



Country Brief **MADAGASCAR**

June 18, 2008

Geography

Madagascar is an island nation in the Indian Ocean off the coast of Mozambique that is slightly less than twice the size of Arizona. It is the fourth largest island in the world and has a population of slight more than 20 million. The capital and largest city is Antananarivo, which has a population of close to 2 million people. Arable land accounts for 15.1 percent of the area of the country, 26.8 percent of the population lives in urban areas and there are 3,000 miles of coastline. Forests cover 22.1 percent of the country, 11.6 percent of the roads are paved and 1.0 percent of the land is devoted to crops. Madagascar's time zone is three hours ahead of Greenwich meantime. Malagasy is the official language. Madagascar is a former French colony that received its independence on June 26, 1960.

Economic Overview

According to IMF data, the largest sectors of the economy in 2004 were agriculture and transportation, each accounting for 15 percent of GDP, industry was 12 percent and public administration had a 5 percent share. Agriculture employs 80.1 percent of the labor force, services 17.4 percent and industry just 2.5 percent. Among the major crops grown are rice, coffee, cotton, tobacco, sugarcane, cloves, cocoa, tapioca, vanilla, bananas and peanuts. The natural resources that are extracted are fish, graphite, bauxite, salt, quartz, gold, semiprecious stones, timber and hydropower. The manufacturing sector is dominated by light industries such as food processing (including meat and seafood), brewing, tanning and textiles. There are also cement and paper facilities. Madagascar has no major indigenous sources of coal or natural gas and produces just 90 barrels of oil a day. About 60 percent of electricity is generated by hydropower.

Madagascar is one of the poorest nations in the world. The per capita income is just \$369 (IMF estimate for 2007). In a 2006 survey of per capita income by the World Bank, Madagascar was ranked 174 of the 184 countries and territories that were listed.

External Accounts

Textiles and apparel are the largest exports, accounting for 34.1 per cent of the total in 2006. Fish meanwhile accounted for 13.8 percent and coffee and spices had a 9.3 percent share. France is Madagascar's dominant export market, with a 39.5 percent share in 2006 followed by the US with 15 percent. With respect to imports, China accounted for 17.8 percent of the total and South Africa 16.4 percent.

Madagascar has recently experienced a sharp deterioration in its external accounts in response to a substantial increase in imports of capital goods associated with several mining ventures, particularly for nickel and ilmenite, which is a magnetic titanium mineral used as a raw material for pigment production. The IMF estimated the current account deficit surged to 19.3 percent of GDP in 2007 from 8.6 percent in the previous year as imports related to mining operations soared by 431 percent (they accounted for 28.8 percent of total imports). The large shortfall is being offset by increased levels of direct foreign direct investment and government borrowings.

Foreign Aid and External Debt

Madagascar is very dependent upon foreign assistance as a source of government revenue and to finance its economic development. According to the UNDP, official development assistance totaled \$929.2 million in 2005 and was equivalent to 18.4 percent of GDP. The IMF estimated that foreign grants accounted for 31.6 percent of government revenue in 2007.

On October 21, 2004, the World Bank's International Development Association (IDA) and the IMF announced that Madagascar had "taken the necessary steps to reach the completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative." The threshold for HIPC eligibility is an external debt that is more than 150 percent of the exports of goods and services or in some cases more than 250 percent of fiscal revenue. Madagascar was the 15th country to reach the completion point under the Initiative. The IMF and IDA estimated the debt relief granted to Madagascar was \$836.6 million in net present value terms, which over time will translate into a reduction in debt servicing costs of \$1.9 billion. The external public debt was about \$1.9 billion at the end of 2007.

I. Political Environment

Index	Rank	Score
Freedom House Index 2007	Status: Partly Free	Political Rights:4.0/7.0 Civil Rights: 3.0/7.0

Government

The election that occurred in December 2001 was highly contentious. Opposition candidate Marc Ravalomana won 46 percent of the vote while the then president, Didier Ratsiraka, captured 40 percent of the ballots, thus necessitating a run-off as no candidate received 50 percent of the vote. Ravalomana however claimed that fraud denied him an outright victory. The disputed outcome prompted clashes between supporters of the two opposing candidates. After a recount of the votes in April, the High Constitutional Court declared Ravalomanana the victor. In June 2002, shortly before going into exile in France, Ratsiraka was sentenced to ten years of hard labor for stealing \$8 million in public funds.

Ravalomana was re-elected to a second term on December 3, 2006 when he secured 54.8 percent of the vote. According to Freedom House, "While most observers agreed the vote reflected the will of the people, the campaign was marred by opposition claims of...electoral irregularities, which, if not addressed, raise concerns about the legitimacy of future elections." Since the president is limited to two five year terms, Ravalomana will not be eligible to run again in the 2011 elections.

The President appoints the Prime Minister and the Prime Minister selects the cabinet. There is a bicameral legislature consisting of the National Assembly, which has 127 seats. Members are chosen by popular vote to a four-year term. The Senate has 100 seats; two-thirds of which are selected by regional assemblies and the rest are appointed by the president. The last election for the National Assembly was held on September 23, 2007 and the next election will be in 2011. President Ravalomana's TIM (I Love Madagascar) Party controls 106 of the 127 seats in the National Assembly.

Civil Liberties

Freedom of association, religion and assembly are generally respected. Workers' have the right to join unions and to strike. The constitution provides for freedom of the press. However, according to Reporters Without Borders, occasional pressure is exerted on the media to curb their coverage of certain issues and opposition politicians are rarely given access to the state-run media. Freedom House ranked Madagascar 102 of 195 countries in its Freedom of the Press survey for 2008. It characterized the press as "partly free."

With respect to the judiciary, Freedom House noted "the lack of training, resources, and personnel hampers judicial effectiveness, and case backlogs are prodigious. The judiciary remains susceptible to corruption and executive influence."

II. Country Credit Ratings

Credit Rating (as of date of publication)	Standard & Poor's	Moody's	Fitch Ratings
	B/Stable/B	N/A	N/A

Madagascar is one of twelve sub-Saharan African nations that are assigned a country rating by Standard and Poor's. It has not received a rating from Moody's and Fitch. Standard and Poor's has given it a rating of B/Stable/B, which is the same rating as Belize, Cambodia, Fiji, Jamaica, Kenya, Mali and Paraguay.

An investment grade rating by Standard and Poor's is BBB- or above.

III. Business Environment

Index	Rank	Score
World Bank Ease of Doing Business 2008	149/178	N/A
World Bank Gov Indicator 2006, Regulatory Quality	42.9 Percentile	-0.28
World Bank Gov. Indicator 2006, Political Stability	48.1 Percentile	0.10
World Bank Gov Indicators 2006, Control of Corruption	51.5 Percentile	-0.25
World Bank Gov Indicators 2006, Rule of Law	47.1 Percentile	-0.30
Economic Freedom of the World Index 2007	107/141	5.9/10.0
Transparency International Corruption Perception Index 2007	94/179	3.2/10.0
Bertelsmann Transformation Index 2006	40/119	5.39/10.00
Heritage Foundation Economic Freedom Index 2008	65/157	62.4/100.0
Milken Institute Capital Access Index 2006	111/122	2.5/10.0

Openness to Foreign Investment

To bolster the investment climate, the government in September 2006 unveiled the Madagascar Action Plan (MAP), a five-year strategy covering 2007-2011 that is designed to encourage growth, move the economy further along the path of market-based principles, reduce poverty

and attract foreign investment. The government is hoping the reforms and economic liberalization instituted under MAP will boost the growth rate to 7-10 percent by 2010.

As part of the MAP strategy, the government created the Economic Development Board of Madagascar (EDBM) in May 2006 to promote investment and economic development. According to its web site, "the government of Madagascar is pursuing a policy of attracting foreign direct investment...The EDBM is a one stop service that helps to register and set up a company in four days, provides EPZ (Export Promotion Zones) certificates for export oriented enterprises, provides necessary authorization for the tourist industry, grants environmental permits when required, grants long-term visas and work permits for expatriates and provides access to land ownership to foreigners."

The government has been particularly active in setting up Export Processing Zones (EPZ). The State Department's Investment Climate Statement noted that "Of the 200 companies granted status as EPZ companies, about 50 percent are European (mainly French), 20 percent are Mauritian, 20 percent are Asian and 5 percent are Malagasy. With 5 significant textiles companies, the U.S.'s share in the EPZ sector is estimated at 4 per cent. EPZ companies generated around 100,000 jobs directly." Incentives are offered for investing in EPZs. Among them are exemption from taxes on profits during the first five years and in the sixth year, the tax rate is just 10 percent.

There are no laws discriminating against foreign investors nor is there a mandatory screening process. Foreigners can invest in any area of the economy and can have 100 percent ownership with the exception of oil exploration, where the government must be a partner. There have been no recent instances of expropriation. Since 2003, foreigners have been allowed to own land. There are no restrictions on the repatriation of investment capital, earnings, loan payments and dividends.

According to the United Nations Conference on Trade and Development, foreign direct investment (FDI) in 2006 was \$230 million. This was up from \$86 million in 2005 and represented 17.8 percent of gross fixed capital formation. The total stock (book value basis) of FDI at the end of 2006 was \$504 million, which was equal to 9.2 percent of GDP.

The UNCTAD ranks Madagascar 133 of 141 nations in its Inward Potential Performance Index for 2003-2005. The index measures the attractiveness of a nation to FDI based upon several criteria including per capita income, GDP growth over the previous ten years, research and development spending as a percent of GDP and the ratio of tertiary students in the population.

Large Foreign Investment in Mining Sector

Madagascar has attracted a notable amount of foreign investment recently in response to the government's decision to adopt a more liberal foreign investment framework. The largest of these projects is the Abmatovy nickel venture, which is 45 percent owned by Sherritt Metals of Canada (the original owner Dynatec was bought by Sheritt metals in June 2007). A 27.5 percent interest is held by both Sumitomo Corporation of Japan and Korea Resources Corporation, a consortium of Korean enterprises consisting of Daewoo International, Keangnam and STX. SNC-Lavalin Group Inc, the engineering, procurement and construction management contractor for the project will own the remaining stake upon closing of financing for the project. The Abmatovy mine site is situated about 50 miles east of Antananarivo. Production from the mine is expected to start in 2010. Annual out put is forecasted to be 60,000 tons of nickel and 5,600 tone of cobalt. The project is expected to cost \$3.225 billion which includes the construction of the mine and a pipeline that will transport the nickel to the port of Toamasina.

QIT Madagascar, which is 80 percent owned by Rio Tinto and 20 percent by the government, is investing \$580 million in an ilmenite mining operation. Production is expected to begin by the end of 2008. Annual output is predicted to be 25,000 tones of zircon and 750,000 tons of ilmenite. The government meanwhile has signed a memorandum of understanding with the Madagascar Consolidated Mining Company, a subsidiary of Vuna Energy, which is headquartered in London, to exploit charcoal deposits in the southwest of the country.

Oil exploration is being conducted by Exxon/Mobil, Vuna Energy, Norsk Hydro (Norway), Vanco (U.S.), Sun-Pec (China) and Sterling Energy (UK). The Madagascar Oil Company, a private oil and gas firm headquartered in Houston, holds the largest onshore oil licensed acreage agreement. In March of 2007, it secured \$85 million in financing to develop the Bemolanga and Tsimiroro fields. The Bemolanga field is believed to be one of the largest undeveloped bitumen reserves in the world with an estimated 16.6 billion barrels of oil of which 9.8 billion barrels are probable and possible recoverable reserves. The Tsimiroro heavy oil field is estimated to hold 1.0 billion barrels of oil of which 611 million barrels are recoverable. Production of heavy oil from the field began early in the fourth quarter of 2007 at the modest rate of 45 barrels of oil a day. The government believes there might be as much as 5 billion barrels of oil in offshore fields, which is enough oil to satisfy US demand for a year.

Financial System

Madagascar has a small financial system consisting of five commercial banks and eight insurance companies of which two are state owned. Access to the financial sector is relatively limited with only 35 percent of low income households having access to depository services and 2 percent to credit. Madagascar was rated 6.4/10.0 in the World Bank's 2005 Index for Banking Efficiency (which measures bank profitability, efficiency and competitiveness). This was well above the sub-Saharan average of 3.9/10.0. There is no stock market. The Malagasy ariary is a freely floating currency.

Corruption and Transparency

Madagascar has signed the United Nations Convention Against Corruption. The Bertelsmann Transformation Index country report noted that "In the past, corruption went unpunished and cabinet members, members of the presidential family, and top civil servants enjoyed a de facto immunity." The present government however has taken steps to combat corruption. For example, it established a Council Against Corruption in September 2003 and in September 2004 established the Independent Bureau for the Fight Against Corruption (Bureau Indépendant de la Lutte contre la Corruption, BIANCO)."

Transparency International ranks Madagascar 94 of 179 in its corruption perception index. In the World's Bank ease of doing business survey, Madagascar is ranked 149th of 178 countries listed. With respect to the major World Bank governance indicators, Madagascar scores high in comparison to the average for sub-Saharan Africa. For political stability, rule of law and control of corruption, it is around the 50 percentile while for regulatory quality, it is at the 42.9 percentile.

The Heritage Foundation ranks Madagascar 65 of 157 in its Economic Freedom Index and The Fraser Institute places Madagascar 107 of 141 in its World Freedom index. The Bertelsmann Transformation Index, places Madagascar 40th among 119 nations surveyed in 2006. " Madagascar ranks 111 of 122 nations in the Milken Institute Capital Access Index and it is ranked 118 of 131 countries in the World Economic Forum's 2007-2008 Global Competitiveness Index.

IV. Standards Compliance Assessments

IMF Dissemination Standard	Subscription Status
Special Data Dissemination Standard	Not a SDDS Subscriber
General Data Dissemination Standard	GDDS Subscriber

IMF Assessment	Standards Assessed	Dates	Compliance Level
Reports on Standards and Codes (ROSCs)	Anti-Money Laundering and Combating the Financing of Terrorism Banking Supervision	Aug.15, 2006	Mixed
		Aug. 15, 2006	Mixed
Financial Sector Assessment Programs (FSAPs)		Aug. 15, 2006	Mixed

In its Financial Sector Assessment Program Report that was released on August 15, 2006, the IMF assessed the overall financial system, including provisions for anti-money laundering and banking supervision. It indicated that the “financial system appears to be relatively sound, although non-performing loans at over 11 percent, are a concern. Banks are generally profitable, liquid, adequately capitalized and stable...public pension schemes appear financially unsustainable, with potential fiscal consequences...Implementation and enforcement of banking rules and regulations needs to be reinforced, although the framework is broadly adequate.”

V. Human Capital

Index	Rank	Score
UNDP Human Development Index 2007	143/177	0.533/1.000

Social Indicators

Madagascar ranks 143 of 177 in the UNDP Human Development Index in 2007. Many of its major social and health indicators reflect the country’s underdevelopment and the existence of widespread poverty. The infant mortality rate is 74 per 1,000 live births, 38 percent of the population is considered undernourished, only 50 percent of the population has access to clean drinking water, the probability of not surviving till the age of 40 is 24.4 percent, 42 percent of children under 5 are underweight for their age, just 47 percent of one-year olds are fully immunized against measles, 49 percent of births are not attended to by a skilled health care professional, only 34 percent of the population has access to improved sanitation facilities, the maternal mortality rate is 470 per 100,000 live births, the life expectancy is 58.4 years (60.1 for females and 56.7 for males) and 85.1 percent of the population lives on less than \$2 a day.

Technology Indicators

With respect to many technology indicators, Madagascar also performs poorly. There are just 4 mainline telephone line and 27 cellular subscribers per 1,000 people. This compares to 606 mainline telephone lines and 680 cellular subscribers in the US. Internet use is 5 per 1,000 people, there are 5 personal computers per 1,000 people, the ratio of households that have a television is only 8 percent and there are just 5 motor vehicles per 1,000 people. The electrification rate is 15 percent and the per capita consumption of electricity is just 56 kilowatt hours (in the US, it is 14,240 kilowatt hours).

Madagascar is ranked 104 of 127 countries in the World Economic Forum's 2007-2008 Networked Readiness Index. The Index "measures the propensity for countries to exploit the opportunities offered by information and communications technology."

Health

Madagascar has a very low level of health care providers. There are only 29 physicians per 100,000 people (in the US, there are 256 per 100,000), 2 dentists per 100,000 people, there are 20 nurses per 100,000 people and there are just 1 pharmacist and 1 laboratory health care worker per 100,000 people.

The prevalence of AIDS is very low compared to other sub-Saharan African nations. It is 0.5 percent of the adult population (15-49 years old). Of the nations in sub-Saharan Africa where data is available, only Comoros has a lower rate.

The prevalence of tuberculosis cases is 396 per 100,000 people. In the US, the ratio is just 3 per 100,000 people. In a WHO survey of the leading causes of death in 2002, tuberculosis was responsible for 4 percent of all deaths. It was tied with Ischaemic heart disease (low blood supply to the heart) as the seventh leading cause of death. The leading cause of death was lower respiratory infections with a 14 percent share followed by malaria at 11 percent and diarrhea diseases with 9 percent.

In its October 26, 2007 Travel Advisory for Madagascar, the State Department said the "Standards of healthcare throughout Madagascar are well below U.S. standards...There is limited availability of both prescription and over the counter medications, and outside of Antananarivo, medications may not be available...Malaria is prevalent, particularly in the coastal regions...Rabies is endemic and there are many street dogs...Plague is also endemic to Madagascar...Travelers should drink bottled water or carbonated beverages."

In the World Health Organization's ranking of the World's Health Care Systems, Madagascar is in 159th place of the 190 nations surveyed.

Education

The data for the major education standards indicate that Madagascar generally performs above the average of other sub-Saharan nations. The adult literacy rate is 70.7 percent for those 15 years and older. Only 14 sub-Saharan African nations have a higher ratio. For males, the literacy rate is 76.5 percent and for females, it is 65.3 percent. The average for sub-Saharan Africa is 68.7 percent for males and 50.4 percent for females. The school life expectancy is 9.3 years, which is above the 8.2 year average for sub-Saharan Africa. Just 4 percent of primary school age children do not attend school. This compares to 24 percent in Kenya and Mozambique and 7 percent in South Africa. The net enrollment rate in primary school is 96 percent for girls and 96 percent for boys, which compares to the sub-Saharan Africa average of 66 percent for girls and the 72 percent for boys. The net enrollment for secondary school is 18 percent for girls and 17 percent for boys. This is lower than the sub-Saharan African average of 23 percent for girls and 28 percent for boys. The tertiary age population that is in tertiary school is 3 percent, which is also below the regional average of 5.

VI. Economic Overview

1. IMF Country Data Overview 2007 (Est.)						
GDP Growth	GDP:	GDP per capita:	CPI:	Current Account as % of GDP	Budget deficit as % of GDP	FDI (UNCTAD 2006)
6.1%	\$7.322 bln	\$369	10.3%	-19.3%	-4.7%	\$230 mln

2. IMF Article IV Consultation
In a press statement released on April 7, 2008 concerning a March 26-April 4 mission to Madagascar, the IMF noted that the economy grew by 6.1 percent in 2007 underpinned by “ongoing construction for large mining projects and progress in structural reforms.” The fiscal performance was “characterized by a notable improvement in revenue collections. Foreign exchange reserves...are at comfortable levels...The outlook for 2008 remains positive, despite the macroeconomic challenges posed by the exogenous shocks resulting from the sizable increases in world food and petroleum prices.”

Economic Outlook

After expanding by 6.1 percent in 2007, the IMF is forecasting an expansion of 6.8 percent for 2008. The economy is expected to be underpinned by ongoing mining projects and an active road construction development program. The inflation rate (annual average) is forecasted to moderate to 9.0 percent, down from 10.3 percent. This projection though could prove to be too optimistic in light of the high price of food and oil. The current account deficit meanwhile is predicted to advance to 20.9 percent of GDP from 19.3 percent in response to higher food and oil prices and increased imports of capital and transportation goods needed for the various mining projects that are being undertaken.

The agriculture sector has great undeveloped potential that could help to bolster employment and further fuel economic growth. A recent study by the UNDP noted that over 50 percent of the area of the country was capable of “sustaining crops but just 10 percent was actually being utilized.” According to a WTO Trade Policy Review report that was released on February 27, 2008, “Madagascar is an agricultural producing country, but its potential is little exploited. Productivity in the agricultural sector is low because of the small size of farms and the rudimentary cultivation techniques...Together with mining and tourism, fisheries and aquaculture are one of the three major activities on which the authorities are relying as a basis for Madagascar’s medium-term economic development.”

VII. Membership in international organizations

Financial Action Task Force (FATF)	Not a member
International Center for Settlements of Investment Disputes (ICSID)	Entry into convention on October 14, 1966
International Federation of Accountants (IFAC)	Yes, a member
Multinational Investment Guarantee Agency (MIGA)	Yes, a member
United Nations Convention Against Corruption	Ratified on September 22, 2004
World Intellectual Property Organization (WIPO)	Yes, a member
World Trade Organization (WTO)	Yes, a member since November 17, 1995

