



COMMITMENT SIX

HIGH GROWTH ECONOMY

Madagascar will have a high growth economy with growth rates reaching between 7% to 10% by 2012. We will ensure that we have a diversified and strong private sector driven by local and international investment and trade. The Government will generate the fundamental conditions that will support the facilitation of business. We will encourage the pursuit of the best ideas and cutting edge techniques, technologies, and strategies to ensure that we as a nation are responsive to the challenges of globalization, productive in the workplace, and gain a competitive advantage.

CHALLENGE 1 > ENSURE A STABLE MACROECONOMIC ENVIRONMENT



Current Reality

Macroeconomic performance has strengthened but is still uneven, characterized by double-digit inflation due to high oil prices, sharp rise in power and water tariffs and the depreciation of the Ariary in 2005. Import demand has kept downward pressure on the Ariary that has been slowly depreciating. Exports have suffered from the phasing out of the Multi-Fibre Agreement and from the low price of vanilla in the world market. Export Processing Zones have lost 10,000 jobs due to competition in garments from China and India. External sector outlook and economic growth will depend very much on how attractive Madagascar will be for international investors and how fast the country can develop its minerals and oil resources. Current account deficit has been high, reaching 11.7% of GDP in 2005. Economic growth was 4.6% in 2005. While the budget deficit is expected to fall to 4% of GDP for 2006, there has been a significant shortfall in revenue collection by the government.

Goals

1. Achieve sustainable macroeconomic stability with low inflation.
2. Eliminate macroeconomic imbalances.

Strategies

1. Pursue a firm monetary policy to contain inflation and promote stability in the foreign exchange market.
2. Rationalize the management of the public finances and eliminate wasteful government expenditures so as to help ensure fiscal discipline.
3. Reduce the budget deficit.
4. Undertake a major overhaul and simplification of the tax system in order to stimulate private initiative and enhance government revenue.
5. Strengthen the analytical and forecasting capabilities within the public administration.

PRIORITY PROJECTS AND ACTIVITIES	PROJECT LEADER
1. Reform the national and local tax system to provide a more effective way to generate and collect revenues while improving the investment climate and attract the informal sector into the formal sector	Minister responsible for Finance
2. Develop indirect instruments of monetary control, including the securitization of government debt to the Central Bank, in order to effectively manage domestic liquidity and ensure appropriate restraint in the growth of the money supply and domestic demand.	Governor of Central Bank
3. Progressively reduce the extension of Central Bank credit to the Treasury	Governor of Central Bank
4. Progressively reduce and eventually eliminate the arrears of the Public Administration.	Minister responsible for the Budget
5. Computerize the tax centers and customs offices	Minister responsible for Finance
6. Strengthen the fight against customs fraud, including the reinforcement of the surveillance of the national territory	Minister responsible for Finance
7. Put in place a system of reliable and up-to-date statistical data in conformity with the National Strategy for the Development of Statistics, and a sharing of information within and across Ministries	Minister responsible for Economy
8. Develop analytical tools and macroeconomic and sector models of forecasting	Minister responsible for Economy

INDICATORS	2005	2012
Annual Inflation rate (%)	11.4	5.0
Budget deficit (% of GDP)	4.3	3.0
Central Bank credit to government (% fiscal revenue of the last year)	10	5
Foreign currency reserves (in imports month)	2.9	6
Current account balance (% of GDP)	-11.7	-8.0
Total public debt (% of GDP)	81.4	60
Economic growth rate (%)	4.6	7 to 10
Investment rate (% of GDP)	22.5	30



CHALLENGE 2 >

INCREASE FOREIGN DIRECT INVESTMENT

Current Reality

Since 2002, the Malagasy Government has pursued a policy of attracting foreign direct investments as one of the key strategies for the development of the country. However, FDI has been very low for a well-endowed country like Madagascar. The country attracted only USD 85 million in 2005. It is ranked 151ST in the “Doing Business Indicators” (DBI) of the World Bank, a very low ranking for a country that has not seen major political and social upheaval. In 2006, the Government established the Economic Development Board of Madagascar to improve the investment climate and also created a new investment law that would cut red tape and provide a package of incentives that would serve to enhance Madagascar’s attractiveness and promote a much higher level of FDI as well as encourage existing industries to expand production.

Goals

1. Madagascar will be the best place to invest in sub-Saharan Africa and the Indian Ocean.
2. Madagascar will achieve double-digit economic growth by 2012.
3. We will broaden the tax base in the medium to long term.
4. Foreign investments will be especially promoted in sectors where value added, job creation, integration, and multiplier effects on other sectors will be maximized.

Strategies

1. Create a competitive business environment.
2. Secure investments and commerce.
3. Aggressively promote Madagascar to attract investment.
4. Provide enabling infrastructure, including EPZ, IPP, land tenure.
5. Pursue international agreements to increase investors confidence and market access.
6. Remove distortions in the economy.

PRIORITY PROJECTS AND ACTIVITIES	PROJECT LEADER
1. Render EDBM fully operational to actively promote FDI and improve investment climate	CEO of the Economic Development Board of Madagascar
2. Carry out a “Guillotine” approach of administrative procedures that are an impediment to investment	CEO of EDBM
3. Implement the new law on investments	CEO of EDBM
4. Develop a new and targeted marketing strategy for attracting FDIs	CEO of EDBM
5. Set up an industrial zone to speed up and facilitate investment in export-oriented activities	CEO of EDBM
6. Create a land bank to facilitate and speed up investment project implementation in tourism and agribusiness	CEO of EDBM
7. Initiate and ratify priority bilateral, regional and international investment protection agreement and non-double taxation agreement to increase investor confidence	CEO of EDBM
8. Strengthen the industrial arbitration court to solve disputes between employers and employees and between investors and government agencies/other investors	CEO of EDBM
9. Extend the insurance system on international transactions (Trade Insurance Agency)	CEO of EDBM

INDICATORS	2005	2012
Foreign Direct Investments (Millions US\$)	84	500
Ranking in investment climate	131	80

CHALLENGE 3 > PROMOTE FULL EMPLOYMENT

Current Reality

The demographic structure shows that in 2005, the segment of the active population accounts for 64.6% of total population. 82% of the labor force is employed in the agricultural sector. 15.4% are employed in the formal sector of which about 150 000 are employed in the public sector. The Export Processing zones have been an important employment provider, but this role has stagnated due to the phasing out of the Multi-fibre Agreement. Although the registered unemployment rate is relatively low, the real unemployment rate is significantly higher.

The cost of labor is relatively low in absolute terms; while the median wages for an unskilled production worker are approximately 36 USD in Madagascar, the figure stands at 85 USD in China and 44 USD in India. However, labour productivity is weak; the work force lacks qualifications and there is a substantial underutilization of labour resources. The labor market is characterized by inadequate matching of education and employment needs.



Goals

1. We will ensure that the labour force is well qualified and able to respond to the needs of the economy.
2. Labor will exhibit substantially higher productivity.
3. Full employment will be pursued.

Strategies

1. Stimulate job-generating sectors.
2. Reform labor laws including establishing Industrial Arbitration Court.
3. Develop a National Manpower Plan to align labor to the needs of the economy.
4. Provide vocational training to support the priority industries that contribute to the high growth economy.
5. Shift mindset to support efficient economic activity.

PRIORITY PROJECTS AND ACTIVITIES	PROJECT LEADER
1. Support on the job training and vocational training programme in Chamber of Commerce, Industries and Public Institutions	Minister responsible for Labour
2. Draw up and implement strategies for promoting and creating productive jobs (SME creation, vocational training, improvement of informal employment)	Minister responsible for Labour
3. Integrate employment into the mechanisms of programming and monitoring – evaluation of technical ministries	Minister responsible for Labour
4. Adapt the building of local skills to the opportunities in the regions	Minister responsible for Labour
5. Set up centers for employment and training advice/guidance in the 22 regions	Minister responsible for Education
6. Develop initial and continuous vocational training	Minister responsible for Labour
7. Set up Regional Centers of Research and Training to Techniques (High Labor Intensity)	Minister responsible for Labour
8. Develop accurate labor statistics	Minister responsible for labour

INDICATORS	2005	2012
Unemployment rate	High	Low
Number of enrolment in vocational schools (index base 2005=100)	100	500

CHALLENGE 4 >

REFORM THE BANKING AND FINANCIAL SYSTEM

Current Reality

As of 2006, there are 6 commercial banks operating in Madagascar (4 French and 2 Mauritian). The financial system suffers from limited competition and access to medium or long term financing is low. The financial institutions are risk averse and the cost of financial intermediation is high. As a result, a substantial part of the financing requirements of private firms remains unsatisfied; SMEs have limited access even to short term credit. The proportion of the population that has access to bank credit is extremely low and there is as yet no Stock Exchange. There are several micro-finance institutions supporting small scale activities, but the lending rate of around 5% per month is very high.

Goals

We will ensure the development of a well functioning financial system that is capable of meeting the short and long term financing needs of the private sector at affordable rates of interest and provides a wide range of financial products to a significant part of the population.

Strategies

1. Enhance competition in the banking sector.
2. Strengthen the regulatory and supervisory framework.
3. Strengthen the efficiency and network of microfinance institutions.
4. Establish the conditions for the development of financial markets, including the creation of a Stock Exchange.
5. Encourage the increase in savings.

PRIORITY PROJECTS AND ACTIVITIES	PROJECT LEADER
1. Attract more foreign banks and provide banking licences to create a competitive environment and encourage the set up of rural branches	Supervision Committee of Banks and Financial Institution
2. Encourage the development of financial markets, including stock exchange, and new financial products (collateral funds, participation funds, investments funds)	Minister responsible for the Economy
3. Provide nationwide access to affordable microfinance and set up a refinancing system for microfinance institutions	Minister responsible for the Economy
4. Support the development of financial services such as leasing and factoring	Minister responsible for the Economy
5. Reform the insurance system to support productive activities	Minister responsible for Finance

INDICATORS	2005	2012
Private saving rate	12.1	25.7
Difference between credit and debit interest	8.25	5
Long term bank credit to private sector (% Total credit)	5.4	8

CHALLENGE 5 > STRENGTHEN DOMESTIC ENTERPRISES, SMES AND HANDICRAFT INDUSTRY

Current Reality

Since 2002, the Government has promoted small and medium enterprises (SMEs) through the Chamber of Commerce, Industry, Agriculture, and Craft Industry, as well as the Chambers of Profession, while the centers for Promoting Craft Industry have been strengthened. Besides providing programs for training the craftsmen, some sectors of production have been restructured through the creation of clusters.

The productivity of SMEs and craftsmen remains low mainly due to limited modernization. The informal sector remains predominant. The access to foreign markets is limited. Entrepreneurship is staying at a limited stage. A key potential can be tapped through the vertical integration and clustering of manufacturing enterprises. The capacity utilization rate is low ranging from 45 to 50%. The contribution of the secondary sector to the GDP is around 13%.



Goals

Firms, SMEs, and craft industry, at the local level, will be stimulated so that they can efficiently contribute to economic growth, integrate into the national economy, and increasingly fulfill their production capabilities through improved technology and managerial methods. Actions for the restructuring of sectors and capacity strengthening of businessmen will be pursued.

Strategies

1. Establish productivity support centers
2. Transition from informal sector to formal sector

PRIORITY PROJECTS AND ACTIVITIES	PROJECT LEADER
1. Set up Regional Centers for Industrial and Commercial Development	Minister responsible for Industry and Commerce
2. Extend the Chambers of Profession to the rural areas	Minister responsible for Industry and Commerce
3. Strengthen the operating capacity of centers for the promotion of craft industry	Minister responsible for Industry and Commerce
4. Increase the incentives for the integration of the informal sector into the formal sector : training, access to credits and to technologies, information about the market	Minister responsible for Industry and Commerce
5. Draw up and implement the national policy for the promotion of SMIs/SMEs as well as craft industry and trade	CEO of EDBM
6. Develop an information system on employment and activities	Minister responsible for Commerce

INDICATORS	2005	2012
Number of created enterprises	882	2,000
Share of informal sector in GDP (documented figure)	20	12



CHALLENGE 6 > ENHANCE INTERNATIONAL TRADE COMPETITIVENESS

Current Reality

Traditional exports account for the bulk of international trade, making the economy vulnerable to different shocks. In 2005, exports were impacted by deteriorated terms of trade and the dismantling of the multi-fibre agreement. The value of exports declined by 20.7% as compared to its level in 2004. The lack of conformity to international quality standards and norms remains one of the main factors impeding the expansion of exports.

Goals

Export diversification will be intensified. National products will meet the standards in quality required in the international level and exports of products with high value added will substantially increase.

Strategies

1. Facilitate export marketing, insurance and financing.
2. Provide enabling infrastructure, policies and administration.
3. Develop mechanisms for product standardization and certification, implement a program to support the producers.
4. Adopt a new industrial strategy to penetrate markets with products with high value added.

PRIORITY PROJECTS AND ACTIVITIES	PROJECT LEADER	
1. Set up One Stop Shop for Exports	CEO of EDBM	
2. Facilitate the access to credits by instituting the special fund for exports	Minister responsible for commerce	
3. Encourage promotional work by Embassies and Consulates	Minister responsible for foreign affairs	
4. Set up export agencies in the targeted countries and organize activities for promoting Madagascar and its products	Minister responsible for foreign affairs	
5. Carry out a campaign for promotion of high quality standards	Minister responsible for foreign affairs	
6. Accredite chemical, microbiological, and metrological laboratories	Minister responsible for agriculture	
7. Adopt an approach for industrial transformation of proximity by drawing together raw materials in each sector and in each region	Minister responsible for industry	
8. Develop accurate trade statistics and indicators	INSTAT	

INDICATORS	2005	2012
Increase of exports of goods (% of GDP)	16.7	22.3
Rate of coverage of imports by exports	65.5	83.8

CHALLENGE 7 > INTENSIVELY DEVELOP THE MINING SECTOR

Current Reality

For almost two decades, the mining and oil potential of Madagascar was neglected by the previous governments. The country failed to generate tangible benefits in terms of job creation, tax revenues, infrastructures or social services.

Since 2005, this has begun to change. Officially, mining activities contribute to less than 4% of GDP. If all current proven reserves are put to production, the industry should account for at least 50% of GDP in 2011.

In 2006, the Government initiated platform meeting of representatives of stakeholders including private companies, donors, communes and government helped identify the priority actions to trigger the boom of the industry (Strategic Decision Meeting).



Goals

Madagascar will help current mining projects enter the production phase quickly while respecting its communities and the environment. It will unleash its extractive potential by attracting more explorers and promoting its natural assets.

Strategies

1. Ministries, companies and donors to team up to eliminate existing “speed bumps”.
2. Improve existing environment based on the feedbacks of private companies.
3. Involve citizens in developing extractive projects (consultation during design stage and monitoring).
4. Integrate the small scale minors in the formal economy.

PRIORITY PROJECTS AND ACTIVITIES	PROJECT LEADER
1. Eliminate existing impediments for mining production	Minister responsible for Mining
2. Define plans to finance infrastructure	Minister responsible for Budget
3. Improve laws and regulations on mining sector	Minister responsible for Mining
4. Promote the exploration and development of mining and hydrocarbon reserves	Minister responsible for Mining
5. Build capacity to manage oil and mining resources	Minister responsible for Mining
6. Educate, inform and train small-scale gemstone miners	Minister responsible for Mining
7. Involve citizens in new project design and monitoring projects	Chief of Regions
8. Reduce the rates of accises	Minister responsible for Mining
9. Reduce administrative procedures for investors	CEO of EDBM

INDICATORS	2007	2012
Mining administration fees (millions USD)	1.58	15
Mineral royalties (millions US\$)	0.168	45
Revenue from mineral exports (millions US\$)	50	300

CHALLENGE 8 > INTENSIVELY PROMOTE AND DEVELOP THE TOURISM SECTOR

Current Reality

Madagascar is endowed with exceptional fauna and flora, most of which are endemic. As an island, Madagascar has 5,000 unspoiled kilometres of coastline and a climate which is favorable to the development of all forms of eco-tourism.

However, because of the lack of infrastructure, suitable accommodation and connection to some regional hubs, the number of tourists coming to Madagascar is only about 150,000 per year, generating a revenue of about \$US 200 millions. However, in spite of the constraints, tourism ranks among the main providers of foreign currencies for the Malagasy economy. The sector is in constant expansion with 19% increase in revenues in 2005. The Government is committed to aggressively developing and promoting tourism.

Goals

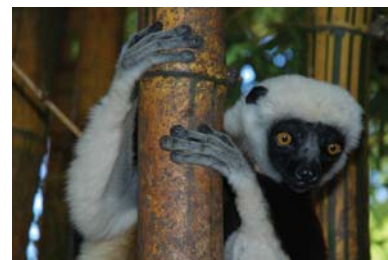
Madagascar will be a privileged destination for all categories of tourism, with a primary focus given to eco-tourism. International hotel chains will be encouraged to invest in Madagascar, so as to solve the problem linked to the lack of infrastructure and suitable accommodation. Local domestic operators will be encouraged to develop further the breadth and standard of their facilities and programs. Madagascar will be amongst the leading countries in Sub-saharan Africa and the Indian Ocean in the promotion of a high-quality eco-tourism experience.

Strategies

1. Attract high quality investors by the provision of incentives, access to land, and general support.
2. Promote the destination “Madagascar” as a superior and unique eco-tourism destination.
3. Support management development and professionalism of the tourist sector.
4. Improve the range of tourism products and services.

PRIORITY PROJECTS AND ACTIVITIES	PROJECT LEADER
1. Identify and launch new tourist sites and products	Minister responsible for Tourism
2. Set up a tourist database	Minister responsible for Tourism
3. Broaden the network of tourism agencies	Minister responsible for Tourism
4. Develop e-tourism (on-line purchase, electronic payment terminal, credit cards, ...)	Minister responsible for Tourism
5. Identify priority tourist sites which are favorable to investments; speed up and facilitate the procedures for the setting up and exploitation of investment projects	CEO of EDBM
6. Rationalize the management of hotel assets with public participation	Minister responsible for Tourism
7. Support the training activities in the tourism sector	Minister responsible for Tourism

INDICATORS	2005	2012
Revenue generated by the tourist sector (\$US millions)	184	577
Number of direct jobs created within the sector of tourism	21,167	40,100
Number of tourists visiting Madagascar	150,000	500,000



CHALLENGE 9 > INTENSIVELY EXPLOIT REGIONAL OPPORTUNITIES

Current Reality

Because of its geographical position, Madagascar has joined organizations for cooperation and regional integration like the Indian Ocean Commission (IOC), the Common Market for Eastern and Southern Africa (COMESA), and the Southern African Development Community (SADC). Madagascar has already carried out several adjustments of its customs tariffs and its customs nomenclature for its eventual integration into a regional Customs Union. The benefits of regional integration for Madagascar are yet to materialize and the Malagasy business community is taking appropriate steps to be able to reap these benefits.

Goals

The expansion of the market, the development of exchanges, and the promotion of investments will be the core objectives of regional cooperation and economic integration. The integration at the level of sub-regions such as SADC or COMESA is just the first step to the institution of an African Economic Community, an objective set by the African Union.

Strategies

1. Ratify regional protocols for improved access to cross border trade and investment opportunities.
2. Promote domestic awareness of regional market opportunities.
3. Promote regionalism through the development of inter and intra regional trade.
4. Boost vertical integration at regional level.

PRIORITY PROJECTS AND ACTIVITIES

1. Ensure the consistency of regional instruments to national legal texts
2. Examine the socio-economic impact of the various regional instruments
3. Strengthen the capacity of national actors, and operate measures to accompany the implementation of the regional instruments
4. Set up a platform for exchange and information at the national and regional levels about the regional opportunities
5. Encourage the processing and promote the export of processed products instead of raw materials

PROJECT LEADER

Minister responsible for Foreign Affairs
Minister responsible for the Economy
Minister responsible for Trade
Minister responsible for Trade
CEO of EDBM

INDICATORS

Market share at regional level (%)

2007

5

2012

15



CHALLENGE 10 > THROUGH DIPLOMACY, DEVELOP ECONOMIC SYNERGIES

Current Reality

The Government has redirected the main role of overseas representatives; henceforth, diplomacy will be used to promote development. In 2005, more than 15 commercial attachés were working to promote economic ties with partner countries. 23 economic missions came to Madagascar to discuss investment opportunities; also, 51 forums were organized to promote Madagascar overseas.

Participation in international events has been tremendously intensified. The Economic Development Board of Madagascar (EDBM) has been set up to work with overseas representatives in investment promotion.

Goals

Overseas representatives will act as the key link in the promotion of Malagasy products and will be proactive in international meetings and in the pursuit of economic partnerships. Madagascar will be among the most important destinations for foreign investments.

Strategies

1. Formulate publicity strategy aimed at raising the profile of Madagascar.
2. Establish a coordinating group to promote Madagascar's international branding.
3. Facilitate and intensify international negotiations supporting the promotion of socio-economic activities.

PRIORITY PROJECTS AND ACTIVITIES	PROJECT LEADER
1. Organize regional and international events	Minister responsible for Foreign Affairs
2. Set up a permanent « Madagascar Show Case » (Vitrine de Madagascar) within overseas agencies	Minister responsible for Foreign Affairs
3. Draw up and spread commercials (films, reports, leaflets, booklets, maps, CD Rom, websites)	CEO of EDBM
4. Carry out advertising campaign in the targeted zones	CEO of EDBM
5. Set up a task force in relation with EDBM in each ministry	CEO of EDBM
6. Increase and optimize the participation in international meetings	Minister responsible for Foreign Affairs
7. Improve the participation of the private sector in the different international negotiations	Minister responsible for Foreign Affairs
8. Promote inter-country regional cooperation	Minister responsible for Foreign Affairs

INDICATORS	2005	2012
Country Risk Rating	D	A3