caisse did very little in the private sector (about FF 60 million); in the past four years, they have done about FF 4 billion. They started doing projects

in 1987-88. In 1990, of the FF 1 billion in aid, 50% went to SAL and 50% to projects, most of which were in the public sector. In 1991, the public projects will include the airports, telecommunications, roads, and agriculture. There are two facilities through which the Caisse works with the private sector:

a. FARLT (Facilite de Refinancement a Longue Terme): This facility is through the BC at 1/2% for 40 years including 10 years grace. The BC lends to the four commercial banks at 9% in FGM for periods of 5-20 years with 2-10 grace. The difference between the 1/2% paid by the BC and the 9% received from the commercial banks

XIII. M. Hery....., independent contractor
MAPS Team: Haslach
12/7/90

Hery was suggested to H by GSO Mark Willis, who has used his services for various Embassy construction projects. Object of the meeting was to learn how a small construction enterprise functions now within the local economy.

Hery was quite cooperative, helpful and willing to escort H on a tour of building sites, brick manufactures and other enterprises significant to this issue.

Hery has a sole proprietorship in which he provides all leadership functions: planning, operations, control over workers and subcontractors. He is also 50% shareholder in a painting company, with which he subcontracts all these requirements.

Wages: the government's SMIG (sp?), the statutory minimum wage is still too high for his business. He works preferably with tacherons or subcontractors. Tacherons are given the scope of work required, such as all plumbing, painting, electricity, etc, the amount Hery will pay, and are left to accomplish the work and provide their own profit margin. Hery stated that monthly wages do not provide any incentive to Malagasy workers. There is a saying here that one day is as good as thirty, to describe attitude toward work and responsibility.

Jobs: Hery builds housing or factories of up to three stories; higher than this the job becomes too expensive as it requires more capital (for materials largely) than Hery can provide.

Materials: local artisan-made brick (11x22x11 cm) is the preferred material. These are made "by anybody and everybody" in their yard with clay they own or have access to, and a wood fired "fouron". Hery pays 55 FMG per brick at the brick yard. He uses "just-in-time" system for brick, ordering a precise number to be ready from an artisan he knows on a precise date. He has to warehouse brick only in the rainy season, otherwise, supply on the plateau is not a constraint. Brick is not usually available in any region where there are no railroad tracks and one uses other materials in those regions. Hery believed there is a demand

for brick where it is not presently available at a reasonable price. Hauling bricks by truck is not common. Wood doors and window sashes are typically made by a specialist on order. As specialists are to be found only in factories, where they are regularly employed, Hery will ask a preferred specialist to take five to seven days "conge" to fill the order(s). This does not create a constraint on his work.

Float glass for windows is a key constraint. While there is a bottle factory here, there is no locally made float glass, which is imported from France and Germany. He pays for 10mm thick glass (the preferred thickness) 60,000 FMG per sq meter. Hery would like to have cheaper, local supply.

Pipes for plumbing come from PRC and France. PRC is clearly the cheaper source, but every unit supplied comes with defects, often major flaws. French pipe is expensive but reliable. Electric wire and cable comes from PRC.

There is one light bulb plant here, but product is below standard and all light fixtures and bulbs effectively must be imported.

Land: At a distance of ten to thirty kms from center of Antananarivo, land is available at one million FMG per sq me, which is a good deal. You can expect to pay 65-70 million per sq me in town, with Ivandry topping the list.

Getting a piece of land is not hard for a Malagasy, especially through family connections. Hery has several houses (2?3?) which he has built in order that his children will have financial insurance for the future. Hery does not carry any personal/life insurance: too expensive and ties him to the bank/insurance people, whom he has learned not to trust with anything he values.

How he gets paid: For a private deal (which appears to be off-books, if at all possible), Hery demands and receives a 30% cash deposit, with which he buys materials. He does not (like) to work for any official body, as they refuse to provide up-front money. They do provide the builder with a "Certificate administratif", which he is supposed to take to the bank for his money. The bank (all of them?) require 27% coverage and then charged 22% interest for a maximum two-year loan. As the State does not pay on time, Hery has to service his loan until he gets cash. When he has completed the job, he invoices the commissioning official body for services. That body submits the invoice to comptroller, who submits it to MinFin, who submits it to the Treasury, who submits it to the Central Bank, which then tells everyone down the chain that there is a temporary cash shortage for the next six to twelve months. Meanwhile, Hery is servicing his bank loan.

Preferred deal is with a foreign entity, preferably a government and preferably for a villa, for a combination of white and black money. The black part is part in hard currency into an account he keeps out of the country. He mentioned this casually, giving me the impression that it is not uncommon.

Housing by class: SEIMad builds projects for "le petit moyen". These are bidonville projects, one room houses of wood of ten sq

me, costing 10-20,000FMG per plot, and the house 20-50,000FMG. [From another source learned SEIMad also built the high-rise apartment blocks near the Hilton, and is the contractor for a new housing project in Nosy-Be arranged by Azis Hassam Ismail, Cotona/PNB]. When I asked what he built for the middle class, between the bidonville and the embassy villas, he said: nothing. There is no middle class contracting for houses. There used to be.

On foreign clients, he said there are only two sorts: those from the East (mostly socialist countries, he said) and those from the West. The West pays as agreed and on time but works him very hard on time and quality. Those from the East do not pay as well and ruin the house (this appeared to be a rental issue). Easterners rip the walls apart looking for bugs, especially Aeroflot pilots. They use metal detectors or some kind of scanning device and rip the plaster off the wall when they hit an iron supporting rod. The same for all light fixtures.

XIV. Aziz Hassam Ismail, President Directeur General, Les Pecheries de Nossi-Be.

MAPS Team: San Martin, Haslach, Grossman
12/8/90

1. M. Ismail's family has lived in Madagascar for over 100 years and started the largest and what was at one time the most efficient cotton mill operation in the island (COTONAT). COTONAT is now owned again entirely by his family, and is run by his cousin.
2. The story of COTONAT is in effect the story of the Malagasy, and illustrates many of the interesting aspects about the business community in this country. COTONAT was originally owned by a French company which had been awarded the plant and equipment by the colonial government in Madagascar in compensation for some losses of plant and equipment they had in Indochina in 1957. It was never seen by the French as anything more than a transitory investment. M. Ismail's family, originally textile traders, were interested in integrating into the production side, but under the colonial rule were not allowed. When independence was awarded they seized their opportunity and bought out the French company in 1961. They know their local market, the type of weave the consumers preferred and figured if they could mount an efficient operation they would have no problem beating the imported competition (their goal was to get 50 percent of the market for textiles). They realized the machines they inherited were too primitive to produce efficiently and be able to sell at a low enough price. Thus they embarked in a 10 year project of plant and equipment modernization, buying 1000 looms and all the finishing equipment. They also decided they would produce only a limited range of products, so they could specialize their operations. They trained their own workers in the use of these modern looms. They were also the first firm in the country to install computers to help program the maintenance schedules for the looms and insure they would keep producing to capacity

throughout the 3 shifts per day. The firm also understood that since many of their workers were literally just out of the countryside, it was important to provide them with a "user-friendly" environment, where they would work comfortably. Thus they invested money for researching and developing color scheme for the walls and ceilings which would create a feeling of restfulness and familiarity among the work force; the plant also had air conditioning, to prevent foreign substances from getting in the cotton fibers during processing. For 10 years the family reinvested all the dividends in the company.

They brought down the price of the cloth they sold down 50 percent (when one takes into account inflation) over the 10 years. They got over 50 percent of the market.

In 1976, the GDRM announced to Ismail that they were to be nationalized. But the GDRM also told them not to fear because they would receive just compensation. The GDRM's first offer was for 1 percent of the real value of the company. Thus began a 3 year process of negotiations. During this time some of the workers in the factory began to agitate for worker management. By 1978 this came to a head, and at the point when the workers were discussing how to take over the operation, a high French government official intervened on Ismail's behalf (Claude Chesson). In 1979 the owners came to an agreement with the GDRM: the government would receive 51 percent of the shares, the Ismail's keep the management, and the GDRM would pay for their 51 percent of the shares from the dividends earned by the Ismail operation. The Ismail would also receive an additional fee from the government in payment for their management services. In 1989 the family was asked by the GDRM to buy back their 51 percent, at market value. Thus COTONAT was never really nationalized, and business continued pretty much as usual.

3. COTONAT is the largest cotton grower. It feels that it can be a major supplier to the EPZs. They realize that what they know best is the local market, but the local market has collapsed with the rapid deterioration of consumer purchasing power and the barrage of illegal imports. Aziz is a bit bitter about the liberalization process and feels it is important to tell donors that the program is moving too fast, because it is destroying the local industry. Textiles are being imported illegally as tires (which pay no duty). Consequently it appears as if the country has a 3 year stock of tires. In reality many of these declared tires are actually textiles (which pay much higher import duties). When we mentioned that it seemed that what was wrong was not so much the liberalization program itself but the way it was being implemented, he agreed.
4. The shrimp business M. Aziz runs was started in 1973. They actually took over a government operation which was not doing very well. The family had not been looking to enter the export market, but they were interested in diversifying their portfolio of activities. Unfortunately, just after

they took over, the oil embargo started, the price of oil doubled and the shrimp market collapsed (the Japanese for some reason decided to stop buying. In addition the GDRM imposed very high taxes on shrimp exports. But in 1980, after losing millions, help arrived in the form of the IFC, which along with the European Investment Bank and la Caisse became partners in their operation, injecting new and needed capital. Since 1983 the business has been doing very well. They have 16 trawlers and 3 more freezer trawlers are on the way from Europe.

5. The problems they now face are competition from shrimp farming operations, who are able to deliver a much cheaper product. It used to be that the quality (and thus the price) differential between shrimp fishing and those farmed was high enough so that the farming operations presented little competition, but this has now changed, and the price differential is too small. In addition, the waters around Madagascar are being grossly overfished, reducing the production for all three operations currently licensed. The only way to redress this situation is by decreasing the units allocated to each operation, but instead, due perhaps to political payback, a new company a small coastal Malagasy operation, has been allowed to enter the market and been allowed to increase their operations. Thus they are planning to move as quickly as possible into shrimp farming.
6. According to Aziz Madagascar has some of the best sites for aquaculture in the world, in terms of the quality of the soil, the salinity of the water, the temperature. The problem is that these sites are located in terribly underdeveloped areas. He showed us pictures, and these sites, in the northwest, are literally in the middle of nowhere, miles from port facilities, roads. Thus they are thinking of using their fleet of trawlers to move personnel, inputs and product in and out. They have approached the European Investment Fund with a project to start operations in 100 ha. farm.
7. Another project they are starting is a housing project for their workers in Nossi-be. Apparently the growth of the tourist industry there has meant that many of the rental property has skyrocketed, leaving their personnel without reasonable housing options. They will start to build 30 houses close to the city center, at a cost of FMG 27 mn per 122 m² house. These will be brick houses, but because there are no bricks in the area (they are all wood), they want to attract investors from Tana to set up such a factory (cement would cost 30 percent more than brick). The builder will be SEIMAD (a GDRM-owned company which has built a housing and building complex behind the Hilton) with concessional loan from the French government (a 5 percent loan for 20 years from la Caisse will finance the operation). The workers will be able to buy the houses with a 25 percent downpayment, which the company will be willing to front them without interest charges, and get payment in monthly

installments. The houses will all be finished in 18 months. The manager of SEIMAD is Theodore Raveloarison.

8. Another challenge they are facing is attracting qualified personnel to the rural areas to work in their plantations and the shrimp operations. It is difficult to recruit locally. The average level of education in the cast for example is very low.
9. As a final note, it was interesting to hear that while he said his family has lived in the country for over 100 years, they are now having a problem transferring his father's house to him. He is a foreigner and foreigners cannot own land. Thus he has lived here and worked here the greater part of his life, but is still considered officially an outsider.

XV. Paul Razafindrakoto, Directeur General Adjoint
Georges Rakotoarisoa, Directeur du Credit Adjoint
Banky Fampandrosoana Ny Varotra (National Bank of Commerce)
- BFV
MAPS Team: Seifert
12/9/90

1. State of the Banking Sector: The opening of the banking sector to private banks (i.e., BMOI) has already been positive for the Malgache banking sector in that BMOI is a "dynamic" bank which has introduced new products to the market. BFV was created in 1977 from two former French affiliates of what is now Citibank and Banque Indo-Suez. BFV has been negotiating a 25% increase in its capital since 1988. It originally had agreement with Banque Vernes et Commercial de Paris, which was purchased by the Italian bank Instituto Sao Paulo e Torino (ISPT) during the course of the negotiations. ISPT head office has agreed to infuse the new capital and is awaiting the approval of the Central Bank of Italy, which is expected in early 1990.

2. State of BFV: The new capital is expected to be used to make new loans, if the bank can get approval of the Central Bank to increase its credit ceiling. Its current portfolio is 35-40% to industrial credits; 30-35% to commercial credits and the balance to agriculture or social projects. Of its FMG 152 billion portfolio, about FMG 40 billion or 25% is medium term. There is essentially no long term credit.

The BFV had always taken provisions for bad debts and has been profitable every year. In 1987-88 when the government started focusing on the problems of the banking sector, BFV increased its rate of provisioning. In 1989 they were told to provision for all C and D credits, the lowest of the Central Bank's four credit ratings. The bank would have been able to cover 75% of the required provision from cash flow and still show a profit. The Central Bank lent the BFV more than the 25% difference needed to cover the provision so that it would show a profit. BFV is repaying the Central Bank out of its recoveries, about 20% of the loan last year. BFV is expecting more portfolio problems this year as there has been a huge increase in inventory in the

country in general. Companies are having trouble selling their stock and liquidating their loans. It is expected that there will be new bankruptcies as a result of this situation.

3. State of the Financial Market: The Central Bank sets credit ceilings once a quarter. However, it generally sets them mid-quarter, e.g., at the end of February for the first quarter. This has several effects on business: The bank is never sure whether it has enough room under its ceiling to lend to a given borrower, and often finds it easier to simply say "no". The bank is obligated to keep its loans short term so that it can call the loan or not roll over in order to get back within the ceiling the next month. If it does not, the penalty is a 50% reserve on the overage the first month and a 100% reserve on the overage the following months. These reserves at the Central Bank are non-interest bearing. The banks are loathe to take on new clients in a situation like this so that start-up money is hard to come by. Additionally, the banks may not live up to their undrawn obligations when they are trying to get back within the ceilings. A line of credit is an off-balance sheet obligation until the borrower draws under the line and takes out a loan, at which time it becomes an on-balance sheet item and falls under the credit ceiling. A letter of credit is also an off-balance sheet item until the exporter draws under it. The difference is that the line is an obligation of the bank to the borrower; the letter of credit is an obligation of the bank to an off-shore bank. If the local bank does not honor its obligations to the off-shore bank, the implications for the country's - or at least the bank's - ability to engage in international trade could be serious as the off-shore bank might not accept the local bank's letters of credit any more.

There exists a primary market for six- and twelve-month Treasury bills, but, by regulation, there is no secondary market. However, even if there were a secondary market, it is unlikely that there would be buyers as the Central Bank is not always able to sell its FMG 1 billion of bills that it bring to market every month, even by taking the interest rates well over market, e.g., to 15% when the Central Bank discount rate is 12-13%. The reason for this apparent lack of interest is that there is still an inherent distrust of the government. People would rather buy corporate securities (which explains the oversubscription of some stock issues) than government securities. The government's program of liberalization has not necessarily engaged the population. The bankers estimated that 60% of the money supply goes through the banking system; the other 40% stays at home or is in the form of barter. They had even heard stories of a person who kept at home FMG 3 million in cash and took it out periodically to dry so that it would not mildew.

4. Co-operatives: The bankers thought that, in principle, Societes de Cautionnement Mutuel (SCM) should work and be bankable credits. There is, indeed, a draft legislation being circulated. The problems with co-operatives historically has not only been the fact that the Malgaches are very individualistic, but also the fact that the co-ops have been associated with the government and not felt to come from the people themselves. The Malgaches worked in a co-operative-like manner historically

before French colonization, but are now a people trying to find themselves. It remains to be seen, therefore, whether SCM will be successful in Madagascar.

5. APEX Line: There has been a lot of talk over the past six months about this long term credit line to be available to the banks, but it has not yet been put in place. It is still unclear how to use the line, whether it will be made available directly from the donors (CCCE and the IBRD) or through the Central Bank, and what the conditions are for the borrowers. The BFV believes that it as a bank meets the criteria for borrowing as it has had an unqualified audit by an internationally recognized accounting firm.

6. Investment Issues: The most serious problem for a potential investor is that it is difficult to determine the exact status of a company due to accounting standards. Another issue is the size of the market: Because discretionary income is so low, there are 12 million people but only 2 million potential clients. On the positive side, the bankers feel that the judicial system is relatively neutral. They have not had problems in collecting loans or being dealt with fairly by the courts and do not believe that an investor, foreign or local, would have a problem in being dealt with fairly.

XVI. Gaston Ramenason, President Banque Malgache de l'Ocean Indien (BMOI)
MAPS Team: Seifert, Forbes, Grossman
12/10/90

1. History of the Bank: Mr. Ramenason was the Director General of the old BNP affiliate, which became BNI, when the Malgache government nationalized all the banks in 1975. He stayed in Madagascar for 20 years as an engineering consultant. During 1985-88, the World Bank and the GDRM negotiated the restructuring of the bankrupt banking system, and it was decided to privatize BNI or create a new private sector bank. BNP Paris was asked to take over BNI. They declined but agreed to open a new affiliate, which became BMOI. They opened temporary offices in September, 1989 in Tana, opened an office in Tamatave in June and are now opening one in Diego. The BNP name is well known in Madagascar (before nationalization, the BNP affiliate had 60-70% market share), and the BMOI has successfully marketed its international network. As a result, in less than one year BMOI has captured 10% of the total market and 20% of the import/export market.
2. Personnel: Mr. Ramenason is the only BNP cadre in the bank. There are two experienced Malgache bankers, the head of the accounting department and the head of computer services, but the bulk of the employees are young university graduates. For 80% of them, this is their first job. Mr. Ramenason finds that he can train people better when they have not worked before. The basic training lasts 2-3 months. He has 150 people with 2 in Paris and 3 in Reunion.

3. Portfolio: The loan portfolio is 80% short term (less than one year) and the deposits are 80% short term. There are medium term rediscount facilities through CCCE and World Bank lines. The FRLT (Fonds de Refinancement a Longue Term) Line from the CCCE lends FF to the BC which in turn lends FMG to the banks at 10% for normal credits and 9% for preferential credits for 15 years including 5 years grace. While the FRLT line does not refinance real estate loans, the APEX line (from the World Bank) does. The terms are 7 years including 2 years grace. The CCCE also has a FF line available for foreign exchange-generating companies.

The bank started its operations by using the Centrale des Risques at the Central Bank, which is the credit rating system set up during the restructuring of the banking system to classify the risk of companies in one of four categories, A through D. BMOI simply marketed the best companies. This system may be abolished once the banking system is healthy again. Mr. Ramenason said that for some 20 years there has been a system akin to a generally accepted accounting standards board under the Ministry of Finance. Therefore, there should be no problem following a company's finances.

BMOI is marketing new credit schemes to gather savings deposits and offer credit for housing, retirement, new business start-ups. Interest paid on savings is 5-14% and interest earned on loans is 12-19%. This compares with an inflation rate of 12%. In general, there is more credit available than demand, as there are not too many projects to fund. In terms of SME, the problem is always capital. For a mortgage, BMOI requires 30% down. It would not make a loan of FMG 500,000, but it would make a loan of FMG 5 million. The problem, again, is that even for small sums of FMG 1 million, people often do not have enough capital themselves to be credit-worthy.

4. Capital: The bank is 75% owned by a BNP affiliate and SFOM, a Swiss consortium bank. Of the 25% local capital, 10% is owned by 60 small Malgache shareholders and 15% by two large holders, ARO/FIARO and Charles Andriantsitohaina (the President of GEM). When BMOI went to raise the 10% from the public, it advertised in local papers. It wanted FMG 200 million and received offers of FMG 1000 million.
5. Investments: On the positive side, the country has a new investment code and a free trade zone. However, there are still problems that potential investors would need to worry about:
 - a. It is difficult to fire people (this is one of the reasons BNP Paris did not want to take over BNI) and the investment code does not address this issue.
 - b. It is difficult to transfer dividends, or at least it is believed it will be difficult to transfer, given the foreign exchange problem.

- c. Foreigners cannot buy land or buildings and it is difficult to get an exception.
 - d. The government bureaucracy is onerous, e.g., it takes 26 steps to invest in the country. The bureaucracy is so pervasive that people actually ask for authorizations they do not need because of an assumption that they must need an authorization for everything.
 - e. The cost of construction is high compared to alternative investments, according to some potential French investors who recently went to Madagascar. It costs FMG 500,000 or FF 1,500 per square meter to build in Madagascar compared to FF 700 in Morocco or Tunisia. Mr. Ramenason is not certain what the difference in cost is related to: Perhaps it is lack of competition or the high cost of imported raw materials.
6. General Economic: Before 1988, there was very little individual control over inventory, imports, spare parts, etc. because the economy was so tightly controlled. After 1988 when price controls were eliminated and import controls abolished, there was an excess of inventory purchased due to the merchants' overvaluation of the market. Since there had always been shortages in the past, people would purchase anything at almost any price. Once goods were available, and at better quality, people became more discerning and inventory built up. Mr. Ramenason feels that prices have come down and will continue to do so until the market adjusts itself. All in all, he feels that what has happened is a good thing, as it has allowed market forces to work.

XVII. Aime Ravelojaona, Directeur, Direction des Relations Exterieures et de la Tresorerie Bankin' Ny Industria - BNI (National Bank for Industrial Development)
 MAPS Team: Seifert
 12/11/90

1. Privatization: The management of BNI was in Paris negotiating the terms of Credit Lyonnais' purchase of the bank's stock. Credit Lyonnais' final share is under negotiation, but will be 51-55%. The two banks are also negotiating the terms of the management and personnel mergers. It is generally understood that this type of merger involves social pain. Other shareholders will include the IFC, other foreign shareholders, private Malgaches, and a minor participation by the GDRM. The deal is expected to be completed by the end of January.

The BNI has been provisioning for bad debt for three years. It has had two external audits, one by the French firm Deravilla and one by PNG, the Peat Marwick affiliate. The audits have included operations and management as well as the portfolio. Of its portfolio, BNI provisioned for 30% and has written off some 80-85% of that amount, all of which from cash flow. It has not needed to access the FF 80 million facility made available by the CCCE for the restructuring of the Malgache banking system. The bank's current portfolio is defined as less than two years, short

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term; less than five years, medium; and over five, long. About 20% of the portfolio is long.

While the bank is more or less clean as regards its loan portfolio, it still has to clean up its equity portfolio. Under the new banking law of 1988, no bank may have more than a 15% participation in any one company. The BNI has as much as 90% of some companies. These participations will probably be sold off through a third party yet to be determined.

2. Central Bank Regulation: The Central Bank has a system of both credit ceilings, with an overall money supply ceiling and allocation of individual ceilings to each bank (which in effect allocates market share), and a system of obligatory reserves of 6%. This greatly restricts any bank's ability to manoeuvre in the market. The credit ceiling restricts deposits and forces the banks to rotate commitments among their clients.

3. Investment Issues: The biggest problems for investors are infrastructure and availability of financing. The free trade zone will be developed with \$910MM of investment in the industrial park over 10-15 years. A Hong Kong group is in charge of the development. American investors should look at the agribusiness sector in about one year. Of the potential investors that have already visited Tana, the Indians were largely traders, the Mauritians interested in textiles, the South Africans interested in a whole gamut of industries from mines to gun parts, and the French still investigating.

4. APEX Line: The joint World Bank and CCCE line was signed in mid-November. It was established in order to develop the private sector and only private sector banks can use it. As BNI will be private sector by the end of January and drawdowns can take place within three months, the bank is in the process of reviewing various proposals now so that it will be ready to use the line when it is a private bank.

XVIII. Bankin'ny Tantsaha Mpamokatra (BTM, the Agriculture Bank): Raymond Rakotomahandry, Directeur Operationnel, Robert Ranary-Rakotoarisoa, Directeur du Credit Rural, Clara Razakaboana, technician in Direction de Credit Rural, Solange Elfassy, Conseillere Technique Principale, Direction du Credit Rurale.
MAPS Team: San Martin, Haslach
12/12/90

1. The Team first met on 12/11 with the Directeur General of BTM. The DG gave some general information about the institution. The BTM had historically been forced to take equity in a wide variety of firms in the country. The RINDRA directory of firms shows it has substantial (up to 50 and 50 percent equity shares) in a wide variety of firms in the country (see also Annex D). Recently, it has been ordered by the GDRM to divest itself of all equity above 15 percent.

2. The BTM is the largest bank in terms of branches (74 -- the second largest bank has less than 25). But many of the branches are essentially non operational, or offering very limited services. According to the latest annual report (for 1989, which has not been published yet, but a copy of which was provided to the Team), the BTM had a total of FMG 133 bn in demand deposits and 100.7 in term deposits; this compares with 1988 where 103 bn were demand deposits and 55 bn were in term deposits. In terms of loans, FMG 203 bn of the total FMG 242 bn loans extended were under 2 years (revolving funds, working capital); FMG 28.5 were medium term credits and 10.3 were long-term credits (over 5 years). Production credit to farmers increased from 38 percent of the total portfolio in 1988 to 44 percent in 1989 (the rest is basically for commercialization). Most of the production credit (over 20 percent of all short-term credit, and over 50 percent of the long-term credit) went to cotton. According to the DG the BTM will be the only bank that is scheduled to remain entirely GDRM-owned.
3. Their main problem right now is the credit squeeze imposed by the IMF. There is also a problem with lack of information flowing between the Central Bank and the commercial banks, particularly regarding the ceilings to which they are subject. Apparently the BTM was heavily penalized for having exceeded the ceiling last month. But the BTM complained because the Central Bank had lowered the ceilings suddenly, and failed to communicate this change in a timely manner to BTM management, hence the heavy penalty. After the meeting was over, M. Ranary suggested that we reconvene the next day to discuss in greater detail the BTM's plan for improving rural credit extension and the role he hopes other donors will be able to play.
4. The Credit Agricole Dept. is newly created, and it has a centerpiece the PER (Petites Entreprises Rurales) program. These are defined as small scale enterprises (SSEs) located in rural areas (meaning zones outside the capital of the faritany), whose total invested capital does not exceed FMG 30 mn, and where the cost per job created, outside the cost of family labor, is between FMG 2.5 and 5.0 mn. For the purposes of the program, there are 3 types of PER are envisioned: a) agroprocessing (oil extraction, rice mills); b) plantations which need to improve their physical capital; c) plantations which are looking to expand. But their main emphasis will be on agroprocessing.
5. M. Ranary believes that BTM is in an excellent position to make a real contribution towards the growth of private enterprise in the ag sector. Their network of branches is the largest. But a program to support the PER cannot succeed without working to decentralize the BTM. The branches have basically no power to make lending decisions. Right now it takes BTM 3 months to respond to a clients credit request. But to decentralize effectively it will be necessary to build up the communication infrastructure between the branches. At this point the branches communicate with the central office by air courier. They

would like to be able to install a network of faxes to facilitate and expedite communications. He would also like to give the branch managers more discretion to extend loans. And put in place a team of promoters or rural credit extensionists to work with the managers identifying opportunities and drumming up business. The program he has in mind would also put in place a training program for bank officers in project lending. Finally, In order to make the new program of PER promotion work, he thinks they will also need to obtain the collaboration of donors to provide risk capital or a loan guarantee fund. Apparently they will be signing an agreement with UNDP, who will be providing such a fund; and the GDRM will be putting some risk capital as well. But the UNDP, according to M. Ranary, will not be providing training (at least not initially that he was aware) to bank officers.

6. M. Ranary would like to start establishing contact with USAID (he has by the way been taking English lessons at the Malagasy-American Cultural Center, and would like to have more contacts with Americans in general) to explore whether USAID would be in a position to contribute to this fund. As currently envisioned the donor credit would be lent for a term of 10 years at 5 percent, and the BTM would lend at 17 percent. The differential would be used to build up the risk capital fund, build up and train the field staff of credit extensionists and cover the higher transaction costs with accompany this type of lending operation (smaller loans to a greater number of clients).
7. While these projected changes are a start it is not apparent to us that it will work, as currently envisioned. We asked if he envisioned attempting to put in place a quota or (better) a bonus incentive system that would really motivate the branch managers to out and beat the bushes for business as it were. Right now they have no incentive, and there is little reason to believe that a de jure decentralization, and a more effective communication system by itself would do the trick. In addition, while guarantee funds may help to ameliorate part of the problem, the fundamental reason why they cannot extend more longer term credit is because they do not have a deposit base (almost 90 percent of which is demand deposits) that will allow them to do so. They must think of mechanisms to help the restructure this deposit base. And M. Ranary acknowledges that they seem to lack basic technical expertise in this area. The current system of credit ceilings makes them reluctant to take in longer term deposits (in the form of CDs for example, which the BMOI has begun to issue) since they feel they will then have no hope to issue new loans on the basis of these new deposits. But M. Ranary insists that savings is not the issue; the savings exist but the farmers and rural inhabitants do not trust banks (perhaps because they do not see how they can profit from keeping their money in the bank if the interest rates awarded are bad and they now have little hope of getting credit.

8. In sum, clearly M. Ranary is an energetic individual, and seems to genuinely care for the plight of the rural SSEs. He also sincerely believes the BTM is in the best position of any other financial institution in the country for extending credit effectively to this type of enterprises. He thinks the Americans can help him. But it is also clear that simply jumping in with the UNDP into a loan guarantee program without first working out the structural and personnel problems (and the political issues behind state control), would be imprudent.

XIX. M. Pierre Ponthus, President Universel Conseil, consultant to the UNDP; Jerome Sauvage, UNDP
MAPS Team: Haslach, San Martin, Grossman
12/12/90

1. M. Ponthus has been working with the UNDP to design their PME (petite et moyenne entreprise) program. In particular he has been assisting the UNDP design the special PME loan guarantee program they hope to establish starting next year. The idea would be to place donor funds at concessional interest rates in the commercial banks. The difference between the donor rates (a maximum of 5 percent for 20 years) and the lending rates, would help cover the higher risks and costs to banks involved in extending credit to these sorts of enterprises. Ponthus says that the loans to PMEs would be issued at subsidized rates. The UNDP wants all donors to contribute their own funds to this sort of loan guarantee program.
2. The UNDP does not envision one single central fund, but rather a series of special loan guarantee funds, managed separately by each donor. To avoid overlap, the UNDP is hoping that donors would specialize by geographic area (so that USAID funds would help guarantee PME loans in the northwest for example, while those of Canada are directed only at the northeast area, etc.). They would not want to see credit funds specialize by industry sector, because they believe this would unnecessarily restrict activities. Ponthus feels it is important to encourage any and all type of PME activities at this point, with the loan guarantee funds helping to grease the wheels.
3. We asked how the IMF-imposed credit controls would affect this type of program. Sauvage said that to his knowledge there has really been no real credit controls imposed, that in fact this is a political rumor fostered by the banks. But clearly they need to rethink their strategy given the transition and restructuring taking place in the finance sector.
4. We asked them if they were not concerned about the burden imposed on an already weak financial system by all these separate credit lines administered by different donors in different areas of the country. The idea of dedicated lines of credit is probably one that will unnecessarily complicate issues, since they usually require a lot of separate

paperwork for the banks. We asked if it was perhaps best if financial sector restructuring issues were first resolved, and then donors worked with the banks to increase their operating efficiency in a liberalized markets -- e.g. train bankers in project lending, in interest rate pricing etc. Ponthus felt the country could not afford to wait. That the idea of competing credit lines was one that might inject dynamism in the system (we are not so sure).

5. Another issue that concerned us was that of subsidizing the PME loans. The idea of providing PMEs with subsidized credit is probably not a very good one in the longer run; it would probably end up creating firms which would not be able to be financially viable in the longer run, and may end up depleting the funds.
6. Moreover, the mechanisms for selecting and helping firms apply for credit is not clearly articulated by the UNDP. While we feel it is important to think about means for getting assistance directly to the entrepreneurs, we feel it is also important, for the replicability and sustainability of the program, to think about how to make this program pay for itself, and what are the incentives for each of the actors. Under the current program, UNDP envisions subsidizing the credit and fronting the costs of selecting and working with the individual entrepreneurs. This is terribly expensive. Right now, in the Entrepreneurs a Madagascar program run by D'Avignon for the ILO, the cost of selecting an entrepreneur, working with him/her to prepare a business plan and a dossier for the bank, etc., is running to about US\$70,000 per firm. Ponthus believes that this is a tolerable expenditure, and that given the state of the private sector in Madagascar at this time, one must be willing to subsidize the costs of developing the private sector. While there is some validity to what he is saying, we would not agree with him entirely. We feel it would be a mistake to create an overly protected environment for the Malagasy entrepreneur. They have already been operating for far too long under protected conditions. They must be made to feel the test of truly competitive conditions.

XX. RALIJAONA, Desire E. PDG Debra sarl, & President FivMpaMa, and, ANDRIAMANANA, Henri B., DG SPMIEL, at Debra factory
MAPS Team: Haslach
12/12/90

I had expected to be given a tour of the Debra leathersgoods/shoe factory, but managed only to glimpse a few women working on the ground floor (former garage/warehouse?) of the building in which Debra is housed. The real point of the meeting was to learn more about FivMpaMa and its plan to create a caution mutuelle to aid entrepreneurs. FivMpaMa is the organization of Malagasy business people, to the exclusion of Indians, Asians, etc. But FivMpaMa has changed its statute to permit foreign capital to invest in its fund. While the majority of the fund must be from Malagasy sources, FivMpaMa recognizes that these are precisely the people who don't have capital, as most are merely small operators. RaliJaona said he had a meeting with the ARO DG [Ed - Rakotomavo,

Pascal - DG ARO per Nov 1990; ex MinFin&Econ], and said that he was interested, but not to what degree and with what practical result. He made a comment that the absence of a juridical life in Madagascar (rule of law?) makes for a lack of morality. Shares in the caution mutuelle will sell at par FMG 50,000, but no single (legal) person will be permitted to hold more than 25% of the fund. USAID will be permitted to buy shares. The caution mutuelle itself will hold 10% of the fund. He expects this will attract wholly new money, and not money currently on deposit at banks. He will eliminate the middlemen and lend directly to small distributors. Shares will be offered first to FivMpaMa members, next to non-members (who will be restricted to 10% of capital) and then to "other private parties". He wants the fund to accelerate the rotation of distributors' stock from 2 to 6 times per year as a result of the availability of funds.

Construction costs run FMG 500,000-700,000 per sq m

Competition: Indians at their mosques and the Chinese gathering among their own kind. MGA Antsirabe is making industrial loans. There is an agricultural Societe de caution mutuelle, which is not doing so well, and is just covering its own risk. He also wants an interbank guarantee fund, and knows at CCCE is working on this.

Sources of investment:

ARO

Fraise

FivMpaMa members

expects three members could put up half the capital needed, but wants group effort to increase Malagasy solidarity.

Schedule:

14 December 1990 at 1430 hours, FivMpaMa will meet to vote on the enabling statutes for this caution mutuelle.

10 January 1991, capital accumulated

15 January 1991, formation

15 January 1992, end of first year: all dividends retained

15 January 1993, end of second year: all dividends retained

In Third Year: make first direct loan

15 January 1994, end of third year: begin distribution?

He states that, if all goes well, this societe de caution mutuelle will evolve into a malagasy owned private bank, and he plans on this happening.

XXI. Christian Schiller, Resident Representative, IMF

MAPS Team: Seifert

December 13, 1990

1. Background/Status of IMF Mission: The IMF team went back to Washington with a letter signed by the Minister of Finance with the conditionality agreed to by the team and the Ministry. The letter now has to be reviewed in Washington and signed by the Director General of the IMF. This is expected to take place in February. The facility will be for SDR 90 million (about \$130 million). The terms are those granted the 50 poorest (of the total 154 member) countries under a new IMF program: Interest of 0.5% with

5-10 year repayment including 5 years grace. The normal IMF stand-by facilities have interest rates of 9% with 3-7 year reimbursement periods. In either case, the IMF concerns itself with macroeconomic issues designed to solve BOP problems. The IMF has only about 10 resident representatives stationed outside Washington. Like Mr. Schiller, they are assigned for about four years to a country that is felt to have severe BOP problems to help the country them. Given this rarity, few people from the IMF ever have more than one overseas assignment.

2. Status of the Structural Adjustment Conditionality:

- a. **Money Market:** The Central Bank issued FMG 60 billion of bills in November and a smaller amount at a second auction in mid December. At the November auction, BMOI paid 12% and BTM, 15%, for an average interest rate of 13%. The money market is meant to develop into an open market system (like that used by the Fed in the US) for controlling money supply. Right now the BC has in place both credit ceilings and the money market as a transitional measure until the money market is more firmly in place and the credit ceilings are eliminated.
- b. **Privatization:** By February, BNI should be privatized with at least 51% private ownership. This is behind schedule, but it is taking place. BFV will be 25% privatized and BTM will remain 100% state-owned. This will fulfill the conditionality for privatization in the banking sector.
- c. **Budget Basis:** The GDRM has agreed to change the basis upon which it calculates certain budget items.
- d. **Dividend Repatriation:** The BC has cleared up all arrearage between 1983 and 1989 and is now in the process of transferring 1989's payments. It is the IMF's understanding from the BC that all dividends, with the exception of those of some people who do not have the FMG's to buy the foreign exchange necessary, have been paid. As there are no longer any restrictions on dividend transfers, business should now be willing to invest. (NB The IMF considers the availability of foreign exchange an entirely separate issue.) The next area to have foreign exchange availability will be services (e.g., business travel, salaries, etc.) in January or February.
- e. **Liquidation of 20 Public Sector Companies:** This entire area has been delayed. The IBRD is looking at a new approach.
- f. **Transportation:** The liberalization of domestic air routes has been delayed, in part because Air Madagascar loses money domestically and needs to reprice its routes in order to attract other air companies. The IBRD is taking the lead on this and is following up on

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it. Tourism has increased from 38,000 to 50,000 in 1990. This compares with 300,000 in Mauritius.

- g. Civil Service Census: This has been 1/3 completed. There have been 3,000 phantom workers out of 130,000.
 - h. Caisses de Stabilisation: With delays, those for coffee, cloves etc. have been eliminated; the one for vanilla is the only one left.
3. Macroeconomic Issues: The decrease in foreign exchange came from an increase in imports from \$20-\$40 million/month after liberalization, some decrease in exports, and donors not disbursing. The IBRD did not disburse \$50 million under the SAL because of a lack of progress on certain programs and USAID disbursed only \$9.4 million instead of \$20.2 million.

XXII. Mr. Christopher Newton, Directeur Commercial Afrique, TOBACCOR, Groupe Bollore Technologies (5 et 7, rue Salomon de Rothschild tel. (1) 40 99 14 44, fax (1) 40 99 16 98)
MAPS Team: San Martin
12/16/90

- 1. This conversation was purely happenstance, as Mr. Newton and I sat together on the Air Mad flight to Paris. I will jot down some observations from my conversation because it may be of help to our work in the future given the magnitude of their operations in Madagascar and the possible linkages between their operations and the Mission's agriculture sector program.
- 2. The Bollore group has operation throughout Francophone Africa. They will also be taking over the French government's tobacco monopoly. Today the Bollore group controls 99 percent of the tobacco (including not just Virginia/blonde tobacco cigarettes but burley and black tobacco, such as Gitanes and Gauloise) manufacturing in Madagascar. This includes such local brands as Good Look, Oxford, Fine. They also have major plantations and will be starting major subcontracting activities with small growers, providing these with all inputs (including seeds, credit, TA). Interestingly, their operations were never nationalized, but given the difficulty of repatriating dividends they did not undertake any new investments and let the operations slip. Recently they have reached an agreement with the GDRM to begin reinvesting in the manufacturing operations again, and will be replacing all the outdated plant and equipment next year. They will also be taking over the GDRM's state controlled distribution systems. They will be opening new depots throughout the country to improve distribution.
- 3. They hope to be able to begin exporting tobacco within 4 years because clearly this is where the real opportunities lie. The size of the local market, given the low per capita income, is very limited. Madagascar's yearly tobacco

product expenditures are less than those of the city of Chicago. Moreover, they hope to use the tobacco distribution system and infrastructure to distribute other mass consumption items throughout the country. But clearly from his perspective, before the export operations can be a success, the country must increase substantially the freight space available (both sea and air). This is one of the critical constraints facing exporters at this time.

4. Mr. Newton asked whether I had seen a recent Ernst & Young report on the tobacco industry in Madagascar which he believed had been sponsored by USAID. I said I had not, and he promised to make it available to us in february when he returns to Madagascar to open a series of new depots and warehouses. He was very pleased with the quality of this report and believes it accurately reflects the constraints facing the industry in Madagascar at this time. He is also very interested in expanding their blonde production operations through small growers contracts. Most of the blonde tobacco production in the country is at this time controlled by Bollore directly and a large French grower. Perhaps here there may be a way of linking USAID programs to help small farmers produce for exports with their own operations.
5. He showed great interest in meeting with USAID agriculture and private sector officials. He will be back in country in mid January and stay for at east a month.

ANNEX B

TERMS OF REFERENCE -- DESCRIPTION AND SURVEY

CONTRAT ENTRE LE CABINET SOATEG ET J.E. AUSTIN ASSOCIATES
POUR LA DESCRIPTION DU SECTEUR PRIVE MALGACHE

TERMES DE REFERENCE POUR LA
DESCRIPTION DU SECTEUR PRIVE MALGACHE

L'Objectif: A quantifier la role du secteur prive dans l'economie malgache. Cette information sera utilise pour l'agence Americaine de developpement, USAID, pour desseiner une strategie d'assistance pour le secteur prive au Madagascar.

Les Termes de Reference

1. Le Cabinet SOATEG identifiera les sources de donnees fiables et developpera les statistiques qui decrivent la contribution du secteur prive au PIB, aux devises d'exportation, a l'investissement, a l'epargne et a l'emploi aux niveaux national et sectoriel par utilisant les sources de donnees secondaires. En detail il s'attends que le cabinet fasse comme suite:
 - a. La contribution du secteur prive au PIB (prix constants) a l'economie du Madagascar aux termes absolues et en pourcentages pour les annees 1985-90.
 - b. La contribution du secteur prive au PIB (prix courants) a l'economie du Madagascar aux termes absolues et en pourcentages pour les annees 1985-90.
 - c. Les secteurs d'interet sont: L'agriculture, l'agro-industrie, l'industrie, les mines, le commerce et les autres services. Les donnees seront presenter au niveau de detail comme suite:
 - i. L'Agriculture et les agroindustries:
 - Les cultures alimentaires domestiques: Riz, manioc, les pommes de terres, autres;
 - Les cultures d'exportation: Cafe, vanille, girofle, poivre, cacao, ylang-ylang, litchis, cire d'abeille, autres;
 - L'elevage et la peche: les produits principaux;
 - Les cultures industrielles: coton, sisal, canne a sucre, arachide, les huiles vegetales, autres.
 - ii. Les Industries de Transformation: Les abbatages industriels, les brasseries, le tabac, les huileries, les sucreries, les textiles, l'habillage (confection et chaussures), les materiaux de construction, la metallurgie, les produits de bois (y compris le papier), les produits de cuir, les produits electriques, les industries chimiques, les materiaux de transport, le caoutchouc, le raffinage du petrole et les produits petroliers, autres.
 - iii. Les Industries d'Extraction: La chromite, la graphite, l'or, l'ilemenite, le zircon et les gemmes semi-precieux, autres.

- iv. Les Services: Le commerce (en gros et en detail), la finance (les banques, l'assurance et les immobiliers), la construction (les edifices commerciaux et le logement), le transport (aerien, routier, chemin de fer), le tourisme, les communications, l'energie et l'eau, autres.
- d. La contribution des entreprises publiques a PIB global et aux secteurs et aux sous-secteurs indique ci-dessus pour la periode 1985-90.
- e. La contribution du secteur prive a PIB global aussi que aux secteurs et aux sous-secteurs par taille d'entreprise en maniere suivante pour la periode 1980-90:
 - o Les Petites et Moyennes Entreprises et industries⁵
 - o Les autres entreprises et industries
- f. La contribution des secteurs prives et publiques a l'emploi aux niveaux macroeconomie, sectoriel et sous-sectoriel comme indique ci-dessus pour la periode 1985-90.
- g. La contribution des secteurs prives et publiques a l'emploi aux niveaux macroeconomie, sectoriel et sous-sectoriel comme indique ci-dessus pour la periode 1985-90 par taille d'entreprise comme indique ci-dessus.
- h. La proportion du PIB et de l'emploi par secteur et sous-secteur par chaque province. Le Cabinet SOATEG calculera la proportion de PIB et de l'emploi par secteur et sous-secteur par province par taille d'entreprise.
- i. Le Cabinet SOATEG calculera aux termes absolue et en pourcentage les devises generees par les entreprises prives par secteur et sous-secteur d'exportation. Le Cabinet SOATEG calculera les gagnes de devises par secteur et sous-secteur par province et par taille d'entreprise. Il faut aussi indiquer les pays de destinations des exportations par produit.

Le Cabinet SOATEG calculera aux termes absolue et en pourcentage l'utilisation de devises par les importateurs prives par secteur et sous-secteur d'activite. Il faut aussi indiquer les sources des importations par produit par pays d'origine.

- 2. Utilisant Lotus (ou un autre programme de spreadsheet) le Cabinet incorporera les statistiques identifie ci-dessus dans une matrice qui sera utiliser pour estimer

⁵On peut definir les entreprises par le chiffre d'affaires ou les nombres des employes. Le cabinet va expliquer la methode pour la definition et utiliser les meme critere quand possible.

les parametres indiques ci-dessus aux niveaux nationaux, sectorielles et sous-sectorielles.

3. En outre, le cabinet collectera les informations pour estimer les donnees suivantes pour la period 1980-90.
 - a. L'Investissement: La contribution des secteurs prive et publique a l'investissement domestique; La contribution des sources etrangeres a l'investissement domestique; Les sources de l'investissement etrangere. L'investissement par secteur and sous-secteur d'activitie par origine d'investissement (etrangere ou malgache). L'investissement par province et par taille d'entreprise.
 - b. L'Epargne: La contribution des secteurs prive et publique a l'epargne.
 - c. Le Credit: Le volume de credit disponible au pays. Le credit a l'Etat, le credit au secteur parapublic et le credit au secteur prive. L'utilisation de credit par secteur et sous-secteur prive. L'utilisation de credit par province par secteur et sous-secteur d'activite.
 - d. Les Finances Publiques: Les transferts nets entre les entreprises publiques et parapubliques et le gouvernement central.
4. Le Cabinet SOATEG prepara un catalogue de changements importantes aux politique de gouvernement et decrira brievement leurs effets sur le secteur prive malgache pour la periode 1980-90. En particulier, le cabinet devrait bien expliquer les effets de changements politiques a la situation financiere, ex., le credit, les investissements, etc.
5. Le Cabinet SOATEG determinera le nombre de permits de construction de logement accordes par province et par fivondronana par annee pour la periode 1980-90. En outre le cabinet determinera le nombre de permits de construction d'edifices commerciales accordes par province et par fivondronana par annee pour la meme periode. Pour les deux le cabinet doit estimer le niveau de revenu de marche de la construction. Finalement, le cabinet assemblera une liste des financiers de logement et la duration de leur existence et leurs capitalisations.
6. Les spreadsheets (en disque) pour toutes les donnees specifiées ci-dessus provideront a Michael Grossman a J.E. Austin Associates via DHL par le 8 Fevrier 1991; l'ultime sera finaliser a Antananarivo par le 15 Mars.
7. Pendant l'evolution de l'etude, Le Cabinet SOATEG collaborera rigoureusement avec M. Richard Forbes de l'USAID qui sera le coordinateur de projet a part de J.E. Austin Associates. Le Cabinet SOATEG fournira a M. Forbes avec les bulletins de progres par semaine et sera disponible pour les

reunions pour discuter le progres par semaine, si
necessaire.

8. Le Cabinet fournira toute l'assistance necessaire au Cabinet RINDRA en l'evolution de l'enquete du secteur prive.

9. Le montant total pour cet exercice est US\$30000 (TTC). En outre le Cabinet SOATEG recevra une prime de dix pourcent (US\$3000) pour l'execution reussi de cet contrat selon le programme et specifications de travail precise ci-dessus. M. Forbes, M. Grossman, et la Dr. San Martin de J.E. Austin Associates determineront si la prime sera justifiee.

Le 14 Decembre 1990

Dr. A.T. San Martin
Pour J.E. Austin Associates

Dr. Emilienne Raparason
Pour Le Cabinet SOATEG

CONTRAT ENTRE CABINET RINDRA ET J.E.AUSTIN ASSOCIATES, INC.
POUR FAIRE UN ENQUETE DU SECTEUR PRIVE AU MADAGASCAR

LES TERMES DE REFERENCE POUR L'ENQUETE
DU SECTEUR PRIVE AU MADAGASCAR

L'Objectif: Le but de cette enquete est de collecter des informations sur le secteur prive au Madagascar en vue de mieux comprendre les opportunités et contraintes auxquelles il a a faire face. Cette enquete est l'une des composantes d'une etude faite pour l'USAID, l'agence americaine pour le developpement international.

1. Le Cabinet Rindra mettra en place un enquete nationale des entreprises privees⁶ qui va fournir l'information statistiquement significative non-biaisee sur les perceptions des entrepreneurs locaux concernant les opportunités et contraintes du croissance du secteur prive malgache. J.E. Austin Associates travaillera avec le Cabinet pour determiner les endroits et la strategie pour stratifier l'enquete. Il est prevu que l'enquete mettra en place au moins de six villes en Madagascar.
2. L'enquete s'engageant par le cabinet va couvrir les entreprises privés aux secteurs industriels suivants:
 - a. L'agriculture commerciale focalise aux produits non-traditionnel pour l'exportation, comme les recoltes horticulturelle (les litchis, la canne a sucre et les grains de poivres verts par exemple) et les produits de mer (les crevettes, les langoustes, les nageoire de requin les concombres de mer par exemple)et les autres produits agricole pour l'exportation.
 - b. Les agro-industries: Y compris les fruits et vegetables, le coton, la canne a sucre, le sisal, les arachides, les huiles vegetales, les peaux et les cuirs, les viandes et les produits laitage.
 - c. Les industries de transformation: Les abbatages industriels, les brasseries, le tabac, les huilleries, les sucreries, les textiles, l'habbilleme (confection et chaussures), les materiaux de construction, la mettallurgie, les produits de bois (y compris le papier), les produits de cuir, les produits electriques, les industries chimiques, les materiaux de transport, le caoutchouc, la raffinage du petrole et les produits petroliers.

⁶Les entreprises privees sont celles qu'avoir au minimum de 51% des actions sont tenues par les entites privés.

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- d. Les industries d'extraction: La chromite, la graphite, l'or, l'ilemenite, le zircon et les gemmes semi-precieux.
 - e. Les services: La commerce (gros et detail), la finance (les banques, l'assurance et les immobiliers), la construction (les edifices commerciaux et de logement), le transport (aerien, routier, chemin de fer), le tourisme, les communications, l'energie et l'eau.
3. Cet enquete exclure toutes les entreprises (prive, a but non lucratif, public, etc) aux secteurs de services sociaux (la sante, l'education) et les agriculteurs subsistances.
 4. La questionnaire sera developper par l'equipe MAPS en consultation avec l'USAID. Une fois que la questionnaire sera finalisee, J.E. Austin Associates fournira au Cabinet une liste de marques de variables et determinerons avec la Rindra la forme de la saisie de donnees.
 5. Le Cabinet Rindra aidera recire l'enquete pour la comprehension des petites et moyennes entreprises (voyez paragraphe 8 ci-dessous). En outre le cabinet sera responsable pour la traduction de l'enquete aux langues locales.
 6. Le Cabinet Rindra sera responsable pour mettre a l'epreuve de la questionnaire aux quinze entreprises qui seront choisir a l'hazard avant la commencement de l'enquete propre pour assurer les questions sont comprehensible aux entrevues. Le Cabinet Rindra travaillera avec l'equipe MAPS et le bureau de l'USAID pour revoir la questionnaire sur la bas des resultants de l'epreuve. Les entreprises entrevuaient ne sera pas incluye dans le nombre ultime des entreprises choisi pour l'enquete propre.
 7. L'echantillonnage doit etre aussi complet que possible pour laisser l'echantillon non-biaise. Le Cabinet Rindra identifiera les echantillonnage approprie pour cet exercice, en consultation avec l'equipe MAPS et le bureau de l'USAID.
 8. L'echantillon se sera attendre approximativement 350 entreprises; de ces entreprises, 250 devraient etre en le secteur formel et 100 devraient etre en le secteur non-structure. Des entreprises de secteur formel, 150 devraient etre les petites et moyennes entreprises.

⁷ On peut definir les petites et moyennes entreprises en termes des chiffres d'affaires ou de l'emploi. Le cabinet doit expliquer la methodologie pour faire cet choix et les avantages et les desavantages de chancune methode.

9. L'échantillonnage pour les PME/PMI va établir sur la base des inscriptions des bureaux d'inscriptions, les ONG et les autres organisations qui fournissent le crédit ou l'assistance technique aux PME/PMI. L'échantillonnage pour les entreprises plus grandes se dépendra sur la disponibilité et la fiabilité de listes complètes. Les listes de la banque de données de l'état sont une source possible aussi que les bureaux de sociétés de chaque localité. Le Cabinet Rindra proposera une stratégie pour construire l'échantillonnage et tirer l'échantillon afin qu'elle satisfasse aux exigences spécifiées aux paragraphes 1 à 8.
10. L'échantillon tirera en utilisant la méthodologie de l'échantillonnage stratifié aléatoire. Il ne peut être nécessaire de stratifier l'échantillon pour assurer qu'il y aura au minimum trente entreprises interviewées dans les secteurs d'intérêt indiqués ci-dessus.
11. Le Cabinet Rindra assemblera une équipe expérimentée pour réaliser l'enquête. Le Cabinet Rindra sera responsable pour recruter et la formation des enquêteurs, pour évaluer le questionnaire, pour diriger l'enquête dans le domaine de travail pour assurer la qualité⁸ et la codification des réponses pour faciliter l'inscription et l'analyse de données.
12. Le Cabinet Rindra assemblera une équipe pour inscrire les réponses codifiées dans un système de procédure des données qui peut être utilisé avec le programme d'analyse statistique SPSS.
13. Pendant l'évolution de l'enquête, Le Cabinet Rindra collaborera rigoureusement avec M. Richard Forbes de l'USAID qui sera le coordinateur de projet à part de J.E. Austin Associates. Le Cabinet Rindra fournira à M. Forbes avec les bulletins de progrès par semaine et sera disponible pour les réunions pour discuter le progrès par semaine, si nécessaire.
14. Le Cabinet fournira toute l'assistance nécessaire au Cabinet SOATEG en l'évolution de l'étude de la description du secteur privé.
15. Le timing pour cet exercice est comme suit :

Février 11-

Mars 1

Établir l'échantillonnage, tirer l'échantillon et commencer à prendre le contact avec les interviewés.

Mars 3-Mars 8

Évaluer le questionnaire et faire les révisions si nécessaire.

⁸Le cabinet sera responsable pour développer une méthodologie pour assurer la qualité des réponses et fournira un rapport sur cette méthodologie au fin de l'enquête.

Mars 11 La commencement de l'enquete propre.
Avril 10 L'enquete est finie.
Avril 19 Envoyez les donnes inscritees et un report de methodologie utilise aux disques a J.E. Austin Associates par DHL.

16. Le montant total pour cet exercice est US\$38000 (TTC). En outre le Cabinet Rindra recevra une prime de dix pourcent (US\$3800) pour l'execution reussi de cet contrat selon le programme et specifications de travail precise ci-dessus. M. Forbes, M. Grossman, et la Dr. San Martin de J.E. Austin Associates determineront si la prime sera justifiee.

Le 14 Decembre 1990

Dr. A.T. San Martin
Pour J.E. Austin Associates

M. Georges Ramamnoara
Pour Le Cabinet Rindra

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ANNEX C
SURVEY INSTRUMENT

DRAFT

MADAGASCAR SURVEY

The purpose of the following survey is to gather information about the private sector in Madagascar, the beliefs held by business persons on different aspects of doing business, and the general investment climate. This study is financed by the U.S. Agency for International Development (USAID). This information will assist USAID/Madagascar in formulating its development strategy for the coming years. The information obtained here will be treated in a private and confidential manner. Nevertheless, questions deemed inappropriate do not have to be answered.

- Position of the person interviewed: (1). Owner
(2). Manager
(3). Professional/Technical
(4). Other

Date the survey was performed: _____
(day/month/year)

Name of Interviewer: _____

Approved by: _____

Questionnaire No. _____

1. Sampling source (CIRCLE ONE):

- (1). Formal registry (2). Informal sampling

2. Location of the firm (CIRCLE ONE):

- (1). Antananarivo (2). Tamtave (3). Mahajanga
(4). Antasiranana (5). Toamasina (6). Antsirabe
(others?)

g/c

SECTION 1: GENERAL INFORMATION ON THE FIRM

3. How important were the following when selecting this site for your firm?
(FOR EACH CATEGORY PUT EITHER 1=IMPORTANT; 2=NOT IMPORTANT; 3=DON'T KNOW)

- _____ a). Proximity to raw materials
- _____ b). Proximity to labor
- _____ c). Proximity to clients for my products
- _____ d). Transport infrastructure
- _____ e). Communications infrastructure
- _____ f). Electricity
- _____ g). Security of premises
- _____ h). Personal considerations
- _____ i). Access to financing
- _____ j). Other (specify): _____

4. How long has the firm been operating? _____ years

5. What is the gender of the owners (or the majority shareholders) of this firm (CIRCLE ONE RESPONSE)

- (1). Male (2). Female (3). Equal proportion of shares held by male and female (4). Don't Know

6. How many permits, licenses did you have to obtain to establish⁹ (start up) your business? (CIRCLE ONE)

- (1). 0-5 (2). 5-10 (3). 11-15 (4). 16-20 (5). Over 20

7. Approximately, how long did it take you to obtain all the paperwork necessary to begin business operations? (CIRCLE ONE)

- (1). 0-6 months (2). 7-12 months (3). 13 to 18 months

- (4). 19-24 months (5). Over 24 months

⁹For example: entry and residency permits, the acte de constitution, legalization of statutes, registration at local commerce tribunals, declarations at bureau de societes (taxe professionnelle, TUT, etc), real estate permits (permits de construire), application for installation of electricity service, water service, telephone connections, import authorizations.

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8. Approximately, how many permits and licenses do you need to renew (at least yearly) to operate your business? (CIRCLE ONE)

(1).0-5 (2).6-10 (3). 11-15 (4). 16-20 (5).Over 20

9. How many of the permits and licenses you need to operate need to be renewed annually:

(1). 0-5 (2). 6-10 (3). 11-15 (4). 16-20 (5). Over 20

10. In which sectors does your business operate?
(Mark ALL categories either 1= YES or 2=NO):

___ a). Agriculture, forestry, fishing production (IF YES, GO TO NO. 11)

___ b). Processing of agricultural, forestry, fish products (IF YES GO TO NO. 12)

___ c). Manufacturing (IF YES GO TO NO. 13)

___ d). Trade and Commerce (IF YES GO TO NO. 14)

___ e). Other Services (IF YES GO TO NO. 15)

___ f). Mining (IF YES GO TO NO. 16)

11. In what MAIN agricultural activity is your business involved?: (CIRCLE ONE)

(01). Coffee

(07). Livestock

(02). Cocoa

(08). Aquaculture/Fishing

(03). Vanilla

(09). Cotton

(04). Fruit & vegetables

(10). Sugar

(05). Nuts

(11). Rubber

(06). Rice

(12). Tobacco

(13). Cloves

(14). Forestry/logging

(16). Perfumed plants

(15). Other spices

(17). Other (specify): _____

(GO TO NO. 16)

12. In what MAIN agricultural processing activity are you involved? (CIRCLE ONE)

- | | |
|--------------------------------------------------|--------------------------------------------|
| (01). Cocoa/Coffee processing | (05). Ginning/Weaving |
| (02). Processed foodcrops
(fruits/vegetables) | (06). Oil processing
(essential/edible) |
| (03). Animal products
(meat and dairy) | (07). Tobacco processing |
| (04). Hides and skins | (08). Wood processing |

(09). Other (specify): _____

(Go to question no. 16)

13. In what MAIN manufacturing activity are you involved? (CIRCLE ONE):

- | | |
|-------------------------------------------|----------------------------------------|
| (01). Handicraft | (08). Assembly (other) |
| (02). Clothing/textiles | (09). Brewing and beverage
products |
| (03). Finished wood products | (10). Machinery and equipment |
| (04). Plastics | (11). Paper and Paper products |
| (05). Metal products | (12). Leather/footwear |
| (06). Confectionery/baking | (13). Chemical/pharmaceutical |
| (07). Assembly (electrical
electronic) | |

(14). Other (specify): _____

(Go to question no. 16)

14. In what MAIN commercial activity are you involved? (Circle one):

- | | |
|-----------------------------|--------------------------|
| (01). Wholesale Trade | (04). Direct import |
| (02). Retail Trade | (05). Export |
| (03). Both wholesale/retail | (06). Both import/export |

(07). Other (specify): _____

(Go to question no. 16)

15. In what MAIN service activity are you involved? (Circle one):

- (01). Vehicle and Appliances Repairs (05). Restaurant/food preparation
(02). Transportation (06). Finance
(03). Communications (07). Construction
(04). Tourism (hotels/travel agencies) (08). Consulting

(09). Other (specify): _____

(GO TO question no. 16)

16. What percentage of your direct sales (approximately) are to the following markets:

- a). Within the province _____ %
b). Outside province, but within Madagascar _____ %
c). Mauritius, Reunion, Comores _____ %
d). To other parts of Africa _____ %
e). To the EEC _____ %
f). To other Europe _____ %
g). To North America _____ %
h). To Indian, Pakistan, Sri Lanka _____ %
i.) To China, Hong Kong, Singapore, Japan _____ %
j). To other Asia _____ %
k). Other _____ %

17. Of your domestic sales, approximately what percentage of your product do you sell to:

- a). Retail customers _____ %
b). Informal Sector buyers _____ %
c). Small private firms (less than 10 workers) _____ %
d). Larger private firms _____ %
e). Government agencies _____ %
f). Parastatals _____ %
g). Other _____ %

18. What percentage of your product do you sell:

- a). Through a cooperative: _____ %
b). To an affiliated company or partner: _____ %
c). To a buying agent: _____ %

19. What percentage of your raw materials (approximately) come from:

- a). Within the province _____%
- b). Outside province, but within Madagascar _____%
- c). Mauritius, Reunion, Comores _____%
- d). other parts of Africa _____%
- e). EEC _____%
- f). Other Europe _____%
- g). North America _____%
- h). India, Pakistan, Sri Lanka, Japan _____%
- i). China, Hong Kong, Singapore _____%
- j). Other Asia _____%
- k.) Other _____%

20a. Approximately what percentage of the locally purchased raw materials are bought from:

- a). Parastatals _____%
- b). Directly from farmers or individuals _____%
- c). Small firms private (less than 10 workers) _____%
- d). Larger private firms _____%
- e). Other _____%

20b. How do you normally pay your most important suppliers? (Mark 1=YES, 2=NO):

- a). On delivery _____
- b). In advance _____
- c). On credit from supplier _____
- d). Through overdraft facilities _____

21. Is your firm owned by a Malagasy? (CIRCLE ONE)

- (1). YES (2). NO (3). Don't know/not apply

(If YES, no. 23) (if NO or Don't Know/NA, go to no. 22)

22. Approximately what percentage of the total equity¹⁰ is provided by NON-Malagasy shareholders?

- a). French: _____%
- b). Canadian: _____%
- c). German: _____%
- d). US: _____%
- e). Indians: _____%
- f). South African: _____%
- g). Chinese: _____%
- h). Mauritians _____%
- i). Other Foreign _____%

23. Is part of the firm owned by Malagasy public institutions (CIRCLE ONE)

- (1). YES (2). NO (3). Don't know/not apply

(if YES, (If NO or Don't Know/NA, go to no. 25)
no. 24)

24. What percentage of the business is owned by Malagasy public institution public institutions? _____%

25. Which one of the following best describes the ownership structure of this business?: (Circle ONE)

- (1). Sole owner (2). Partnership (SARL) (3). Corporation (SA)
(4). Other

SECTION 2: FACTORS ACCOUNTING FOR BUSINESS PERFORMANCE

26a. Do you think the economic environment today is: (CIRCLE ONE)

- (1). better than it was 3 years ago.
- (2). worse than it was 3 years ago.
- (3). has not changed in the last 3 years.
- (4). Don't know

¹⁰Equity means non-loan money invested in the business.

26b. Do you think the economic environment today is:

(CIRCLE ONE)

(1). better than it was 12 months ago.

(2). worse than it was 12 months ago.

(3). has not changed in the last 12 months.

(4). Don't know

27. Please estimate business turnover (Chiffres d'affaires):

(CIRCLE ONE)

(1). Less than FMG 50 million

(2). Between 50 million and 100 million

(3). More than 100 million but less than 400 million

(4). More than 400 million but less than 600 million

(5). More than 600 million but less than 2,000 million

(7). More than 2,000 million but less than 5,000 million

(8). Over 5,000 million

28. How has your sales volume changed over the last year?
(CIRCLE ONE)

- (1). Has improved by MORE than 20 percent.
- (2). Has improved by LESS than 20 percent.
- (3). Has not changed.
- (4). Has deteriorated by LESS than 20 percent.
- (5). Has deteriorated by MORE than 20 percent.
- (6). Don't know

29. What do you think will happen to your sales volume over the next year? (CIRCLE ONE)

- (1). Will improve by MORE than 20 percent.
- (2). Will improve by LESS than 20 percent.
- (3). Will not change.
- (4). Will deteriorate by LESS than 20 percent.
- (5). Will deteriorate by MORE than 20 percent.
- (6). Don't know

30. Please estimate the percentage of capacity at which your business:

- a). Operates today: _____ % of capacity
- b). Operated 12 months ago: _____ % of capacity
- c). Operated 3 years ago: _____ % of capacity

31. How have the following factors affected your sales volume over the past year?

(Mark ALL categories either 1=positive; 2=negative; 3=No effect; 4=Don't Know)

- a). Domestic demand for my product
- b). Foreign demand for my product
- c). Competition from other private firms in Madagascar
- d). Competition from Malagasy parastatals or government agencies
- e). Competition from legally imported goods
- f). Competition from illegally imported goods
- g). Distance to markets
- h). Market infrastructure (roads, port facilities, airport facilities)
- i). Transportation facilities (availability of freight space)
- j). Government regulations
- k). Taxes
- l). Exchange rates
- m). Production technology

32. How did each of the government regulations/actions affect you business performance over the last 12 months?

(Mark ALL categories either 1=positive; 2=negative; 3=No effect; 4=Don't Know)

- a). Formalites constitutives (e.g. legalisation des status, enregistrement des status au tribunal de commerce a la localite)
- b). Formalites aupres de l'administration fiscale
- c). Credit ceilings/controls
- d). Carte d'exportation
- e). Licence d'importation
- f). Price/margin controls
- g). Labor Code regulations on wages
- h). Labor Code regulations of hiring/firing
- i). Work permits for foreigners (autorisation de travail et de sejour)
- j). Customs clearance procedures
- k). Tax policies
- l). Tariffs and quotas
- m). Permits for access to infrastructure
- n). Permits for mining, forestry, fishing activities
- o). Investment Code incentives

33. Which of the following fees, taxes must your business pay?:

(Mark ALL categories either 1=yes; 2=no; 3=don't know; 4=NOT apply)

- ___ a). Impots sur les benefices des societes (IBS)
- ___ b). Impots sur le revenus non salariaux (IRNS)
- ___ c). Impots sur les revenus des capitaux mobiliers (ICRM)
- ___ d). Land, forest, fishing or mining taxes
- ___ e). Taxe Forfaitaire sur les transferts TFT
- ___ f). Impots foncier sur les terrains, sur la propriete batie (IFT, IFPB)
- ___ g). Taxe Unique sur les transactions (TUT)
- ___ h). Excises (exportations)
- ___ i). Property Taxes/duties on sale of securities/property
- ___ j). Direct/indirect taxes or duties on sales and purchases
- ___ k). Tax on insurance contracts
- ___ l). Taxe professionnelle
- ___ m). Impot de license
- ___ n). Droit de douanne, taxe d'importation
- ___ o). TUT a l'importation
- ___ p). Droit de sortie en douanne
- ___ q). Taxe conjuncturelle sur les exportations
- ___ r). Other export taxes
- ___ s). Other (specify):_____

SECTION 3: RESOURCE CONSTRAINTS

Land

34. What rights do you have to the land you are occupying?
(CIRCLE ONE)

- (1). Title deed (2). Lease (3). Squatter (4). Other

35. Please indicate how the following affected (or affect) your firm's operations over the last year: (Mark ALL categories either 1=positive; 2=negative; 3=No effect; 4=Don't Know)

- ___ a). Cost of land
- ___ b). Access to land
- ___ c). Uncertainty about ability to stay on the land (tenure)
- ___ d). Lack of clear titling
- ___ e). Security of premises
- ___ f). Other (specify): _____

Labor

- 36. a). Number who work full time: _____
- b). Number contracted as needed (on average): _____

37. How many of your (full time) employees are in each of the following categories?

	(1) Total Number	(2) Total Malagasy	(3) Total Women
a). Managerial Personnel ⁽¹¹⁾	_____	_____	_____
b). Other skilled Personnel ⁽¹²⁾	_____	_____	_____
c). Unskilled	_____	_____	_____

38. What percentage of the top management team⁽¹³⁾ are women?
_____ %

39. What percentage of the top management (the company decision-makers) in this firm is Malagasy? _____ %

¹¹For example, managing directors, company executives, general managers.

¹²Includes professionals (for example engineers, accountants, economists), technical personnel (such as, mechanics, repairmen, plumbers, artisans, production line technicians, assemblers) and secretarial personnel.

¹³Refers to the people in the firm involved in making the key strategic decisions about the firm's operations, NOT just the day to day production decisions.

40. Are you satisfied with the productivity of your employees?
(CIRCLE ONE)

(1). YES (2). NO (3). Don't know/not apply

41. On what basis do you pay your employees? (CIRCLE ONE)

(1). Based on the statutory wage schedule if one exists

(2). Based on piece work or contractual basis

(3). Both

(4). Other

42. Do you give bonuses or other incentives to get employees to work harder? (CIRCLE ONE)

(1). YES (2). NO (3). Don't Know/not apply

43. For the following personnel categories, please specify how difficult it has been to obtain Malagasy with the training/experience needed in your firm: (Mark ALL categories either 1=Difficult; 2=Average; 3=Easy; 4=Don't know/Not apply)

- _____ a) Top Managerial Personnel - Executive (Direction)
- _____ b) Middle management (cadre)
- _____ c) Foremen/line supervisors (contre-maitre)
- _____ d) Secretarial/clerical Personnel
- _____ e) Professional Personnel⁽¹⁴⁾
- _____ f) Technical Personnel⁽¹⁵⁾

44. Do you have to pay very high salary and benefits packages to attract: (Mark ALL categories either 1=yes; 2=no; 3=don't know/not apply)

- _____ a) good top managers? _____ b) good middle managers?
- _____ c) good contre-maitres? _____ d) good professionals?
- _____ e) good technical personnel?

(If answered YES to any of the above, go to no. 45, otherwise go to no. 47)

45. Has the need to pay high salary and benefits packages hindered the growth of your business? (CIRCLE ONE)

(1). YES (2). NO (3). Don't Know/Not apply

46. On average, what is the average turnover of your:

- a) Managerial staff: _____ %
- b) Other skilled staff: _____ %
- c) Unskilled personnel staff: _____ %

agricultural, chemical, etc.),

repairmen, plumbers, artisans, assemblers.

Credit

47. If you have had difficulties obtaining credit, has it affected your business performance over the last year? (CIRCLE ONE)

(1). YES (2). NO (3). Don't Know/not apply

48. Please specify how difficult you think it has been to obtain each type of loan over the last year? (Mark ALL categories either 1=Difficult; 2=Average; 3=Easy; 4=Don't know/Not apply)

- ___ a) Short-term loans for working capital (e.g. less than 1 year)
- ___ b) Medium-term loan for plant and equipment (e.g. 1-5 years)
- ___ c) Long-term loan (e.g. over 5 years)

49. Please provide an estimate of the percentage of your capital (long and short term) which comes from the following sources:

- a) Local commercial banks _____%
- b) Special lines of credits (e.g. APEX) _____%
- c) Venture capital companies (e.g. FIARO SIEPEM) _____%
- d) Other formal financial institutions (e.g. insurance companies) _____%
- e) Foreign sources _____%
- f) Remittances _____%
- g) Informal savings clubs _____%
- h) Supplier's credit _____%
- i) Family/friends _____%
- j) Personal _____%

50. Please indicate how the following factors pertaining to bank policies affected your ability to access financing: (For each category of response, circle the appropriate number)

1. Very Negative	2. Negative	3. Positive	4. Not at all	5 Don't Know/NA					
a. Collateral requirements ¹⁶					1	2	3	4	5
b. Interest rates for short-term capital					1	2	3	4	5
c. Interest rates for long-term financing					1	2	3	4	5
d. Bank fees/taxes					1	2	3	4	5
e. Credit ceilings					1	2	3	4	5
f. Paperwork (preparation de dossiers) /Administrative procedures					1	2	3	4	5
g. Distance to banks					1	2	3	4	5
h. Company profiles does not fit within banks lending policies					1	2	3	4	5

¹⁶Collateral means: security required by money tenders.

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Raw Materials

51. Have you had difficulty obtaining the raw materials that you need to operate? (CIRCLE ONE)

- (1). YES (if YES go to no. 52) (2). NO (if NO or Don't Know/NA, go to no. 53) (3). Don't know/Not apply

52. How have the following factors affected your firm's ability to procure all the inputs it needs: (For each category of response, circle the appropriate number)

1. Very Negative	2. Negative	3. Positive	4. Not at all	5. Don't Know/NA
a) Availability of financing			1 2 3 4 5	
b) Lack of cooperative buying			1 2 3 4 5	
c) Availability of transportation			1 2 3 4 5	
d) Cost of transportation			1 2 3 4 5	
e) Import licensing controls			1 2 3 4 5	
f) Import duties			1 2 3 4 5	
g) Foreign exchange regulations			1 2 3 4 5	
h) Customs regulations			1 2 3 4 5	
i) Middlemen margins			1 2 3 4 5	
j) Scarcity/shortages of products			1 2 3 4 5	
k) The price of the input			1 2 3 4 5	
l) Enforcement of supply contracts			1 2 3 4 5	

53. Is reliable information on the LOCAL market/demand for your product available? (CIRCLE ONE)

- (1). YES (2). NO (3). Don't know/Not apply

54. Is reliable information on the INTERNATIONAL market/demand for your product available? (CIRCLE ONE)

- (1). YES (2). NO (3). Don't know/Not apply

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55. How interested are you on the following types of market information for your business? (For each category of response, circle the appropriate number)

1. Interested	2. Not Interested	3. Not apply	4. Don't know
a) Information on prices		1 2 3 4	
b) Information on product standards		1 2 3 4	
c) Contacts with other companies		1 2 3 4	
d) Information on trade regulations in foreign markets (tariffs/quotas)		1 2 3 4	
e) Other (specify): _____		1 2 3 4	

56a. Specify the sources which you use to get information on the market for your product: (Mark ALL categories either 1=yes; 2=no)

- _____ a) The Ministry of Trade
- _____ b) Personal Contacts
- _____ c) Foreign Partners
- _____ d) GEM
- _____ e) FIV.MPA.MA
- _____ f) Chamber of Commerce, Industry and Agriculture
- _____ g) JCEM
- _____ h) APEM/SIAPEM
- _____ i) Other business associations or groupements (specify: _____)
- _____ j) Banks
- _____ k) Trade journals or newspapers
- _____ l) National Marketing Board
- _____ m) Other (specify): _____

Technology

57. Do you have access to appropriate production technology for your business?

(1). YES (2). NO (3). Don't know/not apply

(IF answered NO, go to No. 58, otherwise go to No. 59)

58. Have any of the following hindered access to needed technology (Mark ALL categories either 1=yes; 2=no; 3=don't know/not apply)

- a) Lack of information about available technology
- b) Lack of local expertise/experience
- c) Cost of technology
- d) Reluctant to invest large sums in fixed assets
- e) Imported technology not adequate for the market
- f) Government licensing requirements
- g) Difficulty access to spare parts
- h) Maintenance problems
- i) Other (specify): _____

Infrastructure

59. How have each of the following affected your ability to produce and market your product?: (Mark ALL categories either 1=negative; 2=positive; 3=Don't Know/not apply)

- a) Availability of air cargo space
- b) Price of air cargo space
- c) Availability of land transport facilities
- d) Price of land transport facilities
- e) Availability of maritime transport facilities
- f) Price of maritime transport
- g) Existence of an adequate road network
- h) Quality of road network
- i) Transport regulations (on weight, axles, etc.)
- j) Road checks/road blocks
- k) Cost of water
- l) Access to/reliability of water supply
- m) Cost of electricity
- n) Access to/reliability of electricity
- o) Cost of telecommunications (telephone, fax, etc)
- p) Access to/reliability of telecommunications

Legal Environment

60. Given your experience as a business person, please tell us if you agree with the following statements regarding your experience with the legal system: (Mark ALL categories either 1=Agree; 2=Disagree; 3=Don't Know/Not apply)

- a) Contracts are difficult to enforce.
- b) Problems enforcing contracts make it difficult to do business in Madagascar.

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61. Given your experience as a business person, do you think that: (Mark ALL categories either 1=Agree; 2=Disagree; 3=Don't Know/Not apply)

- a) Collecting debts from individuals (sole proprietors) is difficult
- b) Collecting debts from SARLs is difficult
- c) Collecting debts from SAs is difficult
- d) Collecting debts from parastatals is difficult

SECTION 4: OPPORTUNITIES

62. Have you formulated a specific plan to invest in any of the following areas? (Mark ALL categories either 1=yes; 2=no; 3=don't know/not apply)

- a) Personnel training and development
- b) Improved production technology
- c) physical capital (plant improvement)
- d) Improving my own management capability
- e) Marketing
- f) Procurement
- g) Quality Control

Suppose you were considering investing in one of the areas/activities listed below:

(Read or show the list)

- (01). Unprocessed agriculture production for domestic market
- (02). Unprocessed agriculture production for export market
- (03). Agroprocessing/agroindustry for domestic market
- (04). Agroprocessing/agroindustry for export
- (05). Manufacturing for export
- (06). Manufacturing for domestic market
- (07). Mining
- (08). Construction
- (09). Tourism
- (10). Commerce and trade
- (11). Banking/finance
- (12). Other services

63. Which one do you think offers the LOWEST or WORST return on investment?: _____ (put the number corresponding to the area listed above)

64. Which one do you believe offers the HIGHEST or BEST return on investment?: _____ (put the number corresponding to the area listed above)

(If answered 1, 2, 3, 4, go to No. 65, otherwise go to No. 66)

65. Which agricultural products do you think offer the BEST return on investment? (CIRCLE ONE)

- | | |
|-------------------------|-----------------------------|
| (01). Coffee | (08). Aquaculture/Fishing |
| (02). Vanilla | (09). Cotton |
| (03). Spices | (10). Edible/essential oils |
| (04). Cloves | (11). Rubber |
| (05). Fruits/Vegetables | (12). Tobacco |
| (06). Rice | (13). Forestry/logging |
| (07). Livestock | (14). Other (specify):_____ |

66. Are you currently exporting or have plans to export in the future? (CIRCLE ONE)

- (1). YES (2). NO (3). Not Sure

(If answered YES, go to No. 67, otherwise go to No. 72)

(NOTE: if you are interviewing informal sector firms, skip now to question no. 72)

67. Which export market do you believe would be most profitable? (Circle ONE)

- | | |
|----------------------------------|-----------------------------------------|
| (1). Mauritius, Reunion, Comores | (5). North America |
| (2). Other Africa | (6). India/Pakistan/Sri Lanka |
| (3). EEC | (7). China, Hong Kong, Singapore, Japan |
| (4). Other Europe | (8). Don't Know/No Response |

SECTION 5: ASSOCIATIONS

72. Are you (or is your firm) affiliated with any type of business or trade association? (CIRCLE ONE)

(1). YES (2). NO (3). Unsure

(if YES,
no. 74) (if NO or Unsure, no. 73)

73. Specify which one BEST describes why you do not belong to an association: (CIRCLE ONE)

- (1). No association provides services I find useful.
- (2). I am unwilling to pay membership dues.
- (3). I am not able to pay membership dues.
- (4). Membership restrictions
- (5). Other restrictions
- (6). Other

(Skip to question no. 75)

74. Please specify which associations and rate how effectively they have represented your business interests: (For each category of response, circle the appropriate number)

- | | 1. Very Effective | 2. Somewhat Effective | 3. Not Effective | 4. Don't Belong |
|------------------------------------------------|-------------------|-----------------------|------------------|-----------------|
| a. GEM | 1 | 2 | 3 | 4 |
| b. JCEM | 1 | 2 | 3 | 4 |
| c. Chamber of Commerce, Industry & Agriculture | 1 | 2 | 3 | 4 |
| d. FIV.MPA.MA | 1 | 2 | 3 | 4 |
| e. CONECS | 1 | 2 | 3 | 4 |
| f. Other (specify): _____ | 1 | 2 | 3 | 4 |

75. Which of the following services would you want a business/trade association to offer (or increase)? (For each category of response, circle the appropriate number)

- | | 1. Very Interested | 2. Somewhat Interested | 3. Not Interested | 4. Don't Know |
|----------------------------------------------------------------------------|--------------------|------------------------|-------------------|---------------|
| a. Provide access to credit | 1 | 2 | 3 | 4 |
| b. Provide technical assistance | 1 | 2 | 3 | 4 |
| c. Develop personnel training services | 1 | 2 | 3 | 4 |
| d. Provide feasibility studies | 1 | 2 | 3 | 4 |
| e. Increase contact/representation with Government | 1 | 2 | 3 | 4 |
| f. Provide information on government administrative procedures/regulations | 1 | 2 | 3 | 4 |
| g. Provide information on export markets | 1 | 2 | 3 | 4 |
| h. Provide information on local market | 1 | 2 | 3 | 4 |

76. As an employer, does your company (Mark ALL categories either 1=yes; 2=no; 3=don't know/not apply):

- a). Offer health services for employees _____
- b). Offer savings plans for employees _____

THIS ENDS THE SURVEY. THANK YOU VERY MUCH FOR YOUR COOPERATION

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ANNEX D

PRELIMINARY ANALYSIS OF CROSS OWNERSHIP
OF MADAGASCAR COMPANIES

ANNEX D

PRELIMINARY ANALYSIS OF CROSS OWNERSHIP OF MADAGASCAR COMPANIES

<u>SHAREHOLDER</u>	<u>%</u>	<u>COMPANY OWNED¹</u>
ABODOBM	20	SCAIM Ste Commerciale Agric Indus de Majunga
AIR-MAD	1	ZAMA Ste
AIR-MAD	2	CASINO MADAGASCAR
AIR-MAD	2	HAVANA
AIR-MAD	10	SOMHI Hotels
AIR-MAD	20	AIRTOURS
AIR-MAD	16	SOMACRAM Ste Malg de Courtage, de Rep et d'Affret Mar
AIR-MAD	99	SOFITRANS
AKBARALY	30	TADYNYL Tady Nylon MANUFACTURE
AKBARALY	100	Hassim Hirjee & Fils Ste
AKBARALY	100	SOCOMO Morondava, ste comm de
AKBARALYA	100	Limonaderie Karime Sajaoudine A Akbaraly
AKBARALYY	100	Pret Export
AKBARALYY	100	SIPROMAD Produits de Mad, Ste Indus de
AKESSONB	100	SMGI Grande Ile, Ste Miniere de la
AmarsyFreres	100	Amarsy Freres
ANDRIAMANANJARA	49	SOMIMTO Multi-Services Toamasina, Ste M de
ANDRIAMBELO	100	Wm Anglesio Entrp
ANDRIAMIRADO	100	Imprimerie l'Avenir
ANDRIANARIVELO	100	MIT Malala International Trade SA
ANDRIANTSITOHAINA	7.5	BMOI
ANDRIANTSITOHAINA	100	NIAG Imprimerie des Arts Graphiques
ANDRIANTSITOHAINA	100	Outre Mer Optique SA
ANDRIANTSITOHAINA	100	TSARASAOTA Manufactures Kiso-Drazan, Ste
ANDRIANTSITOHAINA	78	Virio Ets
ARO	1	ZEREN
ARO	2	MALTO Malts et Orges SA

¹Note the following:

PE before the name means private foreign company
 PN before the company name means private national company
 PM before the company name means private Malagasy company
 PP means private small holders
 jp means it is a Japanese company
 fr means it is a french-owned company

ARO	2	Pecherie et Froid Ocean Indien
ARO	2	STAR
ARO	2	ZEMA
ARO	3	FITATO
ARO	4	FIMA
ARO	5	Ste de Promotion hoteliere de Madagascar
ARO	6	SMATP Construction
ARO	8	BNI
ARO	8	JB
ARO	8	TRANS-7
ARO	8.5	JB Ste
ARO	10	FIMA Fitaterana Malagasy TRANSPORT
ARO	10	OFAFA
ARO	10	SDS Ste de Developpement Sucrier
ARO	14	SOCOBIS Ste Confisiere et Biscuitiere
ARO	15	Emballages Metalliques Ny Vifotsy, Ste d'
ARO	15	SMATP
ARO	15	Ste d'Emballages metalliques "Ny Viftosy"
ARO	15.5	AUXIMAD
ARO	17	Aventour
ARO	17	CINEMEDIA
ARO	17	SEL
ARC	18	HAVANA
ARO	20	SECAN
ARO	20	Ste malgache de Courtage, de repres et d'affretements
ARO	20.33	SOMACRAM Ste Malg de Courtage, de Rep et d'Affret Marit
ARO	21	Aventour SA
ARO	40	SAGRIM Menabe, Ste Agr et Indus du RUM
ARO	44	KOBAMA Koba Malagasy
ASCARALY	100	Issoufaly H. Koka & Fils Ets
ASGARALY	100	FIMAVI Fikambanana Malagasy Amin' ny Varotra sy Ind
AUXIMAD	5	PETROMAD
AUXIMAD	5	SECAM
AUXIMAD	6	CMN
AUXIMAD	7.5	Ste de Batelage de Toliary
AUXIMAD	11	Ste de Batelage du Tulear
Azote, CompFrDeL'	20	SEPCM Ste de'Engrais et de Prod Chimi de Mada
BALBINE	30	Madecuirs SARL
BARDAYA	40	OIM Omnium Industriel de Madagascar
BARDAYA	100	FIF Fampitaaovana Ny Industria sy ny Fambolena AGR
BARDAYA	100	PLASTIMA Electro-Plastique Malgache

BARDAYA	100	SPPN Produits a parfum de Nosy-Be Ste
BARDAYG	100	SOMASEL Ste Malgache du Sel
BARDAYH	39	JB Ste
BARDAYN	100	SIB Ste Industrielle du Boina
BARDAYS	99	SOSIMAE Ste Sino-Malgache d'Emaillerie
BARDAYS	100	MAJINCO Industrie et de Commerce Ste Majungaise d'
BATELAGEdeNosy-Be	15	So.Ba.No.
BDPA	7.2	BCL Bureau Central Laitier
BELIN	1	MAFI Machinisme Agricole et Fabrication Industrielle
BFV	6	Cimelta Jeumont
BFV	8	SIRAMA Siramamy Malagasy SUGARY
BFV	10	FIMA Fitaterana Malagasy TRANSPORT
BFV	10	SDS Ste de Developpement Sucrier
BFV	14	KOBAMA Koba Malagasy
BFV	17	SEL
BFV	38	TISMA Tissage de Soieries Malagasy SA
BNI	1	FANALAMANGE Fambolen-Kazon' Analabe Moramanga FORESTS
BNI	1	SOMALAVAL Laques Valentine, Ste Malagasy des
BNI	4	SAC*MEM
BNI	5	Air Mad
BNI	5	MALTO Malts et Orges SA
BNI	6	PROCHIMAD Prod Chim de Mad ste des
BNI	7.025	ARO
BNI	7.5	SECREN Ste d'Etudes, de Constr et Repar Navales
BNI	10	FIMA Fitaterana Malagasy TRANSPORT
BNI	10	FITIM Filature et Tissage de Madagascar
BNI	10	Robert, Chocolaterie SA
BNI	10	SDS Ste de Developpement Sucrier
BNI	10	SIRAMA Siramamy Malagasy SUGARY
BNI	10	SOMACRAM Ste Malg de Courtage, de Rep et d'Affretem Mariti
BNI	11	Virio Ets
BNI	12	CIMA - sold 1990 to ABACIMAL?
BNI	13	MAFI Machinisme Agricole et Frabrication Industrielle
BNI	15	CONSALMAG Saliniere de Madagascar Cie
BNI	15	SMATP Construction
BNI	16	SOABE Sokain' Antsirabe SA CHAUX
BNI	17	Aventour
BNI	17	BATA - sold to RAJABALI 1990?
BNI	17	SEL
BNI	17	Vitafoam-Madagascar Ste

BNI	18	SOMACROU Ste Malgache de Couvertures
BNI	33	SNIC Imprimerie Centrale Ste Nouvelle de l'
BNI	34	Hary Ets
BNI	35	Savonnerie Tropicale SA
BNI	39	SOBOMA Ste Bonnetiere Malagasy
BNI	43	Emballages Metalliques Ny Vifotsy, Ste d'
BNI	44	DALMARBRE Hazovato SA STONE PROD
BNI	49	PAPMAD Papeteries de Madagascar SA
BNI	51	TAMALU Ste Tamatavienne d'Aluminium
BNI	70	HCT Huilerie Centrale de Tananarive
BNI	84	SOCOBIS Ste Confisiere et Biscuitiere
BNI	85	PANOMAD, Ste
BNI	85	SIPED Produits Electriques et Derives, BATTERIES
BOINaste	30	Majunga Press
BONNET	10	PANOMAD, Ste
BOURBONSucDe	21	SDS Ste de Developpement Sucrier
BOURBONSucr	34	SAGRIM Menabe, Ste Agri et Indus du RUM
brdHansen	75	Landis Madagascar SA
brdLANDER	100	Technique et Precision
brdMalschA	41	SOMACOU Ste Malgache de Couvertures
BTM	1	SIDEMA Ste Industr p/l Develop du Machinisme Agricole
BTM	1	SOMALAC Ste Malgache d'Amenagement du Lac Alaotra
BTM	3.214	ARO
BTM	4	FIMA
BTM	4	LANSU
BTM	5	HAVANA
BTM	7.5	SECREN Ste d'Etudes, de Constr et Repar Navales
BTM	8	BCL Bureau Controle Laitier
BTM	8	CONSALMAG
BTM	8	CONSALMAG Saliniere de Madagascar Cie
BTM	8	SIRAMA Siramamy Malagasy SUGARY
BTM	8	ZEMA
BTM	9	JB
BTM	9	OFAFA
BTM	10	FIMA Fitaterana Malagasy TRANSPORT
BTM	13	MAFI
BTM	13	SIRAMA
BTM	17	SEL
BTM	19	MADENGRAIS
BTM	20	SOAVOANIO
BTM	20	SOAVOANIO Sambava Voanio Ste COCOA
BTM	34	SOMAPALM Palmier e Huile, Ste Malagasy pour le
BTM	35	SAVIO

BTM	40	MALTO Malts et Orges SA
CASSAMChenia	100	SCIM Ste Commerciale et Indus de Madagascar
CASTELgrp	50	Melvino SA BOOZE/WINE
CENTBANK	10	BTM
CETA	7.5	SIDEMA Ste Indus pour le Develop du Machinisme Agricole
CHAN	10	Tsaralaoka Ste
CHAN	48	SITRET Ste Indus des Trois Etoiles BOUGIES
CHAN	50	Potiniere
CHAN	75	Masoandro Ste SODAS
CHAN	80	Cotes d'Isandra SA
CHAN	100	Marohavana Ste BOOZE
CHAN	65	Honey SA
ChuSai	35	SODIAC Ste pour de Devel de Inds et Agr de la Cote Est
CieGenMarit	14	SMTM MARITIME
CIMELTA	1.4	SIDEMA Ste Industr p/l Dev du Machinisme Agricole
CMN	4	SBT Tulear, Ste de Batelage de
CMN	8	AUXIMAD
CMN	15.5	AUXIMAD
CNAPS	4	FITIM Filature et Tissage de Madagascar
CNAPS	10	SIPED Produits Electriques et Derives BATTERIES
CNAPS	12	CIMA - sold 1990 to ABACIMAL?
CNAPS	15	PROCHIMAD Prod Chim de Mad ste des
CNAPS	17	SCAM Oxygene et d'Acetylene de Madagascar Ste d'
CNAPS	20	SECREN Ste d'Etudes, de Constr et Repar Navales
CNCTPC	49	SMATP CONSTRUCTION
CoComIndAgr	7.2	BCL Bureau Central Laitier
COFARMA	25	RATHERA Laboratoires de Recherches et Appl Therapeutiq
COFIC	100	Madexpress SARL
COJRAC	25	COMERCO Construction, Ets Comm pour le
COLLECTIVITE	1	SEIMAD

COOP	12	FIFABE Fikambanana Fampanandrosoana by Lemak'i Betsiboka
COREMA	53	FIPAMENA Fikambanan' ny Mpampandroso ny Alan'i Menabe F
COREMA	80	FAVIMA Fandrendrehana vy Malagasy
COROI	1	SOGEDIS Ste Generale de Distribution
COROI	4	SOCOMI Ste de Constr de Mecanique et Industr
COROI	12	CIMA - sold 1990 to ABACIMAL?
COROI	15	HCT Huilerie Centrale de Tananarive
COROI	17	BATA - sold to RAJABALI 1990?
COROI	24	SOABE Sokain' Antsirabe SA CHAUX
COROI	25	KAFEMA Kafe Malagasy
COROI	33	SCAC Affretement et combustible Ste Comm de
COROI	50	Malaise, Ets COFFEE
COROI	100	CNIA Industries Agricoles Cie Nossibeenne d' ESS OIL
COROI	100	DIPCO Ste Industrielle
COROI	100	Galland, Ste Jacques RICE
COROI	100	SCEPAG Ste pour le Conditionnement et l'Expo Prod Agr
COROI	100	SECA Cafes du Sud, Ste d'Exportation des
COROI	100	SPM Produits de Madagascar Ste des
COROI	100	TRAPAG Stockage et de Traitement des prd Agricoles
COTONA	1	SMANGOKY Ste de Amenagement du Bas- Mongoky
COTONA	62	TISMA Tissage de Soieries Malagasy SA
CRIPARACOS	25	Sarelacos & Cie
DARRIEUX	2	MAFI
DARRIEUX	2	MAFI Machinisme Agricole et Fabrication Industrielle
DARRIEUX	9	AKORA
DESLANDRES G	80	Deslandres & Cie
DIEUDONNE	100	Nosy Kely Ste FISHERIES
DORANGE CMDM		Manutention, Cie Malgache de
EIDEL	5	SOMALAVAL Laques Valentine, Ste Malagasy des
EntrSoc	24	LANSU Langouste du Sud, Entreprise Socialiste

FARCO	15	Imprimeries de Tananarive Ste Nouv pour la Exploi de
FARITANY	60	Tafita SA TRANSPORT
Faritany D'Antisranana	15	Ny Antsiva
FIAKARA	100	SIMACO Materiaux de Construction, Ste Industr de
FIARO	13	KOBAMA Koba Malagasy
FivFIANARANTSOA	8	Tafita SA TRANSPORT
FNI	5	SEL
FNI	51	SOABE Sokain' Antsirabe SA CHAUX
FNI	96	SOCOMI Ste de Constr de Mecanique et Industr
FONG	70	SAMKCOWA Radio & Cie Ste
fr MODRIN	100	Modrin et Cie, Ets
fr MENNESSIER	5	SIPED Produits Electr et Derives BATTERIES
fr LANG Soval Madagascar SA		
frAirFrance	3	Air Mad
frAIRLIQ	65	SOAM Oxygene et d'Acetylene de Madagascar Ste d'
FRAISE	15	RATHERA Lab et Recherches et Application Therapeutique
FRAISE	49	STAR
FRAISE	100	Fraise Fils & Cie, Ste Henri
frBACHY	99	SIF-BACHY Sondages, Injections, Forages Entr Bachy
frBANK	4	SOTEMA Textile de Majunga Ste
frBATA	34	BATA - sold 1990 to RAJABALI?
frBELIN	44	MAFI Machinisme Agricole et Fabrication Industrielle
frBOLLORE	30	SMII Impression Industrielle Ste Malgache d'
frBOLLORE	51	SACIMEM
frCAIM	97	SOMIA Industrie et d'Agriculture Ste Malg d'
frCCCE	4	SOMALAC Ste Malgache d'Amenagement du Lac Alaotra
frCCCE	10	FIARO
frCCCE	15	SEIMAD
frCEDEST	100	MACOMA Materiaux de Construction de Madagascar
frCFAO	SOMIA	Industrie et d'Agriculture Ste Malg d'
frDAVUMint	81	COMETA Metallurgique de Madagascar Ste
frDEHEAULME	100	Motel Capricone
frDESetCAB	16	SOMALAVAL Laques Valentine, Ste Malagasy des

frDESetCAB	17	SOMALAVAl
frDESetCAB	99	Descours et Cabaud Madagascar
frETRON	77	CONSALMAG Saliniere de Madagascar Cie
frFRANCEcable	47	STIMAD Telecom Internationales de Mad, ste de
frGALLOIS	100	Gallois Ets
frGelPeche	33	Refrigepeche Ouest
frGEROLD	80	PRONATEX Produit Naturel Exotique Soavoany, ste p/l
frGIRAUD	100	Miroiterie de Madagascar MIRRORS
frIZOUARD	98	Izouard Ets
frJEUMONT	73	Cimelta Jeumont
frJOUBERT	100	ETB Entrep de Travaux de Boina CONSTRUCTION
frJunot	35	VETTEX Vetements et Textiles
frLAROUSSE	19	SOMALAVAl Laques Valentine, Ste Malagasy des
frLEPAGE	66	Rostaing, ets GRAPHITE
frLOUYS	100	Louys & Cie, Ste Arsene
frLUCAZEAU	51	SOMIMTO Multi-Services Toamasina, Ste Malg Ind
frORNAISEdAPPR	50	OFMAVINS Office Malgache des Vins
frPARSON&WHITTEMORE	3	PAPMAD Papeteries de Madagascar SA
frPotasse-Azote	80	SEPCM Ste d'Engrais e/d Prods Chim de Madag
frPP	32	COLAS
frPRISUNIC	100	PRISUNIC Grand Magasins de Madagascar
frSCAC	67	SCAC Affretement et combustible Ste Comm de
frSCOA	100	AFM Assurance France Madagascar (SCOA)
frSECMO	30	SECMO-M/CAR Ste d'Etudies de Const de Maison et Ouvr
frSEITA	59	SMII Impression Industrielle Ste Malgache d'
frSEPT	75	Trans-7
frSERRE	100	Graphoprint
frSITP 68 COLAS		
frSUIRE	83	Vitafoam-Madagascar Ste
frTEILLET	91	Teillet et L Labrousse L
GENERALE		
d'ENTREPRISES Ste	99	Ste Gen de Batiment et Travaux Publ
GulfTradif	49	FITIM Filature et Tissage de Madagascar
HADJEE M	20	SCAIM Ste Commerciale Agric Indus de Majunga
HAIDARALY	100	Mamodaly Vally Freres Ste RIZ
HAIKAZO	5	Takalo SARL
HANAVA	8	SOABE Sokain' Antisirabe SA CHAUX
HANAVA	12	CIMA - sold 1990 to ABACIMAL?
HASIKIN	90	Tsaralaoka Ste
HasikinSing	50	Hasikin Madagascar Ste

HASSANALY	15	SOBANO Batelage de Nosy-Be Ste de
HASSANALY	100	Hassanally Hirdjee Freres Ets
HASYMA	7.5	Ste de Batelage de Toliary
HAVANA	2	Air Madagascar
HAVANA	4	FIMA
HAVANA	5	FITO
HAVANA	6	SERDI
HAVANA	8	BNI
HAVANA	8	SOABE
HAVANA	10	Fitaterana Malagasy TRANSPORT
HAVANA	10	LANSU Langouste de Sud
HAVANA	12	CIMA - now ABACIMAL
HAVANA	13	Bonnet & Fils
HAVANA	15.5	AUXIMAD
HAVANA	17	SEL
HAVANA	23	Lalasoa
HAVANA	35	SIRANALA
HAZOMEVA	50	SAGE Administration, la Gestion et Etudes des Entrep
HIRIDJEE	49	PCM Produits en Ciment Moule
HIRIDJEE	100	CENCIAL Centre Commercial de Distribution
HIRIDJEE	100	Karabi
HIRIDJEE	100	SNT Sud Nord Trade
HIRIDJEEA	100	Fandrosoana SA
HIRIDJEEA	100	TRIMETA Tricotage Mecanique de Tananarive
HIRIDJEER	61	Ocean Trade Company
HIRIDJEEY	100	Rheman, Ets
HIRIDJEEY	100	SACOPLAST
HoAGG	50	SOAFIA Ste Boulangerie Patisserie de Fianarantsoa
HoHL	23	SOCOREX Ste de Commission, de Rep et d'Exportation
HoR	50	SOAFIA Ste Boulangerie Patisserie de Fianarantsoa
HOUSSENALY	100	Houssenaly Premjee Fils Ste
IBARAMDJY	100	Moustansir Ibaramdjy Freres ste
iFRANCO	50	SEALAB Sealaboratory SARL
IMJ	2	CIRT Radio et Television, cie Industr de
IMI	85	Takalo SARL
IMPAD	15	SERVIS
IMPAD	15	SNITA
INTERPARCO	79	SOMALCO Ste Malg de Cosm et de Parfumerie
INTP	30	SMATP Construction
INTSOUROU P	23	SOCOREX Ste de Commission, de Rep et d'Exporta..
IPROMAltd	16	PNB Pecheries de Nosy Be

ISLER	60	SCAIM Ste Commerciale Agricole Industrielle de Majunga
ISMAIL	79	COTONA repurchased STATE 51% 1990
ISMAIL	100	SOCOTA
iSPIForello	56	DALMARBRE Hazovato SA STONE PROD
JB	25	OIM Omnium Industriel de Madagascar
JIRAMA	10	KOBAMA Koba Malagasy
JIRAMA	99	Ste Anjara SA
jpIMAMURA	49	SOPEBO Pecheries du Boina Ste des
jpKGKK	49	COFRITO Complex Frigorifique de Toliary
jpSUMITOMO	100	Sumitomo Corp Japan
KALFANE	70	Kalfane &Fils SARL
KAM	100	Exploitation de Pain de Madagascar Ste d
KARIMJY	100	Karimjy Mamodbay, Ets
KARMALY	100	Habibo & Cie
KARMALY	100	Maronjana Ste BOUGIES
KOTSIRILOS	25	Sarelacos & Cie
LAKOUBAY	100	SICOVEZO Industrielle et Comm Vezo Ste COFFEE
LEONG	35	Record & Cie Ste
MACOMA	75	Tany Malagasy 2000 SA BRICKS
MadaoudjeeOukabay	70	SOMATEX Textile, Ste Malgache de
MadAutRENAULT	99	SOMECA Mecanique Automobile et de Rep Indus
MADPRINT	10	FITO SA
MAHERY	38	SOMIVA
MAJINCO	50	COMEX Exportation Compagnie Malgache d'
MAMODHOUSSEN	40	SIMMAD Matelas de Madagascar, Ste Industr de
MarieEts	30	Golaz, Nouvelle Cie
MARSON	80	SMCM Malgache Commerciale et Miniere Ste
MECIPA	48	PAPMAD Papeteries de Madagascar SA
MEF	33	Refrigepeche Ouest
MELVINO	1	MALTO Malts et Orges SA
MELVINO	1	SAGRIM Agricole et Industrielle de Morondava Ste
MELVINO	35	SAVIO Agro-Vinicole Iomonana Ste
MERALLI	55	Madecasse Commerciale Cie
MichelsonR	54	SOCOREX Ste de Commission, de Rep et d'Exporta..
MPT	30	EXO 2000
NCHP	21	SMTM MARITIME
NCHP	33	AUXIMAD
NOSY-BeCofC	63	So.Ba.No.
NySoa	25	SOGEA
OFMATA	33	SITAM Tabac Malgache, Ste Indus de
OIM	22	JB Ste
OIM	22	JB Ste
OMNIS	27	SECREN Ste d'Etudes, de Constr et Repara Navales

OTHERS	7	SEMA-Eau-Vive
OTHERS	9.45	SOMACRAM St Malg de Courtage, de Rep et d'Affre Marit
OTHERS	10	COJRAC Raharison et Cie
OTHERS	18	SOAM Oxygene et d'Acetylene de Madagascar Ste d'
OTHERS	20	Deslandres & Cie
OTHERS	66	Hary Ets
PAPMAD	48	MECIPA, Etudes de Constr et d'Invest Papetier, St Mde
PE	1	Descours et Cabaud Madagascar
PE	1	SIF-BACHY Sondages, Injections, Forages Entr Bachy
PE	2	Malgapan SA
PE	3	SOMALCO Ste Malg de Cosm et de Parfumerie
PE	4	Vatsy Ets
PE	6	PROCHIMAD Prod Chim de Mad ste des
PE	10	Arrive & Cie SA
PE	10	Madagascar Mascareignes insurance agency
PE	11	Virio Ets
PE	12	SOFIMA Fers Industriels de Madagascar Ste des
PE	14	HCT Huilerie Centrale de Tananarive
PE	18	Cimelta Jeumont
PE	19	SNIC Imprimerie Centrale Ste Nouvelle de l'
PE	19	SOMEMA Ste Malg d'Exploitations Minieres et Aufiers
PE	20	COMADIS Comptoir Malgache de Distribution
PE	20	Ste de Batelage de Toliary
PE	21	COTONA
PE	23	Pechexport Ste
PE	24	SOMEXPA Ste Malg d'Exploitation et de Participation
PE	25	SATI Ste pour l'Appret, La Teinture et l'Impression
PE	30	Boudhabhay SA
PE	30	Kalfane & Fils SARL
PE	31	Elatra Communication Professionnelle
PE	31	SOMOCO Mahomed & Cie Ste
PE	33	Chu Sai & Fils SA Rum Distillery
PE	40	COREMA Comptoir de Recuperation de Madagascar
PE	42	M "Ny Soa" SA
PE	47	SMCT Ste Malgache de Carriere et de Terrassement
PE	49	Aventour
PE	49	Calberson International
PE	49	SAMAF TEIFA Ste Anon Malgache d'Applications du Fil

PE	50	DISCOI Distribution Commerciale Ocean Indien
PE	50	Majunga Press
PE	58	SOBOMA Ste Bonnetiere Malagasy
PE	60	Excellence Bus
PE	60	Hasky Freres Ste
PE	62	STPA Tolerie et Peinture d'Antananarivo Ste
PE	65	SODIAC Ste pour le Develop de Industr et Agr de la Cote Est
PE	75	Bonnet & Fils, ste F
PE	75	SAIP Ste d'Applications Industrielles Plastiques
PE	80	SOCOBOINA Ste Commerciale du Boina
PE	87	Hotel Colbert
PE	90	SMA Ste Malgache d'Assurances
PE	90	Ste Aquamad
PE	98	NACM Nouveaux Ateliers de Constr Metalliques
PE	99	MATERAUTO Materiel Automobile et Industriel Le
PE	100	Abdoulhousen Sulemanjee & Fils
PE	100	Akbaraly Moulanamoudy & Fils
PE	100	AMECA
PE	100	APMA Apres Vente Malagasy SARL
PE	100	Audier, Ets Bruno
PE	100	Aurlac SA
PE	100	Berger Ardoin & Cie
PE	100	Cartomad
PE	100	Chapin & Cie, Pierre
PE	100	COMACAT Cie Malgache du Caoutchouc de Brugada et Fils
PE	100	Dexter-Mad
PE	100	Dulong de Rosnay Ets
PE	100	Duponsel & Cie Ste Roger
PE	100	Electromad
PE	100	ENDUMA Enduction de Madagascar
PE	100	Hassanaly & Fils Ste
PE	100	Hatim Ste
PE	100	Hifaz Ste
PE	100	LLM Librairie de Madagascar, la
PE	100	Salone SA FOOD STUFF prod
PE	100	SODIAMA Ste de Diffusion Automobile de Madagascar
PE	100	Ste Agricole de Bevoay
PENR	80	SFOI Fabrication de l'Ocean Indien Ste de
PER	8	SFOI Fabrication de l'Ocean Indien Ste de
PILA	100	FIMAPILA Fikambanam-Barotra sy Taozavatra Malagasy Pila
PIRBAY	100	SMTC Ste Malg de Transform de Caoutchouc
PM	1	Golaz, Nouvelle Cie
PM	1	MATERAUTO Materiel Automobile et Industriel Le

PM	1	SEIMAD
PM	1	SOFITRANS
PM	1	Ste Anjara SA
PM	1.306	ARO
PM	2	NACM Nouveaux Ateliers de Constr Metalliques
PM	3	Cimelta Jeumont
PM	3	SOBOMA Ste Bonnetiere Malagasy
PM	5	ATO Air Route Services
PM	6	PCM Produits en Ciment Moule
PM	6	PROCHIMAD Prod Chim de Mad ste des
PM	7	M "Ny Soa" SA
PM	9	Teillet et L Labrousse L
PM	10	Mahery Ste
PM	10	Ste Aquamad
PM	12	SFOI Fabrication de l'Ocean Indien Ste de
PM	13	Hotel Colbert
PM	16	LANSU Langouste du Sud, Entreprise Socialiste
PM	20	Cotes d'Isandra SA
PM	20	FAVIMA Fandrendrehana vy Malagasy
PM	20	SMCM Malgache Commerciale et Miniere Ste
PM	20	SOCOBOINA Ste Commerciale du Boina
PM	25	Bonnet & Fils, ste F
PM	25	Landis Madagascar SA
PM	25	SAIP Ste d'Applications Industrielles Plastiques
PM	25	Tany Malagasy 2000 SA BRICKS
PM	30	SAMKCOWA Radio & Cie Ste
PM	31	IMPAD Impression et de Faconnage d'Imprimes Administratifs
PM	31	SATI Ste pour l'Appret, La Teinture et l'Impression
PM	35	Honey SA
PM	39	Ocean Trade Company
PM	40	Excellence Bus
PM	40	FARCO Fabrication d'articles de Conditionnement Ste de
PM	45	Madecasse Commerciale
PM	47	FIPAMENA Fikambanan' ny Mpampandroso ny Alan'i Menabe FORES
PM	49	EHR Entreprise de Haute Restauration
PM	50	BOB Faconnage et d'Impression de Matières en bobine Ste de
PM	50	DISCOI Distribution Commerciale Ocean Indien
PM	51	Calberson International
PM	51	COFRITO Complex Frigorifique de Toliary
PM	51	SOMAGI Gestion et d'Informatique, Ste Malgache de
PM	52	SICOCEAN Ocean Indien, Ste Indust et Comm de
PM	52	SITRET Ste Indus des Trois Etoiles BOUGIES

PM	55	Record & Cie Ste
PM	58	STPA Tolerie et Peinture d'Antananarivo Ste
PM	60	COREMA Comptoir de Recuperation de Madagascar
PM	60	RATHERA Lab et Recherches et Application Therapeutique
PM	65	VETTEX Vetements et Textiles
PM	67	Chu Sai & Fils SA Rum Distillery
PM	69	Elatra Communication Professionnelle
PM	70	Madecuirs SARL
PM	70	SECMO-M/CAR Ste d'Etudies de Construct de Maisons et Ouvr
PM	76	SOMEXPA Ste Malg d'Exploitation et de Participation
PM	77	Pechexport Ste
PM	80	COMADIS Comptoir Malgache de Distribution
PM	81	SOEMEMA Ste Malg d'Exploitations Minieres et Aurifers
PM	88	SOFIMA Fers Industriels de Madagascar Ste des
PM	90	Arrive & Cie SA
PM	96	Vatsy Ets
PM	100	ABC Atelier Bakoly Ceramique SARL
PM	100	ATLAS
PM	100	AVYMA Asa Vy Malagasy SARL
PM	100	Bibliomad
PM	100	Blaise et Christine, Ste
PM	100	BMET Bureau Malgache d'Etudes Techniques
PM	100	Bongou SARL, Ste
PM	100	COLORMAD Ste Malagasy Asa Printy Miloko
PM	100	Dujardin Delacour & Cie
PM	100	Durand Gilbert & Cie, Entreprise
PM	100	Entreprise ny Andre
PM	100	FANARENANA management consultant
PM	100	FIAVAMA Fikambanana asa sy Varotra Malagasy
PM	100	FYG Yaourt Garantie, Fabrication de SARL
PM	100	IMEX Madagascar
PM	100	Imprimerie Tanananrivienne
PM	100	Le Pain Francais Boulangerie de Behoririka
PM	100	Papaemmel Freres Ste
PM	100	SCAAV Ste de Courtage, d'Assurance et d'Agence by Voyages
FM	100	SECE Ste d'Etudes, de Conseils et d'Expertise
PM	100	SECOi Ste d'Etude et de Comptabilite de l'Ocean Indien
PM	100	SME Ste Malgache d'Edition
PM	100	SODELMA Ste pour le Develop de l'Electricite a Madagascar

PM	100	TBG Famokarana Taila sy Birikin' I Gasikara BRICKS
PMNR	10	Record & Cie ste
PN	2	Izouard Ets
PN	3.3	STAR
PN	10	SMA Ste Malgache d'Assurances
PN	20	MAJUNGA PRESS
PN	22	JB Ste
PN	34	Rastaing, ets, GRAPHITE
PN	35	OIM Omnium Industriel de Madagascar
PN	40	Hasky Freres Ste
PN	48	SNIC Imprimerie Centrale Ste Nouvelle de l'
PN	50	Hasikin Madagascar Ste
PN	51	SAMAF TEIFA Ste Anon Malgache d'Applications du fil
PN	53	SMCT Ste Malgache de Carriere et de Terrassement
PN	70	Boudhabhay SA
PN	90	Madagascar Mascareignes insurance agency
PN	100	Barbero & Cie SA
PN	100	Djouma Lila Freres Ets
PN	100	Fanjava Ste
PN	100	FIMT Fikambanana Malagasy Mpanao Taosavatra EDUC MATERIALS
PN	100	SEGEFORM Generale et Fonciere de Madagascar Ste d'Entr
PN	100	SOMACOPRIM Ste Malg de Constr et de Promot Immobiliere
PP	1	SACIMEM
PP	1	SOMIA Industrie et d'Agriculture Ste Malgache d'
PP	1	SOSIMAE Ste Sino-Malgache d'Emaillerie
PP	2	CMN Navigation, Cie Malgache de
PP	3	SOTEMA Textile de Majunga Ste
PP	5	AUXIMAD
PP	6	SOMALAVAL Laques Valentine, Ste Malagasy des
PP	10	BATA - sold to RAJABALI 1990?
PPE	2	SMII Impression Industrielle Ste Malgache d'
PPN	9	SMII Impression Industrielle Ste Malgache d'
PRECIS	3	MAFI Machinisme Agricole et Fabrication Industrielle
PREFOODS	45	Pesca Export SA, la
PROCOOPS	0.10	ARO
PROCOOPS	5	SDS Ste de Developpement Sucrier
PROCOOPS	51	HYDRAUMA Produits Hydrauliques de Mad Ste des
RABEMIARANA	100	Cafe Tsy Resy, Rabemiarana

RABETSAROVANA	100	Negoce et Developpement
RABOANARIJANO	100	SOMDITO Rabonarijaona Freres Ste
RABOANRY	100	FITERAMA Fikambanan' ny Mpanao Tenona sy Rary Malaga
Radona, Augustin	95	Agence de Distr et Comm de Mad NADISCOM
Radona, Justin	5	Agence de Distr et Comm de Mad NADISCOM
RAHAISON	90	COJRAC Raharison et Cie
RAHARIFIDY	100	Imprimerie Nouvelle
RAHARIMANANA	33	SFOI Ocean Indien, Ste Fiduciaire de l
RAHIM-Khana	35	SOCODIF Ste Commerciale de Diffusion
RAHIM-KhanK	53	SOCODIF Ste Commerciale de Diffusion
RAICHAND	100	Raichand Ramjee Shah & Fils SARL
PAJABALI	100	COMEPLAST Produits Metallurgiques et Plast
RAJABALI	100	FANAVOTANA Filature et Tissage, Entre de
RAJABALI	100	SIFA Industrielle de Fianarantsoa Ste
RAJABALI	100	SOSIMABI Ste Sino-Malagasy des Bouteilles Isolantes
RAJABALI	100	TRICOMAD Tricotages de Madagascar, Ste Indus de
RAJAONAH	100	Madagasikara Safari Tours
RAJOHARISON	20	PRONATEX Produit Naturel Exotique Soavoany ste p/l
RAKOTOARISOA	100	COMINOR Comptoir Malgache pour 'Indust et Exp
RAKOTOARITSIMA	100	Royal Spirits & Cie
RAKOTOMALALA	25	Masoandro Ste SODAS
RAKOTOMAVO	98	Malgapan SA
RAKOTONANDRASANA	3	Sausse & Cie SARL CONSTRUCTION
RAKOTONDRANAIVO	100	MPT Peinture Tanamsoandro, ste Malgache de
RAKOTONDRASATAR	15	PANOMAD, Ste
RAKOTONIRIJA	100	SMAPE Peinture, Nouvelle ste Majungaise de
RAKOTOVELO	50	SEALAB Sealaboratry SARL
RAKOTOZAFYC	50	Hazomeva
RAMAHAY	100	Perlin SA
RAMAHENINA	100	Paraky Sambatra Ste
RAMAHOLIMIHASO	100	Delta, Ste
RAMANAKORAISINA	100	MADELEC plumbing/elect contractor
RAMANANARIVO	19	OFMAVINS Office Malgache des Vins
RAMANANDRAIBE	1 S	OGEDIS Ste Generale de Distribution
RAMANANDRAIBE	41	SOMACROU Ste Malgache de Couvertures
RAMANANDRAIBEM	90	Robert, Chocolaterie SA
RAMANANTSIAROVANA	100	Vy Taobavy SA

RAMAROSON	19	COMETA Metallurgique de Madagascar Ste
RAMAROSON	65	Savonnerie Tropicale SA
RAMIARAMANANA	100	UCOFRUIT
RAMPAROELINA	100	Vero Ste
RANAIVO	100	Sara & Cie, Ets CONSTRUCTION
RANAIVOARIVelo	100	Mirana SA
RANAIVOSOA	100	MADPRINT Madagascar Print and Press Company Ste
RANARIVelo	100	Madoptique
RANDRIAH	7.5	SIDEMA Ste Indust p/l Dev du Machinisme Agricole
RANDRIAMAHOLY	100	Provimi Madagascar
RANDRIAMANDRANTO	100	Iary Ste
RANDRIAMITANDRINA	100	MANULIN Mfcture de Lingerie et de Confect
RANDRIANARISOA	100	MAMAFY Malagasy Mamatsy Fitaovana
RANDRIANASOLO	100	GERMADCO MINING
RANDRIANAVALONAS	33	SFOI Ocean Indien, Ste Fiduciaire de l
RANDRIANAVALONAV	33	SFOI Ocean Indien, Ste Fiduciaire de l
RANOHSOA	100	Madagascar Motors SA
RANOHSOA	100	SORANOF Ranohisoa Freres & Cie Ste
RANTOANINA	100	Imprimerie Maneva Nord
RASOAMANANA, H	12	SOCODIF Ste Commerciale de Diffusion
RASOANAIVO	100	RATP Rasoanaivo Transport Public
RATOVO	100	Inter-Light Voyages
RATOVONDRAHONA	33	Soval Madagascar SA
RATSIRAKA	100	SOREX Rrepresentation et d'Exportation, ste de
RAVANDISON	100	Soanala SA
RAVELOSON	100	CICOI Consortium Indus et Comm de Ocean Indien
RAVELOSON	100	Raveloson Fils ste
RAVELOSONA	100	OCM Omnium Commercial de Madagascar
RAZAFIMAHALEO	100	STEDIC Services Trading, Etude et Diff Ind
RAZAFIMAHANDRYM	50	Hazomeva
RAZAFIMANANA	50	Rollimine SEMI-PRECIOUS STONES
RAZAFINDRAMBOA	30	SOMATEX Textile, Ste Malgache de
RAZAFINDRAMBOA	100	Ravandison & Cie Ste
RAZAFINDRANAIVO- ARRIJAONA	85	SIMIEX Import-Export Ste Malgache d'
RAZAFRINDRAMANITRAR	50	Rollimine SEMI-PRECIOUS STONES
RAZAKANDRAINY	100	CREXMAD Creation et Exportation de Madagascar
RAZAKASOA	100	Librairie Mixte
RAZANASON	100	Rabeon & Cie SA
RAZANATSEHENO	51	EHR Entreprise de Haute Restauration
RAZANATSEHENO	100	Razanatseheno, Ets Henry
RefToam	33	Refrigepeche Ouest
REMANALY	48	SICOCEAN Ocean Indien, Ste Indust et Comm de
RNCFM	1	KOBAMA Koba Malagasy

ROSO	1	SOMECA Mecanique Autom et de Rept Industrielle
ROSO	4	TRANS-7
ROSO	4.2	SIDEMA Ste Industr p/l Devel du Machinisme Agricole
ROSO	7.5	Ste de Batelage de Toliary
ROSO	10	PROCHIMAD Prod Chim de Mad ste des
ROSO	10	SDS Ste de Developpement Sucrier
ROSO	25	KAFEMA Kafe Malagasy
ROSO	42	SEMA-Eau-Vive
ROSO	50	Malaise, Etc COFFEE
ROSO	69	Golaz, Nouvelle Cie
SACIMEM	20	SMII, printing
SACMA SEITA	44	SACIMEM
SAMAF	44	SATI Ste pour l'Appret, La Teinture et l'Impression
SAMKCOWA	38	CIRT Radio et Television, cie Industr de
SANTILAL	60	SIMMAD Matelas de Madagascar, Ste Industrielle de
SARELACOS	25	Sarelacos & Cie
SAUSSE	97	Sausse & Cie SARL CONSTRUCTION
ScandLine	6	SMTM MARITIME
SCET	7.2	BCL Bureau Central Laitier
SECREN	40	Ny Antsiva
SEDITEX	42	SOTEMA Textile de Majunga Ste
SEGEFORM	100	SOMAMI Menuiserie Indus, Ste Malg de
SEIM	49	HYDRAUMA Produits Hydrauliques de Mad Ste des
SEIMAD	15	Antsika, EntreprisesNy
SEIMAD	15	Ny Antsiva
SICE KAFEMA		Kafe Malagasy
SICE	0.3	BatelageDeToliary
SICE	1	BatelageDeMananjary
SICE	3	MAFI Machinisme Agricole et Fabrication Industrielle
SICE	4	TRANS-7
SICE	4	TRANS-7
SICE	5	AKORA Ste
SICE	5	Mamisoa
SICE	5	SECAN Ste d'Exploitation Cabotage National
SICE	6	SOMACO Ste Majungaise de Commerce
SICE	7.5	Ste de Batelage de Toliary
SICE	25	BatelageDeManakara
SICE	25	KAFEMA Kafe Malagasy
SICE	100	Darrieux, Ste Maxime
SICE	100	SEVIMA Viande a Madagascar, Ste d'Exploitation de la
SICE	100	Torginol Madagascar Ste PAINT
SIFA	50	SOSIMABI Bouteilles isolantes Soc Sino-Malg des
SINPA	4	TRANS-7
SINPA	5	SIDEMA Ste Indus p/l Devel du Machinisme Agricole
SINPA	7.2	BCL Bureau Central Laitier

SIPROMAD	70	TADYNYL Tady Nylon MANUFACTURE
SIRAMA	2	KOBAMA Koba Malagasy
SIRAMA	4	TRANS-y
SIRAMA	28	SDS Ste de Developpement Sucrier
SIRAMAMY, M	29	SDS Ste de Developpement Sucrier
SIRANALA	5	SDS Ste de Developpement Sucrier
SIRANALA	20	SAGRIM Menabe, Ste Agri et Industr du RUM
SLITA	50	BOB Faconnage et d'Impression de Matières en bobine Ste
SLITA	60	FARCO Fabrication d'articles de Conditionnement Ste de
SLITA	69	IMPAD Impression et de Faconnage d'Imprimés Administrat
SME	35	PRISME
SME-SMBCE	1	SOMALCO Ste Malg de Cosm et de Parfumerie
SMGI	4	SPSM Plantation de Sisal du Mandrare Ste de
SMGI	48	COGEPa Gestion patrimoniale Comp de
SMGI	100	MSDC Malagasian Sisal Development Corporation
SMGI	100	SOMIDA Mines d'Ampandrandava Ste des
SMTM	1	CMN Navigation, Cie Malgache de
SMTM	1	CMN
SMTM	2	HAVANA
SMTM	6	KOBAMA Koba Malagasy
SMTM	6	KOBAMA
SMTM	15.5	AUXIMAD
SMTM	20	SECAN
SMTM	34	AUXIMAD
SMTM	34	SOMACRAM
SMTM	34.22	SOMACRAM Ste Malg de Courtage, de Rep et d'Affret Mari
SOCOMET	0.1	SOMACRAM Ste Malg de Courtage, de Rep et d'Affret Mar
SOCOTA	26	PNB Pecheries de Nosy Be
SOFITRANS	3	AIR MAD
SOFITRANS	7	ATO Air Route Services
SOGEDIS	2	SOCOBIS Ste Confisiere et Bisuitiere
SOGEDIS	100	FAMA Super Marche Fama
SOLIMA	10	FIMA Fitaterana Malagasy TRANSPORT
SOLIMA	10	KOBAMA Koba Malagasy
SOLOPRIX	90	Mahery Ste
SOMACODIS	1	SOABE Sokain' Antsirabe SA CHAUX
SOMACODIS	7	SOGEDIS Ste Generale de Distribution
SOMACODISA	25	KAFEMA Kafe Malagasy
SOMACRAM	15	Aventour
SOMACRAM	17	Aventour
SOMAGI	2	Logicel Service Ste
SOMAGI	4	Rajoely SA
SOMAGI	32	Jureco SA
SOMAGI	49	Auloto Ste
SOMALAC	6	MAFI Machinisme Agricole et Fabrication Industrielle

SOMEXPA	3	Rajoely SA
SOMEXPA	5	Auloto Ste
SOPEBO	15	SOGEDRIPROMA Distri des Prod Marins, Ste Gene de
SOREX	30	Ocean Auto
SOSIMAE	42	MAJINCO
SOSIMAE	49	TAMALU Ste Tamatavienne d'Aluminium
SOTEMA	26	CIM Cie Agric et Indust de Madagascar
SOTEMA	42	SUMATEX Sud Madagascar Textile
SOTEMA	50	SOALANDY SA
SOVAL-MAD	15	AKORA
SPPN	17	SOMALCO
SPPN	17	SOMALCO Ste Malg de Cosm et de Parfumerie
ST-GILLESsucr	6	SAGRIM Menabe Ste Agri et Indus de RUM
STAR	5.469	SOMADEx
STAR	8	FANEVA SARL
STAR	17.5	SAVIO
STAR	49.5	MELVINO
STAR	50	Melvino SA BOOZE/WINE
STAR	51	Emballages Metallique Ny Vifotsy, Ste d'
STAR	51	SEMA-Eau-Vive
STAR	52	MALTO Malts et Orges SA
STATE		CMN Navigation, Cie Malgache de
STATE		RNCFM Reseau National des Chemins de fer Malagasy
STATE	1	HCT Huilerie Centrale de Tananarive
STATE	10	SEL
STATE	13	PROCHIMAD Prod Chim de Mad ste des
STATE	30	NY Antsiva
STATE	32	Tafita SA TRANSPORT
STATE	33	FIFABE Fikambanana Fampanandrosoana ny Lemak'i Betsiboka
STATE	37	FITIM Filature et Tissage de Madagascar
STATE	38	SECREN Ste d'Etudes, de Constr et Repar Navales
STATE	40	FIMA Fitaterana Malagasy TRANSPORT
STATE	41	PNB Pecheries de Nosy Be
STATE	47.7	STAR - sold to Fraise 1990?
STATE	49	SOMAGI Gestion et d'Informatique, Ste Malgache de
STATE	50	SMTM MARITIME
STATE	50	ZEMA Zezika Malagasy d'Amboasary- Sud FERTILIZER
STATE	51	M "Ny Soa" SA
STATE	51	SOPEBO Pecheries du Boina Ste des
STATE	51	SOTEMA Textile de Majunga Ste
STATE	52	CIMA - sold 1990 to ABACIMAL?
STATE	53	STIMAD Telecommunications Internationales de Mad, ste de
STATE	56	BCL Bureau Central Laitier
STATE	60	CIRT Radio et Television, cie Indust de

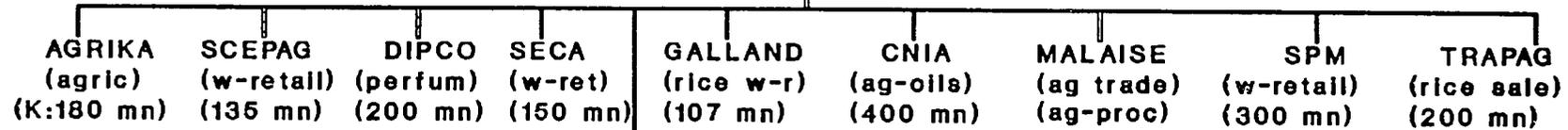
STATE	60	LANSU Langouste du Sud, Entreprise Socialiste
STATE	66	SOMAPALM Palmier a Huile, Ste Malagasy pour le
STATE	73	SIDEMA Ste Indus pour le Develop du Machinisme Agricole
STATE	74	SIRAMA Siramamy Malagasy SUGARY
STATE	80	SOAVOANIO Sambava Voanio Ste COCOA
STATE	83	SEIMAD Ste d'Equip Immob Madagascar, Office des Hab Econ
STATE	86	SOMALAC Ste Malgache d'Amenagement du Lac Alaotra
STATE	88	ATO Air Route Services
STATE	88.355	ARO
STATE	90	Air Mad
STATE	90	BTM
STATE	91	SOGEDIS Ste Generale de Distribution
STATE	97	AIR MAD
STATE	99	FANALAMANGA Fambolen-Kazon' Analabe Moramanga FOFESTS
STATE	99	SOMADEx
STATE	100	AAA Antok' ASA eny Ambanivohitra
STATE	100	Abattoir Frigorifique d'Antananarivo
STATE	100	AGRIKA Ste Agricole de'Ankaratra
STATE	100	ANTAFITA Antananarivo Fitaterana
STATE	100	BFV - sold part to foreign banks
STATE	100	BNI - sold part to foreign banks
STATE	100	CENAM Centre National de l'Artisanat Malagasy
STATE	100	CFC Centre de Formation des Cadres d'Antsirabe
STATE	100	CNAPMAD Centre Nat'l de Prod de Materiels Didactiques
STATE	100	COROI Comptoir de Commerce et de Rep pour Ocean Indien
STATE	100	EEGC-DINIKA, Entre d'Etudes de Genie Civil Dinika
STATE	100	FAFIFAMA Fampivoarana ny Fiompiana Amin .. CATTLE PRD
STATE	100	FAMAMA Famokarana Mahabibo Malagasy SPICE
STATE	100	Ferme d'Etat Omby
STATE	100	IOE Imprimerie d'Ouvrages Educatifs
STATE	100	JIRAMA Jiro sy Rano Malagasy UTILITY ELECT, WATER
STATE	100	KRAOMA Kraomita Malagasy
STATE	100	LNTPB Travaux Publics et Batiments, Laboratoire Nationa
STATE	100	OFMATA office Malgache des Tabacs
STATE	100	RINDRA
STATE	100	SEPT Toamasina, Ste d'Exploitation du port de
STATE	100	SIB Ste Industrielle du Bois SA
STATE	100	SICE Ste Industrielle et Commerciale de l'Emyrne

STATE	100	SINPA Interet National des produits Agricoles Ste d'
STATE	100	SOAMA Andapa Mamokatra
STATE	100	SOFUFA Jus de Fruits d'Antsirabe Ste
STATEIFA	100	KOFITO Koperativa Fitaterana Toliary
STATEmemb	27	FIFABE Fikambanana Fampanandrosoana ny Lemak'i Betsib
STIM	5	Takalo SARL
TAHERALY	100	Moula Kaderbay, Ets
TAIEBALY	69	SOMOCO Mahmed & Cie Ste
TALOUMIS	25	Sarelacos & Cie
TALOUNIS, Freres	100	Cafes Fotis, ste de
TANANARIVE	7.2	BCL Bureau Central Laitier
TAOBAVY	50	EMS Equipments, Maintenances et Service, Ste d'
TDCP	5	Takalo SARL
TIANDRAZA	100	esca Exports SA, la
ToamasinaCofC	9	SOMALAC Ste Malgache d'Amenagement du Lac Ala
TOLIARYCofC	50	Ste de Batelage de Toliary
TOLY	13	MAFI Machinisme Agricole et Fabrication Industrielle
TRANS-7	1	FIETAMA
TRANS-7	5	FITATO
TRANS-7	10	LANSU
TRIMETA	45	PCM Produits en Ciment Moule
TSY	100	Gerbe d'Or, Ste la
UCAFRA	28	FIFABE Fikambanana Fampanandrosoana ny Lemak'i Betsiboka
VALENTINE	53	SOMALAVAL Laques Valentine, Ste Malagasy des
VALEZE	31	OFMAVINS Office Malgache des Vins
VELOSON	15	SIMIEX Import-Export Ste Malgache d'
VIRIO	44	PROCHIMAD Prod Chim de Mad ste des

EXHIBIT 2 EXAMPLE OF CROSS-OWNERSHIP PATTERNS

COROI (rev: FMG 20 bn; cap: 1.680 bn)

Wholly-owned:



Partially owned:

- 34% BATA SA Malgache (turnover: 2.5-5.0 bln)
- 25% KAFEMA (turnover: 1-2.5 bln)
- 24% SOABE
- 15% HCT
- 12% CIMA
- 4% SOCOMI
- 1% SOGEDIS

SOURCE: INTERVIEWS, BUSINESS DIRECTORIES

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