Regional Integration in Southern Africa - Vol. 11

Deepening Integration in SADC

Madagascar - Challenges for the Newcomer

Tatiana Rakotonjatovo, CREAM
Eric N. Ramilison, CREAM

A study conducted for the
Friedrich Ebert Foundation

FRIEDRICH EBERT STIFTUNG

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Preface

Regional integration can be a key force for sustainable development. It can promote economic growth, reduce poverty, foster social development or protect the environment. But, it can also have negative economic and social impacts, notably when the domestic regulatory framework is inadequate or not implemented effectively.

The Southern African Development Community (SADC) is committed to deepening the integration processes amongst its members and has adopted the Regional Indicative Strategic Development Plan (RISDP) in order to provide strategic direction in the design and formulation of SADC programmes, projects and activities in order to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa; and support the socially disadvantaged, through regional integration.

Amongst the various measures governments can implement to further such integration, ensuring sound macroeconomic management is vital. Given the commitment to deepening SADC integration through macroeconomic policies, it is important that policy makers in SADC and its Member States assess the impacts that such measures will have on the social well-being of its people, both in the short term and the long term.

In view of the above, the Friedrich Ebert Foundation, through its office in Botswana, and in close consultation with the Planning Unit of the SADC Secretariat initiated a regional research programme on "Deepening Integration in SADC – Macroeconomic Policies and their Impact".

From the very beginning the programme was designed as a collective effort of the leading economic research institutions of the region. A total of 14 institutes from 11 SADC member countries responded to the call to join the programme. In two workshops held in December 2004 in Gaborone, Botswana, and in April 2005 in Stellenbosch, South Africa, the team developed detailed terms of reference for the research programme. Phase 1 was to begin at the country level with a comprehensive study of the present status of the economies, their congruence with SADC convergence targets, the respective policy frameworks, as well as a social impact analysis. This more theoretical desk study was complemented by an empirical survey of the perceptions of Businesses and Non-State Actors vis á vis SADC. A study on South Africa's international trade diplomacy and its implications for regional integration was to give a contextual perspective.

All members of the research team have spent a lot of time and energy and produced excellent reports. The ideas and recommendations contained therein have induced some lively as well as controversial discussions among the participating institutions, as well as with other experts. The content of each study reflects of course solely the views of the authors. I commend all of them for their great commitment as well as their great team spirit in this endeavour. I also wish to acknowledge the substantial input we received from the SADC Secretariat, especially the Head of the Strategic Planning Unit, Dr. Angelo E. Mondlane, the then Technical Advisor on Finance, Dr. Moeketsi Senaoana, as well as other SADC experts. Other external experts have also contributed to the final documents as part of the various reference group meetings in all the participating countries. I wish to extend my greatest thanks to all them.

In order to make the results of this research programme known to a broader public, especially among the relevant policy and decision makers of the SADC region, the Friedrich Ebert Foundation then decided to publish a series of volumes entitled, "Regional Integration in Southern Africa".

The 11th volume, presented here, contains the findings of the Country Study and Survey from Madagascar by the *Centre de Recherche, d'Étude et d'Analyse Économique à Madagascar, CREAM* in Madagascar. My special thanks go to the authors, to Tatiana Rakotonjatovo and Eric N. Ramilison for writing and revising the document, to Alfred Matiki for editing, to Sara Wagner and Melanie Klein for proof reading as well as to Peter Maina Kamiti and MacDonald Gotora for the design and layout.

Gaborone, March 2007

Dr. Marc Meinardus
Resident Representative
Friedrich Ebert Foundation
Botswana Office

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List of Abbreviations

ACP	Afrique Caraïbe Pacifique
AGOA	African Growth Opportunity Act
BCM	Central Bank of Madagascar
COMESA	Common Market for Eastern and Southern Africa
DPR	Development Policy Review
EPA	Economic Partnership Agreement
EPZ	Export Processing Zones
ESAF	Enhanced Structural Adjustment Fund
FDI	Foreign Direct Investment
FTA	Free Trade Area
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
IBS	Impôts sur les Bénéfices des Sociétés (tax on income and profits)
IMF	International Monetary Fund
INSTAT	Institut National de la Statistique
I-PRSP	Interim Poverty Reduction Strategy Paper
IRNS	Impôts sur les revenus non salariaux (non wage personal income tax)
MDG	Millennium Development Goals
MEFB	Ministère de l'Économie, du Finance et du Budget
MGF	Malagasy Francs (1 Ariary = 5 MGF)
MID	Interbank Foreign exchange market (Marché Interbancaire de devise)
NPE	National Policy for Employment
PRGF	Poverty Reduction Grant Facility
PRSP	Poverty Reduction Strategy Paper
SADC	Southern African Development Community
SAF	Structural Adjusment Fund
SDR	Special Drawing Right
TEC	Common External Tariff
VAT	Value-Added Tax
WTO	World Trade Organization
OECD	
LDC	
SBA	

Executive Summary

Madagascar joined SADC in 2005. This membership is part of Madagascar's national policy which is aimed at opening the country to the world economy. Integration in SADC involves several stages coupled with the fact that the country is already registered in the RISDP (FTA, Customs Union, Common Market, Monetary Union). For this further integration, Madagascar has to adopt a programme of macroeconomic convergence. Among the various measures governments should implement to further such integration, ensuring sound macroeconomic management is vital.

Given the commitment to deepening SADC integration through macroeconomic policies and the consequent undertaking to achieve certain agreed macroeconomic convergence targets, it is important that policy makers in SADC and the Member States assess the impact that such measures will have on the social well-being of their people, both in the short term and the long term. This can be done through comprehensive assessment of the economic and social impacts that macroeconomic policy initiatives have. This study tries to address these issues as far as Madagascar is concerned.

SADC

The Southern African Development Community (SADC) was created in 1992. SADC has 14 Member States including Madagascar. These countries have reached various stages of economic development, the majority of them, however, are generally underdeveloped.

The Regional Indicative Strategy Development Plan (RISDP) is the basic document which is used as a reference framework for all the SADC Member States with regard to macroeconomic and social objectives. These objectives were generally drawn from those of the Millenium Development Goals. Poverty results from multiple causes and its eradication should consequently be approached from different fields: fight against the HIV&AIDS pandemic, gender equality and development; trade liberalisation and economic development, support for the infrastructures for regional integration and poverty eradication; sustainable food security; social and human development.

Madagascar's Development Goals and Macroeconomic Conditions

The Vision for Madagascar and the PRSP are the two major documents which contain development objectives and strategies for Madagascar. The Vision for Madagascar ambitiously aims at facilitating the country's transition from its current situation of subsistence economy to that of a market economy. It emphasises the exploitation of the different potentialities and resources that the country has in an optimal way without endangering the environment.

The different actions will thus focus on: Strengthening the rural areas; extending the chain of values; developing infrastructures; promoting and developing; of technology and partnerships.

The "Vision for Madagascar", together with the Poverty Reduction Strategy Paper (PRSP) contain all the objectives and the development strategy for Madagascar. The strategy favours the "Public-Private Partnership" principle, relies on an objective analysis and on specific criteria. Madagascar's PRSP mapped out a programme to reduce poverty through rapid and sustained growth. For that purpose, the general economic objectives of the PRSP are to achieve: Growth rate of 8% to 10%; Investment rate of 20% Madagascar; Participation of private sector from 12 to 14% in the investment rate; and Opening of the Malagasy economy. The strategy involves three crucial axes: (i) Improving governance; (ii) Promoting broad based growth; and (iii) Providing human and material security.

Prevailing Macroeconomic Conditions in Madagascar

Economic structure: The primary sector represents 26.2% of the GDP (2004). It is dominated by agriculture which occupies 70% of the Malagasy population. The secondary sector concentrates around four activity sectors: food industry, wood, textile and clothing industry, and metal industry. It represents 14.5% of the GDP and 50% of exports. The tertiary sector is based on transport, business, health, communications and tourism. However, with a growth rate of 14% per year during the years before 2002, tourism was one of the most dynamic sectors of the Malagasy economy.

Economic growth: Since independence in 1960, Madagascar has suffered through a lengthy downward spiral and is today one of the world's poorest countries, with per capita GDP estimated at USD 235 in 2004. Over the course of three decades of interventionist policies and state control, real incomes fell by 40% and the headcount poverty rate rose above 70% of the population. Recently, structural reforms and improved macroeconomic management have started to show a positive impact. The period 1997-2001 is characterised by more substantial reforms focusing on creating a favourable environment for private investment and on integrating Madagascar into the world economy. As a consequence, economic growth picked up substantively - during this period the growth rate averaged 4.6%, representing the best economic performance in 40 years. The main sources of economic growth were the activities of the Export Processing Zones, shrimp production and exportation, and tourism.

Inflation: During the last 20 years, Madagascar has had 2 periods of hyperinflation. The first is that which followed the implementation of the floating exchange rate on the exchange market. The devaluation of the MGF which followed caused a rise in the prices of imported consumer goods and imported inputs that resulted in a general increase of the prices. Between 2001 and 2002 it reached +16.5%. This high inflation rate was related to the political and economic crisis that occured in 2002. Because of the stabilisation of the economic situation, the inflation rate remarkably dropped in 2003. The consumer price index slowed down considerably: it decreased by 1.7% against an increase of 16,5% in 2002. At the beginning of the year 2004, inflation accelerated again. The inflation rate reached 13.8% in 2004 and 18.4% in 2005. A number of factors led to this situation including: the impact of the cyclones on the agricultural production and the increase in oil and rice prices on the international market. The trade balance suffered from the increase in imports as well as the deterioration of the terms of trade. As a result, the Malagasy economy recorded a huge trade imbalance resulting in currency depreciation which, in turn, also influenced inflation.

Current account: In early 1990, Madagascar's current account deficit was very high (12.9% in 1990 and 10.5% in 1995). From 1996, Madagascar's overall external position strengthened significantly; the current account deficit (excluding grants) declined to the equivalent of 7.1% of GDP (from 10.5% of GDP) and in 2001, thanks to growing export receipts, it fell to 2.4% of GDP. However, after the economic crisis of 2002, the highest recorded current account deficits were 7.5% of GDP in 2003 and 14.4% in 2004. The pursuit of economic recovery, the construction and rehabilitation of infrastructures, the reconstructions after cyclones as well as the increase in oil prices on the international market, entailed a significant increase in the value of imports.

Employment and unemployment: The unemployment rate stood at 2.7% of the labour force in 2004. The future macroeconomic projections for the period 2004-2008 suggest that job applications will probably exceed the offer of only 8%. These few offers have already been announced the tourism sectors and the EPZ and will probably have a competitive impact on the competitiveness of Madagascar.

Investment flows: Gross investment went from 14.26% of the GDP in 2003 to 16,0% of the GDP in 2004. This investment growth in which the public sector (5,81% of the GDP) as well as the private sector (10,2 % of the GDP) participated is explained by the resumption of the manufacturing and service sectors. Private investments have played a crucial role in the economic growth of Madagascar for years. The investment rate, in comparison with the GDP, passed from 3.5% of the GDP in the 1980s to 8.5% of the GDP during the period 1997-2001. This level of investment remains nevertheless weak if one compares it with that of high performing countries of Southeast Asia where the private investment rate is in the order of 20% of the GDP.

As regards foreign direct investment, the current policy has allowed the arrival of FDI, thanks especially to the setting up of the EPZ from 1989. In ten years, the net flow of FDI trebled passing from USD 20 million in 1989 to nearly USD 60 million in 1999. The attraction of Madagascar as a destination country for FDI is a result of the abundance in cheap labour which constitutes a real comparative advantage as well as the incentive for foreign investments (liberalisation of the exchange system assuring the security of the capital, free exchange system, new favourable investment code, setting up of the EPZ, improvement of the legal and regulation framework). The considerable role of Foreign Direct Investments in the growth as well as the potentialities which the country has to attract more foreign investments have been demonstrated these last years. Nevertheless, the conditions which support the continued flow of Foreign Direct Investments still remain flimsy. The current rate is about 1% of the GDP; it was 2.1% in 2001.

Fiscal trends: In 2004, total expenditure made a clear increase, it rose by 54.4 % in comparison with 2003, passing from 19.5% of the GDP in 2003 to 25% in 2004. Current expenditure excluding salaries increased by 33.12% in comparison with 2003, while investment expenditure increased by 91.53%. This increase reflects the implementation of reconstruction programmes and the actions of medium-term consolidation that the Government began after the 2002 crisis. The improvement in public spending management was strengthened in 2004.

Government expenditures over the 1997-2004 period fall into four categories : governance, growth, social sectors, and other non-classified expenditures. General administration, the main sub-sector within the governance category, takes the lion's share of the budget, on average 36 % over the observed period. Government's efforts to strengthen the social sectors are reflected in increasing allocations to primary education and to primary health care. Allocations to the growth sectors (notably transportation, agriculture and environment) have not increased at the same rate.

The Government's revenue is mainly composed of tax revenue. Taxes on foreign trade are the most important (50.71% of overall tax revenue), followed by taxes on goods and services (29.87%), and finally taxes on net income (17.97%). Given the recent increase in expenditure, fiscal deficit (total overall balance including grants) amounted to 5.7% of GDP in 2004 compared to 4.4% in 2000 and 2.5% in 1999. Hence, expanding revenue collection is crucial, though in the medium-term the possibilities are limited. Indeed, as in many other Sub-Saharan countries, subsistence agriculture and a large informal sector hamper revenue mobilisation.

Madagascar's Economic Policy

Monetary policy: The objective of the monetary policy of the Central Bank of Madagascar (BCM) is to control inflation. Indeed, price stability ensures the stability of the exchange rate. It is in this way that the Central Bank of Madagascar contributes to the establishment of a stable environment, conducive to economic growth and investments. The BCM controls the money supply through the regulation of banking assets. It relies on rules-based instruments since money markets in Madagascar remain shallow. The BCM mainly uses two instruments of Madagascar's monetary policy: BCM's interest rate (Taux directeur de la BCM) and reserve requirement.

Exchange policy: The main objective of the exchange rate policy is to stabilise the exchange rate. In the short run the BCM influences the exchange rate by punctual interventions on the Interbank Exchange Market (MID) to avoid important jumps of the exchange rate by purchasing (when supply exceeds demand) or selling currencies (when demand exceeds supply). In the medium and long term, the role of the BCM is to control internal assets by resorting to the instruments of monetary policy above.

Fiscal Policy

Basic approaches in determining budgetary frameworks: Programme budgeting was introduced into the public finance system with the new Organic Finance Law in 2004. Detailed line-item budget will be replaced by a budget classification system that divides expenditure into missions (cross-cutting broad objectives) and programmes. Each programme consists of a clear set of objectives, related activities necessary to achieve those objectives and expected results. Expenditures are classified by interest on public debt, salaries, recurrent expenditure, structural recurrent expenditure, investment expenditure, exceptional recurrent expenditure, and financial operation.

Fiscal policy: In 2003, since the priority of the Government was economic recovery, fiscal policy was directed so as to contribute to it. To encourage operators and investors, incentive measures were introduced into the Finance Law in 2003 and these included tax reliefs, revising down the IBS and IRNS taxes from 35% to 30%, supporting measures for the exporters, simplifications and tariff reduction on imports. All these were introduced to face regional and world integration. A tax reduction on fees and import taxes and in VAT on other products was made in August 2003. To compensate for tariff falls, serious efforts at the level of the fiscal administration were undertaken for the extension of the taxable base and the covering of taxes. In the field of customs, it was especially a question of minimising cases of fraud while accelerating customs clearance procedures.

Trade policy: Since the end of the 1980s, Madagascar has undertaken a vast liberalisation programme of its economy and its foreign trade. The main objective of its trade policy is to reduce poverty by encouraging the private sector and the trade sector to play the role of economic growth driving force. The country began large-scale commercial reforms, cancelling quantitative limitations on imports. Limitations on exports were also deleted in almost all the sectors, as well as the exchange controls.

Since the trade liberalisation process started at the beginning of the 1990s, Madagascar has seen her receipts of export increasing. Indeed, the exports from Madagascar rose from 14% of the GDP in 1991 to 20% of the GDP in 2004. Since 2000, the increase in non-traditional exports, particularly those of EPZ, was significant. Foreign trade liberalisation is also evident in the increase of imports which have more than doubled in 10 years; 321 million SDR in 1991, and amounted to 746.3 million SDR in 2001. As a consequence, the balance of trade remained in deficit at 4.70% of the GDP in 1992, and rose to 4.97% in 1997. The chronic deficit in the balance of trade is echoed on the evolution of the current account which impacts on exchange rates.

Madagascar's Trade policy at present opts for the opening up of its borders. Indeed, in recent years, Madagascar has adhered to various regional integration agreements and has been engaged in further trade liberalisation with the following organisations:

- Economic Partnership Agreement (EPA);
- Indian Ocean Commission (COI);
- Common Market for the Eastern and Southern Africa (COMESA);
- Southern African Development Community (SADC).

This policy of opening impacts on its integration into SADC concerning three aspects :

Given Madagascar's trade with the EU and the historical relationship between Madagascar and France in particular, the exchanges are likely to be made for the benefit of the European Union when the SADC FTA and the EPA will take place simultaneously in 2008. The tariff cuts will be more profitable to the EU to the detriment of SADC. Indeed, studies by Laporte and Ramilison (2005) estimated that exports from the European Union to Madagascar will increase by USD 22.2 million against only USD 9.9 million for SADC Member States.

The economic partnership agreement requires tariff cuts and this will cause huge budget deficits. As a matter of fact, fiscal receipts concerning imports from European countries equal USD 29 million. Once the tariff reduction has taken place, these receipts will decrease to USD 20 million, entailing a decrease by 28.92% of import duties. For this reason, Madagascar will have problems to achieve the convergence criteria in terms of budget deficit.

The policy of opening implies generally an increase in the imports which will eventually lead to deteriorating current account deficit. As a result, Madagascar will have problems in achieving the macroeconomic convergence criteria as far as current account deficit is concerned. Furthermore, the current account deficit drives currency depreciation which affects inflation and consequently the poverty rate.

Labor market policy: In 2004 the country adopted the National Policy on Employment (NPE). The employment strategy is based on the employment principle as a solution to poverty problems through more balanced and sustainable growth gained by the poor. Priority objectives that are expected to contribute to the promotion of employment include: favoring an environment that is convenient to growth, investment and employment, supporting private the sector, improving the access of informal sector and rural sector employees to education and to vocational training for better productivity, and developing income-generating activities.

Convergence problem: At the moment, Madagascar does not have a timeframe or the implementation of the macroeconomic convergence program. However, it continues to finalise its adherence to SADC by ratifying the other protocols. According to the projection of some macroeconomic indicators within the next three years, one can assess the probability of realisation for a number of macroeconomic convergence criteria.

The main problems for Madagascar in achieving macroeconomic convergence criteria involve budget deficits and domestic savings. For these indicators, the probability of realising some of the convergence criteria is weak. As far as receipts are concerned, and despite efforts made by the Government to improve tax revenue, the capacity to mobilise resources is very weak. At the same time, public spending continues to increase. As regards national savings, because of the limited development of the financial sector, the high level of poverty and the behaviour of households explain the low domestic saving rates.

Risks of convergence. First of all, external shocks impact adversely on macroeconomic situations in Madagascar. Indeed, Madagascar is vulnerable to various exogenous shocks : cyclones and locust invasions often induce increase in staple food prices, resulting in inflationary pressure. Furthermore, the primary sector accounts for about 26% of GDP and 24% of merchandise exports (in SDR terms) stem from agricultural production (coffee, vanilla, cloves, pepper, cocoa, sisal) and shellfish. Hence, the vulnerability of the economy to external shocks may undermine growth and hamper the achievement of the convergence criteria.

At present, Madagascar is facing the increase in oil prices and the fall of the export price (vanilla mainly) on the international market. These circumstances will lead to a huge current account deficit which will induce exchange rate depreciation and in turn inflation. At the same time, the policy of opening implies an increase in imports which is going to cause a huge deficit of the current account. This will then cause exchange rate depreciation and afterwards inflation. As a matter of fact, following the huge increase in oil prices, the nominal exchange rate depreciated by about 40% against the Euro. As a result, the inflation rate reached 13.8% in 2004 and 18.4% in 2005.

As regards the budget deficit, Madagascar has planned a number of investments in infrastructure and in social sectors for the coming few years. These investments are necessary for poverty reduction. But given the weakness of the fiscal revenue - the weakest in Sub-Saharan Africa - Madagascar may not reach the criteria of budget deficit. This weak fiscal revenue is due to corruption and weaknesses in fiscal administration.

Political crises may also interrupt the Government's reform efforts and convergence programme. The political crisis of 2002 and its economic aftermath illustrated the vulnerability of Madagascar to political shocks. Economic activity stagnated and growth rate declined sharply to -12%. At the same time, exports slowed down, contributing to a surge in the current account deficit.

Besides, lack of ownership and limited support for macroeconomic convergence programmes may hamper the chances of achieving RISDP objectives. Indeed, weak implementation capacity of the country combined with low ownership may slow down the process of a deeper integration of Madagascar in SADC.

Impact of SADC Integration on Socioeconomic Indicators

Impact of SADC FTA: Madagascar can gain from the SADC FTA with regards to export by an estimated increase of USD 180 million; that is, six times the current exports to SADC. These potential exports stem mainly from agricultural products in which 70% of the population and most of the poor are involved. Thus, promoting exports to SADC using appropriate measures will benefit the poor.

As regards the consumers, the SADC FTA aims at the cancellation of customs duties which will lead to a fall in import prices from SADC member countries. As a consequence, consumer surplus and welfare will increase. According to of Laporte and Ramilison (2005), more than 30 products are subject to sharp increases in consumer surplus.

As far as producers are concerned, tariff cuts will lead to an increase in imports which will in turn lead to exposure to competition for companies that were previously protected by the customs duty. Firms in these sectors are more inclined to face severe competition given that they do not have comparative advantage over their competitors from SADC countries dealing dairy product, pasta, biscuits, mineral water, soft drinks, soap, paper, cardboards, sugar, plastics. This may result in job losses in these sectors; an important social cost.

Impact of common market: Arrival of immigrants due to free movement of workers will cause congestion effect in infrastructure and environmental degradation given the lack of social infrastructure in the country. As a consequence, social services will deteriorate. Moreover, because of the shortage of skilled labor in Madagascar, firms are willing to hire qualified workers from SADC countries who will be paid higher wages than local workers. This situation may result in worsening of the divide between foreign and domestic workers causing social explosion. Finally, free movement of people may impact on cultural degradation lead to an increase in HIV&AIDS prevalence.

Impact of macroeconomic convergence: Macroeconomic convergence criteria imply reduction in budget deficit. However, Madagascar is at present in a phase of economic restructuring which entails huge public investment. Thus, to reach the convergence criteria, the country has to either increase fiscal receipts or reduce public spending. The later case will undermine the poverty reduction programme and impact negatively on social conditions.

Achieving the macroeconomic convergence criteria requires a sound macroeconomic management which in turn attracts both domestic and foreign investors. Indeed, an acceleration of inflation is negatively correlated to the inflows of FDI. Also, a high public debt slows down the arrival of FDI because of the tax increase that public debt usually brings for entrepreneurs. Hence, the Malagasy economy will benefit from achieving macroeconomic convergence criteria as far as investment is concerned. As a result, growth will increase, leading to a fall in poverty rate.

Moreover, inflation is negatively correlated with poverty and growth impacts positively on consumption and social conditions. Hence, controlling inflation and achieving sustainable growth will induce a decline in the poverty rate. Projections run by INSTAT suggest that with a growth rate of 8% which is fairly distributed among the population and a with population growth of 2.8%, Madagascar will reach a poverty rate of 50.8% in 2015, against 74.1% in 2004.

Resumé Executif

L'adhésion de Madagascar à la SADC en 2005 s'inscrit dans la politique nationale qui préconise l'ouverture du pays à l'économie mondiale comme un moyen d'atteindre une croissance soutenue. Cependant, l'intégration à la SADC suppose plusieurs étapes tel qu'il est mentionné dans le RISDP: Zone de libre échange, Union douanière, Marché commun, Union monétaire. Dans cette optique, Madagascar doit adopter un programme de convergence macroéconomique qui nécessite une gestion macroéconomique saine ainsi que la mise en œuvre de diverses mesures visant à approfondir l'intégration à la SADC. Il s'avère par conséquent important que les décideurs évaluent les impacts que de telles mesures auront sur le bien-être social de la population, aussi bien dans le court terme que dans le long terme.

Une telle étude suppose d'analyser au préalable la situation économique existante à Madagascar ainsi que les politiques macroéconomiques engagées. S'ensuit une exploration des conséquences que l'adhésion à la SADC pourrait avoir sur les objectifs économiques et sociaux du pays.

La SADC

La Communauté de Développement de l'Afrique Australe (SADC) a été créée le 17 août 1992 par le traité de Windhoek en remplacement de la SADCC (Conférence pour la coordination du développement en Afrique Australe) -créée le 1er avril 1980 à Lusaka. L'approfondissement de la coopération et de l'intégration économique constitue désormais l'objectif prioritaire afin de mieux surmonter les différents obstacles à la croissance économique et au développement. Après l'adhésion de Madagascar en 2005, la SADC comprend quatorze Etats membres, lesquels ont atteint différentes étapes de développement économique, la majorité d'entre eux cependant reste sous-développée.

Le « Plan stratégique indicatif de développement régional de la SADC » ou RISDP est le document fondamental de base utilisé comme référence pour tous les Etats membres de la SADC en ce qui concerne les objectifs macroéconomiques et sociaux. Ces objectifs étaient généralement tirés de ceux des Objectifs du Millénaire pour le développement. La pauvreté résultant de causes multiples, son éradication nécessite des mesures adéquates dans presque tous les domaines:

- Lutte contre la pandémie du SIDA;
- L'égalité des sexes et le développement;
- La libéralisation et le développement du commerce et de l'économie;
- L'appui aux infrastructures pour l'intégration régionale et L'éradication de la pauvreté;
- La sécurité alimentaire durable;
- Le développement social et humain.

La vision de la SADC est une vision d'un avenir commun au sein d'une communauté régionale qui assurera le bien-être économique des peuples de l'Afrique australe, l'amélioration de leur niveau et qualité de vie, la liberté, la justice sociale, la paix et la sécurité. Pour atteindre cet objectif, la mission de la SADC est de promouvoir la croissance économique et le développement socioéconomique durables et équitables grâce à des systèmes productifs efficients, l'approfondissement de la coopération et de l'intégration, la bonne gouvernance, la paix et la sécurité durables, de sorte que la région émerge comme un acteur compétitif dans les relations internationales et l'économie mondiale[1].

Dans le domaine économique, l'action prioritaire de la SADC consiste en la libéralisation et le développement du commerce et de l'économie. Pour cela, la SADC devra passer par plusieurs étapes :

De 2004 à 2008, l'objectif est de mettre en œuvre le protocole commercial en vue de l'établissement de la zone de libre échange au plus tard en 2008. Par la suite, la SADC s'attachera à préparer l'établissement de l'Union Douanière qui se concrétisera en 2010 par l'application du tarif extérieur commun.

L'étape suivante consiste à préparer l'établissement du marché commun. Il s'agit de négocier les instruments pour la libre circulation de tous les facteurs de production (travail et capital) en vue d'atteindre le marché commun en 2015.

L'ultime phase de l'intégration concerne l'Union monétaire, cristallisée par l'introduction d'une monnaie unique et une seule Banque Centrale pour les 14 pays membres de la SADC vers 2016.

Objectifs De Développement De Madagascar

La « Vision Pour Madagascar » et le DSRP constituent les deux documents principaux traçant les objectifs de développement pour Madagascar. La Vision pour Madagascar ambitionne de faciliter la transition de la situation actuelle d'économie de subsistance à celle d'économie de marché. Il se fonde sur l'exploitation optimale des potentialités et ressources dont le pays dispose tout en respectant l'environnement.

En considérant les objectifs cités dans «Vision pour Madagascar»; le DSRP contient toutes les stratégies de développement pour le pays. Elles favorisent le principe de partenariat public-privé, s'appuient sur une analyse objective et sur des critères spécifiques.

Le DSRP se fixe comme but de réduire la pauvreté par une croissance rapide et soutenue. À ce titre, les objectifs économiques généraux du DSRP sont :

- Taux de croissance de 8 % à 10 %;
- taux d'investissement de 20 %;
- participation du secteur privé de 12 à 14 % au taux d'investissement;
- Ouverture de l'économie.

Le document comprend trois axes stratégiques:

- Restaurer un Etat de droit et une société bien gouvernancée,
- Susciter et promouvoir une croissance économique à base sociale très élargie,
- Susciter et promouvoir des systèmes de sécurisation humaine et matérielle et de protection sociale élargie.

Conditions Macroéconomiques Existantes à Madagascar

Structure économique: Le secteur primaire représente 26,2 % du PIB en 2004. Il est dominé par l'agriculture qui occupe 70% de la population malgache. Le secteur secondaire se concentre autour de quatre branches d'activité : l'industrie alimentaire, l'industrie du textile et de l'habillement, le bois et ses dérivées, et l'industrie métallurgique. Il représente 14,5 % du PIB et 50 % des exportations. Le secteur tertiaire repose sur le transport, les affaires, la santé, les communications et le tourisme. Malgré un taux de croissance de 14 % par an pendant les années précédant 2002, le tourisme était l'un des secteurs les plus dynamiques de l'économie malgache.

Croissance économique: Depuis l'indépendance en 1960, Madagascar a souffert d'une évolution irrégulière de son taux de croissance. Quant au PIB par habitant, un faible taux de croissance associé à une croissance démographique importante a fait baisser de 40% le PIB par habitant si bien qu'aujourd'hui Madagascar figure parmi les pays les plus pauvres du monde, avec un PIB par habitant estimé à US$235 en 2004. Vers la fin des années 90, des réformes structurelles et une amélioration dans la gestion macroéconomique ont commencé à avoir un impact positif. Par conséquent la croissance économique a repris substantiellement – entre 1997 et 2001, le taux de croissance moyen était de 4,6 %. Les sources principales de croissance économique étaient les activités des zones franches, la production et l'exportation de crevette et le tourisme.

Après la crise politique de 2002, la croissance a atteint 9,3% en 2003, une tendance qui se poursuivit depuis 2004 malgré une inflation et des chocs externes négatifs. Ainsi, en 2005, la croissance économique s'élevait à 5,1% et en 2006, le gouvernement projette un taux de 6,7%

Inflation: Pendant les vingt dernières années, Madagascar a connu deux périodes d'hyperinflation. La première étant celle qui résultait de la mise en place du régime de change flottant. La dévaluation du MGF qui s'ensuivit a causé une augmentation des prix des biens importés, entraînant une hausse du niveau général des prix de l'ordre de plus de 50%. La deuxième période d'inflation concerne la crise de 2002 où le taux d'inflation a atteint les 16,5%. En raison du rétablissement de la situation économique, le taux d'inflation a remarquablement chuté en 2003 : l'indice des prix à la consommation a diminué de 1,7%. Au début de l'année 2004, l'inflation accélérait à nouveau et a atteint 13,8% en 2004 et 18,4% en 2005. Un certain nombre de facteurs expliquent cette situation : l'impact des cyclones sur la production agricole, l'augmentation du prix du riz et du pétrole sur le marché international. La balance commerciale a souffert de l'augmentation des importations et de la détérioration des termes de l'échange. En conséquence, l'économie malgache a enregistré un déficit du compte courant, impliquant la dépréciation de l'Ariary qui, à son tour, a influé sur l'inflation.

Compte courant: Vers le début des années quatre-vingt-dix, la balance des paiements de Madagascar affichait un énorme déficit (12,9% du PIB en 1990 et 10,5% en 1995). Depuis 1996, la position externe s'est améliorée de manière significative : le déficit de la balance des paiements équivalait à 7,1% du PIB (de 10,5% du PIB). En 2001, grâce aux recettes d'exportation de plus en plus accrues, il est tombé à 2,4% du PIB. La crise économique de 2002 a rompu cette bonne performance. Désormais, on a enregistré un déficit de la balance des paiements de l'ordre de 7,5% du PIB en 2003 et 14,4% en 2004. La reprise économique, la reconstruction et la réhabilitation des infrastructures pour la reconstruction ainsi que les chocs exogènes comme les cyclones, l'augmentation du prix du pétrole sur le marché international a entraîné une augmentation significative de la valeur des importations.

Emploi et chômage: Le chômage concerne 2,7 % de la population active en 2004. Les futures projections macro-économiques pour la période 2004-2008 suggère que la demande d'emploi excède probablement l'offre seulement de 8 %. Ce petit écart à combler a déjà été annoncé comme une évidence avec les secteurs de tourisme et des ZFI et aura probablement une incidence sur la concurrence et sur la compétitivité de Madagascar.

Flux d'investissement: L'investissement brut est passé de 14,26 % du PIB en 2003 à 16,0 % du PIB en 2004. Cet accroissement auquel le secteur public (5,81 % du PIB) comme le secteur privé (10,2 % du PIB) ont participé s'explique par la reprise dans le secteur manufacturier et le secteur des services. Les investissements privés ont joué un rôle crucial dans la croissance économique de Madagascar pendant des années. Le taux d'investissement est passé de 3,5 % du PIB dans les années quatre-vingt à 8,5 % du PIB pendant la période 1997-2001. Ce niveau d'investissement demeure néanmoins faible si on compare par exemple avec celui des pays du Sud-Est asiatique plus performants où le taux d'investissement privé est l'ordre de 20 % du PIB.

En ce qui concerne l'investissement étranger, la politique d'ouverture a permis l'arrivée des IDE grâce notamment à l'établissement des Zones Franches Industrielles en 1989. En dix ans, le flux net d'IDE a triplé, passant de 20 millions de dollars en 1989 à presque 60 millions de dollars en 1999. L'attraction de Madagascar comme pays d'accueil des IDE résulte essentiellement de la main d'œuvre abondante et bon marché qui constitue un réel avantage comparatif ainsi que les mesures incitatives en faveur des investissements étrangers (libéralisation du système des changes assurant la sécurité du capital, nouveau code d'investissement favorable, installation des ZFI, amélioration du cadre légal et réglementaire). Malgré les potentialités dont le pays dispose pour attirer des investissements étrangers, leur taux demeure faible, environ 1 % du PIB en 2004 s'il était 2,1 % de 2001.

Déficit public: En 2004, les dépenses publiques totales ont enregistré une nette augmentation, passant de 19,5 % du PIB en 2003 à 25,1 % de 2004 (soit une hausse de 54,4 %). Les dépenses courantes hors solde ont augmenté de 33,12 % comparé à 2003 tandis que les dépenses d'investissement se sont accrues de 91,53 %. Cette augmentation traduit la mise en œuvre des programmes de reconstruction et les actions de consolidation à moyen terme que le gouvernement a commencées après la crise de 2002. Les efforts du gouvernement de renforcer les secteurs sociaux sont reflétés dans les allocations croissantes à l'éducation primaire et à la santé. Les allocations aux secteurs de croissance (notamment transport, agriculture et environnement) n'ont pas augmenté au même taux.

Le revenu du gouvernement se compose principalement de recettes fiscales. Les impôts sur le commerce extérieur sont les plus importants (50,71% de la recette fiscale globale) suivis des impôts sur les marchandises et les services (29,87%) et finalement des impôts sur le revenu net (17,97%). Etant donné l'augmentation récente des dépenses, le déficit budgétaire s'élève à 5,7% du PIB en 2004 comparés à 4,4% en 2000 et 2,5% de 1999. La collecte des impôts constitue par conséquent une question cruciale pour le gouvernement malgré les possibilités limitées –du moins dans le court terme. En effet, comme dans beaucoup d'autres pays d'Afrique subsaharienne, l'agriculture de subsistance et l'importance du secteur informel entravent l'élargissement de la base taxable.

Politique monétaire: L'objectif de la politique monétaire de la banque centrale de Madagascar (BCM) est de maîtriser l'inflation. En effet, la stabilité des prix assure celle du taux de change. La politique monétaire contribue ainsi à l'établissement d'un environnement stable, favorisant la croissance économique et les investissements. Dans la mise en œuvre de sa politique, la BCM dispose de deux instruments d' intervention indirects : le système des réserves obligatoires et le maniement du taux directeur. Par ailleurs, la BCM procède à des achats et des ventes de bons du Trésor ou de titres de créances négociables en vue d'injecter et de ponctionner des liquidités sur le marché monétaire.

Politique de change: L'objectif principal de la politique de change est la stabilité du taux de change. À court terme la BCM influence le taux de change par des interventions ponctuelles sur le MID pour éviter des fluctuations importantes du taux de change en achetant (quand l'offre excède la demande) ou vendant des devises (quand la demande excède l'offre). Dans le moyen et long terme, le rôle de la BCM consiste à contrôler les mouvements des capitaux en recourant aux instruments de la politique monétaire ci-dessus.

Politique Fiscale

Approches de base pour la détermination des cadres budgétaires: La nouvelle loi des finances de 2004 a introduit le budget de programme dans le système des finances publiques. Le système de classification du budget qui répartit les dépenses en missions et programme remplace désormais la classification détaillée par article. Chaque programme se compose d'un ensemble d'objectifs clairs et d'activités nécessaires pour réaliser les objectifs et résultats attendus. Les dépenses sont classifiées en plusieurs catégories : intérêt de la dette publique, salaires, dépenses récurrentes, dépenses récurrentes structurelles, dépenses d'investissement, dépenses récurrentes exceptionnelles, opérations financières.

Politique fiscale: En 2003, la priorité du gouvernement étant le redressement économique, la politique budgétaire a été orientée dans ce but. Pour encourager les opérateurs et les investisseurs, des mesures incitatives ont été présentées dans la loi de finances 2003 : Les allégements fiscaux, révision à la baisse de l'IBS et de l'IRNS de 35 % à 30 %, mesure de soutien aux exportateurs, simplifications et réduction tarifaire sur certains biens importés pour faire face à l'intégration à l'économie mondiale. Pour compenser la baisse des tarifs, des efforts sérieux au niveau de l'administration fiscale ont été entrepris pour l'élargissement de la base imposable. Au niveau de la douane, l'accélération des procédures de dédouanement a facilité la répression des fraudes.

Politique commerciale: Depuis la fin des années quatre-vingt, Madagascar a entrepris un vaste programme de libéralisation de son économie et de son commerce extérieur. L'objectif principal de la politique commerciale consiste en la réduction de la pauvreté. A ce titre, elle doit permettre au secteur privé et au secteur commercial de jouer le rôle de moteur de la croissance économique. Le pays a commencé des réformes commerciales importantes, telles l'abolition des restrictions quantitatives à l'importation. Les restrictions à l'exportation ont été également supprimées dans presque tous les secteurs, ainsi que le contrôle des changes.

Depuis la libéralisation commerciale du début des années 90, Madagascar a vu ses recettes d'exportation augmenter, passant de 14 % du PIB en 1991 à 20 % du PIB en 2004. Depuis 2000, l'augmentation des exportations non traditionnelles, en particulier celles des ZFI était significative.

La libéralisation du commerce extérieur s'est également traduite par un accroissement des importations qui ont plus que doublé en dix ans : 321 millions de DTS en 1991, ils s'élèvent à 746,3 millions de DTS en 2001. Par conséquent, la balance commerciale est demeurée déficitaire : 4,70 % du PIB en 1992 et 4,97 % en 1997. Le déficit chronique de la balance commerciale se répercute sur le compte courant qui, à son tour, influe sur le taux de change.

La politique commerciale de Madagascar opte actuellement pour l'ouverture des frontières. L'adhésion de Madagascar à divers accords d'intégration régionale a marqué les deux dernières décennies : la Commission de l'Océan Indien (COI), le marché commun pour l'Afrique Australe et Orientale (COMESA), l'Accord de Partenariat Economique (APE), la Communauté de Développement de l'Afrique Australe (SADC).

Cette politique de l'ouverture influe sur son intégration à la SADC eu égard à trois aspects:

- Etant donné le commerce de Madagascar avec l'Union Européenne et le rapport historique entre Madagascar et la France en particulier, les échanges se feront au profit de l'Union Européenne quand la ZLE de la SADC et celle de l'APE auront lieu simultanément. Les réductions tarifaires profiteront à l'UE au détriment de la SADC. En effet, les études de Laporte et de Ramilison (2005) montrent que les exportations de l'Union Européenne vers Madagascar augmenteront de 22,2 millions de dollars contre seulement 9,9 millions de dollars pour les Etats Membres de la SADC.
- L'APE implique également des réductions tarifaires qui engendreront un déficit budgétaire plus important. En fait, les recettes douanières relatives aux importations en provenance de l'union Européenne s'élèvent à 29 millions USD. Une fois que la réduction tarifaire aura lieu, ces recettes diminueront à 20 millions USD traduisant une diminution de 28.92%. Pour cette raison, la probabilité pour Madagascar de réaliser les critères de convergence en termes de déficit budgétaire sera réduite.
- La politique d'ouverture implique généralement une augmentation des importations qui par la suite se traduit par une détérioration de la balance commerciale. En conséquence, Madagascar se heurtera à des problèmes pour la réalisation des critères de convergence macro-économiques en ce qui concerne le déficit du compte courant. En outre, le déficit du compte courant conduit à la dépréciation de la monnaie nationale qui, à son tour, affecte l'inflation et par conséquent le taux de pauvreté.

Politique de travail: Le pays a adopté en 2004 la politique nationale sur l'emploi (PNE). Cette politique se base sur le principe selon lequel l'emploi constitue une solution aux problèmes de pauvreté, grâce à une croissance soutenable, équilibrée et pro-pauvre. Les objectifs prioritaires doivent contribuer à la promotion de l'emploi : favoriser un environnement propice à la croissance, l'investissement et l'emploi, soutenir le secteur privé, améliorer l'accès du secteur informel et des employés ruraux à l'éducation et à la formation professionnelle pour une meilleure productivité, développer des activités génératrices de revenu.

Programme de convergence macroéconomique de Madagascar

Problème de convergence: Actuellement, Madagascar ne dispose pas encore de calendrier de mise en œuvre du programme de convergence macroéconomique. Cependant, l'adhésion à la SADC se concrétise par la ratification des autres protocoles tel qu'il est prévu dans le document national SADC.

Selon la projection pour quelques indicateurs macroéconomiques pour les trois années à venir, on peut évaluer la probabilité de réalisation pour un certain nombre de critères de convergence macroéconomiques. Aux vues de ces projections, Madagascar aura des difficultés pour atteindre les critères de convergence en ce qui concerne le déficit budgétaire et l'épargne domestique. Pour ce qui est du déficit public, en dépit de l'effort fait par le gouvernement pour améliorer le recouvrement fiscal, la capacité de mobiliser des recettes fiscales demeure très faible. Parallèlement, les dépenses publiques ne cessent d'augmenter. Quant à la faiblesse de l'épargne domestique, elle s'explique par le développement limité du secteur financier, le niveau élevé de la pauvreté et le comportement des ménages.

Risques de convergence

Chocs exogènes: Des chocs externes influent négativement sur les situations macroéconomiques à Madagascar. En effet, Madagascar est vulnérable à divers chocs exogènes : les cyclones et l'invasion de locustes entraînent souvent l'augmentation des prix des principales denrées alimentaires, ayant comme conséquence une pression inflationniste. En outre, le secteur primaire représente environ 26% du PIB et 24% des exportations proviennent de la production agricole (café, vanille, clous de girofle, poivre, cacao, sisal) ainsi que les produits halieutiques. Par conséquent, la vulnérabilité de l'économie aux chocs externes peut miner la croissance et entraver l'accomplissement des critères de convergence.

Actuellement, Madagascar fait face à l'augmentation du prix du pétrole et à la chute du prix à l'exportation (vanille principalement) sur le marché international. Ces circonstances conduiront à une aggravation du déficit du compte courant qui induit la dépréciation et partant, l'inflation. En même temps, la politique d'ouverture implique une augmentation des importations ce qui va entraîner un déficit plus important du compte courant, lequel induit la dépréciation. En fait, suite à la forte hausse du prix du pétrole, le taux de change nominal a déprécié d'environ 40% contre l'euro et le taux d'inflation a atteint 13,8% en 2004 et 18,4% de 2005.

Déficit public: Madagascar envisage un certain nombre d'investissements en infrastructure et dans les secteurs sociaux pour les prochaines années à venir. Ces investissements sont nécessaires pour la réduction de pauvreté. Néanmoins, étant donné le faible taux de pression fiscale - le plus faible en Afrique subsaharienne - Madagascar ne peut pas atteindre les critères de convergence concernant le déficit budgétaire. Cette faiblesse résulte de la corruption, du coût de collecte d'impôt et de la capacité de l'administration.

Risque politique: La crise politique de 2002 et ses conséquences économiques ont illustré la vulnérabilité de Madagascar aux chocs politiques. En effet, les crises politiques peuvent interrompre les efforts de réforme de l'autorité dans la mise en œuvre du programme de convergence. Par ailleurs, elles affectent les variables économiques : l'activité économique a stagné et le taux de croissance diminué brusquement à -12% à la suite de la crise de 2002. En même temps, les exportations ont ralenti, contribuant à une aggravation du déficit du compte courant. Enfin, le manque d'appropriation et l'insuffisance de soutien du programme de convergence macroéconomique par toutes les parties prenantes peuvent entraver la chance d'atteindre les objectifs du RISDP.

Impact de l'intégration à la SADC sur les indicateurs socio-économiques

Impact de la zone de libre échange: Madagascar peut gagner de la ZLE de la SADC en ce qui concerne l'exportation : on estime une augmentation de 180 millions USD qui signifie une multiplication par 6 comparée aux exportations actuelles vers la SADC. Ces exportations potentielles concernent principalement les produits agricoles dans lesquels 70% de la population et de la plupart des pauvres sont impliqués. Ainsi, la promotion des exportations à destination de la SADC par des mesures d' accompagnement adéquates bénéficiera aux pauvres.

En ce qui concerne les consommateurs, la ZLE de la SADC vise une annulation des droits de douane qui conduit à une baisse des prix à l'importation pour les produits en provenance des pays membres de la SADC. Par conséquent, le surplus du consommateur et le bien-être augmenteront. Du côté des entreprises locales, la réduction tarifaire implique une augmentation des importations qui les exposent à une concurrence plus sévère, alors qu'elles ont été auparavant protégées par les droits de douane. les secteurs qui sont plus enclin à faire face à une forte concurrence sont : les pâtes alimentaires, produits laitiers, biscuits, eau minérale, boisson non alcoolique, savon, papier, carton, sucre, plastiques. Ceci peut avoir comme conséquence des licenciements dans ces secteurs, engendrant un coût social important.

Impact du marché commun: L'arrivée d'immigrés consécutive à la libre circulation du facteur travail engendrera un effet de congestion au niveau des infrastructures publiques et occasionnera la dégradation de l'environnement. En conséquence, on assistera à la détérioration de la qualité des services sociaux et de la qualité de vie.

Par ailleurs, en raison du manque de main-d'œuvre qualifiée à Madagascar, les entreprises seront tentées d'embaucher de la main-d'œuvre qualifiée des pays de SADC qui sera mieux rémunérée que la main-d'œuvre locale. Cette situation peut accentuer les inégalités entre les ouvriers étrangers et domestiques causant une explosion sociale.

Enfin, la libre circulation des personnes peut avoir des conséquences culturelles néfastes comme la prostitution et accroître le taux de prévalence des IST/SIDA.

Impact de la convergence macro-économique: Les critères de convergence macroéconomiques impliquent la réduction du déficit budgétaire. Cependant, Madagascar est actuellement en phase de restructuration économique qui nécessite un investissement public énorme. Ainsi pour atteindre les critères de convergence le pays doit augmenter les recettes fiscales ou réduire les dépenses publiques. Cette deuxième option minera le programme de réduction de pauvreté et aura des impacts négatifs sur les conditions sociales.

Néanmoins, la réalisation des critères de convergence macroéconomiques suppose une gestion macroéconomique saine qui constitue un signal pour les investisseurs domestiques et étrangers. En effet, une accélération de l'inflation est négativement corrélée avec les flux d'IDE. Une dette publique élevée ralentit l'arrivée des IDE en raison de l'augmentation d'impôts que la dette publique implique pour les entrepreneurs. Par conséquent, l'investissement et, partant l'économie malgache tirera bénéfice de l'atteinte des critères de convergence macroéconomiques. En conséquence, la croissance s'accélérera, entraînant une baisse du taux de pauvreté.

Introduction

Background

Madagascar joined SADC in 2005 after adopting the national policy which was aimed at integrating the Malagasy economy into the world economy. Integration into SADC involves several stages as specified in the RISDP (FTA, Customs Union, Common Market, Monetary Union). For this further integration, Madagascar has to adopt a programme of macroeconomic convergence. Among the various measures governments can implement to further such integration, ensuring sound macroeconomic management is vital. Given the commitment to deepening SADC integration through macroeconomic policies and the consequent undertaking to achieve certain agreed macroeconomic convergence targets, it is important that policy makers in SADC and the Member States assess the impact that such measures will have on the social well-being of their people, both in the short term and the long term. This can be done through comprehensive assessment of the economic and social impacts that macroeconomic policy initiatives have.

The economies of SADC are quite diverse in terms of macroeconomic conditions and achievements, amongst other factors. Such divergences occur, in part, because of the specific policy objectives adopted and the macroeconomic characteristics of each and every member country. Such divergences can serve as both impediments and stimuli to the economies of Southern Africa integrating through trade and development cooperation. Investigating and explaining these differences in macroeconomic conditions and policies, and the various elements involved, therefore, can serve to shed light on the processes for deepening SADC integration. Hence, one aspect of the country studies is to identify those elements that could potentially constitute obstacles to sound macroeconomic management and sustainable growth, which would jeopardise greater SADC integration. A second research output to be sought from each of the country studies is the identification of potentially relevant alternative policies that can be adopted to help foster greater harmonisation and improved macroeconomic performance within SADC.

Study Objectives

For a better integration of Madagascar into SADC, the objectives of this macroeconomic policy framework study are :

- To asess macroeconomic policy as well as trade, fiscal and labour market policy in the face of further integration of Madagascar into SADC.
- To assess social impacts of further integration of Madagascar into SADC.
- To analyse, as far as Madagascar is concerned, the development purposes at the same time as the macroeconomic convergence purposes of SADC and the implementation purposes of the national strategies together with the involvement through the aspects mentioned above, on the macroeconomic convergence programme.
- To identify the constraints or threats in the implementation of the SADC macroeconomic convergence programme.

Structure of the Report

Chapter 1 presents SADC objectives and macroeconomic conditions. Chapter 2 assesses Madagascar's development goals as well as macroeconomic conditions prevailing in the country. Chapter 3 analyses the main economic policy adopted in Madagascar in order to achieve macroeconomic stability and growth: monetary and exchange rate policy, fiscal policy, trade policy and labour market policy. Furthermore, it analyses the impact of recent economic reforms carried out by the Government. Chapter 4 presents Madagascar's convergence programme as well as macroeconomic convergence problems that may arise.The last two chapters develop the social impacts of a deeper integration of Madagascar into SADC as well as the macroeconomic challenges Madagascar is facing. We conclude with recommendations aimed at facilitating Madagascar's integration into SADC and improving its economic and social indicators in the context of broader regional integration.

1 SADC Objectives and Macroeconomic Conditions

The Southern African Development Community (SADC) was created in 1992 and includes 14 Member States. Madagascar joined the community in 2005. These countries are at various stages of economic development, the majority of them, however, are underdeveloped. The growth rates and the degree of development are different in the different Member States. The growth rates are differently; very high in certain countries and very weak in others. In spite of these economic disparities between the Member States of the SADC and the relative tightness of its market (comparable only with Belgium or Norway), the total GDP of SADC is twice higher than the GDP of the CEDEAO and represents half of that of Sub-Saharan Africa. Its per capita Gross National Income is also the highest among Sub-Saharan African countries. Thus, SADC can benefit from static and dynamic gains of regional integration, on condition, however, that it addresses the existing constraints as regards supply.

1.1 SADC Objectives : the RISDP

The Regional Indicative Strategy Development Paper is the basic fundamental document which is used as a reference framework for all the SADC Member States as regards macroeconomic and social objectives. Each Member State is free to determine their general policies and their action plans as well as the planning of its programmes in order to achieve the goals quoted in the RISDP. These objectives were generally drawn from those of the Millenium Development goals and are summarised as follows :

Poverty Reduction in member countries constitutes the first priority of SADC's programme of integration. The poverty situation in these countries is event from the too low levels of incomes-approximately 70% of the population of the region live below the international poverty line of USD 1 per day. Poverty results from multiple causes and its eradication is consequently approached from different areas which may include:

- Fight against the AIDS Pandemic;
- Gender equality and development;
- Trade liberalization and economic development;
- Infrastructural Support for regional integration and poverty eradication;
- Sustainable food security;
- Social and human development.

Social and Economic Development

The acceleration of economic growth and development through the SADC region is necessary because, on the basis of per capita Gross National Product, two Member States of the SADC have the lowest per capita GNP in the world. Even for Member States that have better economic performance than the majority of the other African countries, access to health services and potable water are not sufficient. Hence, the most inportant priority of SADC is to make sure that the benefits of economic growth are distributed more equitably, with a broad distribution towards the poor majority and in particular the women and the children who are the most numerous in the region In 2002, the total GDP for SADC was USD 226.1 billion and the average per capita of the Gross National Income was approximately USD 1.000 per year. The economic indicators for SADC countries are shown in Table 1:

Table 1: Economic Indicators for SADC Countries

	Population (million)	GDP (USD Billion)	Per capita GDP (USD)	Imports (USD billion)	Exports (USD billion)
1. Angola	14.0	9.757	700	3.07	5.96
2. Botswana	1.74	6.5	2.796	2.27	2.82
3. RDC	54.9	5.278	96	0.786	1.158
4. Lesotho	2.24	0.79	366	0.97	0.04
5. Malawi	11.2	2.277	198	0.596	0.371
6. Mauritius	1.2	4.831	3.933	3.064	3.165
7. Mozambique	18.1	3.492	193	1.374	0.845
8. Namibie	1.9	2.82	1.667	1.32	1.28
9. South Africa	45.4	159.9	3.452	42.2	45.1
10. Swaziland	1.06	1.22	1.109	0.93	0.82
11. Tanzania	33.6	9.74	266	1.93	1.68
12. Zambia	10.4	4.34	392	1.6	1
13. Zimbabwe	11.6	22.0	1.891	2.32	2

Source : SADC Secretariat 2002

The three principal objectives for sustainable development in SADC are: (1) to accelerate economic growth with greater equity and self-confidence; (2) to improve health, income, and living conditions of the poor majority; (3) to ensure the equitable and durable use of natural resources and the environment for the present and future generations. None of the three objectives can be carried out successfully without the two others discussed above. However, these objectives are not realizable without significant changes in international trade and macroeconomic policies.

Free Trade Area and Custom Union

The SADC started a protocol on trade which will lead to a free trade area in 2008. To this end, it is imperative that the SADC quickly develops powerful financial and transactional systems, which are reliable and regular. The RISDP considers that trade liberalisation is the key to further regional integration and to poverty eradication. The negotiations for the creation of the SADC Customs union are envisaged to succeed by 2010.

It is important to note the existence within the SADC region of SACU (Southern African Customs Union) which groups together South Africa, Namibia, Lesotho, Swaziland and Botswana and profits from trade and the development cooperation agreement between South Africa and the European Union. Besides, some SADC Member States are also COMESA which expects a custom union in 2008.

Common Market and Monetary Union

The establishment of the FTA and the Customs Union is one of the essential conditions for the Common Market of SADC. The negotiations for its concretisation are envisaged to be concluded in 2015, which would mean common external tariffs and a single currency in 2016. Nevertheless, all this will depend on the success of the implementation of the trade protocol which started in 2000. The protocol proposes the gradual phasing out of the customs duties or other related obstacles. Following the setting-up of the SADC customs union, the contracting parties will get down to work towards the creation and the consolidation of the monetary union. This process is closely connected to the success of macroeconomic macro convergence, the creation of stable and harmonised exchanges rates, the liberalisation of capital transfers and current accounts as well as the creation of financial markets directed towards the establishment of a unified monetary policy. The foundation of the monetary union which is aimed at creating a single currency and an unique Central Bank for the fourteen SADC Member States has already been put in place by technicians.

1.2 Macroeconomic Convergence and SADC Policy

The goal of this chapter is to present in a brief way the macroeconomic objectives towards which each Member State must converge as well as the common policy to adopt in order to attain those rejections.

The Macroeconomic Convergence Programme

SADC countries are excepted to follow a macroeconomic convergence programme defined in the document entitled "Memorandum of Understanding on Macroeconomic Convergence" (MOU) which was adopted in 2001. In order to monitor the implementation of the MOU, four indicators were identified: a Member State's rate of inflation; the ratio of the budget deficit to GDP; the ratio of public and publicly guaranteed debt to GDP; and the balance and structure of the current account. Convergence targets for those indicators and the macroeconomic policy framework needed to achieve such targets will provide the basis for a smooth integration in a series of stages that transform the economies of Southern Africa into a fully-fledged economic union, while addressing the challenges of achieving the Millennium Development Goals.

Table 2: Numeric Values of Target Indicators for MOU on Macroeconomic Convergence

Target Indicators	2008	2012	2018
Core Inflation	9%	5%	3%
Budget Deficit as a percentage of GDP	5%	3%	1%
External Debt as a percentage of GDP	60%	60%	60%
Current Account Deficit as a percentage GDP	9%	9%	3%
Growth rate	7%	7%	7%
External Reserves (Import Cover in months)	3	6	6
Central Bank Credit to Government	10%	5%	5%
Domestic Savings Rates	25%	30%	35%

Source: SADC Secretariat - Senaoana, 2004

Other macroeconomic indicators included in the MOU are in addition included in Macroeconomic Convergence, such as:

1. Increase in domestic investment by at least 30% of GDP by 2008;
2. Interconnection of payments, clearing and settlement system within SADC by 2008;
3. The convertibility of currencies of the Member States by 2008;
4. The finalisation of the legal framework governing share transfers between two Member States and various Member States by 2008;
5. The elimination of exchange control on current accounts transactions between Member States by 2006 and on capital transactions by 2010.

Finance and Investment Protocol

Article 2 of the Financial Protocol and Investment (PFI) mentioned financial and investment cooperation and the coordination of these two sectors in order to diversify and widen the economy as strategic objectives for regional integration. The final objective being eradication of poverty through:

- The establishment of a favourable investment climate;
- The finalisation and consolidation of stability and macroeconomic convergence in the SADC region;
- The cooperation between the Member States concerning the exchange control and its coordination;

- The establishment of principles which facilitate convergence in legal and operational framework in the Central Banks of the Member States;
- The constitution of an organ to coordinate the cooperation between the Central Banks with regard to the systems of payment, compensation and regulation;
- The coordination of the activities of the persons in charge of the financial development for the region in order to stimulate financial capital flows;
- The creation of the SADC Development Funds;
- The development of the capital markets in the region;
- The regulation of the financial markets in the region.

Trade Protocol

The SADC Protocol on Trade came into effect on September 2000. Its major objective is to cut custom duties by 85% of all intra-SADC trade by 2008 and by 2012 trade will be completely liberalised in order to make the SADC Free Trade Area effective. For this reason, the most important instrument of trade liberalisation is elimination of import duties as well as non-tariff barriers. The intention is also to extend the liberalisation to the services. Moreover, the protocol requires other measures of trade facilitation and investments, including the harmonisation of the customs principles and procedures, the achievement of international standards of quality; of accreditation and metrology (SQAM) and harmonisation of sanitary and phytosanitary measures (SPS).

The SADC Member States followed the asymmetry principle, which takes into account the various levels of development in the region. The countries of SACU, including Botswana, Lesotho, Namibia, South Africa and Swaziland, agreed to plan the fall of their tariffs sooner than the remainder Member States (by 2006), followed by Mauritius and Zimbabwe as intermediate group, and then by the less developed countries like Malawi, Mozambique, Tanzania, and Zambia which, in the majority of the cases, begin their tariff phase-down five or six years after the implementation of the Trade Protocol.

Labour Market Policy

With approximately 260 million inhabitants in the SADC region, less than one out of ten are employed in the formal sector. The remainder are unemployed or work in the informal sector to survive. Thus, SADC's objective as regards employment is to reduce the number of the unemployed by creating jobs and integrating workers who are in the informal sector into the formal sector. The fight against unemployment and the promotion of the formal sector are means to reducing poverty given that it creates revenues for the population as well as improves the budget deficit through income tax.

1.3 SADC's Macroeconomic Stability Indicators

Population and Gross Domestic Product

With a total population of approximately USD 260 million in 2001, the total GDP of SADC amounts to USD 226 billion. During this same period, GDP rose by 2% whereas the population growth rate was 2.1%. As shown in Figure 1, the distribution of production within SADC countries was very unequal, reflecting mainly the differences in resource endowment and economic size of the Member States. South Africa has the highest GDP of the region.

Table 3: National GDP as % of SADC GDP

Country	Part of GDP	Country	Part of GDP
Lesotho	0.5%	Botswana	3.1%
Swaziland	0.7%	DRC	3.3%
Malawi	1.2%	Zimbabwe	3.6%
Namibia	1.9%	Tanzania	6.1%
Mozambique	2.2%	Angola	6.1%
Zambia	2.4%	South Africa	65.7%
Mauritius	2.9%		

(2001)

Growth Rate

During the 1990's and in early 2000, the average growth rate of SADC was positive, in spite of a slow economic recovery between 1990 and 1992. The signs of a vigorous recovery appeared in 1993, and in 1996 the average growth rate amounted to 5%. The improvement in the economic performance is explained by the positive political evolutions and macroeconomic reforms implemented by the majority of the Member States in the late 1980's and the early 1990's. The economic performance is however fragile since the majority of the SADC countries remain exposed to natural disasters and adverse external shocks.

Production Structure

The production structure of the SADC countries is characteristic of LDCs: the primary sectors like agriculture and mining industry contributing more than half of the total GDP. The data suggest that only Mauritius and South Africa have relatively important manufacturing sectors, which account for 25% of their GDP respectively. Zimbabwe had formerly an important manufacturing sector but lost it for several reasons: surge of foreign goods at more accessible prices, increasing cost, shortage of foreign currencies for imports of inputs. The other Member States have a relatively modest manufacturing sector. They depend on services, agriculture and mining industry. From 1991 to 1999, the value added in Manufacturing recorded a positive growth in a number of countries. This growth rate reached 5.2% in the region during this period. Meanwhile the growth rate declined during the first five years of this decade, some countries of the region recorded negative growth rates in manufacturing.

Per Capita Income

The average per capita income of SADC, measured by the Gross National Income, is very low and did not stop falling in the majority of the countries for three decades (Table 4 and 5). In 2002, the average per capita Gross National Income in SADC was USD 1563.

Table 4: High Income Countries in the SADC Region

Mauritius	Botswana	South Africa
3830 USD	3630 USD	2900 USD

Table 5: Low Income Countries in the SADC Region

DRC	Malawi	Mozambique	Tanzania	Zambia	Zimbabwe
80 USD	170 USD	210 USD	270 USD	320 USD	480 USD

If SADC wants to achieve the Millenium Development Goals, the per capita GNI must increase by 10% during the next years.

Inflation and Interest Rates

In 2002 inflation in the SADC region was 25% on average. But since 2003, the inflation rate fell, thanks to sound macroeconomic policies aimed at fighting inflation. Global trends in inflation in the 1990s, suggest that inflation was correlated with political crisis and civil war. The rise in CPI in energy prices had the most important impact on the rise in inflation.

As regards interest rates, they remain very high in all SADC countries. In countries with a one-digit inflation rate, interest rates are lower than 20%. In countries with high inflation, the interest rates vary from 40% to 100%. These high interest rates are explained in particular by the adoption of tight monetary policies aimed at containing inflation.

Investment and Savings

Savings and investment have a strong impact on economic growth in SADC countries. By increasing domestic savings and by investing these resources in productive sectors, SADC countries will accelerate economic growth. From 1980 to 2001, gross national savings for the SADC region was less than Gross Fixed Capital Formation (GFCF). In 2001, the average of the GFCF accounted for 16.75% of the GDP whereas the regional Gross national savings reached 15.85% of the GDP, showing a resource gap of -0.9%. With regard to Foreign Direct Investments (FDI), SADC on average attracted only USD 691 in the early 1990's. But from 1995 to 1998, FDI reached on average

USD 3.661 million representing 55% of FDI flows for Sub-Saharan Africa. Individually, the SADC countries had good performances compared to other Sub-Saharan African countries. South Africa, Angola, Lesotho, Namibia, Tanzania and Zambia were among the first ten recipients during this period. South Africa seems to be a major attraction pole of investments; more than 25% of FDI flows towards Sub-Saharan Africa were directed towards this country from 1995 up to now.

As for cross-border investment, South Africa, Mauritius and Zimbabwe are the principal sources of cross-border investments towards the other SADC countries. These intra regional investments are concentrated in the following areas: mining, tourism, transport, finance, industry, retail trade, telecommunications, agriculture and fishing. The principal ways of investment are privatization and joint-venture services and infrastructure.

Budget Deficit

Despite efforts aimed at correcting budget deficits, the majority of SADC countries are still confronted with high budget deficits. However, controlling current spending and investment spending, reform of fiscal administration (improvement of fiscal collection, widening of the tax base...) and the privatisation of public enterprises improved their situation during the period and most of the countries reduced their budget deficits. However, it was difficult to reduce the budget deficits further, because SADC countries were engaged in poverty alleviation programmes: investing in health services and education.

Table 6: Budget Deficit/Surplus (% of GDP, excluding grants, 1991-2000)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Angola	-21.9	-56.9	-21.7	-20.1	-37.5	-13.5	-22.7	13.9	-16.6	0.2
Botswana	8.1	8.5	7.1	2.2	1.5	6.0	3.7	-4.1	-2.6	1.9
Lesotho	-9.0	-3.6	8.8	8.5	0.1	0.8	-0.8	-2.8	-8.4	-13.8
Malawi	-6.3	-13.9	-8.7	-29.5	-12.7	-8.3	-9.0	12.8	-11.0	-14.4
Mauritius	-3.0	-2.3	-2.9	-4.3	-5.2	-4.8	-4.3	-4.6	-4.2	-7.3
Mozambique	-14.2	-16.5	-15.5	-19.2	-13.0	-9.9	-11.9	-10.5	-13.2	-15.4
Namibia	-2.5	-3.8	-5.1	-2.4	-3.5	-5.6	-3.7	-3.8	-3.3	-3.0
South Africa	-4.3	-7.8	-9.0	-6.2	-5.2	-5.4	-4.5	-5.1	-4.7	-3.7
Swaziland	4.7	-3.1	-5.7	-6.1	-2.0	-1.5	-1.6	-0.5	-1.9	-2.6
Tanzania	0.4	0.8	-4.8	-1.7	-5.2	-3.9	-1.4	-2.6	-3.4	-5.5
Zambia	-16.0	-12.6	-13.6	-11.8	-9.5	-6.6	-5.3	-9.8	-10.4	-13.2
Zimbabwe	-6.3	-8.4	-8.1	-8.6	-11.9	-9.0	-8.6	-4.2	-10.6	-22.5
SADC	-4.52	-9.75	-7.09	-7.84	-8.16	-5.62	-6.13	-7.62	-8.02	-8.93

Source: World Bank 2002a

Foreign Trade and Terms of Trade

Exports from South Africa, Angola, Botswana, the DRC, Namibia and Zambia are dominated by oil or minerals. Oil and mining industry strongly contribute to currency receipts and provides inputs to the industries. In other countries, exports are dominated by the basic agricultural products. The SADC countries import especially intermediate goods and equipment goods. Only South Africa and Zimbabwe have the capacities needed to produce these goods.

The available data on terms of trade show that the majority of the SADC Member States have experienced declining terms of trade, like the majority of African countries. This trend was particularly persistent between 1980 and 2000.

OECD constitutes the principal market of exports for the majority of the countries of the region. The Asian markets are important for countries like South Africa, Angola, Mauritius, Mozambique, Tanzania and Zambia. As for the imports, the majority come from the OECD countries. The intra-SADC trade is influenced by the SADC Protocol on trade as well as the bilateral trade agreements negotiated by Member States before the entry into force of the SADC Trade Protocol. Intra SADC trade only amounts to 24%, which means that the great part of trade is done with the rest of the world.

Current Account Balance

From 1990 to 2000, the current account balance of SADC was less than 7.0%. However, by analysing the national trends during this period, one can distinguish three categories of countries:

1. Countries with current account surplus during the period : Botswana, Namibia and, to a certain extent, Mauritius;
2. Countries with low current account deficit which did not exceed 5% of the GDP during the period: South Africa, Swaziland and Zimbabwe;
3. Countries with high and increasing current account deficits during the period: Angola, Lesotho, Malawi, Mozambique, Tanzania and Zambia.

External Debt and Foreign Aid

During the two last decades, the burden of foreign debt did not stop increasing in most of the SADC countries. The stock of foreign debt amounted to USD 69.12 billion in 2001. As a percentage of GDP, foreign debt doubled in certain countries between 1992-2000.

Table 7: SADC Foreign Debts (in % of GDP)

Country	Foreign debt	Country	Foreign debt
Angola	100-140	Mozambique	175-200 (H)
Botswana	20-25	Mauritius	50-60
DRC	200-225 (H)	Tanzania	75-100
Lesotho	75-100	Zambia	175-200 (H)
Malawi	150-160 (H)	Zimbabwe	50-75
		SADC	100-125

Source : World Bank ; H=High

Five of the Member States are eligible for the Heavily Indebted Poor Countries (HIPC). Mozambique and Tanzania reached the completion point, whereas Malawi and Zambia reached the decision point and that the case of the DRC is still under examination. The IPPTE should release considerable resources being able to be assigned to the reduction of poverty.

2 Madagascar's Development Goals and Macroeconomic Conditions

2.1 Madagascar's Development Goals and Objectives

The Vision for Madagascar and the PRSP are the two major documents which contain development objectives and strategies for Madagascar.

Vision for Madagascar

The Vision for Madagascar ambitiously aims at facilitating the country's transition from the current situation of subsistence economy to that of market economy. It depends on the exploitation of the different potentialities and resources which the country is endowed with in an optimal way that dies not endanger the environment.
The different actions will thus focus on:
1. Strengthening the rural areas;
2. Extending the chain of values;
3. Developing infrastructures;
4. Promoting and development;
5. Partnerships;
6. Technology.

It is important to consolidate stronger links with the rural areas as regards poverty reduction since investments focus on EPZ and privatization has not reduced poverty. Hence, natural products, productivity, quantity and quality have to be increased; logistics such as stocking, packaging have to be improved and the chain of values (farm-produce industries and non-farm ones, tourism, textile industries, transformation of mining products) need to be extended. Actually, all these points are essential in order to improve surplus in the rural areas.

Box 1: Economic objectives of Vision for Madagascar

General Economic Objectives:
Transition from a subsistence economy to a market economy ;
Extension of the rural economy towards the industrial economy: farm-produce industry and others (pharmaceutical, cosmetic, textile industry, transformation of mining products) and services economy (tourism, agricultural credit…) ;
Increase of exports.

Specific economic objectives of the PRSP :
Increase in agricultural production (rice, manioc…) of 100 % in 5 years and 200 % in 10 years;
Increase in agricultural exports (vanilla, clove, shrimps…) of 100 % in 5 years and 150% in 10 years;
Development of farm-produce industrial production (canned, sugar…) of 50% in 5 years and 150% in 10 years;
Development of non-farm produce industrial production (essential oil, textiles…) of 50% in 5 years and 200% in 10 years;
Increase in the production of transformed stones (precious and not precious) of 50% in 5 years and 200% in 10 years;
Increase in the number of tourist per annum from 160 000 in 2003 to 400 000 in 5 years and to 800,000 in 10 years.

The Poverty Reduction Strategy Paper (PRSP)

Based on the objectives quoted in the "Vision for Madagascar" the Poverty Reduction Strategy Paper (PRSP) contains all the objectives as well as the development strategies for Madagascar. The decision to develop the PRSP was taken the Government by the beginning of 2000 and the finalisation of the interim document enabled Madagascar to benefit from the first HIPC initiative during the year 2001-2002. The complete PRSP was finalised in July 2003 to take into account important orientations of the Government and to express into operational terms the political will of the Government to implement recovery plans and thus be able to reduce, by half the poverty rate in 10 years. The strategy favours the "Public-Private Partnership" principle; it relies on an objective analysis and on specific criteria. It is national document because it is the fruit that involved all stakeholders in the country. The document is also informed by the objectives of the international agreements to which Madagascar subscribes such as Millenium Development Goals, NEPAD, World Summit on Sustainable Development and so on. The presentation of the PRSP to Madagascar's technical and financial partners in August 2003 enabled Madagascar to reach the completion point in October 2004, external debt cancellation commitments.

Madagascar's PRSP mapped out a programme to reduce poverty through rapid and sustained growth. For that purpose, the general economic objectives of the PRSP are:

1. To increase the growth rate from 8% to 10%
2. To increase the investment rate of 20%
3. To increase the participation of the private sector from 12% to 14% in the investment rate
4. To open up the Malagasy economy.

The plan involves three strategic axes: (i) improving governance ; (ii) promoting broad based growth ; and (iii) providing human and material security.

2.2 Multilateral and Stability Oriented Program

Given Madagascar's low level of economic development, the country has benefited from financement of the IMF which is aimed at ensuring macroeconomic stability and external viability, conducive to sustained growth.

Table 8: Madagascar: History of IMF Lending Arrangements since 1987

(In thousands of SDRs)

Facility	Date of Arrangement	Date of Expiry Cancellation	Amount Agreed	Amount	Drawn Percent Drawn
PRGF	3/1/01	3/1/05	91,650	91,650	100.0
ESAF	11/27/96	11/30/00	81,360	78,860	96.9
ESAF	5/15/89	5/14/92	76,900	51,267	66.7
SBA	9/2/88	5/15/89	13,300	2,800	21.1
SAF	8/31/87	5/14/89	46,480	13,280	28.6

Source : IMF, FIN Department.

The IMF programmes supported the Government's structural reform agenda aimed at reducing poverty. To achieve these objectives, the ESAF programme focused specifically on domestic and external liberalisation. The second ESAF programme aimed more at a structural transformation of the economy in order to create conditions for sustained economic growth and the reduction of poverty by rebuilding a capable public administration, and addressing corruption and weak governance. The PRGF programme supported the Government's objectives - in line with the goals set out in the I-PRSP and, later on, in the PRSP - of strengthening economic growth while improving the distribution of its benefits in order to secure a permanent reduction in poverty.

The results of the Fund's involvement in achieving these objectives have been uneven. Fund involvement has contributed to macroeconomic stabilisation, strengthening the resilience of the economy and external viability. It has also been fairly successful in bringing about some structural reforms (external sector liberalisation, financial sector reform, and exchange rate regime), while in others, notably, tax policy, tax and customs administration, public expenditure management, privatization, and civil service, progress has been limited.

2.3 Prevailing Macroeconomic Conditions in Madagascar

2.3.1 Economic Structure

The primary sector represented 26.2% of the GDP in 2004. It is dominated by agriculture which is occupied by 70% of the Malagasy population. Agriculture represents 15.5% of the GDP and 20% of exports. Regarding food crops, rice and cassava (manioc) are the main food-crops of Madagascar. As for Export products, are dominated by coffee, cloves, litchis and vanilla, while sugar cane and cotton are the main industrial products.

The secondary sector concentrates around four activity sectors: food industry, wood, textile and clothing industry, and metal industry. It represents 14.5% of the GDP and 50% of exports. The growth of manufacturing was 5% on average between 1999-2001 and 14.6% in 2003, mainly because of the EPZ. The average value added rate of the sector is 34%. Since the creation of EPZ in 1989 and until the end of 2001, 960 companies operating in the EPZ were operational. They employed more than 100,000 workers.

The tertiary sector is based on transport, business, health, communications and tourism. However, with a growth rate of 14% per year during the years before 2002, tourism was one of the most dynamic sectors of the Malagasy economy. Although the direct value added by tourism activities hardly represented 1.6% of the GDP, the corresponding receipts in currencies reached about USD 70 millions in 2001, making this sector the country's second major supplier of foreign currencies after fishing.

Table 9: Growth and Structure of GDP

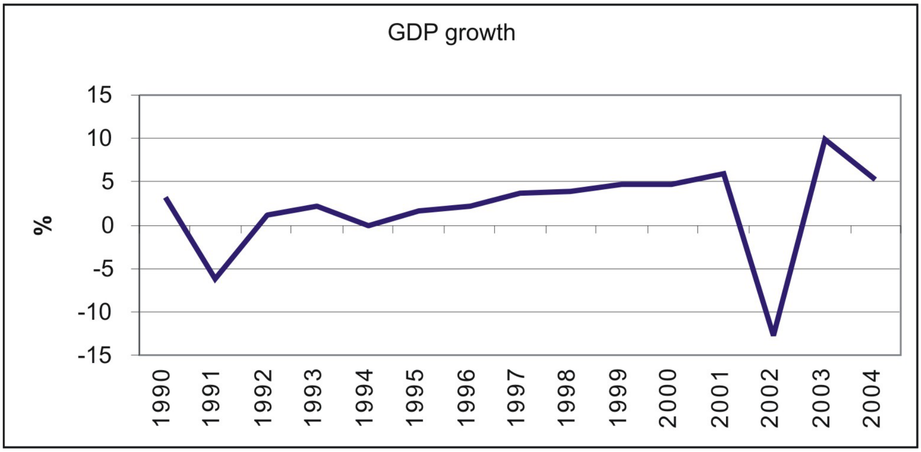
	1999	2000	2001	2002	2003	2004 Est.
(In % of GDP at current prices) Primary industry	27.5	26.5	25.7	29.8	26.8	26.2
Agriculture	14.7	13.6	13.7	16.6	15.4	15.5
Livestock and fisheries	7.5	7.8	7.3	8.8	7.6	7.2
Forestry	5.2	5.1	4.8	4.5	3.8	3.5
Manufacturing industry	12.2	12.9	13.5	13.6	14.1	14.5
Food, beverages, and tobacco	5.5	5.3	5.3	5.0	4.9	4.7
Energy	1.3	1.5	1.4	1.2	1.0	1.0
Export processing zone	2.0	2.4	2.8	3.8	4.6	5.2
Other	3.4	3.7	3.9	3.5	3.6	3.6
The service industries	52.3	52.1	53.8	51.3	51.6	50.9
Transport	17.2	16.8	16.9	15.2	14.4	15.2
Construction	1.5	1.6	1.8	1.8	1.9	2.3
Retail and wholesale	11.3	10.8	11.2	11.8	11.5	10.8
Government	5.4	5.5	5.8	5.5	6.4	6.2
Other services	16.9	17.4	18.3	17.0	17.4	16.3

Source : World Bank, 2005

2.3.2 Economic Growth

Since independence in 1960, Madagascar has suffered through a lengthy downward spiral and is today one of the world's poorest countries, with per capita GDP estimated at USD 235 in 2004. Over the course of three decades of interventionist policies and state control, real incomes fell by 40% and the headcount poverty rate rose above 70% of the population.

Figure 1: Madagascar: Real GDP Per Capita Growth, 1990-2004 (in percent)



Recently, structural reforms and improved macroeconomic management have started to have a positive impact. The period 1997-2001 was characterised by more substantial reforms, focusing on creating a favourable environment for private investment and on integrating Madagascar into the world economy. As a consequence, economic growth picked up substantively - during this period the growth rate averaged 4.6%, representing the best economic performance in 40 years. The main sources of economic growth were the activities of the Export Processing Zones, shrimp production and exportation, and tourism.

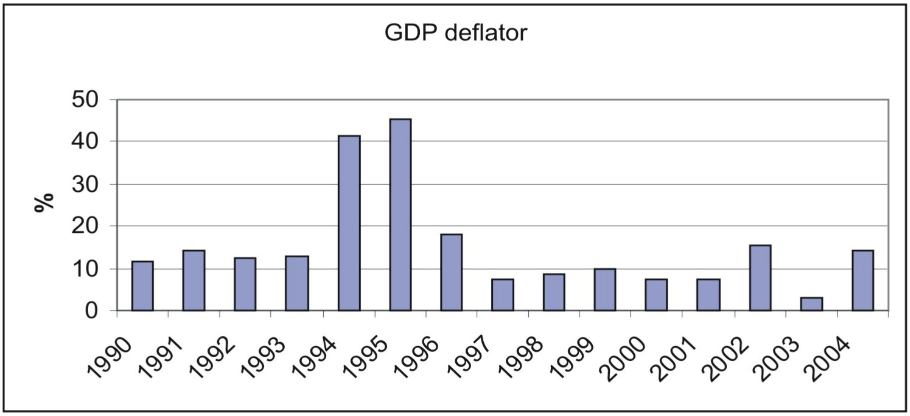
However, the sectoral performance was not homogenous and was dominated by the impact of economic reforms: (i) sectors that experienced market liberalisation enjoyed rapid expansion. Exports in sectors such as mining and shrimp increased, with shrimp exports increasing from USD 56 million to USD 155 million from 1995 to 2001, (ii) with the improvement of the business environment and trade opportunities (AGOA), textile activities in EPZ expanded considerably with an average growth rate of 20% over 1996-2001 period and with an estimated 110,000 employees. Madagascar is now the fourth largest exporter to the US among AGOA suppliers and garments exports increased from SDR 136 million in 1996 to SDR 267 million in 2001 ; (iii) tourism, and related activities such as construction, benefited from the liberalisation of the air transport and the overall business environment. Tourism grew at an average rate of 11% over the growth period, accounting for a large portion of the foreign exchange earnings, and with its potential; represents a strong vehicle for growth for Madagascar.

After the political crisis of 2002, growth improved significantly in 2003 and reached 9.3%. This trend continued in 2004 dispite high inflation and external shocks. In 2005, economic growth equaled 5.1% and in 2006, the Government expects 6.7%.

2.3.3 Inflation

During the last 20 years, Madagascar experienced two periods of hyperinflation. The first is the one which followed the implementation of the floating exchange rate on the exchange market. The devaluation of the MGF which followed, caused a rise in the prices of imported consumer goods and imported inputs that, in turn, resulted in a general increase of the prices, +36.9% between 1993 and 1994, +45.2% the following year and +20.0% between 1995 and 1996. The second period is that of 2002. The increase in the CPI between 2001 and 2002 reached +16.5%. This high inflation rate was related to the political and economic crisis that occured in 2002. Indeed, shortage of fuel which is a strategic product, especially in the Capital, and the deceleration of trade between the various localities of the island caused a generalised price increase. Because of stabilisation of the economic situation, the inflation rate remarkably dropped in 2003. The consumer price index slowed down considerably: it decreased by 1.7% against an increase of 16.5% in 2002. This fall in the prices meant a return to the normal trend after the big rise of the year 2002. At the beginning of 2004, inflation accelerated again. The inflation rate reached 13.8% in 2004 and 18.4% in 2005. A number of factors led to this situation. Initially, there was the impact of the cyclones on the agricultural production, the prices in this sector were greatly affected. Rice producers increased the prices of rice produced in the country. Moreover, the prices of oil and rice showed a big rise on the international market. The barrel of oil, for example reached a peak of USD 58 on April 7. The trade balance suffered from the increase in imports as well as the deterioration of the terms of trade. As a result, the Malagasy economy recorded a huge trade deficit which resulted in currency depreciation and inflation. One Euro equaled 12.576 MGF on July 2004 compared to 7622 FMG at the end of December 2003, that is to say a depreciation of the Malagasy currency of 50.0% compared to the Euro.

Figure 2: Madagascar : GDP Deflator, 1990-2004

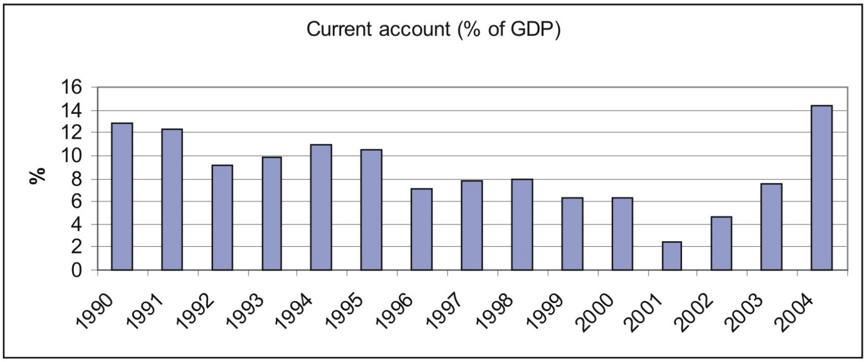


2.3.4 Current Account

In the early 1990, Madagascar's current account deficit was very high (12.9% in 1990 and 10.5% in 1995). Since 1996, Madagascar's overall external position has strengthened significantly; the current account deficit (excluding grants) declined to the equivalent of 7.1% of GDP (from 10.5% of GDP) and in 2001, thanks to growing export receipts, it fell to 2.4% of GDP. The liberalisation of the exchange and trade system has boosted the exports.

However, after the economic crisis of 2002, one recorded high level of current account deficit equaled 7.5% of GDP in 2003 and 14.4% in 2004. After the crisis of 2002, the Government expected a resumption of the economic activities which lead to a massive entry of the imports intended for enterprises. In 2004, the pursuit of the economic recovery, the construction and the rehabilitation of infrastructures, the reconstructions after cyclones as well as the increase in oil price on the international market, resulted in a significant increase in the value of imports.

Figure 3: Madagascar : Currrent Account, 1990-2004



2.3.5 Employment and Unemployment

Unemployment stood at 2.7% of the labour force in 2004, according to the latest household survey. It was mostly Antananarivo which was affected and reached a rate of 5.9%. By convention, an individual is considered to be unemployed if he or she was not working in the reference period but was actively looking for work. The unemployment rate is defined as the ratio of the number of unemployed to the total labor force. The very low unemployment rate may be surprising. In fact, 70% of the population live in rural areas where one can usually find some kind of useful work to do on the family farm. Hence, there is a disguised form of unemployment, especially in the rural areas.

Table 10: Unemployment Rate per Faritany

Antananarivo	5.9 %
Fianarantsoa	0.6 %
Toamasina	1.6 %
Mahajanga	2.2 %
Toliara	2.8 %
Antsiranana	0.8 %
National	2.7 %

Source : INSTAT/DSM/EPM 2004

The future macroeconomic projections for the period 2004-2008 suggest that job applications will probably exceed the offer of only 8%. This small gap to be filled with the job offer was already announced as an evidence with the tourism sectors and the EPZ and will probably have a competitive impact on the competitiveness of Madagascar. Based on characteristics outlined by the 2001 internal studies and on the planned growth, the job application estimation, revised down by the worker's education level, will be made beyond 318,000 against 293,500 job offers.

Table 11: Job Application Projection in the Urban Environment 2004-2008

Education level	Job application (number of employees)	Job offer (number of workers)	Offer deficit (number of workers)
Not educated	20,300	51,900	
Primary	49,300	66,800	
Secondary middle school	111,600	107,300	4,300
Secondary upper school	118,600	61,100	57,500
University	18,200	6,400	11,800
Total	318,000	293,500	

Estimation in 2001

More than 80 % of the deficit in job offers will be in connection with abilities equivalent to the upper secondary school education and with the growth sectors which require individual abilities (at least 8 years' studies), in which employment growth rate in terms of salaries was the highest. To be compared with the Malagasy grown-up who has an average of 4.4 years' training, less than the 5 years' primary studies, and for example with the average Mauritian's 9 years studies. This study mentions that besides the loss of potential job opportunities because of poor education levels, it will be difficult mostly for the poor to find a job because most of them do not have the requisite education qualifications.

Education reforms are therefore crucial. In the first place, this strategy which will try to develop strong sectors and to absorb the surplus among rural working forces is a viable option in view of the weak agriculture growth and the low salaries in the sector. Nevertheless, this strategy needs to be supported by a policy that advocates the creation of a pool of very good and competent employees from rural zones. Secondly, even in the case of strong growth in rural environment, reforms aimed at promoting capacities at low salary levels in rural zones through formal or technical education are considerably important for poverty reduction. By not considering the economic importance of education there were considerable consequences on the redistribution of economic growth during the period 1997 to 2001. Those who benefited from the growth, that is those who could easily find a job, were limited to well educated people.

2.3.6 Investment Flows to and from Madagascar

Gross investment went from 14.26 % of the GDP in 2003 to 16% of the GDP in 2004. This investment renewal in which the public sector participated (5.81% of the GDP) as well as the private sector (10.2% of the GDP) is explained by the resumption of the manufacturing and service sectors.

Public Investment

Public investment mainly concerns:

- The "Social" sector which achieved a better performance of 134.45% in 2003, especially in education and training and social action (CRESED II projects, FID, CRESAN, SEECALINE, and the contribution of UNICEF, the PMPS and USAID).
- The "infrastructures" sector, with an achievement of 77.9% of the planned amount due to commencement of work force on transport infrastructures (construction of roads, structure, urban infrastructures).
- The "productive" sector, with a payment rate of 81.26% in 2003. It should be noted that the financial realizations of the programmes in the mining sub-sector reached 164.9% for 2003, for the other sub-sectors, notably agriculture, the financial realisation stood at 83.54%, industry and craft 53.15%, tourism 57.51% and finally environment 77.23%.

At a sector-based level, the administrative sector comes at the head with 172.4% of payement rate, mainly because of overseas financing in the "Economics and Finance" sector.

Private Investment

Savings and domestic investment rate in comparison with GDP were still weak in 2003. However, using donor aid, the Government was able to set up projects which contributed to the private investment environment in Madagascar. The private sector development project deals with the following three aspects:

- Capacity building of the regulative organs
- Implementation of privatisation transactions
- Support to the private sector development

Globally, without distinguishing neither the legal nature of companies nor the sector of activities, the number of new firms created in 2003 increased by 14.12% compared to 2002.

Private investments have played a crucial role in the economic growth of Madagascar for years. The investment rate, in comparison with the GDP, passed from 3.5% of the GDP in the 1980s to 8.5% of the GDP during the period 1997-2001. This level of investment remains, nevertheless weak if one compares it, for example, with that of high performing countries of Southeast Asia where the private investment rate is in the order of 20% of GDP.

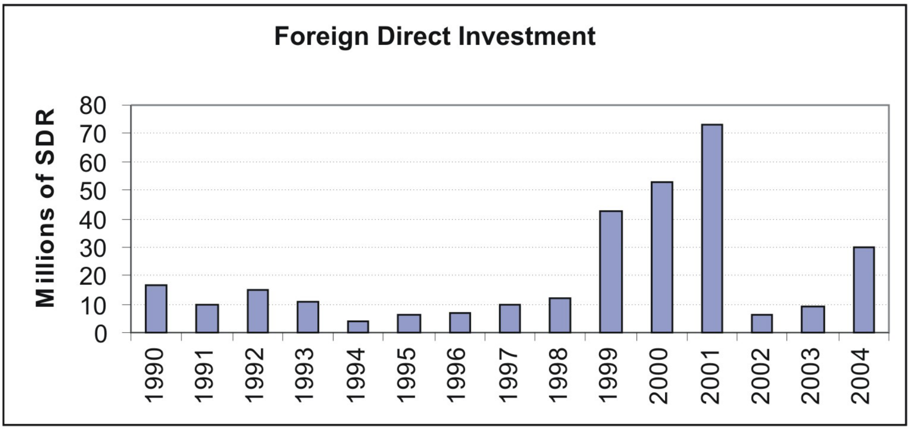
Private investments should thus increase in a significant way if one wants to reach a fast growth rate especially that fiscal receipts have so far remained weak compared with those of other african countries. Therefore, political reforms are vital to strengthen the confidence of the private sector and to ensure the expansion of private investments if one really wants to reach a steady economic growth.

Foreign Direct Investment

The policy to open up Madagascar has allowed for the arrival of FDI, especially due to the setting up of the EPZ from 1989. In ten years, the net flow of FDI trebled, passing from USD 20 million in 1989 to nearly USD 60 million in 1999. The attraction of Madagascar as a destination country for FDI is partly dependent on availability of cheap labour which constitutes a real comparative advantage as well as an incentive for foreign investments (liberalisation of the exchange system, assuring the security of the capital, free exchange system, new favourable investment code, setting up of the EPZ, improvement of the legal and regulatory framework).

In big industrial enterprises, the foreign presence has continued to increase since the opening up of the country and the liberalisation process. Of all big enterprises created before 1987, 27% involve foreign participation, this percentage increased to 30 for those created between 1987 and 1991 and to 41% for those created after 1991.

Figure 4: Net Total Private Investment Inflows



Private investments are the basis of any development and growth because they bring technologies and ensure access to international markets. In Madagascar, the considerable role of Foreign Direct Investments in the growth as well as the potentialities which the country presents to attract more foreign investments have been demonstrated these last years. Nevertheless, the basis needed to support the Foreign Direct Investment flows still remain flimsy. The current rate is about 1% of the GDP; it was 2.1% in 2001.

2.3.7 Fiscal Trends

Shift in Expenditure in Recent Years

In 2004, total expenditure made a clear increase with a level of 2045.3 billion of Ariary, it rose by 54.4% in comparison with 2003, passing from 19.5% of the GDP in 2003 to 25.1% in 2004. Current expenditure without salary increased by 33,12% in comparison to 2003, passing from 771.7 billion of Ariary to 1,027.3 billion of Ariary. Investment expenditure increased by 91.53% in comparison to 2003, with 57.2% spent on internal financing and 119.51% on outside financing. This increase reflects the implementation of various reconstruction programmes and the actions of medium-term consolidation that the Government began after the 2002 crisis.

Public expenditure is expected planned to reach 20.2% of the GDP in 2005 and 19.9% in 2006. The improvement in public spending management was strengthened in 2004. So, the adoption of the budget program was spread to all the ministries and institutions. The latter were invited to make their programs of actions prioritised and budgeted, and their credit was fixed according to these programmes. This has the advantage of making budget use transparent and of making the process easier.

Salaries increased by 9.46% compared to 2003, essentially due to:

- Civil servants' recruitment in the priority sectors such as education, health, security and finances,
- The payment of certain allowances planned in the general statutes of civil servants.

Other current expenditure increased by 9.02% compared to 2003, due to:

- The implementation of the "Education for All" programme;
- The payment of the State arrears regarding electricity and telephone consumption.

Allocation of Expenditure

Table 12 below classifies Government expenditure over the 1997-2004 period into four categories: governance, growth, social sectors, and other, non-classified expenditures. It shows that between 1997 and 2004 there were substantial variations in allocations across all sectors suggesting shifting priorities of Government within the period. Some general trends include: General administration, the main sub-sector within the governance category, takes the lion's share of the budget, on average 36% over the observed period. Since 1999, the year with the highest share of budgetary allocation to general administration (43%), efforts have been made to cut down public spending in this area. Despite a slight increase in allocation to general administration in 2003 by 6%, the 2004 budget reflects a further downward trend in the share of the budget.

Government's efforts to strengthen the social sectors are reflected in increasing allocations to primary education (average annual increase of 49% for the period 1997-2002) and to primary health care (average annual increase of 20% for the same period). Since the PRSP implementation began in 2003, the education sector has benefited by a 41% growth rate in allocations, reaching the highest share of budgetary allocations (around 18%) in 2004. However, public resources to the health sector only rose by 2.3% over the 2003-2004 period.

Allocations to the growth sectors (notably transportation, agriculture and environment) have not increased at the same rate. The overall substantial decrease of budget allocations to the agriculture sector until the year 2002 can be explained by Government's decision to withdraw from the productive sectors and to refocus Government activities in agriculture on key policy issues. In contrast, since 1999 the share of the transportation budget (8%) increased to 13% of total budget allocations in 2001. The 2003 budget shows a cut across nearly all growth sectors (in real terms and as a share of the national budget) while allocations to governance and social sectors were increased. In 2004 strong prioritisation took place, notably with a reinforcement of the transport budget and partially the agriculture sector.

Table 12: Madagascar's Budget Allocation Trends between 1997-2004 Percent of non interest expenditures

	1997	1999	2001	2002	2003	2004
Total	100	100	100	100	100	100
Governance	39.7	50.6	43.9	36.4	44.6	42.1
General Administration	32.1	43.2	37.9	30.1	35.5	32.8
o/w budget, finance & eco. Admin	19.7	31.3	25.1	19.0	26.0	24.5
Defense	3.4	3.1	2.4	2.6	3.9	4.1
Public security	4.1	4.2	3.5	3.7	5.2	5.2
o/w Justice	0.5	0.9	0.7	0.7	0.9	0.9
Growth	32.8	23.5	28.2	34.7	25.3	26.4
Energy	3.2	2.1	1.7	1.4	1.5	1.3
Agriculture	10.4	7.0	5.8	6.1	4.9	5.2
Environment	3.1	2.0	2.5	3.3	2.4	2.3
Transport & Communication	11.9	7.8	13.3	13.4	11.2	12.9
o/w Transport	10.9	7.5	13.0	13.2	10.8	12.6
Others	4.4	4.5	4.9	10.6	5.3	4.8
Social	27.5	25.9	27.9	28.8	30.1	31.5
Education	10.5	11.7	12.5	14.4	15.2	18.4
o/w Primary Education	2.1	3.2	2.3	5.1	6.4	6.1
Health	8.8	7.8	9.0	8.5	8.4	7.4
o/w Primary Health care	4.4	3.4	2.8	3.7	2.9	3.4
Others	8.2	6.4	6.5	6.0	6.5	5.7

Source : MEFB and World Bank estimates

Economic Allocation

As shown in Table 13, Government increased allocations for current expenditures. Current expenditures as a share of the total expenditure passed from 43.5% in 1997 to 56.5% in 2004. Over the same period, investment expenditures passed from 56,5% of the total expenditure to 43.5%. Externally financed investments amounted to about 34% of allocations in 1997 compared to only 24% in 2003. These fluctuations negatively impacted budget planning and programming. Nearly 60% of capital expenditures were financed by donors over the period 1997-2004.

Table 13: Madagascar's Recurrent and Investment Allocation Patterns between 1997-2004

	1997	1999	2001	2002	2003	2004
Total	**100**	**100**	**100**	**100**	**100**	**100**
Current Expenditure	**43.5**	**48.8**	**48.4**	**47.6**	**54.7**	**56.5**
Salary	20.9	20.2	18.6	21.3	27.3	26.5
Goods & services	12.7	20.1	10.8	9.7	14.1	13.3
Transfer	10.0	8.5	19.0	16.6	13.3	16.7
Capital Expenditure	**56.5**	**51.2**	**51.6**	**52.4**	**45.3**	**43.5**
Internal resources	22.2	23.8	25.0	21.3	21.6	18.3
External resources	34.3	27.4	26.6	31.1	23.7	25.2
Memo External resources (as a % of total capital expend.)	60.7	53.5	51.6	59.3	52.3	58.0

Source: MEFB and World Bank estimates

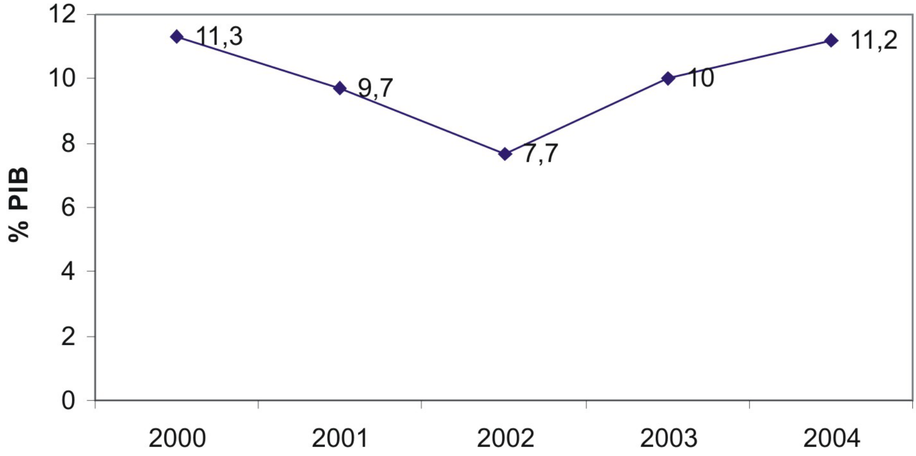
Revenue Patterns

The Government's revenue is mainly composed of tax revenue which represented 90.3 % of the budgetary revenue in 2004 and 97% in 2003. As shown in Table 12, taxes on foreign trade are the most important (50.71% of overall tax revenue) followed by taxes on goods and services (29.87%) and finally taxes on net income (17.97%).

To mobilise internal resources, the fiscal pressure rate clearly increased, from 10% in 2003 to 11% of the GDP in 2004. The objective target of 11.2% fiscal pressure was not reached because of the inflation. For 2005, the objective is to reach 11.6%.

Given the recent increase in expenditure, fiscal deficit (total overall balance including grants) amounted to 5.7% of GDP in 2004 compared to 4.4% in 2000 and 2.5% in 1999. Hence, expanding revenue collection is crucial, though in the short term the possibilities are limited. Indeed, as in many other Sub-Saharan countries, subsistence agriculture and a large informal sector hamper revenue mobilisation. The tax base is small and highly concentrated, with 8% of customs taxes and 28% of inland revenue, respectively deriving from the five largest contributors to each category of tax. VAT and import taxes accounted for nearly 80% of the country's tax receipts and only 200 enterprises pay approximately 75% of company taxes.

Figure 5: Fiscal Pressure Rate between 2000 and 2004



3 Madagascar's Economic Policy

3.1 Monetary and Exchange Rate Policies

The objective of the monetary policy of the Central Bank of Madagascar (BCM) is to control inflation. Indeed, price stability ensures the stability of the exchange rate. It is in this way that the Central Bank of Madagascar contributes to the establishment of a stable environment, conducive to economic growth and investments.

Monetary policy

The main objective of the monetary policy is to maintain price stability (respect for the national objective of inflation). Indeed, monetary imbalance (excess or lack of money supply with regard to the needs of the economy) have certain repercussions on the evolution of prices and the economic growth. Hence, the BCM control the money supply through the regulation of banking assets. It relies on rules-based instrument since money markets in Madagascar remain shallow.

The BCM mainly uses two instruments of Madagascar's monetary policy :

BCM's interest rate (Taux directeur de la BCM): By controlling interest rates, the BCM regulates money creation by commercial banks. Thus, in the context of inflation, it adopts restrictive monetary policies through increase in interest rates. This was the case in 2004 when it raised the interest rate on three occasions, moving from 7% to 9.5% on April 21th then from 9.5% to 12.0% on June 03rd and from 12.0% to 16.0% on September 16. On the other hand, when the BCM anticipates a decline in inflation, it acts by decreasing interest rates. Hence, in 2003 the BCM's interest rate decreased from 9% to 7% in an economic recovery context.

Reserve requirement: By changing the reserve requirement ratio, the BCM influences money supply. In 2004, given the strong depreciation of the MGF and the high level of inflation, the reserve requirement ratio was increased, from 12% to 15% on April 2004. On the contrary, in 2003, the reserve requirement ratio decreased, from 18% to 12%.

The Exchange Rate Policy

The main objective of the exchange rate policy is stability of the exchange rate.

Major fluctuations in the Real effective exchange rate cause inflation differential between Madagascar and its main trading partners, and consequences disrupt the economic activity including investments. Thus it acts in a negative way on the external competitiveness of the economy.

- In the short run the BCM influences the exchange rate by timely interventions on the MID (Interbank Exchange Market) to avoid important jumps of the exchange rate by purchasing (when supply exceeds demand) or selling currencies (when demand exceeds Supply) without upsetting however, the market forces as well as macroeconomic fundamentals.
- In medium and long term, the role of the BCM is to control internal assets by resorting to the instruments of the monetary policy discussed above.

Interdependence of the Monetary Policy and the Exchange Policy

The monetary policy and the exchange rate policy are strictly connected in the sense that:

- The strong fluctuations in the influential exchange rate directly and in a significant way impacts on prices observed on the market;
- A strong national currency depreciation has an effect of expansion in money supply, given that the net outside assets converted in MGF constitute a counterpart of money supply and consequently compromises internal stability of prices;
- The monetary policy, through the manipulation of interest rates, modifies the differential of interest rate between Madagascar and its commercial partners and has thus a certain influence on outside capital flows (although the differential of rate does not constitute to him only a determiner of capital inflow in a "liberal" economy ; there is among others macroeconomic stability, cost of the workforce, electricity, transport, political stability, corruption);

- Earning competitiveness pulled by the depreciation does not always go with the required level of inflation.

3.2 Fiscal Policy

Basic Approaches used in Determining Budgetary Frameworks

Within the framework of the application of the fast development policy, the improvement of efficiency in public spending constitutes at present one of the major preoccupations of the government. In this context, the usual budgetary presentation based on the allowance of means (Budget de moyen) is not enough any more to guarantee equivalence to objectives fixed by the authorities. Thus, programme budgeting has been introduced into the public finance system with the new Organic Finance Law passed in 2004. Detailed line-item budget will be replaced by a budget classification system that divides expenditure into missions (cross-cutting broad objectives) and programmes. Each programme consists of a clear set of objectives, related activities necessary to achieve those objectives and expected results. Expenditures are classified by interest on public debt, salaries, recurrent expenditure, structural recurrent expenditure, investment expenditure, exceptional recurrent expenditure, and financial operation. Programme managers have been given increased flexibility to shift expenditure across these broad categories, with the exception of salaries, as well as to carry over expenditure to the next budget year on the basis of a joint decree by MEFB and the concerned ministry (again with the exception of salaries).

The main idea is to work out an instrument which can be used to:

- Facilitate the rational allowance of rare public resources to the various governmental actions considered as top priorities. Actions are shared out by programmes; each programmes associated with a combination of means, with an evaluation of various costs which are divided up in current expenditure and in investment expenditure. Every programme has indicators which allow for the identification of achieved objectives;

- Ensure better coherence between the financial data and the objectives of the policies being followed;
- Clarify and thus to facilitate budgetary negotiation because it puts together the objectives and the means to reach them, while giving a new explanation about economic and social choices;
- Improve the follow-up on activities as well as their impact on the population;
- Improve follow-up and control of public spending.

To that effect, the elaboration of the programme budget of every ministry has to rely on the Business Plan explained during the preparation of the PRSP and on the PRSP itself.

Various steps followed are outlined below:
1. Definition of objectives. These are the objectives in the Business Plan.
2. Identification of strategies. These are the strategies in the Business Plan.
3. Identification of the expected results. These are the expected results in the Business Plan.
4. Identification of activities. These are the activities in the Business Plan.
5. Identification of action plans. These are the action plans in the Business Plan.

The PRSP should match with the macroeconomic focus. This focus stems from the to-be-achieved objectives, the first of which is economic growth. For that purpose, the budget aims, through the measures taken, at pursuing efforts, especially as regards priorities defined for the Country in the PRSP:
- Infrastructures for a better traffic of products, people and money in order to facilitate the producers' and the consumers' access to the market and to relieve the production cost: road, ports, airports, telecommunication.
- Development of the human capital, which is the first means of production. An educated and healthy man presents a lesser risk of

poverty, and is capable of acquiring know-how to better produce unlike an illiterate man: education for all, health national policy.
- Development of the private sector as a control lever of economic development. Assistance and opportunities granted to economic operators for a better production intended for the consumers.
- Tax system in the development service by means of an internal resource increase, despite loans or donations.
- Rise of the fiscal pressure rate at 11.6% in 2005 against 11.2% in 2004,
- Abatement of inflation effects. For example, for the tariff, the import duty of the recognized possessions of common utility usefulness was decreased and was standardised at 5%, Value-added tax (VAT), was reduced from 20% to 18% (however, for reasons to do with macroeconomic stability the, reduction in tax came to an end in September, 2005).

Improvement of fiscal receipts, rates drop, but extension of the basis by means of a better control by the fiscal administration.

Fiscal Policy

In 2003, since the priority of the Government was economic recovery, fiscal policy was directed so as to contribute to it. To encourage operators and investors, incentive measures were introduced into the Finance law in 2003 and these included the following:

1. Tax reliefs through the deletion of the customs tax system on fertilizers, inputs and farm equipment, certain building materials (iron, cement, steel …), paper as well as the inputs of the textile industry (fabric, thread, accessories…);
2. Revising down the IBS and IRNS taxes from 35% to 30%, and application of fixed fees for credit lease contracts' registration;
3. Reserves annexation tax relief in the capital;
4. Supporting measures for the exporters by authorising the credit transfer system of VAT;
5. Facilitation to allow credit for VAT payment concerning important importation of goods;
6. Tax relief regarding operations to do with transfer of shares;

7. Relief in taxation system for cooperatives as far as professional tax and IBS are concerned.

Furthermore, simplifications and tariff reduction on imports were effected to face the regional and world integration. A tax reduction in fees and import taxes and in VAT on other products was made in August, 2003. To compensate for tariff falls, serious efforts at the level of the fiscal administration were undertaken for the extension of the taxable base and the covering of taxes. With respect to customs sector, it was especially a question of preventing fraud while accelerating customs clearance procedures.

The reform of the fiscal administration is one of the priorities of the Government. Its objective is to improve the Government revenue. The objective depends on attempts to increase the number of the taxpayers, the tax base in technical terms, and to improve the follow-up system. Cutting down to a minimum any possibilities and any shape of fraud is one of the pillars of the strategy.

3.3. Trade policy framework

3.3.1 Madagascar's Trade Policy

Since the end of the 80s Madagascar has undertaken a vast liberalisation programme of its economy and its foreign trade. The new orientations of the trade policy are centred on the implementation of the liberal policy adopted by the Government. The main objective of the trade policy is to reduce poverty: to allow the private sector and the trade sector to be the driving force for economic growth. The leaders emphasise exports promotion and the free access to markets.

Trade Facilitation Initiative: Import and Export Measures

The country began large-scale commercial reform, cancelling quantitative limitations in the import sector except those that result from the application of international agreements or those that are applied for health service, public security and environmental protection reasons. Limitations in export were also deleted in almost all the sectors, as well as the exchange controls. However, a list exists for products that required a preliminary license for protection purposes of the national patrimony or they are prohibited because of the adherence of Madagascar to certain international agreements.

Box 2: Trade facilitation : Import and Export Measures

Trade and price liberalisation :

In January, 1987: regime of import liberalised, import licenses cancelled

At the beginning of 1988: certain quantitative restrictions were replaced by a simplified structure.

In February - August, 1988: introduction of a liberalised import system. Reduction of import bans.

In September, 1988 : liberalised agricultural exports, except vanilla, and quality certification limited to 4 products - coffee, shellfish, meat, vanilla ; liberalisation of the collection of export products.

1988-90: export taxes eliminated, except that of vanilla.

1992: export permits and import licenses cancelled with some exceptions.

1994: maximum tariff in the import sector reduces from 50 to 30%.

In September, 1996: authorisation of imports without transfer of currencies.

In May, 1997: elimination of the tax export on vanilla.

In September, 1997: abolition of limitations on imports of wheat

1999: simplified tariff structure, with a maximum rate of 30%.

In January, 2000: free trade with Comoro Islands and Mauritius.

In October, 2000: free trade with COMESA countries

Customs Duty

Like in many developing countries, taxes on foreign trade are an extremely important source of income for the Government. Tax revenue in 2003 amounted to 678.5 billion Ariary. Import duties represented about 50.52% of tax revenue. Receipts received on imports from the SADC represented 8.3% of the customs receipts.

According to Laporte and Ramilison (2005), Madagascar presented a negative fiscal effort, in the order of 9% of the GDP. This weak efficiency in fiscal mobilization could put major obstacles to the opening up of the Malagasy economy. So, membership in the SADC is going to entail a drop in the customs receipts. In structure of constant exchanges, total FTA between Madagascar and the SADC will entail a reduction in fiscal receipts of 1.1% that is 0.9% in conformity with the customs receipts (customs duties and import taxes) and 0.2% in conformity with the reduction of the VAT basis.

Anti-Dumping Right and Safety Measures

Madagascar does not at present apply antidumping rights, nor rights of compensation nor measures of safety. However, discussions took place for the formulation of policies aimed at the implementation of such mechanisms.

Non-Tariff Barriers

From the point of view of importations, Madagascar applies 63 different standards of products. These standards are not discriminatory because they apply in uniform way to imported items as well as to products made by state-owned companies. They are also not administered in a discriminatory way: foreign companies as well as state-owned companies have access to the service of certification of the Ministry of Trade.

Preliminary licenses are also required for the importation of certain telecommunication equipment in order to make sure that this equipment is compatible with national standards.

From the point of view of exports, most of the requirements for registration and for export licenses were abolished. There is export royalty on transformed wooden products paid to the Forested National Fund by the exporters. This royalty aims at financing reafforestation programs and helps in the fight against deforestation. There are also export controls on wood administered by the Head Office of Water and Forests of the Ministry of Environment.

3.3.2 SADC Trade Protocol

The Malagasy National Assembly ratified the SADC protocol on trade in July, 2005. Being a new member, Madagascar has to propose its implementation plan. It is planned that the establishment, by the private sector, of the list of sensitive products will end on 30th November 2005. Discussions to stop the definitive list of sensitive products will spread out between 30th November 2005 and 31st March 2006. From this date, negotiations with the other SADC members will begin. Madagascar will then have less than two years to reduce its tariffs on 85% of its products which are exchanged with the SADC if it wants to be part of the FTA in 2008.

One of the key questions of the Trade Protocol, which is particularly important to Madagascar, concerns the rules of origin of products traded within SADC. Although these rules are similar to those of the COMESA, specific rules apply to several products consisting of alterations or specific requirements to obtain the origin status, preventing therefore the development of regional chains of supply or vertical relocations among countries. This complexity of the original rule implies additional transaction costs and reduces, as a consequence, the competitiveness of Malagasy products. If there is a domain where it is necessary to begin reforms for the deepening of the integration within the SADC, it is at the level of Rules of Origin. Besides, agreements must still be made on rules of origin with regard to textile products (textile industries), to wheat flour, to flour-based foodstuffs, spices, plastic products, machines and equipment, vehicles and constituents and certain Chapter 90 products.

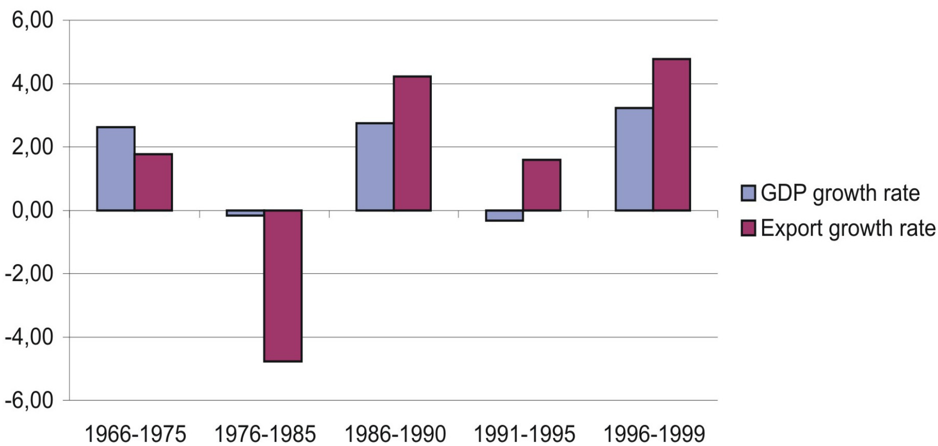
Moreover, even though the reduction of non tariff barriers is planned in the trade protocol, no calendar has been proposed to this end. There are well and truly non-tariff barriers within the SADC member countries and these include differences in responsibilities and customs procedures, different procedures at borders, limitations concerning norms and standards, communication problems and the quality of services. Also, the absence of phytosanitary compulsory measures allows the member countries to practise a disguised form of protectionism.

3.3.3 Trade Policy that Affects Macroeconomic Performance

Reforms that began from the 1980s contributed to a bigger opening up and to a modification of the structure of the economy. Since the begging of trade liberalisation at the beginning of the 90s, Madagascar saw her receipts of export increasing. Indeed, the exports rose from 14% of the GDP in 1991 to 20% of the GDP in 2004. Since 2000, the increase in non traditional exports, particularly those in the EPZ, has been significant.

The evolution of exports generally comes along with an evolution in the growth of the GDP in the same direction. So, having been negative (on annual average) during the period of autarky, the GDP growth rates and the exports had satisfactory performances during the periods of reforms. However, this report does not necessarily imply a link of causality between these two indicators but limits itself to an interpretation of the data.

Figure 6: GDP Growth and Export Growth



Foreign trade liberalisation was also associated with an increase in imports which more than doubled in 10 years: from SDR 321 million in 1991, to SDR 746.3 million in 2001.

As a consequence, the balance of trade remained in deficit at 4.70% of the GDP in 1992, and peaked to 4.97% in 1997. Thanks to the admittance of Madagascar into the AGOA. Indeed, due to exports bound for the US, the growth of exports in volume amounted to 47.6%

in 2000 and 20.6% in 2001. This resulted in an improvement of the trade gap; 2.61% of the GDP in 2000 and in 2001, the first time Madagascar had a trade surplus in 20 years.

The chronic deficit in the balance of trade is echoed on the evolution of the current account. Thus, there was a deficit in the order of 12% and 10% of the GDP during the first half of the 1990s. Since the adoption of the floating exchange rate system in 1994, this deficit has been reduced and adjustment is made henceforth by the exchange rate. Indeed, an improvement of the deficit of the current account came along with a real appreciation of the national currency as was the case in 1996, 1999 and 2001. On the other hand, a dipping of the current account deficit has generally been followed by a currency depreciation in real terms as was the case: in 1998, 2000, 2003 and 2004.

3.3.4 Madagascar's Membership in Various Regional Integration Initiatives

Madagascar participates in several regional agreements which are complex and sometimes contradictory, concerning the preferential liberalisation of exchanges, Rules of Origin, and regional cooperation in several domains (rules and the others).

Economic Partnership Agreement

Signed in June, 2000, the Economic Partnerships agreements between ACP countries and the European Union have as their major objective the need to address problems met in various domains connected to trade. In spite of the Lomé agreements which accords ACP countries a preferential access to the European market, imports from these countries have been decreasing. This situation reveals the limited capacity of the preferential tariffs to favour trade. There is need, therefore, for more robust and border cooperation to include all aspects of the business: tariff or non-tariff measures, production capacities, commercial policies and home policies of ACP countries. Besides, to ensure compatibility with WTO rules, the EPA should integrate the principle of reciprocity in preferential access between the European

Union and the ACP countries. The objective for doing so is to establish a free trade area between ACP countries and the European Union. Within the framework of negotiations on this Free Trade Area, Madagascar has to adhere to the subgroup AFOA (Eastern and Southern Africa) which is made up of 16 members of the COMESA.

The Indian Ocean Commission

Created in Victoria in 1984, the Indian Ocean Commission is an agreement of regional cooperation grouping together five members, under the aegis of the European Union through the European Development Fund. The objective is to encourage trade and regional cooperation in all domains such as diplomacy, economy, culture and the technical sectors (environment, tourism, health…). Its main achievement is the bilateral elimination of tariff barriers between Madagascar and Mauritius since 1st January 2000.

Common Market for Eastern and Southern Africa (COMESA)

Common Market for the Eastern and Southern Africa, COMESA, was born in Kampala in 1993 and followed the Zone of Preferential Exchange (Preferential Trade Area PTA), of Eastern and Southern Africa which was formed in 1981. The COMESA presenting groups together 20 member countries , including Madagascar which has been a member since 1995. The objectives of the COMESA include, among others:

- The complete abolition of internal tariff and non-tariff barriers, and in a second step, the adoption of a Common external tariff;
- The free traffic of labour and capital;
- Harmonisation of production standards, notably with regard to sanitary and phytosanitary standards;
- Fiscal harmonisation, in particular for VAT and excise taxes;
- Cooperation in legislation on intellectual property and investment, and in the end, a monetary union.

The most striking achievement of COMESA this stage was the creation of a free trade area in 31st October 2000, between 9 member countries namely Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe. The other countries are expected to join the union in the coming years even though they already give preferential access to member countries. The members of COMESA agreed to create a Customs Union in 2004, which would include the implementation of the common external tariff. COMESA has recently revised and simplified its rules of origin in that it only requires a minimum value added of 35%, and that the value of imported inputs should not exceed 60% of the CIF value of the product. All eligible goods that receive preferential treatment must be accompanied by a COMESA certificate of origin.

Southern African Development Community (SADC)

Created in 1992 by the treaty of Namibia, the SADC (Southern African Development Community) groups together 14 member countries (including Madagascar) of Southern and East Africa. The main objectives include the need to promote growth and sustainable socioeconomic development using efficient productive systems, to deepen cooperation and integration, to foster good governance, peace and sustainable security, so that the region appears as a competitive actor in international relations and in the world economy.

Madagascar became a candidate member of this organization in August, 2004. The SADC Treaty as well as the Protocol on Privileges and Immunities was ratified by the Malagasy National Assembly in December, 2004. In July 2005, Parliament ratified the Protocol on Trade. During the summit of Heads of State in Gaborone in August 2004, Madagascar was admitted to SADC.

3.3.5 Trade Policy that Affects SADC Integration

The trade policy of Madagascar at present opts for the opening up of the borders. Indeed, in recent years Madagascar has adhered to various regional integration agreements and has engaged in further trade liberalisation. This policy of opening up its economy impacts on its integration into SADC in three ways:

First given Madagascar's trade with the EU and the historical relationship between Madagascar and France in particular, the agreements are going to be made mostly for the benefit of the EU when the SADC FTA and the EPA will take place simultaneously in 2008. The tariff cuts will be more profitable to the EU than to SADC. Indeed, the studies by Laporte and Ramilison (2005) estimate that exports from the European Union to Madagascar will increase by USD 22.2 million against only USD 9.9 million for SADC member states.

Second, the Economic Partnership Agreement also implies tariff cuts which will cause huge budget deficits. As a matter of fact, fiscal receipts for imports from European countries currently equal USD 29 million. Once the tariff reduction takes place, these receipts will decrease to USD 20 million entailing a decrease by 28.92% in import duties . For this reason, the probability of Madagascar achieving the convergence criteria in terms of budget deficit will be reduced.

Lastly the policy of opening up the economy implies generally an increase in imports which will in turn exacerbate the current account deficit. As a result, Madagascar will have problems in achieving the macroeconomic convergence criteria as far as current account deficit is concerned. Furthermore, the current account deficit drives currency depreciation which affects inflation and consequently the poverty rate.

3.4 Labour Market Policy Framework

In 2004 the country adopted the National Policy on Employment (NPE). The employment strategy is based on the employement principle as a solution to poverty problems through more balanced sustainable growth gained by the poor.

This policy is not limited to punctual and sector-based programmes of actions.

Thus, priority objectives have to contribute to the promotion of employment :

- Favouring an environment that is convenient to growth, to investment and to employment;
- Supporting the private sector;

- Improving the access of informal sector and rural sector employees to education and to vocational training for better productivity;
- Developing income-generating activities;
- Ensuring the access of vulnerable social groups to the labour market.

These objectives underlie priority axes and accompanying measures considered essential to the application of the national policy for employement (NPE).

The national policy for employement is centred on three strategic axes:
- Vector of the job, valuation of the technological innovation and space of development;
- System of access to the development of investments and to the productive resources;
- Legislative, institutional, organisational and social environment of the employement.

Accompanying measures are:
- A system of adequate financing will be conceived and institutionalised and an execution plan for the NPE will be worked out (approach of levy and/or tax system of public intervention).
- Determination of a support programme for the job.

The institutional device is described as follows:
- A national office of employement promotion for the facilitation of access to the job and the link between the job offer and the job application;
- A system of information about the job to remedy weaknesses and incapacities relative to the availability of reliable information about the job;
- A national employent observatory in support of the strategic decisions of the state, the private sector and the education institutions, research and training.

Finally, the conception of a follow-up evaluation system of the NPE is essential, specifically the evaluation of the General State of Employment every 5 years, the definition of economic indicators on the evolution of employment, the production of periodic reports on employement situation including sector-based reports, the realisation of the impact assessment of the NPE.

Box 3: Strategy for Job Creation by The Ministry of Civil Service, Labour and Social Laws

The Ministry of Civil service, Labour and Social Laws - which contributes to the improvement of the social and economic condition of employees, public as well as private - introduced an organisation project of employment to deal with the creation of jobs. It is the VOY ASA project.

This project aims at organising the labour environment and at boostering the creation of jobs, notably for the young people and women. Several arrangements have been made within the framework of this operation:

Factory Committee: The creation of the "Factory Committee" is one of these measures. It must be established at every company employing 50 people or more, and it will discuss issues affecting them and make constitute a platform where bosses, employees and trade unions, will collective agreements. The creation of this committee will put to an end the tension and conflict among employers and employees. Discussions within this committee will take place in a totally transparent manner. Discussion will concern the health of the company in the face of competition which prevails both at the national level and international level.

The Minister used the case of the EPZ with the problem of dismantling of the multifiber agreement and the layoffs, to illustrate the tightened relations among employees and employers.

Normalisation of employment: Concerning the job creation sector, a project in partnership with the United Nations Program for Development (UNDP) was started and concerns eight Regions.

The objective is to create jobs based on standards which are going to allow the employees to suitably, while taking advantage of the administration on the fiscal plan contrary to the informal sector jobs. Indeed, the current figures reveal that 75.6% of the working population works in this informal sector with all the consequent results such as job security and losses in various taxes.

3.5 Impact of Recent Institutional Reforms

The main measures of socioeconomic reforms taken by the Government are constitent with the framework of the Poverty Reduction Grant Facility (PRGF) financed by the International Monetary Fund, the Credit of Support for the Reduction of Poverty (CARP) financed by the World Bank, and the initiative in favour of the Heavily Indebted Poor Countries financed by the other multilateral or bilateral donors. These measures relate to good governance, to the economic and social domain.

The economic and financial results for the year 2004 are as follows :

(a) The economic growth for the year 2004 was 5.3% against a forecast of 6%. The contribution of such sectors as the EPZ, agro-industry and others in the formation of Gross Domestic Product was significant. Other sectors like tourism, the BTP and fishing expanded following the diversification of exports, and the rehabilitation and construction of infrastructure.

(b) In 2004, the average variation of the Consumer Price Index was 13.8%. The average depreciation of the national currency compared to the Euro was 39.7% and 38.7% compared to the SDR. Thus the forecast for 2005 of the inflation rate is less or equal to 6% but is still not easily realizable

(c) The revenues from taxes reached 11.2% of the GDP, thanks especially to a strong re-entry of the customs receipts.

(d) The deficit in the external current account represented, on average, the equivalent of 6% to 8.5% of GDP during the last three years. The stock of the debt in Net present value (VAN) and the debt servicing were brought back respectively to 150% and 5% of exports of non-goods and services in 2004. The reserves of exchange, of less than 4 weeks of imports were gradually reconstituted to reach 3 months of imports at the end of the year 2004.

4 Madagascar's Macroeconomic Convergence Programme

4.1 Timeframe of Implementation

At the moment, Madagascar does not have a timeframe for the implementation of the macroeconomic convergence programme. However, it continues to finalise its adherence to SADC by ratifying the other protocols as shown in the table below .

Table 14: Implementation Schedule

2005	Court Protocol
2006	Finance and investment Tourism Forestery Fauna and flora Transport, communications, Meteorology Culture, information and sport Corruption
2007	Fishing Energy Mines Education Health Drug
2008	Cooperation in the political domain : defence and security Mutual assistance in the criminal domain Fire weapons with extradition Legal business

4.2 Macroeconomic Convergence Problem Areas

According to the projection of some macroeconomic indicators within the next three years, one can assess the probability of realisation for a number of macroeconomic convergence criteria.

Table 15: Madagascar and the Convergence Indicators

	SADC			Madagascar		
Target Indicators	2008	2012	2018	2004	2008	Probability of realisation
Core Inflation	9%	5%	3%	14.3%	4.9%	High
Budget Deficit as a percentage of GDP	5%	3%	1%	13.1%	8.9%	Weak
External Debt as a percentage of GDP	60%	60%	60%	n.a	n.a	
Current Account Deficit as a percentage GDP	9%	9%	3%	14.4%	9.9%	High
Growth rate	7%	7%	7%	5.3%	6.7%	High
External Reserves (Import Cover in months)	3	6	6	3	3.5	High
Central Bank Credit to Government	10%	5%	5%	n.a	n.a	
Domestic Savings Rates	25%	30%	35%	13.7%	15.6%	Weak

Source : World Bank, 2005

Through the table above, it becomes clear that the main problems for Madagascar in achieving macroeconomic convergence criteria involve budget deficits and domestic savings. For these indicators, probability of realisation is weak.

Budget Deficit (in % of GDP)

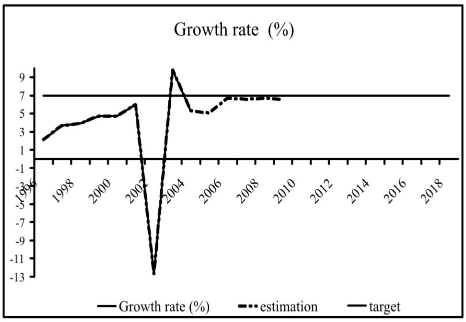
The data from the World Bank suggest that Madagascar is one of the countries that mostly depends on foreign assistance in the world. More than 50% of the budget is financed abroad. Some factors stressing the persistence of the high level of the government budget are of structural order.

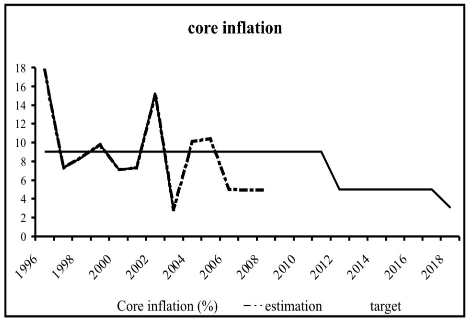
As far as receipts are concerned, despite effort made by the government to improve tax revenue, the capacity to mobilise resources is very weak. Tax revenue represented only 10.3% of GDP in 2003 and 11.2% in 2004. At the same time, public spending did not stop increasing. In 2002 expenditure was 15.7% of the GDP, it reached

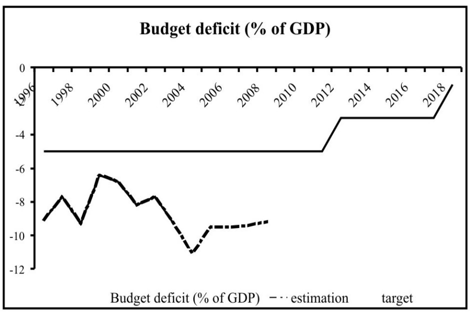
19.5% of the GDP in 2003 and 23.1% of the GDP in 2004. The overall balance (including grants) amounted to 5.5% of the GDP in 2002, 4.2% in 2003 and 3.4% in 2004.

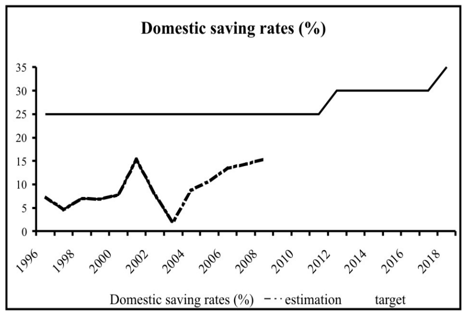
National Savings (in % of GDP)

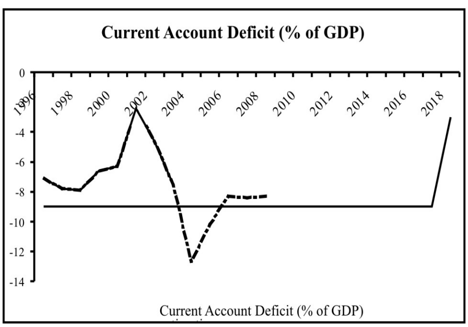
In relation to difficulties connected to the limited development of the financial sector, one notes the following problems: a weak liquidity, a low level of competitiveness, a weakness of the national saving and a lack of actual instruments to influence macroeconomic indicators. In 2004, only 61% of households were capable of saving and rural house holds prefer hoarding at home (79%) to depositing in a bank or in a microfinance.











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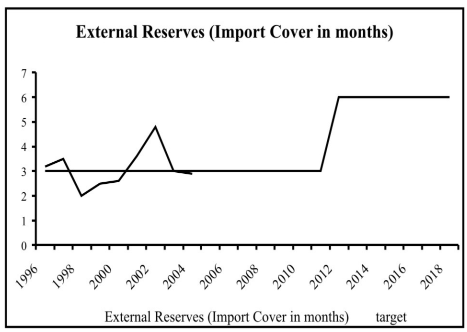

4.3 Risks of Convergence

First of all, external shocks impact adversely on the macroeconomic situation in Madagascar. Indeed, Madagascar is vulnerable to various exogenous shocks; cyclones and locust invasions often induce increases in staple food prices, resulting in inflationary pressure. Furthermore, the primary sector accounts for about 26% of GDP and 24% of merchandise exports (in SDR terms) stem from agricultural production (coffee, vanilla, cloves, pepper, cocoa, sisal) and shellfish. Hence, the vulnerability of the economy to external shocks may undermine growth and hamper the achievement of the convergence criteria.

At present, Madagascar is facing the increase in oil prices and the fall in export prices (vanilla mainly) on the international market. These circumstances will lead to a huge current account deficit which will induce exchange rate depreciation and in turn inflation. At the same time, the policy of opening up the economy implies an increase in imports which will result in entail a huge deficit of the current account. This will also induce exchange rate depreciation and afterwards inflation. As a matter of fact, following the huge increases in oil prices, the nominal exchange rate depreciated by about 40% against the Euro. As a result, the inflation rate reached 13.8% in 2004 and 18.4% in 2005.

As regards budget deficit, Madagascar envisages a number of investments in infrastructure and in social sectors for the coming years. These investments are necessary for the poverty reduction programs. But given the weakness of the fiscal revenue - the weakest in Sub-Saharian Africa - Madagascar may not meet the criteria for budget deficit. This weak fiscal revenue is due to corruption and weaknesses in fiscal administration.

At the political level, political crises may interrupt the authorities' reform efforts and convergence programme. The political crisis of 2002 and its economic aftermath amply illustrated the vulnerability of Madagascar to political shocks. Economic activity stagnated and the growth rate declined sharply to -12%. At the same time, exports slowed down, contributing to a surge in the current account deficit.

Lastly, lack of ownership and limited support for macroeconomic convergence programmes may hamper the chance of achieving the

RISDP objectives. Indeed, weak implementation capacity combined with low ownership may slowdown the process of a deeper integration of Madagascar in SADC.

5 Social Impact Analysis

5.1 Main Social indicators

On the basis of the census made in 1993, the total population of Madagascar was estimated to be 16.440.798 inhabitants in 2003 (12,3 millions in 1993) with an annual growth rate of 2.9% (2.8% in 1993). It is characterised by its youthfulness (47% are less than 15 years and 81.17% are less than 45 years whereas the old persons who are 60 years and above represent only 4.98%), by high fertility (the average size of the household was 5.1 people in 2003 according to a survey by MICS 2000) and a mortality rate which is in a progressive fall (the infant mortality rate passed from 102 per 1,000 in 1966 to 94 per 1,000 in 2003).

The Malagasy population has a relatively balanced structure with 99 men for 100 women. It is primarily rural (78% rural against 22% of urban). The youthfulness of the Malagasy population results then from the combined effect of a high fertility rate and the progressive fall of mortality. The working population is dominated by the agricultural sector (more than 70%). The general level of education is satisfactory, with a rough rate of schooling of approximately 65% and a rate of elimination of illiteracy of approximately 67%. Approximately 30% of the national budget is assigned to welfare expenditures on health and education (14% in 1993). Although the growth rate continues to improve (5.3% against 2.1% in 1993), the GDP per capita remains weak (less than USD 300) places Madagascar among the poorest countries of the world.

5.1.1 Human Development Indicators

According to the first World Human Development Report (1990) of the UNDP, Madagascar was classified 93rd out of 130 countries with an HDI of 0.440. Six years later, i.e. in 1996, the HDI of Madagascar was 0.349 and ranked 150th out of 174 countries according to statistics of the year 1993. Hence, in spite of the improvement in per capita real GDP, the HDI worsened because of the increasing illiteracy rate. In 2001, there was an improvement HDI of Madagascar in spite of the stagnation of the real GDP per capita (0.484 in calculation RNDH and 0.468 in calculation RMDH), a level which was relatively equal to that of 1987, with a life expectancy of 55 years, a literacy level of 65%, a school of approximately 60%, and a real GDP per capita (adjusted dollar) of USD 265. This improvement of the HDI is the effect of the efforts made by the Government of Madagascar as regards education. The rough rate of schooling does not cease improving to reach 67% in 2004.

5.1.2 Education

For Madagascar, in accordance with the strategies of social and human development SADC region, education constitutes a priority sector in the poverty reduction strategy. For this reason, two goals will have to be pursued:

- To ensure fundamental education for all the Madagascans, "Education For All" (EPT), to prepare and develop human resources of the country ;
- To ensure the quality of teaching at all the levels. These two objectives contribute to the realisation of a universal education systems and the availability of educated human resources in the SADC region.

For the achievement of these objectives, the Government of Madagascar has made efforts:

- To improve the educational infrastructure by constructing and equipping new classrooms in both primary and secondary schools; to build and/or rehabilitate residences of teachers and offices in the rural zones as well as the construction of school canteens in the rural zones;
- To recruit and train teachers and student teachers;
- To reduce the burden on families by providing school kits to the new registered voters in CP1 and providing teaching kits to new teachers, the equipment of case school for the public primary schools and the assumption of responsibility for registration fees for some private schools;
- To improve quality of the training: by developing an action plan to reduce of the redoubling in the first cycle, the text on the teaching

reorganization of the years of studies ; by providing equipment and textbooks for the pupils in the public and private primary schools and by the recruitment of new teachers;

- To improve the capacity and quality of the study and training facilities returned to the communities by the staff training of the Directions of Secondary Education and basic Education, the School Districts and the ZAP; the equipment of travelling materials and computers and the reform of the system of inspection;
- To reinforce the Public-Private Partnership by the contribution of the State to the schools deprived to nonlucrative goal;
- To reinforce quality and the relevance of post-primary education and in connection with the economic and social priorities by the development and installation of training schemes, the study on the reorganisation of the Higher education and the improvement of the university infrastructures, the study on secondary and technical education and the vocational Training, the improvement of the quality of the Vocational training and Technical (ftp), the improvement of the equipment of the establishments of ftp, the installation of units of housing for lodging of the students;
- To integrate the Approach By Competences (APC) by the means of the formation of the originators, trainers and teaching staff on the APC;
- To bring institutional support.

The principal impact of these measurements has been an increase in pupils and quality education in the first cycle, reduction in financial burden on needy families and the improvement of facilities in the schools. The number of pupils in primary education of the first cycle passed from 2,850,000 in 2002/2003 to 3,400,000 in 2003/2004. However, in spite of the recruitment of new teachers, the pupils increased to such an extent that the pupils per teacher ratio remains high. The increase in the number of teachers did not manage to match that of the pupils. The following table summarises the Education Indicators.

Table 16: Education Indicators

	1999/00	2000/01	2001/02	2002/03	2003/04	2005
1. Primary and Secondary Education						
Net primary enrolment ratio %	72.9	67.0	70.0	82.0	97.0	97.0
Achievement ratio of the primary degree %	39.0	35.0	35.0	39.5	47.0	53.0
Percentage of the children who had to repeat the standard (public and private) (%)	27.6 18.7	30.2 21.0	30.0 21.0	29.0 20.0	29.8 17.9	19.0 8.0
Rural	28.8	32.0	32.0	32.0	31.0	15.0
Pupil ratio of the primary public schools (%)	54.0	53.0	52.0	59.0	56.0	56.0
Urban	41.0	42.0	41.0	41.0	49.0	49.0
Rural	55.0	54.0	53.0	52.0	56.0	56.0
Percentage of children with an age of 6 in primary school (%)	67.0	61.0	66.0	80.0	81.0	94.0
Number of recruited and trained teachers	-	-	-	696	1,700	1,700
2. Technical and Professional Training						
Number of persons attending at technical and professional training	-	-	44,792	54,047	63,639	74,951
Number of programmes developed of the modern productive sector	-	-	54	66	97	110
Number of programmes developed in the traditional productive/handicraft sector	-	-	0	90	117	135
Number of diplomas /certificates	-	-	26,876	33,166	40,822	48,894
Number of public-private partnership conventions	-	-	22	97	189	273

Source : Annual report of DSRP, Volume II, P.12.

5.1.3 Health

The objectives of the health program in the PRSP involve:

- Promoting health of the mother and the child;
- Intensifying the fight against malnutrition;

- Reducing by half the socio-economic impact of transmittable diseases;
- Reducing by 20% morbidity due to nontransmittable diseases.

Actions that are deemed to increase access of the poor to health services were in addition prioritised in the health system. These actions include:
- The development of competence among medical staff;
- A national campaign of vaccination for the elimination of contagious diseases;
- The fight against malaria and tuberculosis, the fight against HIV/AIDS;
- The fight against cholera and the plague;
- The fight against the bilharzia and the cycticercose;
- The elimination of leprosy;
- Reinforcement of the strategy of maternity without risk.

The indicators of health in Madagascar are presented in Table 17.

Table 17: Indicators of Health in Madagascar

Indicators	2002	2003	2004	2005 est.	2006 est.
Infant mortality rate (per 1000 births)	-	94	-	84.8	80.6
Number of children with an age between 0 and 59 month who went to the external consultation of the primary Health Center (HC) (%)	18.6	17.9	16.7	8.9	5.3
HIV prevention rate of pregnant women with the age between 25 and 34 (%)	-	1.1	1.1	<1	<1
Syphilis prevention rate of pregnant women (%)	-	8.2	8.2	5.3	4.1
Rate of children with full preventive immunization with an age between 0 and 11 month (%)	-	53	-	58.4	61.4
Rate of immunized children against DTC3 in the HC with an age between 0 and 11 month (%)	61.5	82.3	75.1	80.0	80.0
Rate of medical prescription in the HC (%)	84.3	87.2	85.5	90.0	90.0
Rate of external medical consultation of the HC (%)	52.3	70.6	44.0	58.0	61.0
Ratio of population per one HC	1/7,416	1/7,386	1/7,574	1/7,523	1/7,470
Number of HC public functionaries	2,116	2,184	2,164	2,266	2,346
Maternal mortality rate per 10000 live births	-	469	-	285	217
Rate of preventive contraceptive (%)	5.1	5.9	6.1	5.9	6.1

Source: MINSPF/DEP/SSSa Annual Statistics of the Health Sector, 2002.

5.1.4 Water and Sanitation

The Water and Sanitation Sector is one of the priority sectors of the PRSP. The objective for Madagascar is to improve access to safe drinking water and to sanitation by improving supply of these services, studying the water resource conveyances, by increasing water and sanitation infrastructure. The drinking water indicators are presented in Table 18.

Table 18: Drinking Water Indicators and Sanitation in Madagascar

	2002	2003	2003	2004	2005	2006
Drinking water						
Rural area	12.10%	13%	12.74%	13.62%	15.05%	17.17%
Urban area	64.62%	79%	63.02%	64.0%	64.68%	65.16%
Sanitation Rural area	55%	57%	57%	58%	60%	62%
Urban area	92%	93%	93%	95%	97%	97.6%

5.2 Impact of SADC Integration on Economic and Social Indicators

Impact of SADC FTA

Madagascar can gain from the SADC FTA through the export sector: an increase by an estimated USD 180 millions that is, six times to the current exports to SADC. These potential exports stem mainly from agriculture in which 70% of the population and most of the poor are involved. Thus, promoting exports to SADC will benefit the poor.

As regards the consumers, the SADC FTA aims at canceling the customs duties. This will lead to a fall in import prices for products from SADC member countries. As a consequence, consumer surplus and welfare will increase. According to Laporte and Ramilison (2005), more than 30 products are subject to sharp increases in consumer surplus.

As far as producers are concerned, tariff cuts imply an increase of imports. This will lead to strong competition for companies that were previously protected by the customs duty. Firms in the following sectors are more likely to face severe competition given that they do not have comparative advantage compared to their competitors from SADC countries: dairy produce, pasta, biscuits, mineral water, soft drinks, soap, paper, cardboards, sugar, plastics. This may result in job losses in these sectors, an important social cost.

Impact of the Common Market

Arrival of immigrants due to free movement of workers will cause congestion which will in turn put enormous pressure on infrastructure and cause environmental degradation given the lack of social infrastructure in the country. As a consequence, social services will deteriorate. Moreover, because of shortage of skilled labor in Madagascar, firms will be willing to hire qualified workers from other SADC countries who will be paid higher wages than local workers. This situation may exacerbate the divide between foreign and domestic workers and cause social explosion. Finally, free movement of people may cause cultural degradation and an increase in HIV&AIDS prevalence.

Impact of Macroeconomic Convergence

Macroeconomic convergence criteria imply a reduction in budget deficit. However, Madagascar is at present restructuring its economy which entails huge public investment. Thus, to reach the convergence criteria, the country has to either increase fiscal receipts or reduce public spending. The later case will undermine the poverty reduction programme and impact negatively on social conditions.

Achieving the macroeconomic convergence criteria requires sound macroeconomic management which constitutes a good signal for both domestic and foreign investors. Indeed, an acceleration of inflation is negatively correlated to the inflows of FDI. Also, a high public debt slows down the arrival of FDI because of the tax increase that public debt implies for entrepreneurs. Hence, the Malagasy economy will benefit from achieving macroeconomic convergence criteria as far as investment is concerned. As a result, growth will increase, entailing a fall in the poverty rate.

Moreover, inflation is negatively correlated with poverty and growth impacts positively on consumption and social conditions. Hence, controlling inflation and achieving sustainable growth will induce a decline in the poverty rate. Projections run by INSTAT suggest that with a growth rate of 8% which is fairly distributed among the population and a population growth of 2.8%, Madagascar will reach a poverty rate of 50.8% in 2015 against 74.1% in 2004.

6 Macroeconomic Challenges and Threats Facing Madagascar

Poverty Reduction: Poverty has dramatically increased since the 1960s and, in particular, during the period of inward-looking policies in the 1980s. Structural reforms since the mid-1990s are having a beneficial, though still limited, impact on poverty levels. In 2004, an estimated 75% of the population still lived in poverty compared with some 45% in the early 1960s. The levels of most social indicators and the levels of access to basic utilities remain low. To address this high level of poverty, the poverty reduction strategy of the government involves: improving Governance, fostering growth that benefits the poor, and improving social service delivery. Hence, Madagascar's main economic challenge is to achieve higher economic growth in order to reduce poverty significantly. Estimates from INSTAT suggest that a growth rate of 8% is required to reduce by half the poverty rate by 2015.

Economic Growth: Madagascar is characterised by a weak GDP per capita and a high rate of poverty. The GDP is one of the weakest within SADC, 20 times less than that of Botswana and 10 times less than that of South Africa. The challenge for Madagascar is thus to sustain high and shared growth. The growth performance of 8% as projected in the PRSP will require a robust programme which should include:

- Improving the macroeconomic environment in order to attract investment;
- Emphasising efficient infrastructure development to enhance export competitiveness;
- Strengthening the private sector in order to reach an investment rate of 12% of GDP.

The country's capacity to bring about these objectives remains constrained by low domestic savings, external viability, limited availability of skilled workers, and a weak public administration network. These issues need to be overcome quickly.

Addressing the low level of domestic savings is essential to bringing about sustained economic growth. The authorities are to be commended for building a sound banking system. Further work is needed to enhance financial intermediation and access to credit, among other things, through the development of other intermediation channels such as microfinance, to reach the rural population, and by removing other impediments to financial services. Financial deepening will help boost domestic savings, could contribute to poverty reduction, and thus make the country less vulnerable to external shocks.

A key challenge to sustained growth is to maintain a stable macroeconomic environment and reduce external vulnerabilities. To that end, further enhancements in policy formulation and implementation are essential, both in the fiscal and monetary areas.

Risks and Threats: In spite of the political will on the part of the government to reach a supported growth, the Malagasy economy is exposed to internal and external threats.

With regard to the domestic environment, risks include the following:

- The weak capacity of institutions to begin reforms, notably at the level of economics;
- The corruption which constitutes an obstacle to development;
- The expiration of "Multifiber agreement" and the end of the AGOA III.

From an external perspective, risks include the following:

- On the international market, the prices for traditional exports continue to decline.
- At the same time, changes in global oil prices lead to sharp increases in the value of imports to Madagascar, entailing a huge trade deficit. As a result, the MGF will depreciate, causing inflationary pressure which will have repercussions on poverty.

7 Conclusion and Recommendations

Integrating the Malagasy economy into the world market is one of the cornerstones of Madagascar's economic policy as enshrined in the PRSP. For that purpose, Madagascar joined SADC in August 2005 and the National Assembly ratified the SADC Protocol on Trade in July 2005.

According to the RISDP vision, poverty reduction, economic prosperity of the peoples of Southern Africa, the improvement of their level and quality of life are among the objectives of SADC. These objectives are in accordance with the national policy of Madagascar which is to reduce the rate of poverty by half within 10 years. For that purpose, the PRSP has three strategic axes: (i) improving governance; (ii) promoting broad based growth; and (iii) providing human and material security.

Madagascar's integration into SADC is consistent with PRSP objectives. However, for a number of issues, SADC integration may impact negatively on the social objectives of Madagascar. For instance, macroeconomic policies may undermine further integration of Madagascar into SADC, mainly the achievement of macroeconomic convergence. Given the macroeconomic situation and the various indicators, Madagascar has difficulties in two main areas: budget deficit and current account deficit.

As far as budget deficit is concerned:

- Public expenditure increases because of investment expenditures required in economic restructuring.
- The Government revenues rest largely on customs duties. Given the regional integration agreements (EPA, SADC, COMESA), these receipts are going to decrease. Furthermore, receipts are weak for various reasons: capacity of administration, corruption, lack of public-spiritedness of the taxpayers.
- The aggravation of the budget deficit implies a significant rise in the country's stock of debt.
  - Regarding trade balance, regional integration agreements lead to trade deficits which drives currency depreciation and afterward inflation.

Madagascar may benefit from adhesion to SADC, but a number of measures should be taken in these areas:

- Fiscal measures:
  - Reinforcing fiscal administration and customs
  - Broadening fiscal base
  - Improving governance for a better fiscal collection
- International trade;
  - Putting in place structural reforms aimed at diversifying exports and improving external competitiveness
  - Exploiting Madagascar's potentialities
- Business environment;
  - Improving market competition
  - Facilitating access to credit
  - Adopting efficient strategies for key sectors
  - Solving land tenure problems
- Governance;
  - Strengthening anti-corruption programmes
  - Improving public spending management
  - Reinforcing private-public-partnerships and promoting dialog with civil society.

Appendix

Basic Data on Madagascar

Area: 581,540 square kilometers
Population:

Total: 16.9 million (2004)
Population growth (annual percentage): 2.8
Life expectancy at birth (years): 55.5

GDP per capita (World Bank Atlas method): USD 251 (2004)

Table 19: Basic Data on Madagascar

Year	Population	Nominal GDP	GDP per head	Import	Export
1997		9,025		4,7465	2,9502
1998	.	10,1775		0,6005	3,2152
1999	14,650	11,6775		5,3567	2,6034
2000	15,085	13,4425	257	7,7495	4,9875
2001	15,529	14,9225	308	9,3573	3,1215
2002	15,981	15,02	280	6,9078	2,8551
2003	16,441	16,9425	298		

Sources: Malagasy authorities.

Madagascar's Macroeconomic Indicators (1995-2004)

Table 20: Main Economic Indicators

	1999	2000	2001	2002	2003	2004
National acounts	(In billions of Ariary)					
GDP at current prices	4,676	5,248	5,969	6,008	6,779	8,156
GDP at constant 1984 prices	445	466	494	432	474	499
	(Annual percentage change at 1984 prices)					
GDP at market prices	4.7	4.7	6.0	-12.7	9.8	5.3
Primary sector (at factor cost)	3.5	1.0	4.0	-1.3	1.3	3.1
Secondary sector (at factor cost)	4.3	7.1	7.5	-20.7	14.5	6.6
Tertiary sector (at factor cost)	5.5	5.0	6.2	-15.0	10.6	6.0
	(In percent of GDP)					
Consumption	93.1	92.3	84.7	92.3	98.2	88.9
Gross domestic investment	14.9	15.0	18.5	14.3	3.6	27.5
Gross domestic savings	6.9	7.7	15.3	7.7	1.8	11.1
Current account balance[1]	-5.4	-5.6	-1.3	-6.0	-6.0	-8.0
Price movements	(Annual percentage change)					
GDP deflator	9.8	7.1	7.3	15.3	2.8	14.3
Consumer price index (traditional basket) [2]	14.4	9.9	4.8	13.4	-0.8	27.0
Government finance	(In billions of Ariary)					
Current revenue and grants	702.0	802.9	838.1	610.6	1,045.0	1,653.4
Current expenditure	435.0	503.6	616.3	621.9	771.7	1,027.3
Capital expenditure	323.2	367.8	436.2	289.2	531.5	1,018.0
Overall balance on a cash basis (deficit -)	-116.6	-177.6	-264.4	-372.6	-324.4	-463.8
Net domestic financing	49.3	76.8	116.2	144.5	119.3	-84.6
Of which: domestic banks (net)	33.4	0.5	93.7	144.4	8.8	-215.6
	(In percent of GDP)					
Overall deficit, commitment basis, excluding total grants	-6.4	-6.8	-8.2	-7.7	-9.3	-13.1
Overall balance on a cash basis, including grants (deficit -)	-2.8	-3.1	-4.3	-5.5	-4.2	-4.9
Money and credit	(In billions of Ariary)					
Foreign assets (net)	342.3	401.3	514.2	475.6	545.0	953.3
Domestic credit Claims on the Government (net)	312.1	312.7	409.6	541.4	615.7	403.8
Claims on the economy	391.1	483.0	555.7	560.3	604.1	834.6
Broad money	996.9	1,183.4	1,471.5	1,575.6	1,704.6	2,096.1

	1999	2000	2001	2002	2003	2004
Domestic credit	(Annual percent change)					
Claims on the Government (net)	17.7	0.2	31.0	32.2	13.7	-34.4
Claims on the economy	7.0	23.5	15.0	0.8	7.8	38.2
Broad money	19.5	18.7	24.4	7.1	8.2	23.0
Balance of payments	(In millions of SDRs, unless otherwise indicated)					
Exports, f.o.b.	425.9	628.6	757.9	375.0	672.8	646.4
Imports, f.o.b	-548.2	-707.6	-746.3	-411.4	-808.7	-949.6
Trade balance	-122.3	-79.0	11.6	-36.4	-135.9	-303.2
Services (net)	-94.8	-131.1	-126.8	-134.4	-215.3	-177.3
Of which : interest payments due	-39.5	-44.3	-41.4	-44.7	-40.7	-42.2
Unrequited transfers (net)	93.9	102.6	114.7	74.2	216.4	222.7
Private transfers (net)	68.8	77.1	89.7	68.0	114.4	109.9
Public transfers (net) [3]	25.1	25.5	25.0	6.2	102.0	112.8
Current account balance In percent of GDP [4]	-5.7	-5.5	-1.7	-4.4	-4.9	-10.6
Capital transfers	135.9	119.7	179.5	70.2	165.3	287.3
Of which : drawings	71.3	85.6	87.2	120.3	121.0	203.9
amortization	-77.1	-71.7	-68.7	-72.1	-73.4	-68.2
direct investment	42.7	52.9	73.1	6.4	9.1	30.0
Overall balance	-9.9	-93.9	19.5	-99.5	-26.4	-24.2
Debt relief and cancellation	40.8	59.6	55.8	57.9	47.8	43.7
IMF (net)	9.7	34.2	21.4	8.7	5.8	29.5
Arrears (reduction -)	3.1	5.8	1.6	1.5	-9.5	0.0
Reserves (net) (increase -)	-43.7	-5.7	-98.3	31.4	-17.8	-49.1
Gross official reserves[5]	9.8	10.2	14.3	19.2	11.9	11.7
Outstanding external debt [6]	2,948.6	3123.9	3132.4	…	…	…
Exchange rates (period averages) Arrears per SDR	1,717.2	1,790.2	1,678.2	1,754.9	1,734.8	2,772.1
Arrears per USD dollar	1,256.2	1,357.4	1,318.3	1,318.5	1,240.6	1,870.8

Table 21: Other Macroeconomic Indicators

	1995	1996	1997	1998	1999	2000	2001	2002	2003
GDP (% change)	1.7	2.1	3.7	3.9	4.7	4.8	6.0	-12.7	9.8
CPI Inflation (%)	49.0	19.8	4.5	6.2	9.9	11.9	7.4	15.8	0.2
Investment rate (% GDP)	10.9	11.6	12.8	14.8	14.9	15.0	18.5	14.3	16.0
Private investment rate (% GDP)	5.2	5.0	6.3	6.9	8.0	8.3	11.2	9.4	10.2
National savings rate (% GDP)	-3.3	-0.1	0.8	-0.6	2.6	2.7	9.9	3.3	5.3
Real effective exchange rate (% GDP)	42.4	53.9	48.5	48.9	47.6	52.4	57.8	62.5	65.6
Fiscal bal., incl. Grants (% GDP)	-8.0	-11.6	-5.6	-9.0	-5.7	-5.7	-6.8	-6.8	-5.5
Current account balance (% GDP)	-8.4	-5.0	-5.5	-7.4	-5.4	-5.6	-1.3	-6.2	-4.9
Domestic debt	11.0	9.7	9.6	12.0	11.7	..	..	14.1	13.9

Source: Live Database and IMF, HIPC Prelim Document & Fifth Review of PRGF

Fiscal Indicators

Table 22: Budgetary Revenue, 1999-2004

						(in billions of Ariary)
	1999	2000	2001	2002	2003	2004
Tax revenue	515.9	594.5	581.3	460.8	678.5	887.1
Taxes on net income	79.6	93.5	118.9	105.5	114.2	159.5
Companies	41.4	47.3	60.3	43.1	53.4	69.6
Individuals	25.8	30.6	40.7	41.8	45.6	61.2
Tax on income (IRNS)	21.2	5.4	7.6	7.5	9.6	12.1
Tax on wages and salaries (IRSA)	4.6	25.3	33.2	34.3	36.0	49.1
Other	12.4	15.6	17.9	20.6	15.1	28.7
Taxes on property	5.0	6.2	6.8	5.4	8.4	11.5
Taxes on goods and services	132.3	173.0	160.8	137.9	207.4	265.0
Value-added tax (VAT)	77.8	102.6	105.1	85.6	118.2	173.2
Excises	25.6	31.9	22.1	20.5	35.6	37.1
Fiscal monopoly profits	22.2	35.8	31.2	23.8	41.7	41.3
Other	6.7	2.7	2.5	8.1	11.9	13.4
Taxes on foreign trade	296.2	318.2	290.4	208.7	342.6	444.9
Import duties	296.2	318.2	290.4	208.7	342.6	444.9
Customs duty	29.7	24.7	23.3	12.6	26.3	29.2
Fiscal duty	52.9	48.1	46.3	32.6	53.1	77.5
VAT on imports	124.8	142.3	144.5	91.6	156.2	186.0
Petroleum products	67.9	79.5	65.0	58.9	73.3	136.4
Other	20.9	23.5	11.4	12.9	33.7	15.8
Other taxes	2.8	3.6	4.3	3.2	5.8	6.3
Nontax revenue	17.4	19.1	24.6	19.8	20.4	95.2
Budgetary revenue	533.3	613.5	605.8	480.6	698.9	982.3

Source: Ministry of Economy, Finance, and Budget.

Table 23: Fiscal Indicators

	(percent of GDP)				
	1990-95	1996-00	2001	2002	2003
Total revenue and grants	12.8	14.5	14.0	10.2	15.4
Total revenue	9.8	10.4	10.1	8.0	10.3
- Tax revenue	7.9	10.0	9.7	7.7	10.0
Grants	3.0	4.0	3.9	2.2	5.1
Total expenditure	19.6	17.2	17.6	15.7	19.5
- Current expenditure	12.8	10.1	10.3	10.3	11.4
- of which interest	4.0	3.0	2.0	2.2	2.2
- Capital expenditure and net lending	6.8	7.1	7.3	5.3	8.3
Overall balance Including grants	-6.9	-2.7	-3.6	-5.5	-4.1
Excluding grants	-9.9	-6.8	-7.5	-7.7	-9.2
Primary balance	1.3	3.7	1.8	-0.2	1.1
Financing	6.9	4.0	4.4	6.2	4.8
Domestic	3.4	1.0	1.9	2.4	1.8
Foreign	3.5	2.9	2.1	3.6	2.8
Privatization receipts	0.0	0.1	0.3	0.2	0.2

Source: World Bank, Live Data Base; IMF, 5 th PRGF Review

Central Government Financial Operations, 1999-2004

Table 24: Central Government Financial Operations

	(In billions of Ariary)					
	1999	2000	2001	2002	2003	2004
Total revenue and grants	702.0	802.9	838.1	610.6	1,045.0	1,653.4
Total revenue	533.5	613.5	605.8	480.6	698.9	982.3
Budgetary revenue	533.5	613.5	605.8	480.6	698.9	982.3
Of which : tax revenue	516.0	594.4	581.3	460.8	678.5	887.1
Extrabudgetary and capital revenue	0.0	0.0	0.0	0.0	0.0	0.0
Grants	168.5	189.3	232.3	130.0	346.1	671.1
Current grants	34.4	35.8	85.5	49.9	171.9	318.7
Project grants	134.1	153.6	146.8	80.1	174.2	352.4
Total expenditure	758.2	871.4	1,052.5	941.9	1,324.4	2,045.3
Current expenditure	435.0	503.6	616.3	621.9	771.7	1,027.3
Budgetary expenditure	434.5	453.9	600.2	556.2	751.6	896.9
Personnel	200.1	227.1	267.5	276.0	365.4	400.0
Other noninterest expenditure	135.8	152.4	214.3	148.3	236.1	257.4
Foreign interest obligations	65.0	26.3	69.8	81.5	60.6	113.9
Domestic interest obligations	33.6	48.2	48.6	50.4	89.5	125.5
Treasury operations (net) 1	0.5	41.5	10.9	40.4	12.1	128.6

	1999	2000	2001	2002	2003	2004
Emergency expenditure 2	0.0	8.1	5.0	24.4	7.1	0.0
Counterpart funds-financed operations	...	0.0	0.3	0.8	0.9	1.8
Capital expenditure	323.2	367.8	436.2	289.2	531.5	1,018.0
Domestic financing	85.9	130.9	188.5	111.9	172.3	229.5
Foreign financing	237.3	237.0	247.7	177.2	359.2	788.5
Net cost of structural reforms	-73.9	-96.5	-44.6	1.2	-3.9	-8.8
Exceptional revenue	9.1	3.5	2.3	1.2	1.2	1.2
Cost of structural reforms	83.1	100.0	46.9	0.0	5.1	10.0
Overall balance (commitment basis) Including grants	-130.1	-165.0	-259.0	-330.1	-283.4	-400.6
Excluding grants	-298.6	-354.4	-491.3	-460.2	-629.5	-1,071.7
Change in arrears	13.5	-12.6	-5.4	-42.5	-41.0	-63.2
Total overall balance (cash basis, including grants)	-116.6	-177.6	-264.4	-372.6	-324.4	-463.8
Financing	116.6	177.6	264.4	372.6	324.4	463.8
Foreign (net)	57.0	91.5	127.4	218.8	191.6	518.2
Drawings	103.1	90.1	144.7	230.0	249.3	579.3
Budget	...	6.7	43.7	132.9	64.3	143.2
Projects	...	83.4	100.9	97.1	185.0	436.1
Amortization due	-121.5	-57.6	-116.2	-116.6	-126.9	-188.5
Change in external arrears	5.5	-9.9	-13.6	0.0	-13.5	0.0
External debt relief	69.8	68.9	0.0	0.0	82.6	127.4
Domestic (net)	49.3	76.8	116.2	144.5	119.3	-84.6
Banking system	33.4	0.5	93.7	144.4	8.8	-215.6
Nonbanking system	15.9	23.8	22.5	-14.4	84.5	107.9
Privatization receipts	10.4	9.3	20.8	9.3	13.5	30.2

Sources: Ministry of Economy, Finance, and Budget ; and Fund staff estimates.

Table 25: Variation of Consumer Surplus

Products	Code SH96	Variation of consumer surplus
Wheat meal	110100	187.74
Maize meal	110220	15.02
Fruit in conservation cans	200899	21.37
Drink preparations	210690	81.62
Water, mineral water with various aromas	220210	166.49
Beer of malt in a 1 litre bottle	220300	14.81
Mixture of odoriferous substances for the alimentary industry	330210	14.4
Toothpaste	330610	18.91
Soap and other hygienic products	340111	12.64
Soap and organic products	340119	18.28
Sacs, bags made of plastic material	392329	36.96
Other works of plastic, forms of shoes	392690	21.66
New tyres for tourist vehicles	401110	12.34
New tyres for busses	401120	14.23
Newspapers in rolls/sheets	480100	62.89
Paper and carton in form of sheets	481920	35.18
Paper and carton in form of sheets	482020	16
Fabric of interlaced yams	600292	1241.43
T-Shirts, swimsuits made of cotton	610910	61.08
Jerseys, pullovers, cardigans, coats made of cotton	611020	15.56
Trousers, breeches, overalls of cotton	620342	18.88
Other furniture made of textiles	630499	12.23
Iron/steel constructions	730890	45.88
Fences made of iron/steel, wire netting	731449	13.95
Refrigerators	841822	14.31
Electric conductors for a voltage<80V but> 1000V	854459	11.44
Furniture made of plastic	940370	14.03
Prefabricated buildings	940600	71.34

Source: Laporte et Ramilison (2005)

Table 26: Millenium Development Goals Indicators

	1990	1995	2000	2001	2002	2003	2004
1. Eradicate extreme poverty and hunger 2015 target = halve 1990 USD 1 a day povertyand malnutrition rates							
Population below 1USD a day (%)			49,1				
Poverty gap at USD 1 a day (%) (Available indicator, Gini Coefft.) Percentage share of Income or consumption held by poorest 20%			18,3				
Prevalence of child malnutrltion (% of children under 5)	40.9	34.1		33,1			
Population below minimum level of dietary energy consumption (%)	35	40	36				
2. Achieve universal primary education2015 target = net enrolment to 100							
Gross primary enrollment ratio (% of relevant age group)		60.6	72,9	67	70	82	84
Percentage of cohort reaching grade 5 (%) (estimated) Youth literacy rate (% ages 15-24)	21.5	39.7		33.6			
3. Promote gender equality 2005 target = education ratio to 100							
Ratio of girls to boys in primary and secondary education (%)	98.9	99.2					
Ratio of young literate females to males (% ages is 24)	85.8	88.8		92.1	92.5		
Share of women employed in the nonagricultural sector (%)	26				48.8		
Proportion of seats held by women in national parliament (%)		4					
4. Reduce child mortality 2015 target = reduce 1990 under 6 mortality by two-thirds							
Under 5 mortality rate (per 1,000)	168	156		139	136	141	
Infant mortality rate (per 1,000 live births) Immunization, measies	103	95		86	84		
(% of children under 12 months)	47	55		55	61		
Maternal mortality ratio (modeled estimate, per 100,000 live births)				550		421	353
Births attended by skilled health staff (% of total)	57	47.3				46.2	
5. Combat HIV/AIDS, malaria and other diseases 2015 target = half, and begin to reverse AIDS							
Prevalence of HIV, female (% ages 1524)				0.2		1.1	
Contraceptive prevalence rate (% of women ages 15-49)	16.7	19.4			19		
Number of children orphaned by HIV/AIDS				6300			
Incidence of tuberculosis (per 100,000 people)				251	233		
Tuberculosis cases detected under DOTS (%)		65		60	61.6		
6. Ensure environmental sustainability 2015 target							
Forest area (% of total land area)	22.2					20.4	20.4
Nationally protected areas (% of total land area)		1.9				2	10.2
GDP per unit of energy use (PPP USD per kg oil equivalent) C02 emissions (metric tons per capita) Access to improved water source (% of population) (treated water)	44			47			
Access to improved sanitation (% of population)	36			42			
7. Develop a Global Partnership for Development 2015 target							
Youth unemployment rate (% of total labor force ages 15-24)					7.1		
Fixed line and mobile telephones (per 1,000 people)	2.8	3		13.3	22.6	23.3	
Personal computers (per 1,000 people) (% hhs equipped)		1.5		2.4	4.4		

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Deepening Integration in SADC

Madagascar – Challenges for the Newcomer

Part: 2

Perceptions of Business and Non-State Actors in Madagascar

List of Tables

List of Abbreviations and Concepts

COMESA :	Common Market for Eastern and Southern Africa
EU :	European Union
FTA :	Free Trade Area
SACU :	Southern African Customs Union
SADC :	Southern African Development Community
USD :	Us dollar Currency

Executive Summary

The aim of this study is to report, through surveys, the perceptions of businesses and Non-State Actors of Madagascar about deepening integration in SADC. From the point of view of businesses, at this time, competition from Asia is the most fearsome, while South Africa is still a potential competitor of Malagasy goods. 50.5% of companies agree strongly, while 32.4% agree that regional integration within SADC will benefit the economy in general. Six in nine non state actors have the same opinion. Unfortunately, excluding the domestic market, EU, Asia, and USA or South Africa, the business climate in foreign markets (like in SADC members) is unknown.

The most frequently mentioned as very relevant or relevant barrier to international trade is customs tariffs currently employed. Sanitary and phyto-sanitary regulations, lack of information about foreign markets, visa requirements for traveling abroad were respectively regarded as most relevant, second most relevant or third most relevant barrier to international trade.

Small firms are more convinced that integration within SADC will increase competition on the domestic market. Of these, 68.2% agree with this statement. On the other hand, a majority of large firms have an opposite view or no idea; they feel confident that their business activities are safe from SADC competition.

Even though Madagascar will benefit from regional integration, businesses and Non-State Actors do not want regional integration to go further than Free Trade Agreement. While a majority of companies agree with tariff reduction within SADC, or removal of all trade restrictions within SADC, reject or have no idea when it comes to a common external tariff, removal of restrictions on the free movement of capital, labor, services within SADC, the implementation of the same level of taxes within SADC and, the single creation of a currency.

Resumé Executif

Dans le cadre d'une étude entreprise par le NEPRU (The Namibian Economic Policy Research Unit) relative à l'impact sur l'économie des pays membres d'un approfondissement de l'intégration à la SADC, un partenariat a été établi entre le NEPRU et le CREAM par l'entremise de la FES (Fondation Friedrich Ebert) pour la réalisation d'un certain nombre d'analyse, dont une concernant la perception par le milieu des affaires et des acteurs non étatiques malgaches de l'approfondissement de l'intégration à la SADC. Pour ce faire, l'étude a requis au préalable, la réalisation de deux enquêtes, l'une auprès d'opérateurs économiques, l'autre auprès de représentants des acteurs non étatiques. A ce titre, le présent rapport se veut être le document d'analyse des enquêtes réalisées.

Pour ce qui est de l'enquête sur la perception du milieu des affaires, elle a été basée sur un questionnaire proposé par NEPRU. L'échantillon est composé d'une centaine d'entreprises réparties dans deux localités: Antananarivo et Toamasina à raison respectivement de quatre cinquième et un cinquième d'entreprises pour chacune d'elles. Les trois secteurs d'activités qui sont le primaire, le secondaire et le tertiaire ont été pour ce faire concernés, avec toutefois une certaine prépondérance du secteur secondaire qui a priori s'avère le plus vulnérable à la concurrence extérieure.

Le choix de faire l'enquête dans la ville de Toamasina d'une part répond, au souci d'appréhender la perception de ceux qui ne se trouvent pas dans la capitale (où le débat sur l'intégration régionale est censé être le plus animé), et d'autre part pour amoindrit le coût de la collecte en ce sens qu'après Antananarivo, Toamasina est la plus industrialisée de toutes les localités et qui a un tissu économique le plus développé.

L'échantillon de 100 entreprises a été tiré du « fichier des établissements » de l'INSTAT (Institut National Malgache de la Statistique), par un sondage par « quota », selon les critères suivants:

- La forme juridique (Entreprise individuelle, Société Anonyme, Société A Responsabilité Limitée) ;
- La branche d'activité ;
- Une représentativité pour la localité choisie.

La taille définitive de l'échantillon a été choisie de façon à ce que les effectifs dans les sous échantillons soient proportionnels à la répartition des entreprises par branche d'activité et par forme juridique. Un ajustement a été toutefois effectué pour les groupes à très faible effectif.

L'enquête auprès des acteurs non étatiques de l'intégration à la SADC prévue pour se faire auprès d'un échantillon de 10 unités d'observations, n'a recueillie faute de temps que des informations auprès de 9 unités d'enquête. Les unités enquêtées sont les syndicats des travailleurs, les groupements patronaux et autres organisations de la société civile.

L'enquête auprès du milieu des affaires ainsi que celle auprès des acteurs non étatiques ont été menées simultanément de la dernière semaine d'Août 2005 à la troisième semaine de septembre 2005, soit approximativement sur 20 jours ouvrables.

Avec les précautions d'usage, dans l'interprétation des résultats, force est de constater que les enquêtes menées ont révélés des renseignements particulièrement intéressants. Ces renseignements peuvent être classés différemment. Il y a en qui vont dans le sens de ce que toute personne connaissant l'économie malgache imagine déjà. D'autres par contre doivent leur originalité : ils vont en contre sens de l'entendement, de ce qui est préconisé, ou pourrait être proposé dans le processus d'intégration à la SADC. A cet effet, ils sont révélateurs d'une position malgache se démarquant de l'avis du reste de la communauté SADC. Certains renseignements cristallisent pour leur part la divergence de points de vue entre d'une part le milieu des affaires et les acteurs non étatiques. Enfin en certains cas, la position du milieu des affaires ou celle des acteurs non étatique s'avère déterminante pour le gouvernement dans son choix, quand l'une de ces deux populations enquêtées reste dubitative sur le sujet posé.

Ainsi, au titre des résultats qui apportent des éclairages, ou précision sur ce qui est déjà pressenti sur l'économie malgache on note que :

- Actuellement, c'est en provenance de l'Asie et de l'Union Européenne que l'on rencontre sur le marché intérieur une concurrence modérée à forte. Seules 37,2% des entreprises (respectivement 48,1%) ne se sentent pas directement concurrencées par les produits en provenance de l'Asie (respectivement de l'Union Européenne);

- Le climat des affaires en Afrique du sud ou, dans les pays de la SADC est très méconnu par le patronat malgache, ainsi 42,3% des patrons enquêtés n'ont aucune idée du climat des affaires en Afrique du Sud;
- Les principales contraintes relevées pas le milieu des affaires aux échanges sont celles qui relèvent avant tout soit des procédures administratives malgaches (comme le temps alloué aux procédures douanières, le tarif douanier actuellement appliqué) soit de l'économie malgache (fluctuation du taux de change);
- Le milieu des affaires est globalement favorable à l'intégration régionale en général, et à la SADC en particulier. Toutefois, les dirigeants d'entreprise, sont dans une majorité relative (45,6%), modérément favorables à l'intégration. Ce qui signifie qu'à défaut de pouvoir contrecarrer au cours de l'histoire (la décision d'intégration étant avant tout politique), le patronat souhaiterait poser des préalables, des conditions à l'intégration;
- L'intégration à la SADC est relativement plus plébiscitée que celle au COMESA, le choix pouvant ici être influencé par la relative richesse du débat sur l'intégration à la SADC qu'au COMESA. 77,5% des entreprises enquêtées sont favorables à l'intégration à la SADC contre 63,4% au COMESA;
- La montée de la concurrence, comme une implication de l'intégration à la SADC, est beaucoup plus redoutée par les entreprises de taille modeste (68,2% d'entre elles partagent cette appréhension) que par leurs homologues de grande taille (48,7% redoutent la concurrence);
- Seule une minorité (soit 6,7% de toutes les entreprises enquêtées et 14,3% de celles de la manufacture) redoute la compression du personnel, voire la fermeture définitive de l'entreprise à cause de l'intégration à la SADC. Le résultat ici renvoie à la question des produits sensibles, qui doivent encore jouir d'une mesure de sauvegarde, (par essence, les produits sensibles ne doivent constituer qu'une minorité de biens produits localement, et donc ne doivent concerner qu'une minorité des activités économiques existantes dans le pays);

- Seule une proportion marginale (17,1%) des dirigeants d'entreprise est convaincue que l'adhésion à la SADC ne profitera pas à l'économie malgache en général.

Pour ce qui est des résultats qui peuvent aller en contre sens de l'entendement, de ce qui est préconisé, ou pourrait être proposé dans le processus d'intégration à la SADC:

- Il y a relativement plus de dirigeants d'entreprise favorables à la réduction des tarifs douaniers au sein de la SADC (soit 78,4%), qu'à l'abolition de toutes barrières tarifaires et non tarifaires au sein de la SADC (soit 56,9%). Cette tendance est aussi observée chez les acteurs non étatiques, aussi il convient de se demander si Madagascar ne souhaiterait pas beaucoup plus un tarif préférentiel avec les pays de la SADC qu'une zone de libre échange avec cette communauté économique;
- Madagascar n'adhérerait pas à une création d'une union politique avec les pouvoirs législatif et exécutif, car si plus de la moitié (soit 51%) des dirigeants d'entreprise enquêtés sont restés dubitatifs sur le sujet en n'observant pas une position catégorique, l'avis des acteurs non étatiques est tranché, la majorité absolue d'entre eux (soit 5 sur 9) rejetant cette idée;
- Alors que le pays se trouve être parmi les plus pauvres au sein de la SADC et donc a un des plus faibles revenus du travail, seule une minorité des patrons (25,5%) et des acteurs non étatiques (un sur neuf) est favorable à la libre circulation de la main d'œuvre au sein de la communauté économique.

Certaines informations rapportées par les deux enquêtes pointent du doigt les lacunes qui handicapent actuellement le milieu malgache des affaires face au défi de la régionalisation, ainsi relève-t-on que:

- Il y a relativement plus de dirigeants d'entreprise, à cause de l'intégration, qui considèrent comme probable d'importer plus des pays de la SADC (47,1% d'avis dans ce sens), que d'exporter davantage vers les pays de la SADC (32,7% en sont convaincus), ainsi a priori la balance malgache des échanges avec la SADC sera déficitaire mais ce qui frappe surtout sur la question c'est le sentiment de se faire battre dans la conquête des marchés des pays de la SADC;

- Peu d'entreprises (soit 29,1%) considèrent comme probable l'établissement de partenariat ou joint venture avec une unité des pays de la SADC, ce qui dénote un certain repli sur soi-même, une telle attitude peut être préjudiciable en cette ère de mondialisation.

Dans le registre des résultats qui soulignent combien le point de vue d'une population conduirait Madagascar à aller en profondeur dans l'intégration à la SADC on note que :

- Face à une position largement expectative du milieu des affaires (avec 50% des entreprises qui n'ont pas d'idée sur le sujet débattu), c'est l'avis des acteurs non étatiques qui pousserait le gouvernement malgache à adopter une politique commerciale et sur la concurrence identique pour tous les pays de la SADC, car 7 sur 9 d'entre eux sont pour l'établissement d'une politique commerciale et concurrentielle commune au sein de la SADC ;
- De la même façon, c'est auprès des acteurs non étatiques que le gouvernement malgache pourrait trouver un soutien pour une décision d'instaurer de niveaux de taxation identique à ceux de tous les pays de la SADC. Six sur neuf d'entre eux approuvent cette idée alors que l'avis est très partagé dans le milieu des affaires avec la répartition en trois groupes sensiblement équilibrés de pour, de contre et de sans opinion.

Pour conclure, les quelques faits qui résument les renseignements apportés par les enquêtes sont:

- Avant tout un avis favorable mais modéré à l'intégration à la SADC, la position ici est accompagnée d'une appréhension, qui découle d'une certaine introversion;
- Ensuite, il y a les mesures devant être prises dans le processus d'intégration à la SADC. Celles-ci ne correspondent pas toujours aux aspirations du milieu des affaires ou des acteurs non étatiques ;
- Puis il y a l'introversion, ce repli sur soi, ou encore la déconnexion avec le marché de l'Afrique australe qui ne sont pas dus toutefois uniquement aux relations privilégiées avec l'Union Européenne, on déplore par ailleurs le déficit en communication sur les marchés potentiels dont ceux de la SADC, mais aussi sur le débat sur l'intégration régionale qui expliquent ces faits.

1 Introduction

For the time being, the best thing to do in the face of globalisation and its challenges is to join a regional integration. In this issue, Friedrich Ebert Foundation (FEF) in close consultation with SADC Secretariat aims to solicit ideas on the impact of SADC integration, by financing two kinds of country studies among all members of SADC. The first analysis focuses on the impacts of macroeconomic policies, while the second one relates, through surveys, the perception of businesses and civil society on regional integration. Given the fact that Madagascar recently to joined SADC, its country study was also scheduled, and CREAM was named by FEF to carry out the country study.

The present document focuses only on the perceptions of businesses and non state actors on regional integration. It seeks to know whether or not there is a specific position taken by the business and civil society in Madagascar which should be taken into account for the success of SADC integration. Through this study, it is now possible to make a better assessment of the opinions of business and civil society (in Madagascar) with regard to regional integration. Prior to this study, joining regional integration was seen as a mere political decision. Furthermore, the study allows us to judge which organisation between SADC integration and COMESA integration suits our economy.

The report is structured as follows: after the introduction, the first chapter which is entitled 'Characteristics of companies and non state actors' describes the sample for our survey, and gives characteristics of companies such as share of total turnover, relevance of competition from foreign companies. The second chapter deals with 'Perception of integration within SADC' it focuses on perceptions of integration, by analysing, for example, how companies rate effects of regional integration within SADC such as reduction of unemployment rate, increasing competition on the domestic market, and the relevance of barriers such as customs tariffs currently employed, exchange rate uncertainty, time consuming customs procedures. The third chapter entitled 'Debate on integration within SADC' gives an overview of how far the stakeholders would like regional integration to go and their opinions on regional integration. The last chapter attempts to draw some conclusions.

Methodology

The surveys were carried out from mid-August 2005 to mid-September 2005 in Antananarivo and Toamasina for business perception and in Antananarivo only for Non-State Actors' perceptions. Questionnaires used for these surveys were in French, translated from the coded questionnaires designed by NEPRU. The terms of reference required a sample of 30 businesses and 10 Non-State Actors. In fact, we decided to carry out the survey businesses using a sample of 100 companies (105 respondents exactly). In this way, we got more robustness of data collected, and this allowed us to analyse the data according to economic sector (e.g. manufacturing) or size of firm.

The 'establishments file' (a list of registered companies operating in Madagascar) of Malagasy Institute of Statistics, was used as sampling frame in designing the sample of businesses. The survey was a quota sampling. The unit of interest was selected according to following criteria:

- Economic sector ;
- Locality ;
- Legal form of the firm (society versus company belonging to only one owner).

With respect to the Non-State Actors, we did not succeed in getting information from more than 9 respondents because of delay in responding.

A French version of this report has been available since December 2005. It may be used for public debate in Madagascar.

Organisation of the Study

Sampling design, data capturing and encoding were done by a team led by Eric Rakotomanana, a Statistician at the Malagasy Institute of Statistics, while analysis of surveys, writing of the report (French and English versions), and translation into French of the NEPRU questionnaires were done by Eric Norbert Ramilison, Economist Researcher at CREAM (Malagasy Economic Research Centre), an organisation which also coordinated the perception study.

2 Characteristics of Companies and Non-State Actors

2.1 Characteristics

A total of 105 companies were selected for the survey. 1 agriculture company, 2 in fishing, 3 in mining, 30 in manufacturing, 4 in construction, 45 in wholesale & retail trade, 10 in transport and communication, 5 in financial services (bank, insurance) 3 in tourism, and 2 in transit. Of the companies in the sample 30.5% had a total number of employees not exceeding 5, 15.2% had at least 100 employees, and 22.8% had more than 50 employees.

Among the sampled companies, 54 of them (51.4% of the sample) began their businesses 11 years ago, while 15.2% had been in operation for 2 years. So the remaining 33.4% started their businesses between 2 and 10 years ago.

Most of the companies in the sample were from the private sector, 101 out of 105. There were only two companies from the parastatal sector and two others from private-public partnership. Twenty companies were in Toamasina, the second largest city in Madagascar where the main harbour is located, whereas 85 companies come from Antananarivo, the capital of the country.

The sample of Non-State Actors was made up of one organised labour, two organisations of employers, two industry associations, three professional associations, and finally two civil society organisations. Three out of the nine Non-State Actors interviewed were members of SADC national committee, while 6 were involved in designing domestic policies. But only 1 was a member of a regional umbrella organisation.

Non-State Actors in our sample can contribute to the debate on integration of Madagascar into SADC given the fact that 5 in 9 of them regularly attended workshops or seminars discussing regional integration.

Table 1: Distribution of Companies by Turnover and Value of Imports and Exports in Percentage

	Value in US dollars				
	<25,000	25,000 to 50,000	50,001 to 100,000	>100,000	Total
Turnover	17.1	18.1	23.8	41.0	100
Imports from within SADC	86.7	7.6	2.9	2.8	100
Imports from outside SADC	69.5	10.5	12.4	7.6	100
Exports to other SADC countries	94.2	1.9	1.0	2.9	100
Exports to countries outside SADC	87.6	4.8	1.9	5.7	100

Source : FEF-NEPRU/CREAM survey, calculation of the author.

The sample for the business survey contained big companies. 41% of them had annual turnovers exceeded USD 100,000. A majority of these, however, import few products from SADC. For 86.7% of the companies, annual importation from SADC is less than USD 25,000. The percentage of those who import less than USD 25,000 per annual decreases to 69.5% when origin is outside SADC.

At the same time, few companies export to SADC countries. For 94.2% of the companies, annual exportation to SADC countries is less than USD 25,000 while 87.6% of them export to countries outside SADC.

One of the things that are evident from this information is that Madagascar is poorly connected to world wide trade. But at the same time one should admit that trade relations outside SADC are more relevant.

Among the 105 companies in the business survey sample, 21 export all or a part of their products. Among the various export destinations only 6 were identified by the 21 exporting companies: Mauritius, South Africa, European Union, Asia, the USA and the rest of the world (excluding the rest of AFRICA see Table 2).

EU was the most mentioned destination of exportation. This economic community was identified as the main destination of exportation of 10 out of 20 one companies, and as the second main destination of 6 companies by 15 respondents, and the third main destination of 2 companies among 7 of those who had at least 3 different destinations of exportation.

Table 2: Main Destination of Exportation

Destination	1rst destination	2nd destination	3rd destination
Mauritius	2	1	0
South Africa	0	1	0
European Union	10	6	2
Asia	3	2	2
USA	2	4	2
Out of EU, USA, Asia, SADC	4	1	1
Number of respondents	21	15	7

Source : FEF-NEPRU/CREAM survey, calculation of the author.

Only one company regarded South Africa as its second main destination of exportation. There were more companies exporting to Asia, USA and to Mauritius than to South Africa. In fact exporting to Asia or to the USA was more prominent than to the SADC region.

For all the companies interviewed, trade in the domestic market was the most prominent. It represented 89.5% of total sale. This result shows how much economic activities depend on domestic demand, and, on the other hand, how much integration into SADC will expand the market and make business profitable for Malagasy.

Finally, only 5 companies among the 105 had at least 3 destinations of exportation. For them, the share of sale was as follows: 23.0% for the domestic market, 46.0% for the first destination of exportation, 16.6% for the second and 14.4% for the third destination of exportation. We notice in the present case that exportation is more important than domestic sale. This fact characterised all the 17 exporting companies.

2.2 Sources of Competition

From which country or group of countries is competition on the domestic market more fierce? For this question, foreign competition was divided into 8 origins: from South Africa, SACU without South Africa, other SADC countries excluding SACU, Rest of Africa, EU, Asia, the USA, the rest of the world and unknown origin. Two origins were very noticeable from the data because few manages stated that their firms were not facing competition from these origins: EU and Asia. Only 21.9% of the managers thought that their products on the domestic market are not in competition with equivalent goods coming from the EU while 17.2% did not see any competion coming from Asia.

For products from South Africa, SADC excluding SACU, the USA, the rest of the world, or for those with an unknown origin, the proportion of those who think that their products are not facing any competition from these origins was about 40%. Similarly 55.2% and 62.9% of the managers did not see any competition from the rest of Africa, SACU without South Africa respectively.

Table 3: Distribution of Companies According to Level of Competition from

Country	Yes strong	Yes, moderate	Yes, weak	No	Does not apply
Republic of South Africa	10.5	12.3	14.3	42.9	20.0
Botswana, Lesotho, Namibia, Swaziland	0.0	1.0	1.9	62.9	34.2
Other SADC excluding above mentioned	1.9	7.6	18.1	43.8	28.6
Rest of Africa	1.9	2.9	5.7	55.2	34.3
EU	16.2	31.4	14.3	21.9	16.2
Asia	31.4	24.8	6.7	17.2	20.0
USA	3.8	13.3	18.1	39.1	25.7
Rest of the World	1.0	4.8	3.8	42.9	47.6
Don't know country of origin of competitor	1.0	3.9	1.9	41.7	51.5

Source : FEF-NEPRU/CREAM survey, calculations by the author.

In fact, it is only for products from the EU origin or for Asian that we find a low percentage of managers asserting that competition from these origins does not apply to their products, or that their products are facing weak competition from the EU or Asia.

The proportion of companies whose products are not threatened by foreign competition or, are not surrounded by EU competition was 48.1%. But the equivalent percentage is less important: 37.2% when it is a question of Asian origin. So we can say for the time being that, competition from Asia is the most fearsome. 31.4% of the managers agreed that their products are facing strong competition from Asian goods. 16.2% noticed the same level of competition for goods made in the EU. Nevertheless, it is interesting to mention that 10.5% of the managers recognised that competition from South African goods is strong.

While moderate competition was mostly admitted (by 31.4% of the managers) for EU goods, weak competition was more noticed for American goods (a view taken by 18.1% of the companies), and South African goods (opinion of 14.3% of the managers).

According to this information, we can conclude that South Africa is still a potential competitor against Malagasy goods on the domestic market and the competition from Asia or EU is stronger. But the situation will probably change when the Free Trade Area (FTA) will be established within SADC.

In fact, relevance of competition of South African goods and services varied according to sector. For 1 in 5 manufacturing companies, South African competition was considered moderate, while only 9.2% of non manufacturing companies noticed the same level of competition. That means, with FTA, Malagasy factories will suffer more (than other sectors) from South African competition.

However, the situation seems to be similar, competition (here we do not distinguish between strong, moderate and weak) varied slightly according to the size of the company and the origin of competition.

- 64.1% of large firms (those which have at least 25 employees) and 60.6% of small firms (those which have less than 25 employees) are facing competition from EU goods;
- In contrast, Asian competition was noticed by 61.5% of large firms and 63.6% of small firms.

When we focus on strong or moderate competition, the difference in competition from the countries origin and according to the size of the firm suffering from it becomes clear. Small firms seemed of more affected by competition from Asian goods than large firms. 57.6% of the first and 53.8% of the second noticed strong or moderate competition of goods coming from Asia. On the other hand, while 43.9% of small firms are enduring strong or moderate competition from EU goods, more large firms: (53.8%) are relatively in the same situation. That means strong or moderate competition from EU is specific to large firms.

3 Perceptions of Integration Within SADC

3.1 SADC Integration and its Macroeconomic Effects

According to the opinion of 8 out of 10 managers, regional integration within SADC will benefit the economy in general. 50.5% of companies interviewed agreed strongly with this statement, while 32.4% agreed. Another 10.5% had no idea; so only 6.7% did not believe that integration within SADC will benefit the economy in general.

Non-State Actors, who can influence public opinion, expressed different views. However, the majority, 6 out of 9 agreed that integration within SADC will benefit the economy in general. 2 others had an opposite view while 1 had no idea.

A ranking can be done of the opinion of a majority of managers on the effect of integration within SADC. The indicator we used for this ranking was the percentage of those who agreed strongly or moderately with the statement. The majority of the respondents (70%) believed that apart from the benefits that the economy will gain in general, regional integration will provide opportunities for new investments. Most of the respondents also believed that integration will entail the following facts:

- Increase in competition on the domestic market;
- Reduction in prices of consumer goods;
- Positive impact on company's turnover;
- New export opportunities.

In fact, small firms were more convinced that integration within SADC will increase competition on the domestic market. A good number (68.2%) of them agreed with this statement while 48.7% of large firms had the same point of view. The majority of large firms did not believe or had no idea that integration within SADC will increase competition on the domestic market. They felt confident that their business activity will be safe from SADC competition.

According to 8 of the 9 Non-State Actors, integration within SADC will increase domestic market competition. Thus, compared to the companies, they are relatively more Non-State Actors who believe that competition on the domestic market will be inevitable.

All non state actors agreed moderately or strongly that integration within SADC will provide new export opportunities, and 9 out of 10 believed that this integration will provide new investment opportunities or will reduce prices of consumer goods.

Table 4: Distribution of Companies According to how they Rate Statement as Impact of Regional Integration Within SADC

Statement	Agree strongly	Agree	Disagree	Disagree strongly	Don't know
Increasing of competition on the domestic market	29.5	31.4	7.6	9.6	21.9
Reducing of prices of inputs	21.0	32.4	10.5	9.5	26.6
Reducing of prices of consumer goods	19.0	41.9	11.4	6.7	21.0
Result in increased efficiency of own company in order to stay competitive	16.2	27.6	13.3	6.7	36.2
Positive impacts on my company's turnover	22.9	37.1	18.1	3.8	18.1
Positive impacts on other domestic producers	12.4	32.4	19.0	1.9	34.3
Benefit the economy in general	50.5	32.4	4.8	1.9	10.5
Provide new export opportunities	28.6	34.2	4.8	3.8	28.6
Provide new investment opportunities	34.3	36.2	5.7	2.8	21.0
Reducing unemployment rate	11.4	25.7	23.8	9.6	29.5
Lowering costs of labor	7.6	6.7	29.5	22.9	33.3
Result in influx of immigrants	11.4	18.1	25.7	8.6	36.2
Enhancing human rights situation in the country	5.7	21.9	17.1	22.9	32.4
Reducing of political sovereignty of the country	6.7	4.7	18.1	36.2	34.3

Source: FEF-NEPRU/CREAM survey, calculations by the author.

According to the perceptions of business actors, the following things are unlikely to happen (we report between brackets the percentage of those who agree that the statement will occur):

- Positive impact on other domestic producers (44.8%);
- Increase efficiency of own company in order to stay in competition (43.8%);
- Reduce unemployment rate (37.8%);

- Result in influx of immigrants (29.5%);
- Enhance human rights situation in the country (27.6%);
- Reduce costs of labour (14.3%);
- Reduce political sovereignty of the country (11.4%);

The point of view of Non-State Actors was very strong on issues such as the enhancement of human rights situation, and reduction of political sovereignty. For the second issue, their point of view was clear. Among 9 people interviewed, 7 thought that integration within SADC will not reduce political sovereignty of Madagascar. But for the enhancement of the human rights situation, points of view were divided: 1 state actor had no idea on the issue, 2 of them strongly agreed that human rights situation will be enhanced when Madagascar joins SADC, 3 others agreed, and the remaining 3 disagreed.

Some remarks should be made on business perceptions on the effect of integration within SADC. First, there are effects expected by the majority of companies and these include: increasing of competition on the domestic market, reducing of prices of consumer goods, providing new opportunities of exportation, global benefit to the economy. Economic theory tells us these statements will happen after reducing tariffs, opening markets, which will occur when FTA is established within SADC.

Increasing efficiency of companies does not seem to be obvious. In fact, it is more likely to happen within small firms (employees less than 25) than within large firm (employees exceeding 25). 48.5% of the small firms and 35.9% of the large firms are convinced that integration within SADC will increase company efficiency.

A similar result to what we found on the efficiency issue appeared on the positive impacts that integration will have on other domestic producers. In fact, 'only' a relative majority of 44.8% of the companies believed integration will provide positive impacts on other domestic producers.

Business perceptions on the impact of integration on unemployment varied greatly. Some respondents (37.8%) believed it will reduce the unemployment rate. Some 33.4% were against this idea, while 29.5% had no idea. In fact we can not separate the rising unemployment rate from retrenching employees or closing down of firms. Moreover, a country may specialise to stay competitive when joining a regional integration, that is why we are not sure if integration within SADC will raise or reduce the unemployment rate. The issue greatly depends on the dynamism of the economy.

Non-State Actors were also divided when asked about the rate unemployment. 5 out of 9 of them admitted that it will reduce unemployment. 2 did not believe in it, while 2 others had no idea about it.

According to business perceptions, lowering cost of labour, influx of immigrants are unlikely to happen because Madagascar is one of the poorest members of SADC. So even if restriction on movement of labour is removed within SADC, Madagascar would not attract labour from other SADC countries. In this way, there will neither be pressure on cost of labour nor an influx of immigrants. Non-State actors had a different point of view concerning the immigrant influx. 6 out of 9 of them believed that it will happen when joining SADC.

As a consequence of the belief that competition on the domestic market will increase, there were relatively more small firms than large firms who admitted that integration within SADC will reduce labour costs. 18.2% of small firms believed that labour costs will go down while only 7.7% had the same belief among the large firms.

The non state actors were very clear on the lowering of the cost of labour. 7 out of 9 did not believe that this statement will happen.

Only 2.9% of the managers said their answers would differ if one asked them about regional integration within COMESA.

3.2 Barriers to International Trade and their Relevance

Among the 105 companies in our sample, only 17 experienced barriers when exporting and importing goods to and from SADC countries, their responses are analysed below.

Among 19 identified barriers, 4 must be highlighted: time consuming customs procedures, exchange rate uncertainty, substantial paper work and bureaucracy. These barriers are regarded as very relevant, respectively, by 10, 10, 9 and 8 companies (among 17). In fact, a ranking can be done according to the number of companies admitting that a barrier is relevant or very relevant. With this principle, when a score is equal between two barriers, we classify first those which are mostly regarded as very relevant, then compare the number of companies admitting that the barriers are relevant, and so on.

Table 5: Distribution of Companies According to Relevance of Barrier

Number of respondent	Barrier	Very relevant	Relevant	Hardly relevant	Not at all relevant	Does not
17	Customs tariffs currently employed	8	7	0	0	2
17	Import duties and taxes have to be paid in cash	5	4	2	3	3
17	Sanitary and phyto-sanitary regulations	1	0	0	8	8
17	Rules of origin	1	4	3	5	4
17	Export / import licenses and permits required	4	5	4	3	1
17	Lack of transparency of rules and regulations abroad	2	3	7	3	2
17	Time consuming customs procedures	10	5	2	0	0
17	Substantial paper work, bureaucracy	9	3	4	1	0
17	Corruption of officials	4	7	4	0	2
17	Lack of information about foreign markets	1	2	8	6	0
17	Visa requirements for travelling abroad	1	5	2	4	5
17	Exchange rate uncertainty	10	5	2	0	0
17	Risk of non-payment of customers abroad	2	2	5	2	6
17	No export insurance available to cover payment risks of exports	1	3	5	1	7
17	Poor regional communication infrastructure	1	12	3	1	0
17	High regional communication costs	2	13	2	0	0
17	Weak regional transport infrastructure	2	4	7	4	0
17	High transport costs	5	9	1	1	1
17	Weak law enforcement in export destination	3	5	0	1	8

Source: FEF-NEPRU/CREAM survey, calculations by the author.

With this principle, the following decreasing ranking is drawn.

- Time consuming customs procedures;
- Exchange rate uncertainty;
- Customs tariffs currently employed;
- High regional communication costs;
- High transport cost;
- Poor regional communication infrastructure;
- Substantial paper work, bureaucracy;
- Corruption of officials;
- Import duties and taxes have to be paid in cash;
- Export/import licenses and permits required;
- Weak law enforcement in export destination;
- Weak regional transport infrastructure;
- Visa requirements for travelling abroad;
- Lack of transparency of rules and regulations abroad;
- Rules of Origin;
- Risk of non-payment of customs abroad;
- No export insurance available to cover payment risks of exports;
- Lack of information about foreign markets;
- Sanitary and phyto-sanitary regulations.

Table 6: Frequency at which a Barrier is Mentioned as Most Relevant, Second Most Relevant or Third Most Relevant

Barrier	Most relevant	2nd most relevant	3rd most relevant
Customs tariffs currently employed	6	0	0
Import duties and taxes have to be paid in cash	0	1	1
Rules of Origin	0	1	0
Export / Import licenses and permits required	2	0	1
Lack of transparency of rules and regulations abroad	0	0	1
Time consuming customs procedures	3	2	3
Substantial paper work, bureaucracy	0	5	2
Corruption of officials	0	1	1
Exchange rate uncertainty	2	5	3
Risk of non-payment of customers abroad	1	0	0
Poor regional communication costs	0	0	1
High transport costs	0	0	1
Weak law enforcement in export destination	1	0	1

Source: FEF-NEPRU/CREAM survey, calculations by the author.

Exchange rate uncertainty and time consuming customs procedures have exactly the same score. They are classified at the top of our ranking. Then comes other barriers. One notices that procedures and lack of connection to others SADC members are classified before other barriers such as sanitary and phyto-sanitary regulations, Rules of Origin, risk of non-payment of customers abroad, lack of information about foreign markets. So reforms should at first be done for the economy of Madagascar to benefit from trade promoted within SADC.

The point of view of Non-State Actors was a little bit different. Substantial paper work, bureaucracy, and corruption of officials were regarded by 7 out of 9 of them as very relevant. But for the 2 others these barriers were relevant.

We can rank the statements according to the level of relevance noticed by the companies. With this second ranking, we should remark that none of the following barriers is regarded as most relevant, second most relevant or third most relevant:

- Sanitary and phyto-sanitary regulation;
- Lack of information about foreign markets;
- Visa requirements for travelling abroad;
- Risk of non-payment of customers abroad;
- High regional communication costs;
- Weak regional transport infrastructure.

For the other barriers, "customs tariffs currently employed" is, according to managers, the most relevant barrier. This kind of barrier was not admitted as the second or the third most relevant barrier.

Then comes "time consuming customs procedures." 3 companies classified it as the most relevant barrier, while it was for 2 and 3 others the second most relevant and third most relevant respectively.

While "exchange rate uncertainty" was classified at the top of our former ranking, here its rank is third. For 2 companies, "exchange rate uncertainty" was the most relevant barrier. For 5 others, it was the second most relevant, and it was the third most relevant for 3 companies.

In the present ranking, "export/ import license and permits required" has a better position. For 2 companies it was the most relevant barrier, while it was for 1 company, the third relevant barrier.

"Weak law enforcement in export destination", "risk of non-payment of customers abroad," were each classified by 1 company as the most relevant barrier. The best rank that "import duties and taxes have to be paid by cash", "corruption of officials", "Rules of Origin", can get was the second most relevant. Each of them was considered as the second most relevant barrier by one company.

"Lack of transparency of rules and regulations abroad", "poor regional communication infrastructure", "high transport costs" were each only mentioned as the third most relevant barrier by only 1 company.

3.3 Perceptions of Business Climate in Madagascar and Other Trading Partners

The most important fact which was evident regarding the prevailing business climate in Madagascar's trading partners was that they are not well known. In fact, except for the domestic market, EU, Asia and the USA or South Africa, a majority of the managers had non idea of the prevailing business climate in foreign markets. For example, 70.2% and 74.0% of bosses had no idea of current business climate in SACU excluding South Africa, and in the rest of Africa. This percentage decreased to 59.2% when it was a question about business climate in SADC countries, excluding SACU members. It is worth to mention that even for American or South African markets, 42.3% of company managers (for each of these two markets) could not give their opinion on the business climate in the USA and in South Africa.

Finally, Madagascar was the only business climate that was well known, with 96.2% of the companies giving their opinion about it. Two remarks can be made regarding this fact. First, trade in Madagascar suffers from its very tight partnership, from its limitations in the domestic market, to its partnerships with the EU and with Asia. Second, Madagascar has a very weak relationship with other African countries even if it is geographically closer to them.

Table 7: Distribution of Companies According to Their Perception of Current Business Climate in Madagascar and Other Trading Partners

Market	Very favourable	Favourable	Less favourable	Unsatisfactory	Don't know
Domestic market	1.0	37.5	40.4	17.3	3.8
South Africa	14.4	26.9	10.6	5.8	42.3
Botswana, Lesotho, Namibia, Swaziland	3.8	4.8	4.8	16.4	70.2
Other SADC excluding above mentioned	4.9	10.7	9.7	15.5	59.2
Rest of Africa	1.0	4.8	5.8	14.4	74.0
EU	13.4	39.4	15.4	5.8	26.0
USA	11.6	20.2	19.2	6.7	42.3
Asia	31.7	35.6	3.8	2.9	26.0
Rest of the world	0.0	4.8	2.9	1.0	91.3

Source: FEF-NEPRU/CREAM survey, calculations by the author.

According to business perceptions, Asia is the most favourable among all Madagascar's trade partners; it has a very favourable business climate according to 31.4% of the companies. After Asia, come South Africa and the EU, with 14.4% and 13.4% of the company managers believing that business climate in these areas is very favourable. Perceptions of very favourable or favourable climate means that there are business opportunities. It is interesting, therefore, to know which country has a very favourable or favourable climate.

The majority of the companies rated Asia and the EU as places with favourable or very favourable business climate; 67.3% and 52.8% of the companies thought the business climate in Asia or in the EU was favourable or very favourable respectively. According to this information, one can say Malagasy company managers prefer at first to promote relationships with Asia and EU. But after Asia and the EU, opportunities may occur in the USA and South Africa because 41.3% and 31.3% of the managers interviewed believed business climate in these countries was favourable or very favourable.

With regard to the domestic market, 40.4% of the managers thought it was less favourable while 17.3% regarded it as unsatisfactory.

3.4 Impact of Integration within SADC on Companies

There are a number of potential impacts that integration in SADC may have on companies. According to the managers interviewed, some of these may or may not affect companies. For instance, 40.8% of the managers thought that retrenching of employees as a result of integration is unlikely. The closing down of production in the country is also unlikely in the opinion of 38.6% of the companies. These responses enlighten the debate on negative effects of integration within SADC and the fear of South African goods invading Madagascar. The proportion of those who had no idea on retrenching employees or plants closing down is noticeable.

It is worth mentioning that the fear of plants closing down or employees being retrenched is at first a manufacturing impression. That is why manufacturers are relatively more numerous (14.3%), than non-manufacturing companies (6.7%) to think that integration will imply retrenching employees. Some 10.3% of respondents from the manufacturing sector and 4.0% from the non-manufacturing believed that manufacturing plants are likely to close down due to integration. In general, however, only a few respondents are concerned with the possibility of employees losing their jobs or plants closing down.

It is also evident from the survey that small firms were more concerned (10.6% of them) about retrenching employees than large firms (5.4%). They were also more pessimistic about plants closing down; 7.6% of the small firms and 2.6% of the large firms had this belief. This information is linked to economic theory in the sense that competition will be stronger for small firms.

However a minority of companies fear the impact of integration with regard to the closing down of plant or retrenching of employees. Some sectors will be more threatened by integration than others, so their products should (in the short term) be protected from free trade. The statement refers to the sensitive products issue in the SADC trade agreement.

In this survey, two-thirds of the Non-State Actors claimed that integration will likely lead to decreasing domestic production or closing down of plants, while one-third had an opposite opinion. In fact, according to their point of view, closing down of plants is feared more (that means the Malagasy economy should specialise in some sector in order to keep competitiveness when FTA is established) while they seemed very divided on retrenching of employees; 4 out of 9 non state actors believed in it, while 4 others found the statement unlikely to happen, and 1 had no idea.

For the most respondents, the positive impacts of integration are likely to include the following:

- Employing more workers;
- Increasing domestic production;
- Venturing into new business activities;
- Importing more from SADC countries;
- Having access to cheaper inputs.

Each of these statements is likely to occur for at least 42% of the managers. The optimistic opinions mean that with integration within SADC, demand will increase and not decrease.

Venturing into new business activities, importing more from other SADC countries, having access to cheaper inputs are statements that almost half of the companies (for each of these statements) thought were likely happen. The issue of international trade should be highlighted here. Importing more from SADC is more likely to happen (47.1% of the companies agreed on that) than exporting to this community (32.7%). Does that mean the Malagasy economy is less competitive within SADC, than other members of this community like South Africa, or should staying competitive within SADC ever be a target for the Malagasy business sector? That is the question.

Venturing into new business activities has two meanings. First, it means there are new economic opportunities. Secondly, it means the economy should specialise. Companies did not give the same answer on this issue. For 39.5% of the large firms, regional integration could entail companies venturing into new business activities, but a greater proportion (53%) of the small firms were convinced about the possibilities of these new business activities. This result supports what we said earlier, competition is stronger for small firms.

Table 8: Increasing Regional Integration Could Result in my Company…

Statement	Likely	Unlikely	Don't know	Does not apply
… retrenching employees	8.7	40.8	35.9	14.6
… employing more workers	42.3	22.1	27.9	7.7
… increasing domestic production	45.2	17.3	21.3	16.3
… investing abroad	29.8	25.0	27.9	17.3
… closing down production in the country	5.8	38.6	40.4	15.4
… seeking joint-venture with companies in other SADC countries	29.1	14.6	39.8	16.5
… venturing into new business activities	48.1	6.7	37.5	7.7
… importing more from other SADC countries	47.1	11.5	20.2	21.2
… exporting more to other SADC countries	32.7	14.4	17.3	35.6
… having access to cheaper inputs	48.1	4.8	25.0	22.1
…having access to cheaper foreign labour	8.7	41.3	27.9	22.1

Source: FEF-NEPRU/CREAM survey, calculation of the author.

Only 29.1% of the companies rated seeking joint-venture with other companies as a likely occurrence with integration. This result is related to the fact that Malagasy companies are used to working without partnerships and to the fact that the Malagasy economy is introverted. But this view is partly explained by the lack of communication concerning the advantages of joint-ventures, by the absence of business chambers between Madagascar and other SADC countries. Nevertheless, it is useful to notice that joint-venture is common in manufacturing. Those in manufacturing (35.7%) claimed that seeking joint ventures with companies in other SADC countries was likely to happen.

However, a small majority 29.8% of the companies, believed that investing abroad could likely result from regional integration. This opinion was very divided because 25% had an opposite view, while 27.9% had no idea. According to manufacturers, the statement was more likely to happen in their sector (41.4%).

Having access to cheaper foreign labour will be unlikely for 41.3% of the companies. The explanation is that Madagascar is one of the poorest countries in SADC so it is unlikely to find cheaper labour abroad.

3.5 How Much Basics Indicators Would Vary

Business perceptions tell us more about the increase than decrease of basic indicators such as employment, production, investment, exportation to SADC members, importation from SADC, except for the price of imported goods which will reduce. Even though more companies expect an increase of importation from SADC than exporting, here we notice that exportation from SADC will rise by about 15.81% while the rate of importation from SADC will be about 10.7%. But the most important increasing rate will be for production which is expected to be 19.14%, followed by exportation, investment, employment and importation.

The expected levels of increase for the various indicators varied according to the size of the firm. Investment and importation will rise at 17% and 16.2% for large firms, while equivalent increasing rates are estimated to be equal to 12.2% and 7.5% for small firms. On the other hand, small firms expect greater increasing rates of exportation to SADC: (18.8%) than large firms: (10.7%).

Table 9: Increasing and Decreasing of Several Variables due to SADC Integration

Variables	Increase in %	Decrease in %
Employment	12.57	0.29
Production	19.14	0.28
Investment	14.0	0.0
Exports to SADC countries	15.81	0.09
Imports from SADC countries	10.71	1.57
Import prices	4.19	6.61

Source: FEF-NEPRU/CREAM survey, calculation of the author.

The manufacturing sector will import more from SADC than other sectors. Increasing rate of its import was estimated to be 12.8% while the equivalent rate is equal to 9.9% for other sectors. But increasing rate of exportation of manufacturing, which is estimated to be 11.9%, is less than that for other sectors (17.3%).

Except for the prices of imported goods, when an indicator decreases, it is so weak that one can say there is stagnation rather than a reduction.

Table 10: Annual Gains and Losses of Companies Due to SADC Integration

Firm	Annual gains in thousands of USD	Annual losses in thousand of USD
Large firms	37,183.1	15 128.5
Small firms	18,396.4	5 318.7
Average	25,374.3	8 962.3

Source: FEF-NEPRU/CREAM survey, calculation of the author.

Finally, as stated earlier, business will benefit more than lose from integration of Madagascar into the SADC because average annual gains are estimated to be more than USD 25 million while annual losses are expected to be less than USD 9 million. Furthermore, annual gains always exceed annual losses when we focus on small firms or large firms.

4 Debate on Integration Within SADC

4.1 Regional Integration and Public Debate

According to business perceptions, people discuss more about integration within SADC than integration within COMESA. For 45.7% of the managers, integration within COMESA did not represent a topic of discussion in the public debate in Madagascar. Others, 9.5% had no idea about the issue. With respect to integration with SADC, 32.4% of the respondents did not consider it as a topic of public debate while only 5.7% had no idea about the issue. Moreover, 23.8% of the companies thought integration within SADC was a topic in the public debate while 16.5% had the same point of view for integration within COMESA.

All Non-State Actors interviewed also expressed their opinions on the subject. 3 out of 9 of them stated that integration in general did not represent a topic in the public debate. Specifically 4 out of 9 did not consider integration within SADC and 5 out of 9 did not think that integration within COMESA as topics for public debate.

Table 11: Is Regional Integration a Topic in the Public Debate in Your Country?

	Yes, very much	Yes, but not very prominent	No	Don't know
Integration in general	16.5	46.6	29.1	7.8
SADC integration	23.8	38.1	32.4	5.7
COMESA integration	14.3	30.5	45.7	9.5

Source: FEF-NEPRU/CREAM survey, calculation of the author.

4.2 Lack of Communication on Regional Integration

Despite the facts that integration represents a challenge and that the Malagasy economy may benefit from it, and even if public debates were done on the issue, only a minority of managers attended workshops or seminars discussing regional integration. For integration in general, only 5.9% regularly attended the workshops, 10.9% attended sometimes. Some (10.9%) were invited but did non attend the workshops, and a majority of 58.4% did not attend the workshops because according to them no workshops were offered.

Table 12: Have you Attended Workshops and/or Seminars Discussing Regional Integration?

	Yes, regularly	Yes, Sometimes	No, because no workshops were	No, but workshops were offered	Does Not apply
Integration in general	5.9	10.9	58.4	10.9	13.9
SADC integration	1.0	9.6	64.4	10.6	14.4
COMESA integration	1.0	8.7	65.4	8.7	16.3

Source: FEF-NEPRU/CREAM survey, calculation of the author.

Table 12 shows that only 1% of companies regularly attended workshops or seminars discussing integration within SADC or COMESA. On the other hand, most of the respondents claimed that no workshops on the issue were organized. Therefore, only a few managers are involved in regional integration debates. Are all of them, or their associations invited to participate in seminars discussing regional integration? That is the question. The case of Non-State Actors is somewhat different. Half of them admitted participating regularly in seminars on regional integration. But the other half asserted that such workshops were never organised.

With respect to Non-State Actors' responses, even though debates on the impact of integration within SADC were held, only 5 out of 9 of them reported knowledge of such meetings. That may explain why until now, according to 5 out of 9 respondents, their organisations never organised public workshops to discuss regional integration.

In fact, only 1 had regularly taken measures such as press releases to rise the issue of regional integration, for SADC integration or for COMESA integration.

4.3 Businesses and Non-State Actors in Favour of Regional Integration

A small majority of companies was moderately in favour if integration in SADC (39.3%), in COMESA (42.6%), or integration in general (45.6%). For integration within SADC or integration in general, the second most relevant group was that which was very enthusiastic about integration. Some companies (34%) were strongly in favour of integration in general. Another group was more prominent when it came to integration within SADC (38.2%), it was strongly in favour of this kind of integration. For integration within COMESA, the proportion of those who were against it is equal to proportion of those who are most enthusiastic about (20.8%).

In general, the majority of companies were in favour of integration (by being strongly or slightly). Either for SADC or COMESA or integration in general. There was a small difference however, between integration within SADC and within COMESA, with 77.5% of the companies in favour of SADC integration and 63.4% of the companies in favour of integration within COMESA. The difference here may be due to lack of public debate for integration within COMESA compared to SADC integration. But if that were not the case, then one would conclude that SADC integration is more preferred to integration within COMESA. We should keep in mind that later Madagascar will have to choose one of the two regional integrations when the stage for common external tariffs is reached.

Table 13: Are you overall in favor of regional integration?

	Yes, strongly	Yes, slightly	No	Don't know
In general	34.0	45.6	4.9	15.5
SADC integration	38.2	39.3	8.8	13.7
COMESA integration	20.8	42.6	20.8	15.8

Source: FEF-NEPRU/CREAM survey, calculation of the author.

Opinions on integration were very different according to the type of company. Three-quarters of manufacturing, and more than half of the large firms (55% exactly) and half of non-wholesale or retail trade companies (50.8%) were only slightly in favour of integration in general. A good number of those in manufacturing were slightly in favour of integration within SADC (53.6%) or within COMESA (59.3%).

Does moderate favour for integration mean that companies need some measures to protect them before facing foreign competition? There lies the question. Nevertheless, manufacturing's slight favour for integration may be interpreted as its fear of integration in general, and especially within SADC or COMESA. We should keep in mind that the decision to join SADC or COMESA was at the beginning a political decision. Lobbying should be done now by businesses in order to defend their interests.

The majority of Non-State actors are in favour integration in general. All of them are in favour of SADC integration, but either for SADC or COMESA, most of them (5 by 9) are slightly in favour of integration.

4.4 Deepening of Regional Integration

Among some 10 factors that regional integration within SADC involves, there are only two which the majority of businesses favour: Tariff reduction within SADC (78.4%) and removal of all trade restrictions within SADC (56.9%). Difference between the two responses may indicate the a fears businesses have. Even if a free trade area will be established by 2008, companies prefer tariff reduction rather than removal of all trade restrictions. So we wonder if businesses do not wish the Government to negotiate preferential tariffs with some members of SADC instead of accepting free trade agreement within SADC. Moreover, only 42.2% of the companies were in favour of the removal of tariffs within SADC and the establishing of common external tariff while 44.1% were against this idea. Accordingly we wonder if the Malagasy economy is already strong enough for common external tariffs (or should it be postponed?) because more companies are in favour of the removal of trade restrictions within SADC than to the removal of tariffs within SADC and the establishment of common external tariffs.

While 7 out of 9 of Non-State Actors were in favour of tariffs reduction, two-thirds were against the removal of tariffs within SADC with common external tariff and the removal of all trade restrictions within SADC removal.

Contrary to the point of view of businesses, Non-State Actors were, overall, against the removal of trade restrictions. Their position was counter to what globalisation suggests: the opening up of markets.

The creation of a single currency within SADC is very controversial in Madagascar. In fact, 41.2% of the companies were in favour of this idea, while exactly the same proportion was against it and 17.6% had no idea. But 5 out of 9 Non-State Actors agreed with the idea of a single currency.

Among all factors, involved in the process of integration within SADC, the establishment of a political union with parliament and executive was the most rejected by non state actors; 5 out of 9 of them were against this idea. But more than half (51%) of companies had no idea while 37.3% did not agree with the proposal.

Similarly on the issue of political union, half of the companies did not know if designing competition and trade policies for SADC as a whole was useful. The response here was astonishing especially when 57.9% of those in wholesale and retail trade had this point of view while 45.3% of other companies had so no idea about the issue of designing competition and trade policies for SADC as a whole. Finally, 29.4% of the companies agreed with the proposal, and 20.6% were against it.

So, if Madagascar accepts the proposal to design competition and trade policies for SADC as a whole, it would be due to Non-State Actors' opinion. 7 out of 9 of them agreed with the statement.

Table 14: How Far Would Companies Like Regional Integration to go?

Degree of regional integration	Yes	No	Don't know
Reduce tariffs within SADC	78.4	9.8	11.8
Remove tariffs within SADC, establish Common External Tariff to all other countries	42.2	44.1	13.7
Remove all trade restrictions within SADC	56.9	22.5	20.6
Remove restrictions on the free movement of capital within SADC	26.5	25.5	48.0
Remove restrictions on the free movement of labour within SADC	25.5	28.4	46.1
Remove restrictions to the free movement of services within SADC	37.3	14.7	48.0
Implement same level of taxes within SADC	35.3	31.4	33.3
Design competition and trade policies for SADC as a whole	29.4	20.6	50.0
Create single currency within SADC	41.2	41.2	17.6
Create political union with parliament and executive	11.8	37.3	51.0

Source : FEF-NEPRU/CREAM survey, calculation of the author.

Removal of restrictions on the free movement within SADC of capital, labour or services have in common the following fact. Almost half of the companies (48% for free movement of capital, 46.1% for free movement of labour, and 48% for free movement of services) had no idea about the removal of these restrictions. Moreover, the proportion of those who agreed with the removal of restrictions on free movement of capital (or labour) within SADC was slightly close to the proportion of those who did not agree with it (about one-fourth).

As a paradox, 6 out of 10 of those in manufacturing had no idea about the removal of restrictions on free movement of capital while 43.2% of other companies had the same opinion. This view is a problem based on the fact that those in manufacturing are not yet interested in this measure as they focus only on the domestic market.

However, with regard to free movement of labour within SADC, there may be a misunderstanding. Perhaps it is confused (by businesses) with migration influx. That is why there were more companies against the removal of restrictions on free movement of labour (28.4%) than those in favour (25.5%) of the measure.

The response of Non-State Actors was similar to that of businesses with respect free movement of labour within SADC. Only one out of nine was in favour of the removal of restrictions on free movement of labour. But free movement of capital is controversial, 5 out of 9 agreed with the proposal while 4 were against it.

On the issue of free movement of services within SADC there were differences between the proportion of those who agreed and those who rejected. Some companies (37.3%) were in favour of the removal of restrictions of free movement on services, while only 14.7% were against this idea.

The issue regarding the implementation of the same level of taxes within SADC divided companies slightly into three similar groups. One-third had no idea about it. 35.3% were in favour of the measure, while 31.4% were against it. In EU, where integration has already deepened, this stage has not yet been reached.

Just like the case of design competition and trade policies for SADC as a whole, Government will have to depend on the support of Non-State Actors to implement same level of taxes within SADC. 6 out of 9 of them were in favour of such policy, while 2 were against it.

Finally, when the businesses were asked to comment on any aspect of integration not covered by the coded-questions, they observed that there is:

- Need for training for those in manufacturing, wholesale and retail trade on management, production processes for upcoming competition;
- Need for better communication and information on SADC integration issues and on the SADC market;
- Need for training on norms of quality in the SADC market;
- Need for training on English proficiency;
- Need for free movement of businessmen and businesswomen within SADC;
- Need for the exchange of know-how with other SADC businesses;
- Need for taxes of different sectors to be differentiated.

5 Conclusion

The main target of this report was to describe perceptions of Non-State Actors and businesses on regional integration and integration within SADC. The only limitation to this study relate to the amount of time available for the work. Otherwise, the type of the sample, we think, was appropriate; the locations were also ideal because Toamasina and Antananarivo are the two major hubs of business in Madagascar. So businesses located in these cities are well informed and benefit better connection to international trade.Nevertheless, we should be aware when interpreting the results because our sample was not representative of all businesses in Madagascar.

Information from this survey can be classified differently. Some information is consistant with what anybody who knows the Malagasy economy can imagine. On the other hand, some information seems to be counter to what should be done with respect to integration of Madagascar into SADC. Some information show differences of point of view between businesses and Non-State Actors. Finally, in specific cases, a view of one of the respondents, businesses on one hand and Non-State Actors on the other, is very helpful to Government in its decision-making on deepening integration within SADC.

A number of things about the Malagasy economy are evident in this survey:

- For the time being, moderate or strong competition on the domestic market comes from Asia and the EU;
- The business climate in South Africa and in other SADC countries is not well known by businesses in Malagasy;
- Most relevant barriers to international trade are related at first to procedures (e.g. time consuming procedure, customs tariffs currently employed) and weaknesses in the Malagasy economy (e.g. exchange rate uncertainty);
- Businesses are overall, in favour of regional integration in general, and especially within SADC. Nevertheless, a small majority is moderately in favour of integration. That means, if businesses can not stop the processes of integration into SADC, there is need to take into concideration some conditions for the integration to succeed;

- Businesses in favour of integration into SADC more than into COMESA. This point of view may be influenced here by more relevant debates on integration within SADC than within COMESA;
- Increasing competition as an effect of regional integration is more dreaded by small firms than large firms. These think that their businesses are not threatened by competition from SADC;
- Only a minority think integration could result in employees being retrenched or, plants closing down. This information refers, particularly to the sensitive products issue. Not all sectors are concerned about it;
- Only a minority of companies are convinced that the economy will not benefit from integration in general;

Some results of this survey seem to run counter to some of the processes of integration and should be taken into account:

- Reducing tariffs within SADC is preferred by businesses to the removal of all trade restrictions within SADC. This is particularly the point of view of Non-State Actors. So one wonders if Madagascar does not prefer to negotiate preferential tariffs with some member countries of SADC rather than to pass FTA within SADC;
- Madagascar would not join the political union with a parliament and an executive because, while more than half of the companies have no idea about it, the majority of Non-State Actors are against the idea;
- While Madagascar is among the less developed countries and the poorest members of SADC, only a minority of companies agrees on the removal of restrictions on free movement of labour within SADC;

Some information from the survey shows the weakness of Malagasy businesses in the face of regional integration challenges. In this record, we notice:

- Importing more from other SADC countries is more likely to occur than exporting to SADC countries. In this way, Malagasy Trade Balance with SADC will be in deficit.
- Few companies think of establishing joint-ventures with companies in other SADC countries. This situation shows how much Malagasy economy is still introvert.

Some results in this survey encourage the Malagasy Government in deepening integration within SADC. In this record we notice:

- While most of the companies have no idea about what to do, government will pass competition and trade policies for SADC as a whole because of the Non-State Actors' point of view;
- In the same order, government will be encouraged by Non-State Actors to implement the same level of taxes protocol within SADC.

In conclusion, it is evident that businesses are overall moderately favourable to integration within SADC. The fear of integration results from the introversion. Moreover, decisions made for deepening integration within SADC are not always close to what businesses or non state actors want. If there is no connection with southern african markets, it is not only due to relevance of trade with the EU, but also due to the lack of information on potential markets in SADC, and lack of public debate on regional integration.

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