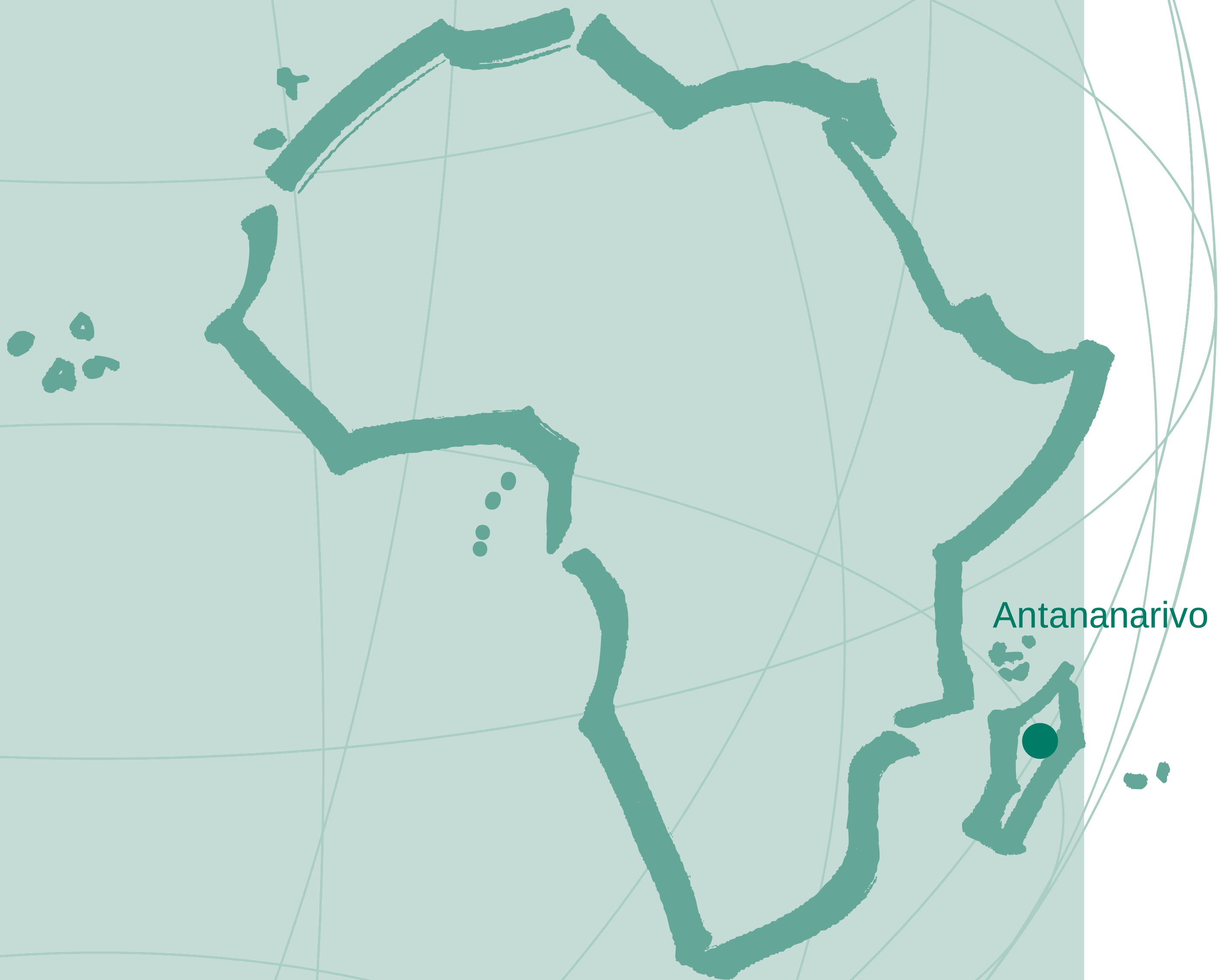
Madagascar



key figures

• Land area, thousands of km²	587
• Population, thousands (2004)	17 901
• GDP per capita, $ (2003)	315
• Life expectancy (2000-2005)	53.6
• Illiteracy rate (2004)	30.3

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Madagascar

THE INDIAN OCEAN ISLAND OF MADAGASCAR belongs to the low revenue group of countries. GDP progressed rapidly between 1997 and 2001, growing at an average 4.5 per cent following the launch of a rigorous stabilisation and structural adjustment programme in collaboration with the IMF and the World Bank. Because of the lack of appropriate redistribution measures, the consequences of this improvement have not always made themselves felt in the rural areas. The country is still plagued by problems of governance, and isolation caused by the inadequacy of economic infrastructures accentuates the poverty of the island's population.

Following the political crisis of 2002, the country suffered a grave recession, marked by a negative growth rate of -12 per cent. This situation worsened the poverty from which 80 per cent of Malagasies now suffer, compared with 71 per cent in 2001. Once the political situation had stabilised, the new government took measures to stimulate economic activity and social development. A series of reforms was initiated including, notably, rehabilitation of road infrastructures to open up isolated regions, and reform of the education and health sectors. Since then, the country has witnessed a recovery in real GDP: the year 2003 was marked by a growth rate of 9.8 per cent. In 2004, despite the sharp depreciation of the Malagasy franc (which lost 50 per cent of its value in relation to the euro), the economy maintained a growth rate of 5.3 per cent. For 2005, a growth rate of 6 per cent is expected.

Growth has remained robust and macroeconomic stability has been restored despite two major cyclones and 50 per cent depreciation.

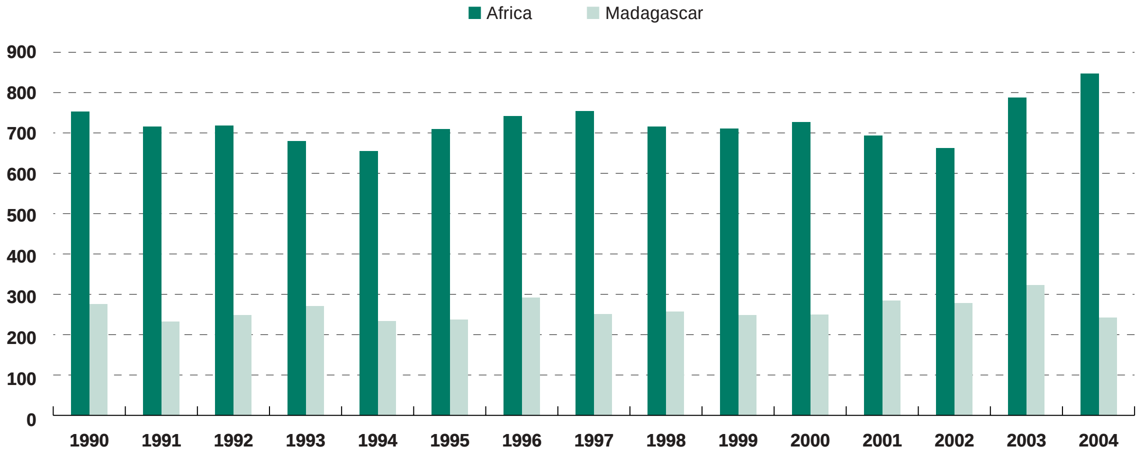
Figure 1 - Real GDP growth

Source: National Statistical Institute data; estimates (e) and projections (p) based on authors' calculations.

Recent Economic Developments

In the course of 2003 the Malagasy economy emerged from the recession of the previous year into a recovery that exceeded growth targets. Economic results in 2004 were heavily influenced by two exogenous factors that led to a fall in the growth rate in relation to that of 2003. These were the violent cyclones Elita and Gafilo that struck the country in the first quarter, and the rise in the price of oil on the international market. Despite these problems, the efforts made over the last two years to stimulate production have borne fruit. In 2004, the recovery continued and the 5.3 per cent economic growth rate

Figure 2 - GDP per capita in Madagascar and Africa (current $)



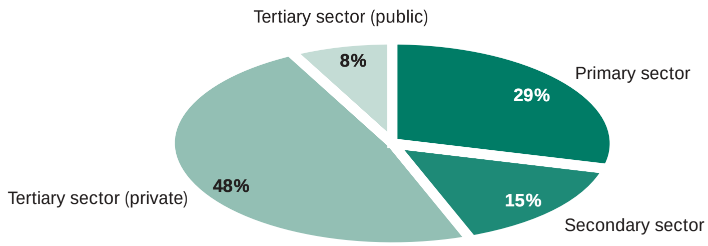
Source: IMF.

was well above the 2.8 per cent demographic growth rate. This growth is supported as much by public as by private sector investment. The investment level rose from 16.2 per cent of GDP in 2003 to 22.4 per cent in 2004. Despite these recent economic improvements, the population's living conditions remain precarious. Two thirds of the inhabitants of Madagascar live below the poverty line – 80 per cent in the rural areas and 55 per cent in urban areas – and more than 60 per cent suffer from malnutrition. The country's GDP per capita remains one of the lowest on the continent. The government aim is to bring poverty down to its 2001 level, at least in terms of well-being.

In 2003, the primary sector constituted 28.9 per cent of GDP. It is currently going through a recovery characterised by an annual growth rate that has risen from 1.3 per cent in 2003 to 3.6 per cent in 2004. This recovery follows the introduction of a series of measures designed to stimulate the economy such as the abolition of taxes on fertilisers, inputs and agricultural equipment, the implementation of rural development programmes, and the introduction of agricultural aid. This sector is driven by agriculture, which, employing 80 per cent of the working population and contributing an annual average of 17 per cent of GDP, is the cornerstone of the Malagasy economy.

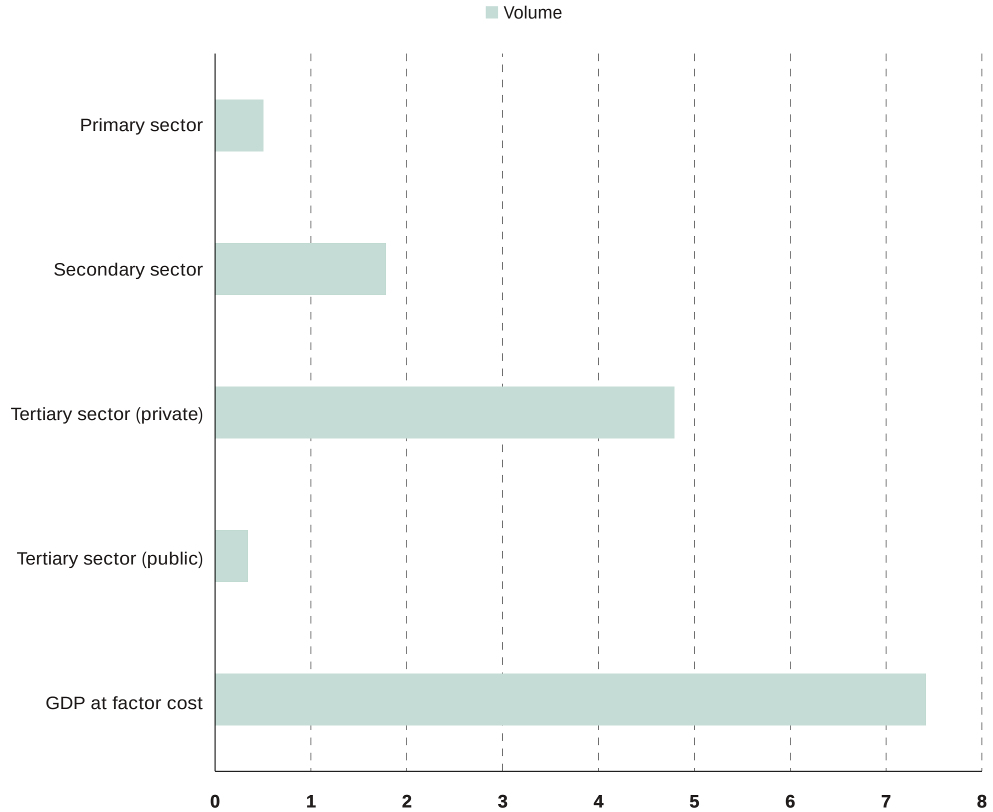
Following the stagnation that marked 2002, the agricultural sector grew by 2.6 per cent in 2003. This recovery continued in 2004 when estimated growth was 3.5 per cent. These results are due to the development of food production, principally rice paddy, corn, manioc, potatoes and sweet potatoes, and to the development of export products such as coffee, vanilla, pepper, cloves and lychees. In addition to these programmes and measures, good climatic conditions have also stimulated agricultural performance. Estimated rice production in the 2002/03 season was 2 799 281 tonnes of paddy, which was a 7 per cent increase on the previous year's harvest. Despite an expected 200 000 tonne increase in rice production to 3 million tonnes in 2004, producers remain unable to satisfy local demand for a product which constitutes the staple food of the Malagasy people. Rice imports were expected to be about 100 000 tonnes in 2004, but the real import requirement may have been higher than that because of the scale of damage caused by the cyclones in the rice paddy plantations at the start of the year. The rise in world rice prices, which moved up from $180 to $200 per tonne in previous years to $300 per tonne in 2004, coupled with the weakness of the Malagasy franc (MGF), has increased import costs. Rice prices have taken off despite the fact that "government rice" is still sold at 3 500 MGF per kilo. On the demand side, the market has not moved significantly. On average, a Malagasy consumes 129 kg of rice per year and the government hopes that demand will rise to 145 kg per year as its poverty reduction programme improves the purchasing power of the less well off.

Figure 3 - GDP by Sector in 2003 (percentage)



Source: National Statistical Institute; projections based on authors' calculations.

Figure 4 - Sectoral Contribution to GDP Growth in 2003 (percentage)



Source: National Statistical Institute; projections based on authors' calculations.

In terms of volume coffee occupies a major place among export crops. In 2003, production was estimated to be up 47.9 per cent on 2002 at 95 239 tonnes. Coffee exports rose from 7 100 tonnes in 2003 to 10 100 tonnes in 2004, with 12 700 tonnes forecast for 2005. Three provinces account for 97.2 per cent of production. They are Fianarantsoa (59.9 per cent), Antsiranana (21.2 per cent) and Toamasina (16.1 per cent). Vanilla, the country's second biggest export crop, fell from 1 000 tonnes exported in 2003 to 700 tonnes in 2004. This fall in production is the result of the destruction of plantations in the SAVA region (Sambava, Antalaha, Vohémar and Andapa) during the passage of cyclone Huddah in 2001. The new liana planted in 2002 will not give fruit for three years. Vanilla gave good returns to planters in 2003, with green vanilla being sold, on average, at over 300 000 MGF. The same cannot be said for Arabica coffee, the price of which remained low throughout the period from 2001 to 2004.

Livestock and fishing together contributed 8.2 per cent to GDP in 2003. Their growth rate nearly doubled between 2002 and 2003, rising from 2.6 to 4.1 per cent. The national cattle herd consisted of 8 020 449 animals in 2003, as against 7 877 073 in 2003, which represents an increase of 1.8 per cent. This improvement is due to technical support measures for animal production such as artificial insemination and cattle vaccination.

The fishing/aquaculture sector represented 7 per cent of GDP in 2003. It accounted for 24 per cent of total exports. Annual fish availability, including all species, is estimated to be between 6 and 6.9 kg per capita. In the context of the development of fishing and fish resources, the performances achieved in 2003 were based on the development of the production of both sea and inland fishing. Prospects for the years 2004 and 2005 indicate that there will be a fall in growth in 2004 to 3.2 per cent followed by a small increase in 2005 to 3.5 per cent.

Concerning efforts to conserve the quantity and quality of natural resources, the level of recovery of forest resources improved following an administrative check on exports of forest products in 2002. In the case of ebony, for example, this resulted in an increase in revenue from 164 580 469 MGF in 2001 to 314 825 535 MGF in 2003. In order to meet the economic, ecological and social needs of the population in forest resources, land and water, 6 232 hectares have been reforested in four regions (East Fénérive, Moramanga-Ambatondraza, and South East and Southern Madagascar).

The secondary sector has seen an improvement since 2002. Starting from a negative growth rate of -20.7 per cent in 2002, growth in 2003 rose to 14.5 per cent. The contribution of the secondary sector to GDP formation also increased. In 2003, the secondary sector contributed about 15.2 per cent of GDP.

The country disposes of great mining potential, which is little exploited. These resources include, among others, gems and collection minerals such as rubies, sapphires and emeralds; quarry materials such as marble; ores such as nickel, titanium and cobalt; industrial minerals such as mica and graphite; and energy resources such as coal, hydrocarbons and chromite. A mining code was drawn up in 1999 to help enable the exploitation of Madagascar's mining potential. The code is based on the disengagement of the state from production activities, the simplification of the mining regime and the provision of incentives for investors. Special fiscal arrangements have been made for mining investments of more than $250 million. These measures include a five-year tax exemption on profits and a guarantee of the right to repatriate funds and reconvert capital. The law also allows for appeals to international arbitration in the event of a dispute between investors and the state.

As for energy cover, a range of programmes are being implemented to improve the population's access to electricity. These include a plan for rural electrification and the development of renewable energies (wood, charcoal etc).

The industrial sector is recovering steadily from the crisis of 2002. As regards the free zones, different measures have been taken by the government, including a revision of the texts regulating the free zones in consultation with the free zone companies and their partners, and a study into the creation of a free zone "observatory". The rate of growth of activity in the free zones, which stood at 75.8 per cent in 2003, fell to 27.9 per cent in 2004. The principal economic activity in the free zones is textiles production, a sector that reaps the benefits of the African Growth Opportunity Act (AGOA). This act has helped the country to improve the competitiveness of its products, which are not subjected to quotas or customs duties when they are exported to the United States. Major American brands now place their orders in Madagascar so as to benefit from these regulations, as well as from the country's low-cost labour. Despite the optimism expressed by the Malagasy authorities, the end of the Multi Fibre Arrangement (MFA) on 1 January 2005 is likely to have a very damaging effect on Madagascar's textile industry. The MFA gave rise to quotas regulating world trade in textile products and clothing. It was thanks to the MFA that Madagascar was able to develop its free zone centred on textiles and clothing production. The end of the MFA is likely to lead to the closure of many factories, as well as causing numerous redundancies. In 2004, numerous factories closed in anticipation of the end of the MFA. In that year alone, there were 5 000 job losses in the textile industry, with 8 000 job losses in the free zone as a whole. It is important, therefore, that strategies be developed to create new activities and to get those hit by unemployment back into jobs.

The development of new information and communication technologies took place in step with that of the free zone companies in the early 1990s. However, Internet use has not progressed as much as was hoped: in 2003, Internet use rose by just 0.7 per cent.

Modernisation of the telecommunications system in Madagascar is very definitely moving forward. All the major cities now have automatic exchanges and all international communications have been automated. TELMA, the national telecommunications company, has been privatised. Competition in the sector has become more intense following the setting up of mobile telephone networks. The number of subscribers in the fixed telephone sector rose from 48 166 in 2001 to 59 688 in 2003. There are now about 50 000 subscribers. The mobile telephone market is currently shared between three private operators – Intercel, Madacom and Orange. The number of subscribers rose from 147 500 in 2001 to 279 548 in 2003. 11 584 people were signed up to Internet services in 2002 – a decrease on the previous year, when 12 500 were signed up. Cybercafés are developing in Antananarivo, and are gradually starting to appear in the provinces as well.

With measures having been taken to develop the sector, tourist activity has been gradually picking up after it was hit by the crisis of 2002. Though tourist arrivals increased in 2003 by 125 per cent over the previous year's levels, they have not yet returned to the levels recorded before the crisis: 170 208 tourists visited Madagascar in 2001. The loss of revenues due to the drop in tourism is about 36 million SDR (the IMF's international reserve asset). Efforts need to be made to promote ecotourism, develop infrastructures and rehabilitate sites and monuments so as to improve the performance of a sector which accounts for 16 per cent of Madagascar's GDP. These efforts, which got underway in 2004, made it possible to attract 110 000 French tourists to the country that same year (a 41 per cent increase on 2003 levels), and will continue in 2005. The Malagasy authorities aim to attract 500 000 tourists annually by 2007. In order to reach this objective, a number of investment projects are in the pipeline including, for example, the expansion of the hotel network and the improvement of the country's airports.

The transport sector played an important role in stimulating the economy in 2003 thanks to investment and maintenance work on the roads, the reinforcement and rehabilitation of the rail infrastructure, the

Table 1 - Demand Composition (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006 (p)
Gross capital formation	**11.6**	**17.9**	**13.4**	**16.2**	**22.4**	**23.9**	**24.3**
Public	6.7	6.7	3.9	7.2	7.1	7.0	7.0
Private	5.0	11.2	9.5	9.0	15.3	16.9	17.3
Consumption	**93.9**	**89.3**	**95.6**	**97.1**	**95.8**	**92.0**	**91.5**
Public	6.1	8.8	8.4	10.5	9.0	8.9	8.5
Private	87.8	80.4	87.3	86.6	86.7	83.1	82.9
External sector	**-5.5**	**-7.2**	**-9.0**	**-13.3**	**-18.1**	**-16.0**	**-15.8**
Exports	20.5	28.9	16.0	19.9	31.2	33.6	33.7
Imports	-26.0	-36.1	-25.0	-33.3	-49.3	-49.5	-49.5

Source: National Institute of Statistics data; estimates (e) and projections (p) based on authors' calculations.

upgrading of ports and inland waterways (the ports of Toliara and Mahajanga were renovated), and the equipment and upgrading of airports (the international airport was extended and renovated and new equipment was installed at Ivato airport). Freight transport contributed 18.6 per cent to the creation of added value in the services sector - about 9.6 per cent of GDP - in 2003. Passenger transport showed 13 per cent growth in 2003 after a 35.4 per cent shrinkage in 2002, while the auxiliary transport branch grew by 15.7 per cent in 2003 after a 21.1 per cent fall in 2002. In 2004, growth rates for these three branches are expected to be 5.6 per cent, 6.3 per cent and 5.4 per cent respectively.

Gross fixed capital formation fell to the extremely low level of 13.4 per cent of GDP during the crisis of 2002. Since this difficult period there has been a regular progression in gross formation of fixed capital (both public and private). This trend looks set to be pursued in the coming years, though the government will need to take steps to attract foreign investors and develop the private sector.

Macroeconomic Policies

Fiscal and Monetary Policy

The authorities have recognised the influence of taxation on the economy as a whole and have launched a reform to improve tax recovery and efficiency. Two systems cover company taxation: the common law system, which applies to all operations on the local market, and the free zone preferential system, which is uniquely for export companies. Under the common law system, the state grants investments a number of exemptions from tax and duties. Under the industrial free zone regime, more far-reaching incentive measures are applicable: companies are exempted from company profit tax (IBS) for 5 to 10 years according to their sector of activity, from business tax and from indirect taxes (such as customs duties and value added tax) on equipment.

In 2004, a number of major fiscal reforms were introduced to the law governing finance. They included, notably, a reduction in the highest rate of customs duty from 35 to 20 per cent, and a certain number of adjustments to customs rates. These changes included an increase in certain taxes on imported goods - including both raw materials and finished consumer goods.

Following the crisis in 2002 the government decided to increase public spending so as to be able to pursue its recovery programme and implement its poverty reduction programme. Investment spending thus progressed strongly from 5 per cent of GDP in 2002 to more than 11 per cent in 2004.

In 2003, the monetary authorities managed to hold down inflation by implementing a restrictive monetary

Table 2 - Public Finances (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Total revenue[a]	**12.4**	**14.0**	**10.2**	**15.4**	**19.6**	**19.1**	**18.3**
Tax revenue	8.2	9.7	7.7	10.0	11.1	11.0	11.1
Oil revenue	4.2	3.9	2.2	5.1	7.8	7.3	6.4
Total expenditure[a]	**17.8**	**18.4**	**15.7**	**19.5**	**22.9**	**22.1**	**21.3**
Current expenditure	10.5	11.1	10.9	11.7	11.5	10.7	10.0
Excluding Interest	*5.8*	*9.1*	*8.7*	*9.5*	*8.5*	*8.3*	*8.0*
Wages and salaries	3.2	4.5	4.6	5.4	4.8	4.7	4.5
Interest	4.7	2.0	2.2	2.2	3.0	2.4	2.0
Capital expenditure	7.3	7.3	4.8	7.8	11.4	11.3	11.3
Primary balance	**-0.7**	**-2.4**	**-3.3**	**-1.9**	**-0.3**	**-0.6**	**-1.0**
Overall balance	**-5.4**	**-4.3**	**-5.5**	**-4.1**	**-3.3**	**-3.0**	**-3.0**

a. Only major items are reported.
Source: National Statistics Institute data; estimates (e) and projections (p) based on authors' calculations.

policy. During the first nine months of 2004, however, inflation was again very high, reaching 22 per cent by the end of September as a result of the sharp increase in the price of rice and oil products. To contain inflation, the authorities pursued a rigorous monetary and budgetary policy, which succeeded in stabilising inflation – excluding oil products and rice – at 6 per cent from the end of June 2004. The Central Bank raised its main interest rates and its compulsory reserves levels. At the same time, the government facilitated the importation of low cost rice.

The interbank currency market (MID), which was set up in 1994, sets rate of exchange between the Malagasy franc and foreign currencies. The foreign exchange market is governed by a convention between the commercial banks and the central bank. The Malagasy franc fell by about 50 per cent in value against the euro during the first five months of 2004. These changes called into question the wisdom of the duty reduction introduced in 2003, which artificially boosted imports causing a shortage of foreign currency. Since June 2004, the exchange market has been relatively stable.

External position

Madagascar is developing an active external policy that aims to increase its exports and bring in the currency and resources it needs for development. In 2003, exports increased 63 per cent in SDR terms. Madagascar's principal customers are the European Union countries, which account for 42 per cent of its exports by value. France is by far the country's leading trading partner. French companies are the leading foreign investors, representing 60 per cent of all foreign investment. Exports destined for the United States are showing regular growth and increased 26.1 per cent in 2003. Madagascar's imports, which come mainly from France, increased by 70.3 per cent between 2002 and 2003. In 2004 they are expected to have increased 8.5 per cent. Overall, imports increased more rapidly than exports, resulting in a balance of payments deficit of 234.7 million SDR or about 5 per cent of GDP in 2003 – the same as in 2002. The 2004 deficit is expected to be 8 per cent of GDP.

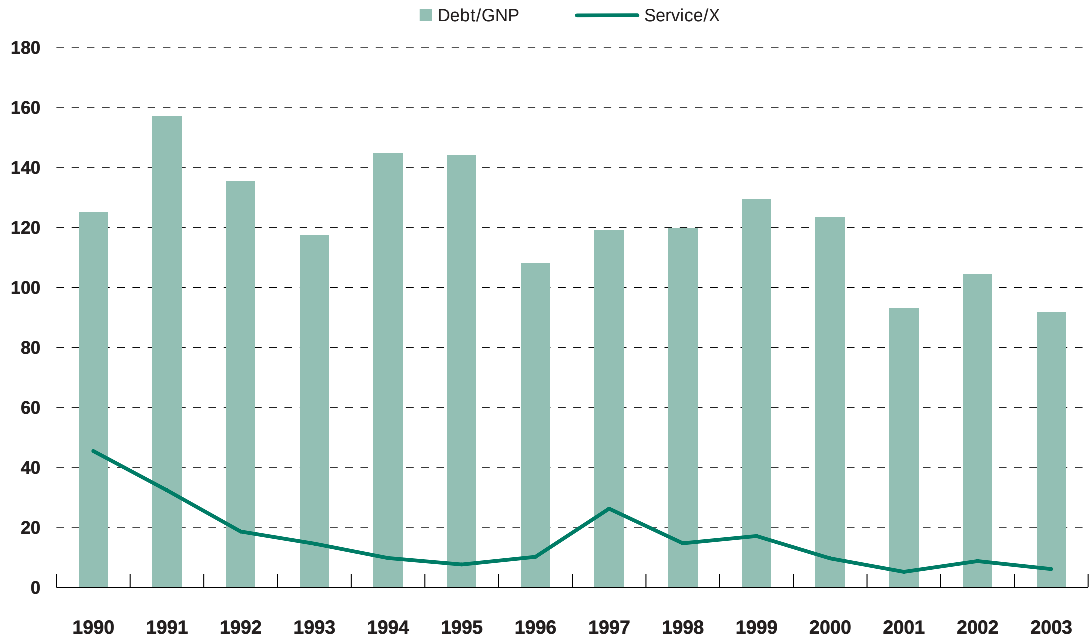
In 2004, the government pursued its policy of integrating the Malagasy economy into that of the sub-region and of the world at large. Efforts are being made – for instance through Madagascar's joining of the Southern African Development Community (SADC) in August 2004 – to promote regional integration with a view to the launch of the customs union of the Common Market of Eastern and Southern Africa (COMESA) and to respect WTO rules. The country is participating in globalisation, whilst also signing up to regional and international agreements. By signing a number of different international agreements Madagascar is gaining preferential access to various external markets, notably: *i)* to Europe via the Cotonou agreement and the Everything But Arms initiative between the European Union and ACP (African, Caribbean and Pacific) group of states; *ii)* to industrial countries generally through the Generalised System of Preferences (GSP); *iii)* to the neighbouring region, to member countries of the Indian Ocean Commission (COI) and COMESA; *iv)* and to the United States through Madagascar's eligibility for the African Growth and Opportunity Act.

Table 3 - Current Account (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Trade balance	-3.0	0.3	-1.1	-4.0	-8.9	-9.4	-8.9
Exports of goods (f.o.b.)	13.1	21.3	11.0	14.4	21.0	20.7	21.1
Imports of goods (f.o.b.)	-16.1	-21.0	-12.0	-18.5	-29.8	-30.2	-30.0
Services	-2.1	-3.5	-3.9	-4.0			
Factor income	-3.6	-1.3	-1.5	-1.5			
Current transfers	2.8	3.2	2.2	4.5			
Current account balance	**-6.0**	**-1.3**	**-5.9**	**-5.0**			

Source: National Statistical Institute data; estimates (e) and projections (p) based on authors' calculations.

Figure 5 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of export)



Source: World Bank.

With regard to external debt, Madagascar has benefited from the initiative in favour of heavily indebted poor countries (HIPC). Its arrival at completion point in October 2004 qualified it for the cancellation of half of its debt, representing about $2 billion.

Structural Issues

Madagascar's economy is strongly based on the informal sector. Its regions are for the most part isolated and road infrastructures are still very underdeveloped. The Malagasy authorities are committed to reforms that should in the long-term foster development of the private sector.

The government has taken measures aimed at improving the business climate and, above all, at contributing to the creation and development of small and medium-sized companies (SMEs). In its strategic programme, the Ministry of Industrialisation, Commerce and Private Sector Development identified several spheres of action, such as the reform and development of the financial system through the development of new methods of financing; encouragement of initiative, particularly through the development of sectors such as tourism, micro-companies and crafts; support for companies through a regional approach to their development, and the encouragement of new skills; better dialogue between the state and the private sector; and the development of support services for private companies. In the micro-finance sector, three types of organisation exist: *i)* membership based bodies or mutualist financial institutions belonging to the professional association of mutualist financial associations (APFIM), set up in 1998; *ii)* direct credit bodies non-mutualist financial institutions belonging to the association of micro-finance institutions (AIM), which was set up in 1999; *iii)* projects which have a loans section and the NGOs and other associations for which lending is not the principal activity.

The donors also provide support for the development of micro-finance. The principle players are the World

Bank – through its micro finance project administered by the AGEPMF, a specially created association –, the *Agence française de développement*, the European Union, the International Fund for Agricultural Development, the African Development Bank and United Nations Development Programme (UNDP).

The current Malagasy government is pursuing a policy of state disengagement from productive economic activity. The privatisation process is gradual, and rather slow. In August 2003, the Malagasy government and the DISTACOM telecommunications company signed a contract for the sale of the fixed telephone services supplier, TELMA. The water and electricity services are also in the process of being privatised. The call for tenders for the sugar company, SIRAMA, was cancelled in 2003 because of procedural irregularities. At the end of June 2004, the performance criteria for the tender call were met. The privatisation of the cotton company, HASYMA, was completed in October 2004.

The level of infrastructures in Madagascar remains painfully low, with the regions of the main island still very isolated. The Malagasy road network extends over 25 500 km, of which just 5 500 km are surfaced. Since road construction and rehabilitation is one of the government's priorities, the state has set itself the task of decentralising construction and repair work, and of maintaining a priority network of 15 000 km linking the country's different the regions. The government has also taken on the job of rehabilitating and maintaining 1 189 km of roads serving the six provincial capitals. It plans to pursue the rehabilitation of road infrastructures in future years and to carry out work to reduce the isolation of the most remote areas.

On the 870 km long Malagasy rail network, the dilapidation of fixed infrastructures and rolling stock are holding back traffic development. A concession for the northern network was awarded to the COMAZAR group in 1997. A local company called MADARAIL has been charged with operating the network for the next 25 years and is planning to invest $35 million in track and rolling stock.

Madagascar has 12 main airports, 5 of which are international. These are run by *Aéroports de Madagascar* (ADEMA), 33 per cent of which is owned by the Paris airport company, ADP. The possibility of delegating the management of the Antananarivo international airport is currently being studied. In maritime transport, the country has 18 ports, 12 of which are local, and 6 international, together they play a very important role in serving the needs of the isolated regions.

Within the framework of public sector reform, particular emphasis has been put on promotion of the private sector, good governance and the fight against corruption (for which a special upper council has been created). Modernisation of public finances should help the system cope with the new priority given to budget aid by the country's financial partners. The absorption

Small and Medium-sized Companies in Madagascar

In Madagascar, small and medium-sized companies are defined as companies which have an investment level of between 5 000 and 50 000 euros. There were 15 000 of them in 2002 and 13 000 in 2003, as the effects of the political crisis of the previous year took its toll. About 90 per cent of SMEs are located in the capital and its surrounding area. More than 50 per cent of them are informal. The support committee for company revitalisation, which was set up in the wake of the crisis, has opened talks on the customs system and other regulatory texts so as to draw people's attention to the development of SMEs. The committee noted that there was no system for financing of this type of company. It recommended state support for the creation of a fund to promote the creation of small companies, for training in entrepreneurship and for the creation of a favourable business environment through simplification of administrative procedures, improvement of infrastructures and so on. It was intended that these measures complement existing aids to SMEs, such as the credit lines offered by certain financial institutions.

of the public investment department into the public spending department will facilitate the rationalisation of budget drafting. This merger should make it possible to draft a consolidated budget, which will include off balance operations, balance and investment - including public debt - and will strengthen the public spending department. The whole process of putting the budget into effect will be computerised so as to cut out slow and cumbersome administrative procedures and increase transparency. This reform was due to be completed by the end of 2004.

The reform of public finances is one of the principle measures in the drive to establish good governance. It involves the strengthening of budget procedures and a rationalisation of the system controlling the execution of the state budget. In 2004, the government set up in 2004 a committee to look at ways of bringing down public spending (CRROC), it was charged with restructuring the briefs and the workings of the bodies responsible for controlling the regularity of state spending. As for state revenue, the level of fiscal pressure in Madagascar is among the lowest in Sub-Saharan Africa. One of the government's priorities is to guarantee tax and customs revenues by reforming the general organisation of the relevant services and strengthening their capacity. A new system of customs control before embarkation was adopted in 2002.

Political and Social Context

Following the 2001 presidential elections, Madagascar went through a deep political crisis, which led to a regime change. The new government was only able to take office after several months of further political crisis and major social upheaval. These problems threw the country's economic and social life into disarray: the freedom of movement of goods and persons was inhibited which led to an economic slowdown. This caused lay-offs, company closures and an explosion in prices resulting from shortages of rice and numerous other essential commodities. Despite the country's current stability, the risk of conflict remains as was illustrated by the political exploitation of the rice shortage in November 2004.

In the first half of 2003, the Malagasy government adopted a poverty reduction strategy document outlining the measures needed to accelerate the country's development and reduce -over 10 years - the poverty which affects 70 per cent of the population, particularly in the rural areas. One of the major principles underlying this strategy is restoration of the rule of law and good governance. The fight against corruption is considered to be one of the fundamental requirements for the establishment of good governance. To this effect, a high-level council for the fight against corruption was set up in September 2002 under the direct authority of the President of the Republic. Its mission is to develop a national strategy to fight corruption. On 20 July 2004, the first national convention for the fight against corruption was held and an anti-corruption law was adopted on 9 September 2004. The aim, apart from prosecution in proven cases of corruption, is to carry out the necessary reforms, notably through a strengthening of existing anti-corruption efforts, the creation of single point reception facilities and the opening of complaints logs for users of public services, the reduction of corrupt practices and favouritism in the civil service, the simplification of texts dealing with conduct, professional behaviour and ethics, and the intensification of information campaigns, education and communication, including, notably, the reintroduction of civil instruction into schools. In the past corruption offences have generally gone unpunished, but now the legislator has given the judicial system specially designed tools to fight this scourge.

A number of new measures have been taken in the field of local and territorial development; these include the support programme for neighbourhood initiatives (PAIQ) and the regional development programme. In 2004, the government equipped local authorities with typewriters and bicycles. In 2005, it will be concentrating on the provision of safes. The state has built mayoral offices in the 166 new local authorities that emerged after the last local elections. The discussions between donors and the office of the Secretary of State for Decentralisation and Regional and Local Development (SEDDRC) on questions concerning decentralisation and local development (which took place in a working group which was particularly active from January 2003 to January 2004), are indicative of the interest this question attracts. The principal current challenge for the state – and in particular for the SEDDRC – is to set up a rigorous framework into which can be inserted all the initiatives taken to support the regions and local councils.

Madagascar's gross mortality rate stands at 12.1 per 1 000 and its birth rate at 40.7 per 1 000. The infant mortality rate is 84 per 1000. In the health care field, there is one hospital bed for every 2 000 inhabitants and one doctor for every 10 000 inhabitants. Access to health care is estimated at 30 per cent in rural areas and 70 per cent in urban areas. In 2001, 47 per cent of the population had access to drinking water – 85 per cent in urban areas and 31 per cent in rural areas. Various improvements were seen in 2003 and were due to continue in 2004. Healthcare indicators are improving. Attendance levels at basic community health centres rose from 84.3 per cent in 2002 to 87.1 per cent in 2003 and the level of DTC 3 vaccination cover for children aged 0 to 11 months rose from 61.5 per cent in 2002 to 80 per cent in 2003. The year 2004 was devoted to the consolidation of advances already made. Measures taken consisted of increasing the numbers of medical personnel, distributing material and equipment, building and rehabilitating health care centres and providing care for deprived sections of the population.

In education, implementation of the "education for all" policy increased the proportion of children attending school from 70 per cent in 2002 to 82 per cent in 2003 and the level of completion of primary school from 35 to 39.5 per cent over the same years. The success rate in the CEPE, BEPC and *Baccalauréat* exams also improved, thanks, notably, to an increase in teachers' numbers and improvements in training, as well as the provision of teacher training manuals and school books. In 2004, school kits continued to be supplied to children in the first year of primary education.

