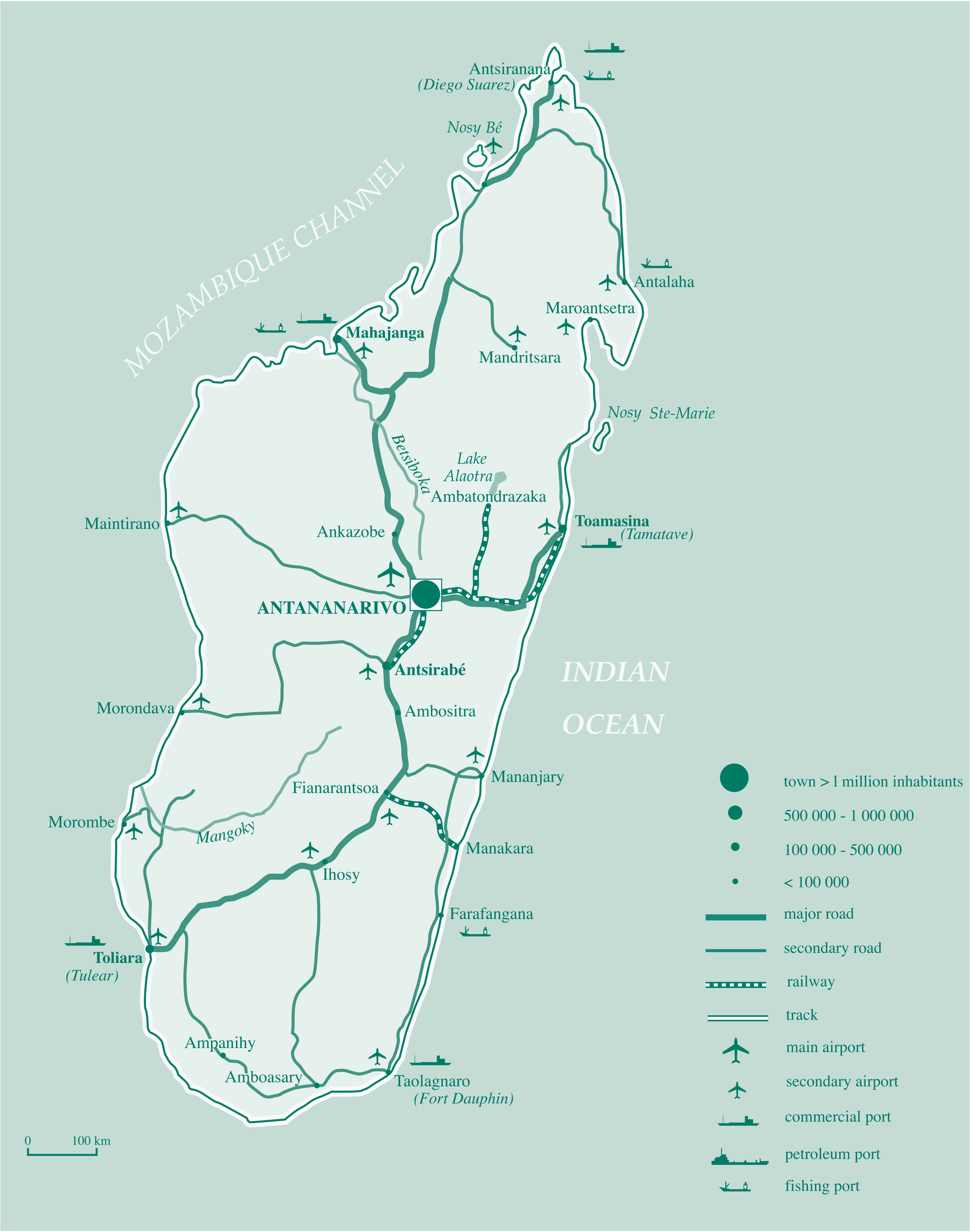
Madagascar

key figures

• Land area, thousands of km²	587
• Population, thousands (2007)	19 683
• GDP per capita, USD at constant 2000 prices (2007)	246
• Life expectancy (2007)	59.4
• Illiteracy rate (2007)	27.8

Madagascar



Antsiranana
(Diego Suarez)
Nosy Bé
MOZAMBIQUE CHANNEL
Antalaha
Maroantsetra
Mahajanga
Mandritsara
Nosy Ste-Marie
Betsiboka
Lake Alaotra
Ambatondrazaka
Maintirano
Ankazobe
Toamasina
(Tamatave)
ANTANANARIVO
Antsirabé
INDIAN OCEAN
Morondava
Ambositra
Mananjary
Fianarantsoa
Morombe
Mangoky
Manakara
Ihosy
Farafangana
Toliara
(Tulear)
Ampanihy
Amboasary
Taolagnaro
(Fort Dauphin)
0
100 km
town > 1 million inhabitants
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port

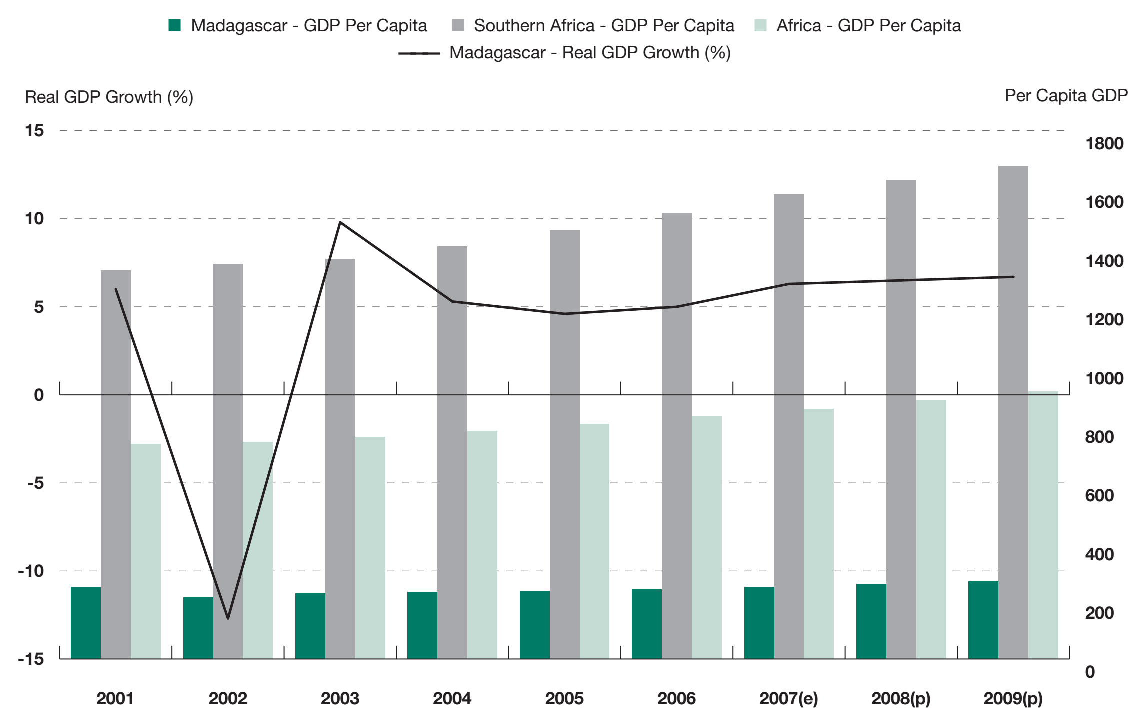
Madagascar

MADAGASCAR IS ONE OF SUB-SAHARAN AFRICA'S poorest countries, and its structural weaknesses, notably in public finance management, slow its growth and economic and social development. The financial system is also precarious, and the country remains vulnerable to external shocks as well as to climatic hazards. Nevertheless, the government is set on strengthening the economy through its bold 2007-12 Madagascar Action Plan (MAP), which aims to continue structural reforms, diversify levers for growth and achieve the Millennium Development Goals (MDGs).

The government is counting on budgetary consolidation, expansion of the financial sector, a new Poverty Reduction and Growth Facility (PRGF), and the start of the Trade Integration Mechanism (TIM), which it hopes will mitigate the effects on the economy of the end of the Multi-Fibre Arrangement (MFA). A cautious monetary policy has brought inflation down to single-digit figures, and has limited central bank intervention to smoothing out major exchange rate fluctuations and rebuilding currency reserves. Tax reforms will include increasing the tax burden to 12 per cent of GDP in 2008 through streamlining taxation methods, broadening the tax base and improving tax collection. Other reforms already under way involve revising the public finance management action plan, auditing the way in which

The Madagascar Action Plan including deeper reforms and wider diversification came into force.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



Source: IMF and local authorities' data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/316524332170

the government earmarks funding and starting a system of monthly public-spending commitment plans. National debt remains sustainable, especially after debt cancellations under the Multilateral Debt Relief Initiative (MDRI), but the investment needed to halve the poverty rate by 2015 will demand extra financing, especially soft loans, and more foreign direct investment (FDI), particularly in very labour-intensive sectors such as agriculture and tourism.

Recent Economic Developments

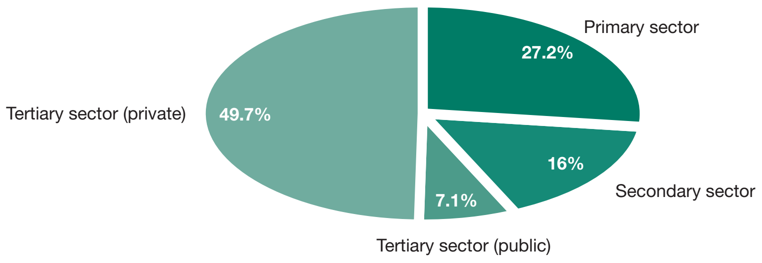
GDP grew substantially in 2007 (6.3 per cent) after the fairly modest advance of 2006. This was largely due to the start of construction for two large mining projects (ilmenite and nickel/cobalt), public infrastructure investment and good secondary sector performance. Foreign private investment in mining accounted for much of the 26.6 per cent rise in gross investment. Inflation fell below 10 per cent (to 9.8 per cent) in 2007 because of cheaper non-food products due to the increased value of the ariary in the first half of the year.

Agricultural production was up 2.9 per cent in 2007 (2.6 per cent in 2006), but growth of the primary sector (27.2 per cent of GDP) showed a slowdown overall, to 1.9 per cent (2.1 per cent in 2006). Forestry again expanded by 1 per cent, while livestock and fisheries slipped from 1.9 per cent growth in 2006 to 1 per cent in 2007. Livestock's share in the primary sector remains quite small. Cattle production, which is nationwide, is only growing by an average 1 per cent per year, but pig, poultry and small ruminant output is doing better (+2.3 per cent per year). The fisheries sector is insignificant, except for shrimps, which are threatened by overfishing. The "green revolution" goal of the MAP includes: making the primary sector a lever for growth; attracting local and foreign private investment; reforming land laws; boosting agricultural productivity; developing credit- and risk-sharing facilities for farmers; and increasing fisheries output.

The 2006 increase in paddy rice production (to 3 640 million tonnes) reduced the selling price in 2007 and helped curb inflation. The increase was mostly due to better grower access to factors of production and funding, as well as to help for the sector and technical aid for farmers' associations. Output of coffee and cloves grew again in 2007, but vanilla production fell once again. Production of these export products was up slightly overall in 2006 (6.3 per cent for coffee and 1 per cent for both pepper and cloves).

Growth of the secondary sector (16 per cent of GDP) almost doubled, to 9 per cent in 2007 (from 4.2 per cent in 2006) but the sector's performance still depends on reducing power cuts (by the national water and electricity firm Jirama) and restructuring the textile and clothing sector after the end of the MFA, whose expiry in 2005 held back growth of the country's textile industry and industrial free zones. The future production performance and competitiveness of these industries will depend on their modernisation.

Figure 2 - **GDP by Sector in 2006** (percentage)



Source: Authors' estimates based on National Institute of Statistics data.

StatLink http://dx.doi.org/10.1787/317787331161

The sub-sectors that grew most were beverages and food products, at 9.9 per cent (3.6 per cent in 2006) and extractive industries, up 10.5 per cent (9.1 per cent in 2006). Dynatec's new investment in nickel/cobalt deposits gave a major boost to this result. Growth of free-zone output bounced back to 8.3 per cent in 2007 (from 5 per cent in 2006). Electricity production also increased, by 5.6 per cent in 2007 (4.4 per cent in 2006). The sugar industry continued to grow at less than 2 per cent because of antiquated equipment. However, production has been transferred to a new firm under a lease-management contract, and 2007 results should be better.

Growth of the tertiary sector (56.8 per cent of GDP) slipped to 4.8 per cent in 2007 (from 6.8 per cent in 2006), mainly due to a -3.6 per cent slump in the services sector (+ 5.6 per cent in 2006), even though banking, insurance and telecommunications did well, along with tourism, which recovered in the first half of 2007 with the opening of 31 new hotels. Transport grew 8.8 per cent in 2007 (7.3 per cent in 2006), with the northern railway network carrying 24 per cent more goods and twice as many passengers as a result of 36 billion ariary of investment for franchised installations.

The banking and finance sector performed well, with the country's seven largest commercial banks recording an overall 14.2 per cent growth in 2006. Microfinance agencies expanded their geographical coverage, increasing their nationwide household penetration by about 8.7 percentage points. Prospects for insurance firms seem good with the advent of two new foreign companies, joining the two national ones. Domestic trade did quite well and was up 6.1 per cent in 2007 (4.3 per cent in 2006), reflecting the general economic recovery.

Growth in construction slowed to 18.8 per cent in 2007 (down from 25.1 per cent in 2006) because of government investment credit flow problems, which hindered funding, upgrading and maintenance of the road network.

Gross investment increased to 26.6 per cent of GDP in 2007 (up from 23.2 per cent in 2006), mostly due to substantial investments in the mining sector and efforts to improve the business climate and reduce power cuts. Private investment, especially by foreign mining firms, increased 45 per cent (more than triple the 13 per cent growth of 2006) and contributed 6.5 per cent of GDP growth. Most investment was FDI (USD 871.6 million in 2007 — 230.2 million in 2006) and focused on extractive industries and the financial sector. Government steps to encourage private investment concentrated mainly on devolving more decision-making power to local authorities, especially in rural areas where poverty is still widespread.

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**14.4**	**25.3**	**26.6**	**21.7**	**12.1**	**6.6**	**6.4**	**4.1**
Public	6.4	10.5	0.8	5.0	5.0	0.1	0.5	0.5
Private	8.0	14.7	45.0	30.0	15.0	6.5	5.9	3.6
Consumption	**93.1**	**90.7**	**8.8**	**6.7**	**6.0**	**7.8**	**6.1**	**5.4**
Public	7.4	8.7	7.0	3.1	4.6	0.5	0.2	0.3
Private	85.7	81.9	9.0	7.1	6.1	7.3	5.9	5.1
External demand	**-7.5**	**-16.0**				**-8.0**	**-6.0**	**-2.8**
Exports	25.1	29.5	4.0	5.6	5.8	1.1	1.5	1.5
Imports	-32.6	-45.5	22.7	16.1	8.6	-9.1	-7.4	-4.3
Real GDP growth						**6.3**	**6.5**	**6.7**

Source: IMF and local authorities' data; estimates (e) and predictions (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/321246435427

Public investment grew by only 0.8 per cent in 2007 (down from 10.2 per cent in 2006). Support measures were introduced to increase funding to priority sectors (infrastructure, health, education, governance) that would boost productivity and reduce poverty.

Internal demand was up 8.8 per cent in 2007, driven by a 9 per cent rise in household consumption due to higher wages and lower prices for items such as rice. Public consumption advanced more slowly in 2007, by 7 per cent.

Total goods exports grew by a modest 4 per cent, to reach 3 524.7 billion ariary in 2007, despite a large rise in exports of cloves (up 31.6 per cent) and free-zone products (24.2 per cent). However, imports from the CFA franc zone increased substantially (22.7 per cent by volume), to reach 6 107.8 billion ariary in 2007, due to increased demand for mining equipment and to the requirements of free-zone firms for raw materials and semi-manufactures.

Macroeconomic Policies

Fiscal Policy

Public finances were quite well managed in 2007, though the domestic funding target was not entirely met because of spending excesses, partly due to the elections, which somewhat reduced government income. But the strengthened capacity of tax and customs operations boosted revenue, and budgetary aid grants also increased, by 3.8 per cent. The tax burden ratio increased slightly, to 10.9 per cent in 2007 (from 10.7 per cent in 2006); the government is aiming for 15 per cent by 2011, to fund some of the goals of the MAP. Debt relief in 2006 under the MDRI enabled the government to find the resources for priority expenditure on education and health. It also helped the state to pull out of the domestic banking sector, meet external debt payments that were due (4 133.2 billion ariary) and repay internal debt arrears of 30.1 billion ariary.

Tax revenue was 1 427.6 billion ariary (10.4 per cent of GDP) in 2007, up from 1 264 billion (10.7 per cent of GDP) in 2006. If parliament approves a 2 percentage-point increase in VAT in the 2008 budget, total revenue should rise to about 1 704 billion ariary (10.6 per cent of GDP).

Expenditure was 2 649 billion ariary in 2007 (19.3 per cent of GDP), up from 2 528 billion in 2006 (21.4 per cent of GDP). This increase in volume was due to accidentally underestimating civil servant pension costs, higher interest payments on the internal debt and budgetary transfers to Jirama. Capital spending (1 276.6 billion ariary) was 9.3 per cent of GDP in 2007 (slightly down from 10.2 per cent in 2006). Most of the planned gross fixed capital formation will be due

Table 2 - **Public Finances** (percentage of GDP)

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**15.0**	**20.3**	**16.7**	**59.1**	**15.8**	**14.6**	**14.5**
Tax revenue	11.0	10.9	10.1	10.7	10.4	10.6	10.7
Grants	3.6	8.2	5.7	47.9	4.9	3.5	3.3
Total expenditure and net lending[a]	**17.8**	**25.2**	**21.3**	**21.4**	**19.3**	**18.7**	**18.0**
Current expenditure	9.3	12.6	11.0	11.1	10.0	9.7	9.2
Excluding interest	*7.2*	*9.7*	*8.3*	*8.7*	*8.2*	*8.2*	*8.0*
Wages and salaries	4.3	4.9	4.5	5.0	4.6	4.5	4.3
Interest	2.1	2.9	2.6	2.4	1.8	1.4	1.2
Capital expenditure	6.9	12.5	10.3	10.2	9.3	9.0	8.9
Primary balance	**-0.7**	**-2.0**	**-2.0**	**40.1**	**-1.8**	**-2.7**	**-2.3**
Overall balance	**-2.8**	**-4.9**	**-4.7**	**37.7**	**-3.5**	**-4.1**	**-3.5**

a. Only major items are reported.
Source: IMF and local authorities' data; estimates (e) and predictions (p) based on authors' calculations.

StatLink http://*dx.doi.org/10.1787/322018570017* to foreign companies investing in mining and oil/gas. The MAP began in 2007, and budgeting for its priorities was carried out as part of a 2007-12 Medium-Term Expenditure Framework (MTEF). Treasury operations showed an overall deficit of 3.5 per cent of GDP in 2007, compared with the 37.7 per cent surplus in 2006 generated by higher revenue and MDRI debt relief.

Monetary Policy

The large rise in demand for cash reserves in 2006, mainly due to domestic spending caused by increased FDI, continued in 2007, and was met by monetary growth in step with the increase in the country's net external assets. The central bank, the Banque centrale de Madagascar (BCM), had to prop up the ariary by purchasing foreign exchange on the interbank market, so reducing growth of the money supply (M3) to 22.9 per cent in 2007 (from 25.9 per cent in 2006). After inflation eased in the second quarter of 2006, the BCM cut its intervention rate from 16 to 12 per cent in 2007. But the persistence of factors favouring the expansion of bank liquidity kept the banks' reserve requirements at 15 per cent. Loans to the economy rose 24.9 per cent in 2007, mainly due to growth in lending to the private sector, particularly oil companies and the real-estate sector, which together accounted for 99 per cent of loans. In 2007 the state returned to a creditor position *vis-à-vis* the banking sector, with Treasury payments to the central bank exceeding bank loans to the state by 58.6 billion ariary.

The banking sector was much healthier in 2007, and the overall percentage of non-performing loans fell. Licensing of a new commercial bank boosted competition in the sector. The BCM was recapitalised in May 2007 on the advice of the International Monetary Fund (IMF), which calculated that the bank had a net deficit of about 5 per cent. To meet their monetary policy targets, the authorities also securitised the BCM's loans to the Treasury (1.6 per cent of GDP) with convertible financial market bonds, enabling the bank to get market-rate interest and thus helping it to use the new bonds for open market operations, along with traditional liquidity-reducing devices such as tendering.

Inflation, still partly tied to world energy price fluctuations, rose sharply in the second quarter of 2007 because of dearer rice after floods reduced output early in the year. But it was brought under control, to end up at 9.8 per cent at year's-end (down from 10.6 per cent in 2006), and it should fall below 7 per cent in 2008. The government has adopted a new IMF-recommended indicator, core inflation, which excludes rice and oil products from the calculation of the consumer price index (CPI), because their prices and availability are highly unpredictable.

External Position

Despite the continued flow of FDI into the mining and oil sectors, the balance of payments deficit increased in 2007, to 12.6 per cent of GDP (from 8.8 per cent in 2006). This poor result was due to a drop in exports of vanilla (whose production was hard hit by cyclones in early 2007) and shrimps, where overfishing is exhausting stocks. Imports of intermediate goods and

Table 3 - **Current Account** (percentage of GDP)

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	-4.3	-10.0	-11.7	-9.9	-11.8	-14.2	-14.5
Exports of goods (f.o.b.)	15.7	22.7	16.6	17.7	14.5	13.5	13.3
Imports of goods (f.o.b.)	20.0	32.7	28.3	27.6	26.3	27.7	27.8
Services	-3.5	-6.3	-2.3	-1.3	-2.6	-4.4	-4.1
Factor income	-1.1	-1.5	-1.6	-1.5	-0.8	-1.0	-0.9
Current transfers	2.9	7.5	4.7	3.9	2.5	2.3	2.2
Current account balance	**-6.1**	**-10.3**	**-11.0**	**-8.8**	**-12.6**	**-17.2**	**-17.3**

Source: IMF and local authorities' data; estimates (e) and predictions (p) based on authors' calculations.

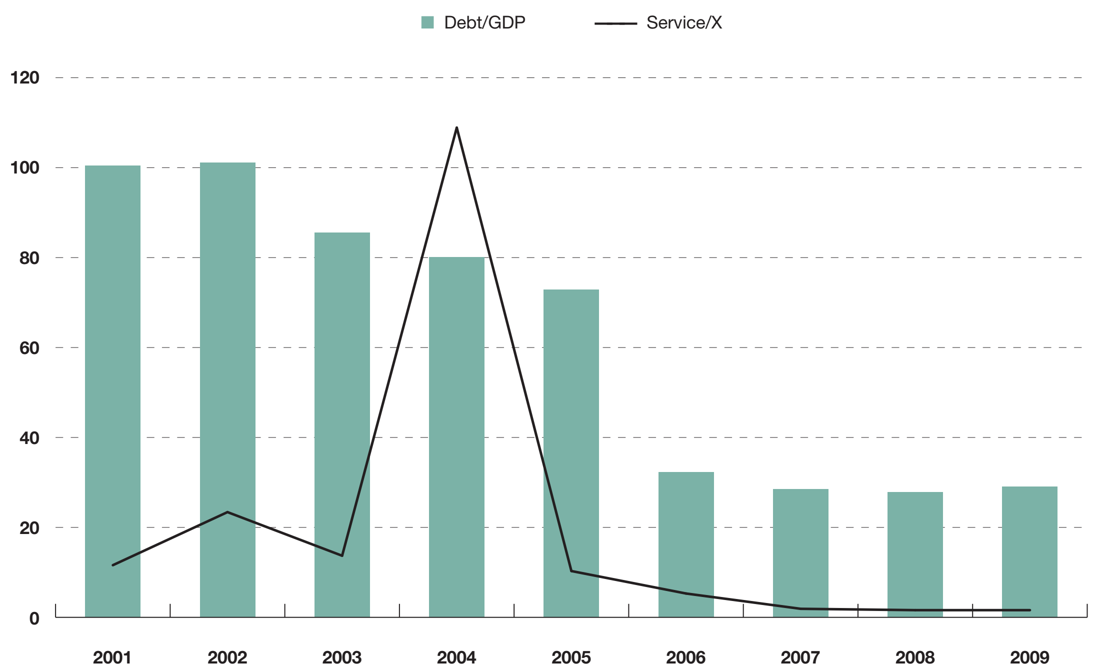
StatLink http://dx.doi.org/10.1787/322772137364

equipment by mining and free-zone companies worsened the trade deficit. Nevertheless, free-zone manufactures and agricultural products such as cloves and coffee are still competitive at the current exchange rate. The FDI inflow, grants, and debt cancellations have enabled the country to rebuild foreign exchange reserves equivalent to three months of imports and have boosted the exchange value of the ariary. The nominal effective exchange rate in the first quarter of 2007 in fact rose by 13 per cent compared with October 2006, and the real effective exchange rate by nearly 20 per cent. To avoid the "Dutch Disease" syndrome caused by increased external inflows and a higher exchange rate that makes traditional exports less competitive, the government is keeping the present system of a managed floating exchange rate with no predetermined path, relying on expected higher demand for imports to stabilise the rate. The authorities have also taken steps to ease exchange controls further, including extension of the time limit for repatriating export revenue to 180 days, and raising the ceiling on foreign exchange holdings by commercial banks. This will reduce pressure on the exchange rate and enable it to find a new balance.

Goods exports rose to 3 524.7 billion ariary in 2007, only 4 per cent up on 2006, while imports sharply increased in volume, by 22.7 per cent (to 6 107.8 billion ariary). The trade balance remained in deficit (11.8 per cent of GDP) due to higher imports of inputs by mining firms and free-zone industries and to a 17.1 per cent rise in the oil bill. The South African mining firm Dynatec, in partnership with Japan's Sumitomo, is investing nearly USD 2 billion in 2008 and 2009, which will push up imports, especially of capital goods. Dynatec hopes to be exporting by 2010/11, and this will significantly reduce the trade deficit.

Madagascar is classed as a country with an external debt of average viability. Debt indicators dropped very sharply in 2006 after the MDRI came into effect, and the debt-to-GDP ratio (in net present value — NPV)

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/318843103505

fell to 12 per cent that year, from 36 per cent in 2005 (which was already below the 40 per cent threshold). The debt-to-export-earnings ratio also fell. Internal debt should stay below 10 per cent of GDP as the government tries to restrict its expenditure to the funding provided by good fiscal revenues and foreign aid. The fiscal deficit will have to be largely funded by external soft loans.

Total debt relief to Madagascar in 2006 under the Heavily Indebted Poor Countries (HIPC) Initiative was USD 836 million (in NPV). Most Paris Club member-countries granted full debt relief as soon as the country reached its completion point, so reducing the debt by another USD 466 million. At the end of 2006, Madagascar had arrears of USD 595 million to private lenders and to non-Paris Club members (such as Algeria, Libya and Iraq), who held nearly 92 per cent of the total. Talks are under way with these countries to get them to joint the HIPC Initiative and grant Madagascar debt relief. Debt cancellations by international financial institutions (361.7 billion ariary from the IMF, 4 094.5 billion from the International Development Association and 712.8 billion from the African Development Bank) is expected to substantially reduce debt servicing and provide 79.1 billion ariary in aid under the HIPC Initiative in 2007.

Structural Issues

Recent Developments

The launch of the MAP was the main economic and political event of 2006. It runs from 2007 to 2012, takes over from the country's Poverty Reduction Strategy Paper (PRSP), and is an overall strategic framework for speeding up economic growth and reducing poverty in line with the MDGs. It will be strengthened by sector-specific strategies and action plans, and will cost an estimated EUR 1.5 billion per year. About 80 per cent of its funding will come from increased national revenue generated by mining investment, export growth, foreign aid and soft loans, but the economy will have to increase its absorption capacity and cut inflation.

The improvement and maintenance of infrastructure, mostly roads, pose the government constant problems. Good maintenance of the existing road network would boost trade between the country's regions by an estimated 20 per cent. Nearly 8 982 kilometres of roads were repaired in 2005, and work continued at a similar pace in 2006. The development of tourism and the two large mining projects (ilmenite and nickel) will require the expansion and improvement of major related infrastructure over the next three years. The authorities are therefore planning: to increase the capacity of existing ports, for example, by expanding Toamasina to take bigger ships; to upgrade and maintain the FCE (Fianarantsoa-East Coast) railway and the northern rail network; and to build a new airport with an integrated storage area.

In view of Jirama's inability to reduce the frequent power cuts that interrupt and hamper economic activity and increase companies' costs, the government has decided to restructure and rehabilitate the company (although it will not now be privatised in 2009) and to encourage independent electricity providers to invest more heavily. Electricity prices are being increased in three stages after a survey by the International Finance Corporation (IFC); the first rise (15 per cent) took place in October 2007. In 2007 and 2008, the government will provide budget funding equivalent to about 0.5 per cent of GDP annually to make up for occasional drops in Jirama's operating revenues and to pay for its upgrading. Once modernised, it will be leased to a private operator: expressions of interest will be invited at the end of 2008.

The government is counting on private sector efforts to increase foreign trade, and has unilaterally reduced some customs duties and its most-favoured-nation tariff from an average 16.2 per cent in 2005 to 12.9 per cent in 2007. It has also speeded up Madagascar's entry into the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA), while encouraging FDI in all production sectors. The 2008 budget aims to streamline the tax system by halving the number of taxes from 28 to 14, reforming company taxation and bringing free-zone export firms into the standard legal framework. The government wants also to continue tax and customs reforms and, in order to reduce fraud, introduce the TradeNet electronic data interchange system to track real-time import and export movements. Taxation of mining and oil projects will be brought up to international standards to make best use of the sector's potential. A general mining law and a law on major mining investments (LGIM) have been drafted, and a one-stop shop for the commercial export of precious stones has been set up. The Mines and Geology Department and the Mining Statistics Office have been completely reorganised, and the country has agreed to join the Extractive Industries Transparency Initiative (EITI).

The government is trying to expand financial intermediation and credit access (with technical help from the IMF) by improving payment systems, setting up a loans desk in every bank and financial institution, and encouraging competition in the sector by allowing more banks to operate. It is also trying to boost the performance of microfinance institutions (MFI), which have been a great success, so as to encourage the growth of small businesses. Implementation of the September 2005 law on the operation and supervision of MFIs is under way; a feasibility study has been launched for setting up a risk office for MFIs; and the government is building a database for the sector. In 2006 the central bank also introduced automatic handling of banknotes, with equipment to make headquarters operations more secure and software to monitor and follow up financial transactions. The central bank's data system is being upgraded to improve management at the head office and branch offices. Modernisation will also include: an integrated information system about companies; a revised banking law; and the setting up of an organised financial market.

Madagascar has a rich biodiversity of plant and animal life, with 85 per cent of plant life being endemic, 91 per cent of its reptiles, 99 per cent of its amphibians and 100 per cent of its lemurs. But all of it is concentrated in 9 million hectares of forest ecosystems threatened by agriculture and logging. Forest fires could also eventually wipe out species such as lemurs, which are found only in Madagascar. The government has launched a risk-prevention plan to preserve this biodiversity through the creation of protected areas run by the state or local communities, or in partnership with the private sector and international funders. A Madagascar Protected Areas System (SAPM) has been set up and 16 temporarily protected areas designated; the total area of the protected areas will increase from 1.7 to 6 million hectares, and the protected part of the maritime economic zone to 10 per cent of the country's total area.

The government has taken a number of preventive and precautionary measures steps to tackle serious pollution. All of the country's 22 regional development plans include an environmental section, as do the urban development plans of the major towns and cities. In order to foster good habits, children are taught about the environment at school. Improved forestry monitoring in 2007 increased the annual area of reforested land to 50 000 hectares, reduced the area of slash-and-burn by a quarter, and transferred 100 000 hectares of natural resources to local communities.

Agriculture in Madagascar is, however, seriously hampered by ill-defined and unreliable land transactions, whether involving commercial farming or agro-industry. Only 10 per cent of the population concerned have title deeds to their land; this is a major obstacle to commercial and legal transactions and prevents the emergence of a truly competitive land market meeting the needs of tenant farmers and major agro-industrial investors. The government launched a national land programme (PNF) in 2004 to improve the situation by opening 21 land offices whose task is to make existing title deeds more secure, and to issue new ones where they do not exist.

The country's agriculture is structurally weak also due to a lack of long-term farming traditions and the tendency of local farmers to grow only one crop; this is mainly the result of the absence of land titles (and thus of collateral to present to banks for investment or harvest loans), of meagre resources, and of little research and development or adoption of new farming methods. Moreover, this sector produces and exports unprocessed items with little added value. The government aims to change this by encouraging farmers to pool their methods, costs and risks so that they can develop value chains by processing most of their agricultural output locally.

Technical and Vocational Skills Development

A 2005 survey by the National Institute of Statistics showed that only 4.8 per cent of the entire workforce were managers, while 25.5 per cent were middle-level workers and 28.6 per cent were manual labourers. Foreign workers — mostly in trade, vehicle repair and manufacture of household goods — occupied only 0.8 per cent of all permanent jobs. Extractive industries, which will greatly expand by 2010, have found less than half of the 8 000 trained workers they need on the local market, where skills are in very short supply due to the lack of qualified trainers, the inappropriateness of training for employment, and poor co-ordination between the technical and vocational education and training (TVET) system and the world of work.

The informal economy's labour needs are partly met by apprenticing working-age people to learn basic skills, and by custom-made courses at various training support centres and vocational training centres (VTCs), which teach fishing, handicrafts, agriculture and livestock farming, etc.

The national education budget was nearly 450 million ariary in 2006, but only 0.87 per cent of it went towards TVET, which is a miserable amount considering the growing needs of priority sectors and also when compared with the 5.79 per cent that went towards TVET in 2000 and the 4.1 per cent in 2001.

TVET is the responsibility of an office under the national Secondary Education and Vocational Training Department, which is attached to the Ministry of Education and Scientific Research. However, policy is implemented through regionally decentralised education ministry offices that supervise groups of technical and vocational schools (GEETP). These groups answer to a regional steering committee and provide vocational and technical training through public and private bodies such as vocational and technical training institutes (IFPT), technical and vocational schools (TVSs) and VTCs. Private TVET colleges can open up and compete for funding with public institutions that are part of the GEETP. Opening and operating permits are issued by the appropriate ministries. To encourage public and private institutions to work together, experimental integrated growth poles incorporating TVET have been set up in three regions. Exams leading to national diplomas are held by TVSs. The institutes and all the VTCs, both public and private, issue certificates after training for a job. Trainees range from professional engineers and senior technicians to skilled and specialist workers. But the system does not meet the country's economic and social development needs.

There have been several reforms of TVET since the 1990s, involving: the introduction of the idea of vocational training, as opposed to technical education; an increased number of short-term, mostly private, vocational training courses; the granting of autonomy to the GEETP; the setting up of a centre to monitor employment and training, and another to train trainers and staff of TVET institutions; and the creation of a (so far not very active) National Council for TVET. Current reforms, still at a preparatory stage, include: examining the provision of training by region; diversifying the provision in existing institutions; reorienting general secondary education courses from arts to science courses; reorienting training courses in schools; granting TVET institutions greater autonomy; and adapting training content to the job market. The reforms will also involve: changing the status of vocational training centres, turning them into trade schools; setting up a national training body (ANF) in 2008; and creating facilities to inform and advise people about employment and training.

The TVET system was assessed in 2006, and speedy creation of the ANF was recommended in order to: adapt training to better meet labour market needs; upgrade skills training and make it more relevant; improve skills in the informal sector; and use accumulated funding, particularly from the national budget. The survey also advocated: extending basic education from five to seven years; boosting the flow of students into technical and vocational training;

promoting technical and vocational training (TVT) at all levels of the education system, as well as improving its image in relation to general education; and encouraging TVT by firms working in priority growth sectors such as mining and tourism. The survey concluded, that to meet the new requirements, training policies should focus on: initial vocational training; general training in technology; (on-the-job) vocational training leading to a qualification; and the teaching of basic trades.

The national TVET strategy is part of the MAP and aims to transform education through TVT and push towards full employment. Its objective is to supply production sectors with the skilled workers they need by providing information, guidance and training to candidates. The action plan for this includes: increasing and diversifying the number and quality of technical and vocational courses to support priority growth sectors such as extractive industries and tourism; ensuring that VTCs fill 90 per cent of new technical and vocational jobs by creating equality of access to TVET and revising performance criteria; developing public-private partnerships by diversifying vocational education funding and setting up the ANF. Job creation will be encouraged in three main ways: increasing worker productivity by supporting vocational training and on-the-job training within Chambers of Commerce and Industry and public bodies; devising and implementing strategies for promoting and creating productive jobs; setting up information and advice centres on employment and training in 22 regions, while also developing initial and on-the-job vocational training and creating regional research and technical training centres.

Political Context

President Marc Ravolomanana was re-elected on 3 December 2006 for a second term, obtaining 54.8 per cent of the vote in the first round. A constitutional reform proposal won more than 75 per cent approval in a referendum. The president's party, TIM, won the majority of seats in the National Assembly in early parliamentary elections on 23 September 2007 and confirmed its urban domination, winning all 12 seats in the capital, Antananarivo, and taking four of the country's five major towns and cities, including Toamasina (formerly Tamatave), stronghold of former city mayor and ex-presidential candidate Roland Ratsiraka. With his election for a second term, Ravolomanana has firm parliamentary support for implementing the MAP. However, the divided and discredited opposition won control of Antananarivo at local elections in December 2007.

To entrench the rule of law and promote good governance, in 2004 the government launched a reform of the judiciary that cleared a backlog of some 60 000 cases before the courts. A national anti-corruption council (since renamed the Committee for the Safeguard of Integrity) was set up in 2003 to fight the corruption eating away at the country's institutions and economy. An Independent Bureau against Corruption (Bianco) was also set up. These efforts seem to have worked, because the country's score in Transparency International's worldwide Corruption Perceptions Index has improved — from 1.7 (out of a possible 10) in 2002 to 2.8 in 2005. The government is aiming for a score of 5.2 by 2012.

The government also wishes to join the EITI, which is a very important decision because of the large increase in public and foreign investment in the mining sector. An *ad hoc* committee of government officials, civil society (including the media) and mining firms has been set up. A nationwide information campaign will follow. The government also intends (with Norwegian technical help) to create a foreign-based fund for future generations that will manage revenue from the extraction of natural resources and allow this revenue to figure openly in the national accounts.

Social Context and Human Resources Development

Educational reforms, particularly at primary level, were introduced in 2003 with the launch of the Education For All plan that increased the number of primary school pupils from 1.7 million in 1997/98 to

3.7 million in 2006. Extra classroom space became available in 2006, along with incentives such as: the abolition of school fees; the opening of school canteens; and free school stationery and special kits for pupils from poor areas. According to national sources, the net enrolment rate at primary level increased significantly, to 98.5 per cent in 2006 (from 93.3 per cent in 2003). However, the dropout rate is high, the quality of teaching is poor, and huge gaps remain between social classes and geographical areas, although gender inequality is disappearing, with girls representing a stable 49 per cent of pupils between 2001 and 2006. The proportion of pupils repeating years rose from 18.3 per cent in 2004/05 to 19.7 per cent in 2005/06, and the primary completion rate remained steady, at 57 per cent. Primary completion and repetition rates are expected to improve in 2006/07 to 60 and 17.5 per cent, respectively. The Education For All plan has also shown that five years of primary education is not enough to effectively combat illiteracy, which in 2006 affected 37 per cent of the total population and nearly 28 per cent of those aged between 15 and 60. The government aims to modify the stages of education and lengthen the primary school stage from five to seven years, with top-primary and secondary school levels being adjusted accordingly. At junior secondary school level, there is a ratio of only one school for 18 primary schools, which puts an extra squeeze on pupil places and boosts the dropout rate after primary school. University enrolment is negligible, at only 3 per cent of secondary students in 2006, compared with 8 per cent in sub-Saharan Africa. This figure should rise to about 4 per cent between 2007 and 2008.

Madagascar has a high rate of population growth, and the government is pushing for the use of condoms and encouraging family planning. According to national sources, the under-five mortality rate fell from 94 to 88 per thousand between 2004 and 2006, but maternal mortality is still high, at 469 per 100 000 live births; the target is to halve this by 2012 in line with the MDGs. Bilharzia, STDs (sexually transmitted diseases) and malaria are the country's main diseases. Only half of the population has mosquito nets, but in the fight against malaria, the aim is for every citizen to have one by 2012. The battle against HIV/AIDS continues, and infection remains at less than 1 per cent. Efforts must not let up however, especially with the expansion of tourism, which often helps to spread the disease. In 2006 the health care sector used 99.78 per cent of a budget of 50.7 billion ariary, and vaccination coverage was extended to 111 districts as planned. Forty out of a planned 49 health workers were trained in reducing maternity risk. In the fight against malaria, a total of 1 138 840 impregnated mosquito nets were distributed in 2006 (113.9 per cent of the number planned) and 12 sentinel surveillance centres for malaria were established. In the fight against HIV/AIDS, youth centres were supplied with contraceptives, eight out of nine care centres in Antsiranana and Toliara were stocked with antiretroviral medicine, and eight out of nine operational centres opened to take in HIV patients. A total of 250 doctors, 381 paramedics and 50 office staff were hired in 2006.

The government's anti-poverty priority spending rose in 2006, mostly using resources freed up by MDRI and HIPC Initiative debt relief. Efforts continued in 2007 to improve health, education and employment indicators, and thus more effectively fight poverty, which was still a high 67.5 per cent in 2006 (72.3 per cent in rural areas and 50.3 per cent in urban areas). But poverty seems to be steadily receding, mainly in rural areas. The MAP aims to reduce the national poverty rate to 50 per cent by 2012.

The number of job seekers fell by 14.21 per cent between 2005 and 2006, and 26 000 new jobs were created in 2006. Overall unemployment remained unchanged at 2.8 per cent in 2006 but was still a high 31.1 per cent among the 16-25 age group. In 2006, 5 725 new job seekers were recorded; 53.57 per cent of them were male, 49.92 per cent of them had already worked and the rest were first-time applicants. One objective of the MAP was to create 250 000 rural jobs in 2007 through its agricultural "green revolution" component.

