Madagascar

key figures
- Land area, thousands of km² 587
- Population, thousands (2005) 18 606
- GDP per capita, $ PPP valuation (2005) 886
- Life expectancy (2000-2005) 55.3
- Illiteracy rate (2005) 29.5
All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/843180287803
Madagascar’s per capita GDP was average for a developing country in the late 1970s, but three decades of steady economic decline since then have reduced it to about half that. The country’s stock of human resources is now quite small. Average annual GDP growth has been only 0.5 per cent during that period, while the population has increased by an average of 2.8 per cent a year. Today’s Madagascans are much poorer than their parents and grandparents were. This decline in living standards is mainly due to persistently bad government policies that have held back economic activity. The country experimented for many years with socialism, which substantially changed resource allocation and lessened the role of the private sector in creating value added.

Madagascar has also had many political crises since independence. The most recent followed the presidential elections of December 2001: the result was contested, plunging the country into a major political crisis that cut it in two and set off an economic slump from which it is still struggling to emerge. The current government, which took office at the end of the crisis in 2002, is open to the private sector and has continued and accelerated the reforms and state sector downsizing begun in the late 1990s. The economy is still shaky, however, because of weather problems, external shocks to the country’s major export markets and slow bureaucratic procedures that obstruct the private sector. Economic results in 2005 were not up to expectations, mainly because of a crisis in the state electricity firm Jirama, which had to make frequent power cuts because it could not pay its fuel bills; low prices for exports of vanilla; and the first effects on the textile industry of the end of the Multifibre Arrangement.

**Figure 1 - Real GDP Growth and Per Capita GDP**

($PPP at current prices)

Source: IMF and National Statistics Institute data; estimates (e) and projections (p) based on authors’ calculations.
Recent Economic Developments

The economy grew 5.3 per cent in 2004 and is expected to expand by 4.4 per cent in 2005, significantly short of the 6 per cent at first predicted, due to a combination of structural factors and changes in economic conditions. The latter include high world oil prices which slowed economic activity and badly hit the national electricity company, forcing it to make power cuts from June 2005 until the end of the year. Some raw materials exports, such as vanilla, suffered from a collapse in world prices. Textile exports also now face competition from Asia. Lastly, the government was forced to cut spending to reduce the budget deficit. At the structural level, the economy is still hampered by bureaucratic delays and weak infrastructure. All of these factors have held back economic activity, and growth is expected to be 5.6 per cent in 2006 and 2007.

The tertiary sector remained the pillar of the economy in 2004, accounting for 55.2 per cent of GDP, 0.3 of a percentage point less than in 2003, with the private tertiary sector alone accounting for 48.5 per cent of GDP, 0.6 of a percentage point more than the previous year.

The primary sector continued its good performance in 2004 with growth of 3.1 per cent (1.3 per cent in 2003). Agriculture led the way (up 3.5 per cent) thanks to government efforts to boost the sector by abolishing tax on fertilisers and farm machinery. Fisheries and aquaculture saw higher growth (3.5 per cent, after 2.6 per cent in 2003) and contributed 7.2 per cent to GDP, though prospects for 2005 were poor due to a 78 per cent year-on-year slump in shrimp exports in the first half of 2005.

The secondary sector performed very well in 2004 with a 6.6 per cent growth rate. Processing industries were buoyed by a 25 per cent expansion of firms in the free zone. Construction posted the highest growth, at 29 per cent, about the same as the previous year, partly due to recovery from the political disturbances of 2002 when construction shrank by 15 per cent.

The economy has always depended on a few raw materials and their world price. Vanilla is still a leading export. Tropical cyclones halved vanilla output in 2003, but a record 6 000 tonnes was produced in 2004. Volume exports doubled in the first half of 2005 year-on-year, but earnings fell 85 per cent as prices collapsed from 126.3 SDRs (special drawing rights) per kilo in 2004 to about 22.2 in 2005. This drop was particularly troubling because agricultural exports still account for a large share of the country’s foreign exchange earnings (vanilla and coffee provided 27 per cent of export revenue in 2001). If the shortfall in vanilla earnings continues throughout 2005, Madagascar will sustain substantial losses of foreign exchange, particularly since income from other agricultural exports such as cloves has steadily fallen since the mid-1980s. There were great hopes for export of lychees, but the weather has reduced harvests, which stagnated in 2003 and 2004 at around 200 000 tonnes, and export earnings have remained poor.

A major source of poverty is the shortage of rice, the staple food of Madagascans. Fluctuations in local production have a very strong impact on the population. The political events of 2002 and tropical cyclones in 2003 badly hit rice harvests; the 2.6 million tonnes produced in 2002 and 2.8 million in 2003 were well below the 3.1 million tonnes needed to satisfy domestic consumption needs. Paddy rice output improved to 3.03 million tonnes in 2004, higher than in the four previous years but still insufficient to meet domestic demand, and the market was tight in 2005, with soaring prices in Antananarivo from the beginning of the year. A kilogram of rice in the first half of 2005 cost an average of 1 137 ariary, up from 663 in 2004 and 543 in 2003 year-on-year, and this rise is likely to increase poverty considerably and boost inflation.

To diversify the economy and make it less vulnerable to changing world commodity prices, the government began encouraging free zones in the early 1990s. Foreign investors were given tax breaks and had access to cheap local labour and preferential trade agreements with the European Union (the Everything But Arms initiative) and the United States (the African Growth and Opportunity Act – AGOA). Madagascar attracted many firms, especially from Mauritius, mainly because of its low wage levels. The structure of exports changed...
as output from the free zones grew 20 per cent a year between 1997 and 2001. The zones now provide half of all jobs in the secondary sector but have little impact beyond Antananarivo and account for only about 1 per cent of the country’s jobs.

The future of the zones is uncertain. The end of the WTO’s Multifibre Arrangement pits the country against Asian competitors in markets where it hitherto had preferential treatment. Despite low labour costs, many textile firms that came to the island sustained serious losses during the political troubles in 2002. Many have since closed their doors and others are expected to follow. As a result, free-zone exports fell 24 per cent in the first half of 2005 year-on-year. This indicates that restoring the country’s competitiveness will require something other than cheap labour. The International Labour Office (ILO) says the cost of...
labour in Madagascar is about half that of China, but Madagascan firms are less productive than Chinese, so it costs more to produce a garment in Madagascar than in China. Skilled labour in Madagascar is also quite expensive compared with other countries at the same level of development.

Tourism grew strongly in 2005, with international arrivals up 13 per cent in the first quarter. Madagascar is considered a richly-varied tourist experience, with its scenery and unique plant and animal life, but political instability and lack of hotel infrastructure have long hampered the sector’s development. The 2002 troubles reduced hotel occupancy rates to 22 per cent from more than 60 per cent during the 1999-2001 period, but the industry has recovered, slowly but steadily, and the rate was over 40 per cent in 2003 and 55 per cent in 2004. The country received 170 208 tourists in 2001, 56 per cent of them from France. Numbers dropped by almost two-thirds in 2002 but then rose again, reaching 228 784 in 2004. Earnings in the first half of 2005 were already 18.7 per cent more than for the entire previous year.

Madagascar is pinning great hopes on tourism as a means of economic development, but major investment is needed to improve the quality and quantity of services. The scarcity of direct international flights does not help. Infrastructure (roads, railways and public transport) is often uncomfortable and unreliable. Tourist lodgings, products and services are not up to international standards, and entering the country and getting visas is a slow business. The country still lacks a distinctive international image as a tourist destination because of lacklustre marketing in recent years. Tourist activity in the country is poorly organised, regulated and co-ordinated.

The mining sector could soon be a big contributor to GDP, with various investments announced in 2005, including in August a commitment of nearly $585 million by the Canadian firm Qit Madagascar Minerals SA (QMM) to mine ilmenite (titanium ore) at Tolagnaro. Production is expected to start in 2008 at the rate of 750 000 tonnes a year, which is almost 10 per cent of world needs.

These economic developments were accompanied by increased private investment in 2004, though investment slowed in 2005 owing to a less expansionary budget policy. Private investment’s contribution to GDP has risen steadily since the 2002 political crisis, topping 15 per cent in 2005. Public investment sank to its lowest level in 2002 but has increased steadily since then, partly due to investment in the road network. As a result, the gap between public and private funding has shrunk considerably during this period. Government consumption should continue to fall as a share of GDP.

### Macroeconomic Policies

#### Fiscal Policy

The government has a permanent fiscal deficit that has steadily increased over the past five years (except

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**Table 1 - Demand Composition (percentage of GDP)**

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005(e)</th>
<th>2006(p)</th>
<th>2007(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross capital formation</strong></td>
<td>12.8</td>
<td>14.2</td>
<td>17.7</td>
<td>27.5</td>
<td>28.2</td>
<td>28.5</td>
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<td>Public</td>
<td>6.5</td>
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<td>7.7</td>
<td>12.5</td>
<td>12.6</td>
<td>12.5</td>
<td>12.1</td>
</tr>
<tr>
<td>Private</td>
<td>6.3</td>
<td>9.4</td>
<td>9.9</td>
<td>15.0</td>
<td>15.6</td>
<td>16.0</td>
<td>15.8</td>
</tr>
<tr>
<td><strong>Consumption</strong></td>
<td>95.3</td>
<td>92.3</td>
<td>91.2</td>
<td>88.9</td>
<td>88.0</td>
<td>87.6</td>
<td>86.5</td>
</tr>
<tr>
<td>Public</td>
<td>7.6</td>
<td>8.3</td>
<td>10.3</td>
<td>9.1</td>
<td>9.2</td>
<td>9.0</td>
<td>8.6</td>
</tr>
<tr>
<td>Private</td>
<td>87.7</td>
<td>84.0</td>
<td>80.9</td>
<td>79.7</td>
<td>78.8</td>
<td>78.6</td>
<td>77.9</td>
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<tr>
<td><strong>External sector</strong></td>
<td>-8.2</td>
<td>-6.6</td>
<td>-8.9</td>
<td>-16.3</td>
<td>-16.2</td>
<td>-16.0</td>
<td>-14.4</td>
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<tr>
<td>Exports</td>
<td>21.8</td>
<td>16.0</td>
<td>22.8</td>
<td>31.7</td>
<td>32.4</td>
<td>31.7</td>
<td>31.5</td>
</tr>
<tr>
<td>Imports</td>
<td>-30.0</td>
<td>-22.5</td>
<td>-31.7</td>
<td>-48.0</td>
<td>-48.6</td>
<td>-47.8</td>
<td>-46.0</td>
</tr>
</tbody>
</table>

**Source:** National Statistics Institute data; estimates (e) and projections (p) based on authors’ calculations.
in 2003) and shows no sign of stopping. The deficit stood at 6.3 per cent of GDP in 2005, one percentage point more than in 2004, and is expected to be more than 5 per cent in 2006 and 2007. A major cause is the strong rise in capital spending.

On the revenue side, foreign aid has been a major source of budgetary revenue since 2004. The national tax burden increased one percentage point in 2004 to about 11 per cent, probably because of better collection. Recent oil price rises do not seem to have improved government revenue, as tax income from oil products in 2005 fell to 46 084 billion ariary in 2005 (58 972 billion in 2004). A fall in consumption more than made up for the effect of higher prices on tax revenue.

Tax and duty on non-oil imports are still a significant part of tax revenue (13 per cent in 2004), and the budget’s dependence on taxation of trade is worrying in an international climate where the ultimate aim of more and more trade agreements (multilateral, regional and bilateral) is to abolish tariffs. The Southern African Development Community (SADC), for example, plans to reduce customs duties on trade between members by 85 per cent in 2008 and abolish them in 2012.

Table 2 - Public Finances (percentage of GDP)

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005(e)</th>
<th>2006(p)</th>
<th>2007(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total revenue and grants</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax revenue</td>
<td>9.4</td>
<td>7.7</td>
<td>9.9</td>
<td>10.9</td>
<td>10.7</td>
<td>10.5</td>
<td>10.3</td>
</tr>
<tr>
<td>Grants</td>
<td>5.3</td>
<td>1.6</td>
<td>4.5</td>
<td>8.2</td>
<td>7.0</td>
<td>6.5</td>
<td>6.1</td>
</tr>
<tr>
<td><strong>Total expenditure and net lending</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current expenditure</td>
<td>10.9</td>
<td>9.9</td>
<td>11.0</td>
<td>12.6</td>
<td>12.5</td>
<td>11.7</td>
<td>10.7</td>
</tr>
<tr>
<td>Excluding interest</td>
<td>7.8</td>
<td>8.7</td>
<td>9.4</td>
<td>9.7</td>
<td>9.8</td>
<td>9.6</td>
<td>9.3</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>3.7</td>
<td>4.6</td>
<td>5.3</td>
<td>4.9</td>
<td>4.5</td>
<td>4.2</td>
<td>4.0</td>
</tr>
<tr>
<td>Interest</td>
<td>3.0</td>
<td>1.2</td>
<td>1.6</td>
<td>2.9</td>
<td>2.7</td>
<td>2.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>6.5</td>
<td>4.8</td>
<td>7.7</td>
<td>12.5</td>
<td>12.6</td>
<td>12.5</td>
<td>12.1</td>
</tr>
<tr>
<td>Primary balance</td>
<td>0.6</td>
<td>-3.8</td>
<td>-2.4</td>
<td>-1.9</td>
<td>-3.6</td>
<td>-3.9</td>
<td>-3.9</td>
</tr>
<tr>
<td>Overall balance</td>
<td>-2.4</td>
<td>-5.0</td>
<td>-4.1</td>
<td>-4.8</td>
<td>-6.3</td>
<td>-6.0</td>
<td>-5.4</td>
</tr>
</tbody>
</table>

a. Only major items are reported.
Source: Ministry of Finance and Economy data; estimates (e) and projections (p) based on authors’ calculations.

Customs duties and taxes having equivalent effects produce major distortions and lead to poor allocation of funding, so the government should gradually replace them with more neutral taxation.

**Monetary Policy**

The job of the Madagascan Central Bank (BCM) is to control inflation and keep the ariary stable externally. The bank’s intervention rate has been steady at 16 per cent since September 2004. Inflation, measured by the consumer price index, was estimated for 2005 as 18.3 per cent at the end of the year, up from 13.4 per cent in 2004, the rise being due to higher prices for oil, especially from August, and rice. The rate should fall below 10 per cent in 2006 unless tropical cyclones disturb the rice market.

The BCM is supposed to be independent from the government but in practice gives it statutory loans amounting to 10 per cent of the previous fiscal year’s tax revenue. This has an adverse impact on the real economy through an eviction effect. Few private investment projects are possible because of the high interest rate.

The BCM intervenes to limit major interbank exchange rate fluctuations. The ariary lost about three-quarters of its value against the euro and the US dollar between January and May 2004, but was stable in 2005 despite the skewed balance of payments.
**External Position**

Madagascar has a large structural deficit in its current account. The trade balance has considerably worsened since 2002, and a record trade deficit of 13.8 per cent of GDP was expected in 2005 as well as poorer terms of trade. The deficit rose from 294 billion SDRs in 2004 to 332 billion in 2005, partly as a result of a 50 million SDR drop in the value of the country’s exports, which in turn was mostly due to lower world prices for agricultural items, especially vanilla. The trade balance can be expected to improve, however, if there are no major climatic disasters.

Europe, especially France, remains the chief buyer of Madagascan exports. The United States is also a big customer, mainly for vanilla and textiles. Madagascar was very quick to take advantage of AGOA, and in 2003 the United States became the main destination for Madagascan textiles. The end of AGOA’s “third-party provision” (which affects most of these exports) in 2007 will be a big challenge to Madagascan firms. The country is highly vulnerable to the expiry of many preferential trade agreements, which cover 87 per cent of its textile exports. The government is very enthusiastic about regional integration, and the country is a member of several regional groups, including the SADC and

<table>
<thead>
<tr>
<th>Table 3 - Current Account (percentage of GDP)</th>
</tr>
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<tbody>
<tr>
<td>1997</td>
</tr>
<tr>
<td>Trade balance</td>
</tr>
<tr>
<td>Exports of goods (f.o.b.)</td>
</tr>
<tr>
<td>Imports of goods (f.o.b.)</td>
</tr>
<tr>
<td>Services</td>
</tr>
<tr>
<td>Factor income</td>
</tr>
<tr>
<td>Current transfers</td>
</tr>
<tr>
<td>Current account balance</td>
</tr>
</tbody>
</table>

**Source:** Central Bank data; estimates (e) and projections (p) based on authors’ calculations.

Figure 4 - Stock of Total External Debt (percentage of GNI) and Debt Service (percentage of exports of goods and services)

**Source:** IMF and World Bank.
COMESA (the Common Market for Eastern and Southern Africa). However, the volume of trade with neighbouring countries is still very low.

Higher world oil prices also increased pressure on the balance of payments, with the national energy bill up 80 per cent in 2004 and a further 50 per cent in 2005. The rise in 2005 was smaller only because the national electricity company, unable to pay its fuel bills, had to introduce power cuts to ration demand. The oil bill is expected to increase another 20 per cent or so in 2006.

Madagascar recently began offering incentives to foreign investors and has liberalised the current account. Foreign investors can now repatriate profits, and the government is reviewing the law on foreign ownership of land with the aim of reassuring non-Malagasy investors.

Madagascar is due to get $1.5 billion of debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative following a December 2005 decision by its creditors. These funds will be included in the 2006 budget and should significantly ease the country’s debt burden, but the problem of domestic debt remains.

**Structural Issues**

**Recent Developments**

The monopoly state power company Jirama has been in poor financial condition for several years, mainly due to incompetent management. It made poor decisions on investments and committed errors in the choice of power generation technology, notably by opting for diesel-fired thermal plants instead of hydroelectricity. This option was selected because the initial investment cost of thermal plants is lower, but production costs in such plants are at the mercy of changing world oil prices, so the 50 per cent price rise between August 2004 and December 2005 was a heavy burden that forced up rates for customers. At the price peak in June 2005, Jirama’s monthly costs were $10 million but it was taking in only about $5 million in revenue.

The firm’s financial situation has also suffered from its inability to establish a sound management system. It cannot collect bills from government bodies and continues to sell electricity at prices far below production cost to many consumers. For example, it sells power at 10 per cent of the normal price to its own employees, which encourages them to increase their own consumption and resell to their neighbours.

For two months these losses were paid for by special loans from the World Bank, which then refused to continue them if the firm was not restructured. Jirama was thus forced to introduce frequent power cuts and in November 2005 raised its rates by one-third. An agreement between the government, the World Bank and the IMF then transferred management to a foreign consortium led by a German firm. But the government sacked the managing director, a former official of the Canadian state-owned firm Hydro-Québec. Jirama is to be reorganised, and the government has obtained $125 million in short-term aid from donors for the 2006-09 period.

Mining, one of the country’s most promising sectors, is functioning well below its potential. Various governments since 1999 have tried to boost its institutional capacity: a mining code was passed and implemented, as well as a law on major investments (over 1 trillion Malagasy francs) enacted in 2002. The government wants to improve and strengthen governance in the sector to benefit the local population, the country and local and foreign investors.

The business climate is hindered by many bureaucratic complications that increase production costs for private companies, especially export firms, which have to fill in numerous forms and visit distant government offices. A one-stop window is needed for exports. The government has made efforts recently to streamline customs procedures, and the computerisation of the port of Toamasina (Tamatave) and acquisition of a scanner should speed up shipping and customs clearance of containers. However, the improvements
will have the desired effect on efficiency only if customs staff make proper use of the new equipment.

Privatisation is going very slowly in Madagascar. The government has come under much pressure to sell off Jirama, which is to be reorganised by its new foreign managers. Privatisation of Aéroport de Madagascar is planned for 2006. A call for expressions of interest was issued at the end of 2004, but nothing much has happened since.

**Transport Infrastructure**

Although Madagascar has a larger surface area than France, its road network is very small and of very uneven quality. Only half of its 29 599 kilometres of roads are in good condition, and of these, only 1 728 kilometres are main roads. In short, roads are good in the Antananarivo region, but other towns are much less well served and some regions are cut off.

Madagascar had a good rail network before independence, but it fell into disrepair through mismanagement by the state railway company Madarail, which carried 1 million tonnes of goods and half a million passengers in 1988. The network linked Antananarivo to the port of Toamasina and to Ansirabe. Traffic ceased in 2002 due to lack of maintenance, and the company filed for bankruptcy in June 2005. It was then refloated by the World Bank ($30 million), the European Development Bank ($6 million), the Madagascan government ($5.6 million) and private investors ($1 million) and has since resumed operation. It aimed to carry 232 000 tonnes of goods in 2005 with rolling stock of 13 locomotives and 200 wagons.

Competition with road transport is fierce, since the closure of the railway gave roads an effective monopoly. It takes 15 hours to travel from Toamasina to Antananarivo by road, but 27 hours by train. As the price is roughly the same, people prefer to go by road, other things being equal. The railway infrastructure is also in poor condition, resulting in frequent breakdowns.

To catch up with road transport and achieve its goal of an annual 690 000 tonnes of freight by 2009, Madarail has to become more efficient. Tax changes could help. For example, the government could focus on oil transport from Toamasina to Antananarivo, which now goes by road at major environmental and human risk. If the government wanted to reduce this, it could introduce either legislation or differential taxation to ensure that most oil travels by rail.

Madagascar has 12 airports and 43 airfields. The government liberalised air transport in 1999 and signed a reciprocal “open skies” agreement with the United States in 2004, but has not managed to sign any with other countries. The government has firmly opted for private management of the airports.

International passenger traffic has greatly increased in recent years, returning to the levels seen before the 2002 crisis. Only 73 981 international passengers arrived in the country in 2002, sharply down from 218 150 in 2001. This figure rose to 168 799 in 2003 and 209 613 in 2004, almost back to the 2001 level. The number of international passengers is also expected to be high in 2005, with a provisional figure of 103 000 for the first half of the year. Freight traffic has stagnated in the past two years, at just over 5 000 tonnes annually.

Madagascar is counting on tourism as an engine of development, but it will have to upgrade its airports and make it easier to reach high-interest tourist regions. Nosy Bé airport has grown rapidly, handling 13 823 international passengers in 2004 where previously it had none.

The volume of cargo shipped by sea has been about 300 000 tonnes a year since 2001, but the amount dropped 5 per cent in 2004, mainly because oil tonnage fell by 12 per cent. The country has 16 ports, but over 60 per cent of goods go through Toamasina. As with air transport, the government is pulling out of port management and wants to hand ports over to the private sector. It set up a ports, maritime and river authority in 2000 to regulate port activity. The authority, which started operating in 2004, is responsible for the maintenance and establishment of autonomously administered ports. A new deep-water port is planned for 2008 to enable mining and export of black sand
(whose pigment is extracted for use in spacecraft), and its operation will be franchised to private firms.

The government is aware of what needs to be done in the transport sector to boost national development. To this end, in 2000 it launched a $65 million sectoral reorganisation programme to reform regulations, encourage the private sector, ensure good governance, protect the environment and upgrade roads and ports. Priority is to be given to maintenance and preservation of infrastructure to prevent the deterioration that has occurred since the 1970s.

**Political and Social Context**

The result of the December 2001 presidential election was contested throughout the first half of 2002, with lasting adverse effects, but the political situation is now back to normal. The state is pulling out of many sectors. Press freedom is in good shape and the media can and do criticise government policies, but solid institutions still need to be established to ensure separation between the business world, religious groups and government.

Poverty rates in Madagascar are among the highest in Africa. In 2004, 72 per cent of the population was living below the poverty line of 257 675 ariary ($0.33 a day). This figure is 8.6 percentage points lower than in 2002, when the political crisis caused GDP to plummet by 12 per cent, but is still 2.5 points more than in 2001. More women are poor than men, and the poverty rate is lower in urban areas (54 per cent) than in the countryside (77 per cent). It was rural areas, however, that recorded the largest drop in poverty in 2004 (9 per cent), to a level similar to that of 2001 (77 per cent), while urban poverty was still 10 points higher than in 2002. Poverty intensity declined in all provinces (faritany) between 2002 and 2004. It also fell in rural areas between 2001 and 2004, but increased by 1.9 percentage points in urban areas over the same period.

The main cause of poverty in the countryside, where most poor people live, is poor agricultural performance. Many households have no access to land and are forced to look for farming jobs to earn a living, but wages are very low because the labour supply far outweighs demand. The average daily wage of a male farm labourer in 2004 was about $0.70 a day ($0.64 for women). As the average household has 4.9 people and rural households are larger than urban ones, this income is clearly not enough to rise above the poverty level. The median size of a family plot of land is one hectare, which is small compared with other African countries, and productivity per hectare is very low. In urban areas, the main causes of poverty are lack of jobs and low wages. Extreme poverty linked to this low productivity and certain dietary customs explain the high rate of malnutrition, which affects nearly half of all children below the age of five and about a third of all women.

Major efforts are needed to improve public health. Although the main health indicators have improved in recent years, they are still quite low. The main problems are acute respiratory diseases, malaria and diarrhoea, with malaria causing a quarter of all deaths. The health ministry said in 2003 that there were about 1.5 million suspected malaria cases a year, 9 per cent of them fatal. HIV/AIDS infection has risen fast in recent years, reaching 1.8 per cent in 2005, with unprotected sex the main form of transmission. The disease’s spread is linked to a high rate of sexually-transmitted infections (STI) among young people under 20. Many are still unaware of how HIV is transmitted: a survey conducted in 2003-04 showed that fewer than 20 per cent of Madagascans could cite two ways of preventing infection. Given the gravity of the epidemic elsewhere in sub-Saharan Africa, a vigorous awareness-raising campaign is needed to inform people about methods of prevention.

The maternal mortality rate is 469 per 100 000 live births, mainly because of complications during pregnancy and delivery. Infant mortality is equally worrying, with nearly one child in ten dying before the age of five. These very poor indicators reflect the abject poverty of most of the population and the health sector’s lack of resources. The 2005 UN Human Development Report stated that the country had only nine doctors
for every 100 000 people, one of the lowest rates in the world. Access to and use of health services are thus very limited.

Madagascar has made great progress in education under the Education for All programme, with primary school enrolment rising from 67 per cent in 2001 to over 90 per cent in 2005. Educational quality is still low, however, and repetition and dropout rates high. This is largely due to the shortage of teachers, their lack of training and the distance between schools and homes, as well as to broader problems such as poverty, which reduces parental resources. As 41 per cent of the population is under 15 years of age, the government must continue efforts to increase provision and encourage parents to send their children to school. Considering the high illiteracy rate, many reforms are needed to upgrade Madagascar’s human capital and thus enable sustainable economic growth.