

## **IV. TRADE POLICIES BY SECTOR**

### **(1) INTRODUCTION**

1. The economic reforms undertaken by Madagascar since the mid 1990s have affected all sectors of the economy. Since the start of the reform process, the Government has been retreating from involvement in most economic activities and has progressively encouraged the emergence of a private sector.

2. The process of economic reform, including trade liberalization, and privatization has been progressing in most sectors of the economy. In the agriculture sector, climatical conditions, and the weakness of transport and marketing networks have limited the impact of the reform. The average tariff for the agriculture sector, including hunting, forestry and fishing (Major Division 1 under ISIC Rev.2) is 17.7%.

3. Manufacturing activities are increasingly concentrated in the export-processing zones; textiles and clothing constitute a major subsector. The average MFN tariff for the manufacturing sector (Major Division 3 under ISIC Rev.2) is 16.2%. The Government is taking steps to develop the mining sector, which is still under-developed despite its potential.

4. The implementation of the privatization programme has contributed to the liberalization of the services sector. However, privatization of large parastatals (including in the services sector) has been slow, primarily because of the difficulties associated with creating the appropriate legal and regulatory framework necessary for the successful emergence of private-sector-led activities. The Government of Madagascar, with assistance from the international financial institutions, has also committed itself to attend to the social aspects of privatization; this has slowed the process.

### **(2) AGRICULTURE AND RELATED ACTIVITIES**

#### **(i) General**

5. The agriculture sector, including fishery and forestry, accounts for some 30% of GDP and generates around 40% of merchandise export earnings. According to various estimates, between 75-80% of the population is involved in agricultural activities. Rice is the main staple crop. The main agricultural exports are coffee, vanilla, cloves, cotton, sisal, sugar, pepper, cocoa, and shellfish. About half of Madagascar's territory is cultivable, although little more than 5% is under crops at present. Livestock farming dominates in the savannah regions in the western side of the country. The natural forests have been seriously depleted, resulting in extensive erosion.

6. Since the mid 1990s, the Malagasy economy has undergone an ongoing process of transformation that has seen the gradual withdrawal of the Government from direct involvement in production, processing, and marketing activities that can be performed by the private sector. The Government has liberalized the marketing of agricultural products, and input prices have been decontrolled. Subsidies to the agriculture community have been removed, and the monopolies of cooperatives and marketing boards have been eliminated. The Government has retained only its policy formulation responsibilities. Liberalization of farm trade and the subsequent rise in producer prices have helped stimulate a revival of activity and modest increases in the output of most cash crops. Cash crop agriculture continues to suffer from the weakness of transport and marketing networks.

7. Agricultural and rural development policy is embodied in the Action Plan for Rural Development (Plan d'Action pour le Développement Rural, PADR) for 1992-2002. The PADR

envisioned the redefinition and improvement of the institutions and actors involved in the agriculture sector. The Plan was formulated to take into account the changing economic and social environment in Madagascar and to outline objectives consistent with the development of the private sector.<sup>1</sup> The Government's agricultural policy encourages private-sector participation in the production and trade of agricultural products, and outlines the Government's role as provider of support services, market information, and a regulatory regime. The specific objectives of PADR include:

- to improve the standard of living in rural areas;
- to increase the earnings of rural inhabitants;
- to professionalize agricultural production;
- to promote market opening initiatives;
- to exploit Madagascar's natural resources consistent with environmental protection and sustainable development;
- to reinforce and improve the Ministry of Agriculture's activities consistent with the State's disengagement from production and marketing; and
- to consolidate the role of agriculture in addressing food security issues and the fight against poverty.

8. The performance of the agriculture sector is heavily influenced by climatic conditions. In the south region and central parts, drought severely reduced food production. Three successive cyclones and tropical storms during the 2000 growing season caused severe damage to crops and agricultural infrastructure in central and northern parts of the east coast of Madagascar. Cyclone "Hudah", one of the most powerful registered in the Indian Ocean, struck northern Madagascar in April 2000. The most affected areas were the north-eastern regions which had already suffered severe damage from Cyclone "Eline" in mid-February, and Tropical Storm "Gloria" two weeks later. Floods were also reported along the north-western coast. Although the cyclones did not bring extremely heavy rains, they soaked areas that had not yet dried out from previous floods and the high winds caused further damage to infrastructure, housing and crops, especially tree crops.

9. The extent of the damage to agriculture from the cyclones is not yet fully known, although production decreases of around 15% have been estimated for the year 2000. The regions affected are the main vanilla producing areas and an important coffee and clove growing area. Severe losses to these crops and serious damage to the paddy crop were reported, but statistics are not yet available. Moreover, in the southern region of Madagascar, the 1999 crop (mainly maize) was destroyed by locust.

10. The average MFN tariff rate (including the import tax) for the agriculture sector is 17.7% (Table AIV.1).<sup>2</sup>

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<sup>1</sup> Ministry of Agriculture, (1999).

<sup>2</sup> Including hunting, forestry and fishing. This group corresponds to ISIC (Rev.2) Major Division 1. The average tariff rate for Agriculture (WTO definition) is 19%.

**(ii) Policy by product category**

11. Traditional agricultural exports include shrimp, coffee, vanilla, cloves and clove extracts, pepper, sugar, meat, and cocoa. The production of these goods shows no clear trend; annual fluctuations are largely influenced by climatic circumstances, incidence of pests and diseases, and short-term price variations (Table IV.1). With only a small share of the international market (except for vanilla), increased production of these commodities would not affect world prices. The Ministry of Agriculture is focusing special attention on coffee and vanilla. The Government's extension services have also been focused on the production of litchis; special attention is being given to the introduction of new improved varieties. The Ministry of Agriculture is working to improve the handling and shipping of litchis to foreign markets; in 1999, more than 16,580 tonnes of litchis were exported.

**Table IV.1**  
**Exports of selected agricultural products, 1995-99**  
(SDR million and tonnes)

	1995	1996	1997	1998	1999
<b>Vanilla</b>					
Value	27.2	13.5	7	11.8	19
Quantity	750	1,160	650	680	1,300
<b>Coffee</b>					
Value	61.2	42.6	24	29.4	22
Quantity	39,207	44,170	25,900	30,004	27,860
<b>Cloves</b>					
Value	7.2	3.6	8.9	6.8	24.7
Quantity	17,127	7,070	15,840	9,930	11,900
<b>Clove essence</b>					
Value	3.7	2.9	3.8	2.8	4.3
Quantity	1,577	1,020	1,380	1,020	1,600
<b>Sugar</b>					
Value	9.4	11.5	8.2	5	7.4
Quantity	22,274	25,650	20,560	11,630	31,230
<b>Pepper</b>					
Value	2	2.8	2.1	0.9	1
Quantity	1,439	1,860	890	360	400
<b>Meat</b>					
Value	5.8	2.7	0.9	0	0.8
Quantity	3,790	1,760	620	40	700
<b>Cocoa</b>					
Value	2.5	2.3	0.6	1	0.9
Quantity	3,260	2,900	660	920	1,100
<b>Sisal</b>					
Value	2.8	3.5	1.4	1.2	1.2
Quantity	11,196	11,020	3,820	2,660	2,700
<b>Shrimp</b>					
Value	38.8	43.6	46.8	50.9	44.2
Quantity	8,200	8,030	8,010	8,490	7,200

Source: Central Bank of Madagascar.

(a) Coffee

12. Exports of coffee accounted for approximately 17% of Madagascar's agricultural exports in 1999. Export earnings from coffee have dropped in the past few years as a result of lower world prices and reduced production. In 1996, coffee exports totalled 44,170 tonnes, while in 1999, only 27,860 tonnes were shipped. Annual production has been relatively flat, partially due to climactic conditions, while exports have fluctuated more sharply as a result of world commodity price changes.

13. Coffee trade was deregulated in 1988. Export taxes were eliminated recently. The Government is working with coffee growers' cooperatives to plant new stocks and to revitalize growth of Robusta and Arabica coffee beans. Extension services have focused on training coffee growers to increase yields through a programme of tree pruning. Exports of coffee are subject to mandatory quality inspection.

14. A private association of coffee exporters – Comité National de Commercialisation du Café (CNCC) – is responsible for exports. CNCC provides marketing advice and information on coffee markets to national exporters. It analyses the markets, and collects statistical data on local production, trade, and prices of coffee.

(b) Vanilla

15. Vanilla is among Madagascar's most significant agricultural exports, although production and revenues were erratic during 1995 to 1999. Vanilla exports accounted for around 15% of Madagascar's agricultural exports in 1999.

16. In the period 1995-99, exports of vanilla increased from 750 tonnes to 1,300 tonnes. However, because of a decline in prices, vanilla export revenues fell from 27.2 million SDR in 1995 to 19 million in 1999 (Table IV.1). In 1999, export prices fell by more than 50%.

17. Vanilla was first introduced to Madagascar in 1873. With favourable climatic conditions, production rapidly expanded, and Madagascar is now the world's largest vanilla producer. Production is located in the north-eastern part of the island, where 55,000 farmers are involved in cultivation. The production of vanilla beans in Madagascar fluctuates depending on weather conditions.

18. The Government of Madagascar began to liberalize vanilla activities in 1995. Official export prices were phased out, allowing the price of vanilla to be determined by market forces. More recently, the Government has been working with various farmer cooperatives, including Groupement des Exportateurs de Vanille and Groupement des Entreprises de la SAVA, to improve vanilla production through the provision of extension services, which include the professionalization of the vanilla producing workforce. The Government has also recently published and distributed a manual on vanilla production to the growers' organizations to improve management practices.

19. The Government sets the date and places for sales annually, to prevent excessive amounts of immature vanilla beans being offered for sale. This policy has resulted in a reduction of the share of immature vanilla in total sales, from 30% in 1998 to 20% in 1999. The Government has also set an indicative price for vanilla at FMG 20,000/kg., although the market price fluctuated between FMG 15,000 in 1999 and FMG 90,000 in October 2000.

20. Exports of vanilla are subject to mandatory prior inspection. Certification attesting to the vanilla's quality and wholesomeness is necessary before it can be exported. Inspection posts, which are scattered throughout the country, perform the tests necessary to receive the Certificat de Contrôle, de Conditionnement et d'Origine (CCCO). Vanilla is exported by private operators called

"conditionneurs-stockeurs". Imports of vanillin are subject to prior authorization (Chapter III(2)(vi)). Until May 1997, a tax was levied on vanilla exports. The state trading agency dealing with vanilla has been abolished.

(c) Cloves and clove essence

21. Cloves are also a major contributor to Madagascar's exports. In 1999, cloves constituted the most important agricultural export, accounting for around 20% of all agricultural exports. Clove essence and clove leaf essence constituted about 3% of agricultural exports in 1999. Clove production has been cyclical (with a good harvest every two years), averaging about 13,000 tonnes per year. Almost all of clove production is for the export market. Export volumes have fluctuated since 1995, although revenues, as a result of higher prices, have increased sharply.

(d) Sugar

22. Sugar constitutes Madagascar's third largest agricultural product. Sugar cane production has remained essentially constant since 1995, at about 2,100 tonnes per year. In 1999, sugar exports accounted for around 6% of Madagascar's agricultural exports.

23. With the exception of poor harvest years, Madagascar has generally filled its quota of sugar in foreign markets. For fiscal year 2001 (2000/01) Madagascar's allocation for raw cane sugar, refined sugar, and sugar-containing products amounts to 7,258 tonnes in the U.S. market, and 12,950 tonnes to the EU.

24. Because of climatic conditions, sugar exports have fluctuated since 1995, declining substantially in 1998, to 11,630 tonnes. However, in 1999, exports rebounded significantly, to 31,230 tonnes, with Madagascar making up its quota levels in certain markets.

(e) Livestock

25. More than half of Madagascar's land area is used as pasture, largely for beef cattle: cattle raising is at the heart of the rural economy in much of western and southern Madagascar. Production of livestock has fluctuated; the sector has suffered as a consequence of drought conditions in parts of the island. Exports of meat products have encountered difficulties because of problems associated with sanitary requirements by importing countries ("traçabilité" and epidemiological surveillance). Meat exports, primarily beef, account for less than 1% of agricultural exports, down from almost 6% in 1995 (Table IV.1).

(f) Fisheries and aquaculture

26. The fisheries subsector, in conjunction with livestock, contributes between 7% and 8% of Madagascar's GDP. Shrimp constitutes the most important export product of Madagascar, accounting for around 33% of agricultural exports in 1999. The value of shrimp exports in 1999 was approximately SDR 44.2 million down from SDR 50.9 million in 1998 (Table IV.1).

27. As an island nation, Madagascar is well endowed with water resources. Although traditional fishing is found in all of the coastal areas, most of the industrial and artisanal fishing is off the western coast in the Mozambique Channel. Aquaculture (mainly shrimp farming) is expanding rapidly; it may soon become the major source of production.

28. Significant reform was introduced in the shrimp management before the start of the 2000 season. In particular, a new transparent, non-discretionary, and competitive system for managing

fishing licences and assessing the relevant fees was implemented. This auction-based system, which was to be published in the *Official Gazette* in 2000, enabled a significant increase in fees collected from the sector; a redistribution of the allowable catch among the four newly created areas; and the elimination of exclusive areas. With regard to overall fishing exploitation, a freeze at 36 licences for artisanal fishing and 75 for industrial fishing was agreed for the west coast, pending completion of a scientific study on the sustainable potential for fishing. The authorities expect the introduction of this new system to substantially enhance good management practices.

29. The fisheries subsector in Madagascar is operated wholly by the private sector. There are no restrictions on foreign direct investment in the related activities, such as fish processing. Madagascar does not have any restrictions on fishing licences on nationality grounds.

30. Sanitary requirements by importing countries are a major obstacle to Madagascar's ability to export increasing quantities of fish products. For example, exports of seafood products were dramatically affected in 1997 as a result of a ban imposed by the European Union. More recently outbreaks of cholera have also limited fisheries exports. Sanitary certificates are required for all exportation.

(g) Forestry

31. The forestry subsector is estimated to contribute less than 5% to Madagascar's GDP; its contribution to Madagascar's economy has remained relatively constant since 1995.

32. A national forestry policy was implemented in 1985. However, the degradation of Madagascar's forest resources has increased due to high population growth and a poorly performing national economy. At the same time, as the economy has been liberalized, the Government has gradually withdrawn from forestry production activities, leading to a redefinition and redistribution of responsibilities between the Government and the private sector.

33. In recent years, having realized that the 1985 forestry policy had become obsolete, the Government has endeavoured to harmonize forest conservation aims with the concept of sustainable development. This has evolved into the formulation of the New Forestry Policy revolving around four main themes: stemming the degradation of forests; managing forest resources better; increasing the acreage and potential of the forestry subsector; and improving the economic performance of the subsector.

34. The Ministry of Forests and Water is responsible for implementation of the New Forestry Policy. The overall goal of the policy is to enhance the contribution of the forestry subsector to the sustainable development of Madagascar as well as the conservation and management of its natural resources.

35. The Ministry is also responsible for the regulation of trade in forestry products. Numerous restrictions are in place due to Madagascar's biodiversity and the desire to safeguard plant species. Many restrictions are implemented as a result of Madagascar's adherence to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

36. Exports of forest products are subject to inspection to ensure quality and origin requirements. Madagascar applies an export fee on raw logs and wood products. The fee is 1.5% of the f.o.b. value for wood products, and 4% of the f.o.b. value for raw logs; it is deposited in a special account in support of the forestry sector (Fonds Forestier National, FFN). A stumpage fee is also collected.

**(3) MINING AND ENERGY****(i) Mining**

37. Madagascar is endowed with a wide variety of minerals, but most of the deposits are found in scattered and relatively inaccessible locations. The Government nationalized all mineral deposits in 1975, bringing mineral prospecting and exploitation under the National Military Office for Strategic Industries (Office Militaire National pour les Industries Stratégiques). Since 1985, with the introduction of a new Investment Code, the Government has been prepared to welcome foreign investment in mining and encourage foreign firms to prospect for minerals. In 1990, a revised mining investment code was implemented, which encouraged private investment and exploitation, but the results so far have been disappointing. As a result, a new mining code has been drafted and is likely to be implemented soon.

38. Madagascar has substantial reserves of high quality chrome ore, graphite, mica, bauxite, and iron ore. In addition, it has small deposits of a wide variety of valuable minerals, including uranium, quartz, monazite, garnet, amethyst, ilmenite, zircon, and titanium, which are being prospected for and produced on a limited scale. The most important mining activities in Madagascar include chromite, graphite, and auriferous production (Table IV.2).

**Table IV.2**  
**Mining production, 1995-98**

	1995	1996	1997	1998
Chromite (tonnes)	105,747	139,272	139,471	134,659
Graphite (tonnes)	16,119	16,103	14,107	18,690
Auriferous production (kg.)	38	7	8	12

*Source:* Madagascar's Department of Mining.

39. Chrome ore is Madagascar's major mineral (by volume) export; Madagascar is the 10<sup>th</sup> largest chrome producer in the world (Table IV.3). The main deposits are located at Andraimena. Production of chromium ores and concentrates has increased in recent years. Small quantities of marble, garnets and amethysts are also mined. Minerals contribute about 5% of export earnings.

**Table IV.3**  
**Mineral exports, 1995-98**

	1995	1996	1997	1998
Industrial stones (tonnes)	582	1,757	1,599	4,632
Graphite (tonnes)	18,649	14,578	15,299	9,944
Sapphires (kg.)	116	160	4,248	2,547
Gemstones (kg.)	1,337	1,290	5,069	4,388
Rubies (gr.)	13,137	4,054	18,640	29,934
Mica (tonnes)	1,314	1,133	1,142	1,051
Chromite (tonnes)	122,000	129,260	133,960	115,226
Emeralds (gr.)	734	686	695	600

*Source:* Data provided by Madagascar's Department of Mining.

40. Plans have been developed for bauxite production in the south-east, and for iron ore mining; there has also been prospecting for coal, ilmenite, zircon, phosphates, titanium, lead, and zinc. Since the late 1970s, oil prospecting has been in progress with the involvement of U.S. and EU companies. Small deposits of oil and gas have been found, but it is unclear whether production will commence.

41. There is some gold production but its amount is difficult to assess because of reported smuggling; official gold exports are very small, but the potential has been estimated at up to 8 tons per year. In February 1994, the Government signed an agreement on gold and precious metals mining with International Capital and Securities Exchange of Switzerland.

42. A new mining law was approved by the Government in 1999, and sent to the National Assembly for approval. In addition, the Government is preparing another mining law to promote mining projects of more than US\$200 million. The Government's vision for the mineral sector for the next 10-30 years is to have a strong, vibrant, well-organized, private-led sector. Encouragement is being given both to small and large-scale mining projects with emphasis on safety and environmental concerns. The Government target is for the mining sector to contribute at least 10% to GDP; the current level is approximately 1.5%, up slightly since 1994 when its contribution was less than 1%.

43. Pursuant to Law No. 99-022 of 30 July 1999, a 2% licensing fee is collected on the value of mineral products at first sale. The revenue collected from the licensing fee is distributed as follows: 70% to the budget of the province involved (one third of that to the county where the minerals originated); 15% to the Office of Mining Planning (Bureau du Cadastre Minier); 5% to the gold agency; and 10% to the general state budget.

44. To ensure that expansion of the mining sector is in conformity with its environmental conservation policies, the Government requires that investors bear the cost of producing an environmental impact statement, and that all operations are carried out in accordance with the *Mise en Compatibilité de l'Investissement et de l'Environnement* (MECIE).

## **(ii) Energy**

45. The Government's policy in the energy subsector is aimed at: liberalization in order to introduce competition, to the extent possible; improving the transparency of existing regulations, with particular emphasis on pricing policy to promote efficiency and quality of service; protection of the environment and public health in all energy-related activities; promoting public access to electricity and petroleum products throughout the country; promoting the use of local sources of energy, particularly renewable sources; decentralizing policy formulation to promote local infrastructure development and private-sector participation; and promoting the efficient use of energy resources in all economic activities.

46. Energy needs are met by electricity, petroleum products, firewood, and charcoal, which has contributed to the precarious nature of the country's forests and serious erosion problems, and by the bagasse from sugar cane used in sugar production; two power stations using bagasse as fuel, and a solar energy plant are planned.

47. Although there are reserves of 100 million tonnes of coal, primarily near Sakoa in the south-west, less than 10,000 tonnes are used annually. The Government seeks to expand domestic coal use; however, extraction of coal resources is considered to be non-economic.



## (a) Electricity

48. Only 8% of Madagascar's population has access to electricity. In rural areas, the level of access is less than 1%. Estimates suggest that growth in demand for electricity will be about 7% per year for the next ten years. Current installed capacity in Madagascar is 233 MW although actual operating capacity is estimated to be around 100 MW.

49. Hydroelectric power currently constitutes only 106 MW of electricity generation although there is a potential for about 7,800 MW. About 80% of all electricity demand is met by production from seven hydroelectric power plants that serve Antananarivo, Antsirabe, and the Andriamena chrome mine; the remaining 20% is met by thermal stations or other hydroelectric power. Many plants have their own small diesel or steam generators.

50. Madagascar introduced new legislation to open up the electricity generation market to private sector competition.<sup>3</sup> The Government is proceeding with the privatization of JIRAMA, which is the state-owned electricity producer and distributor in Madagascar. In preparation for this privatization, the Government has been formulating sectoral policy and instituting a regulatory structure, which will allow for competition. It is the Government's intention to complete this privatization by 2001.

51. A major issue related to privatization will be how to address the problems of rural electrification. Plans are being developed to bring electricity to rural areas under a project called PROGELEC. Another component of this process will be the creation of an Agency for the Development of Rural Electrification (*Agence de Développement de l'Électrification Rurale, ADEER*).

52. Efforts are under way to reform JIRAMA's operations and to introduce private-sector participation. Plans for the privatization of power distribution are being developed first, due to the greater economies of scale that can be achieved. But a regulatory framework does not yet exist and is not likely to be in place for another two to three years. Consideration is being given to the creation of a Rural Electrification Fund.

## (b) Petroleum

53. Madagascar depends entirely on imports to satisfy its oil needs. Madagascar's only oil refinery is at Tamatave. It refines some imported crude petroleum for export. Exploration results to date have shown promising reserves of commercially exploitable heavy oil.

54. Madagascar's oil industry is considered by the Government as essential to the nation's further economic development. The petroleum subsector has been liberalized since 1999.<sup>4</sup>

55. Regulation of the hydrocarbons subsector is vested in the Malagasy Office for Hydrocarbons (Office Malgache des Hydrocarbures, OMH), which has been in existence since 1999. The Office is intended to protect consumers by establishing ceiling prices during a transition period as the sector moves toward full liberalization. The Ministry of Energy is responsible for setting national petroleum policy, and through OMH, has the authority to grant licences for petroleum exploration and related activities.

56. Distribution of petroleum has been in the hands of the private sector since the privatization of SOLIMA, the state petroleum company, in 1999.

<sup>3</sup> Law No. 98-032 of 21 January 1999 and subsequent decrees.

<sup>4</sup> Law No. 93-002 and Law No. 99-010 promulgated on 17 April 1999.

#### **(4) MANUFACTURING**

57. Madagascar's manufacturing sector is underdeveloped but growing in importance, primarily as a result of significant growth in activities in the export-processing zones (EPZs). The sector is dominated by food processing and beverages, agri-business, light manufacturing, construction, soaps and detergents, packaging, textiles, and footwear. According to the Ministry of Finance and the Economy, the manufacturing sector contributes approximately 12% to GDP.

58. Madagascar's manufactured exports have grown since 1995, and now account for nearly 60% of the value of merchandise exports. Between 1995 and 1999, exports grew from SDR 169.9 million to SDR 295.5 million, due largely to a sharp increase in textiles exports.

59. The textile and apparel subsector has become increasingly important for Madagascar, particularly as firms have established themselves in Madagascar's EPZs. About 50% of the EPZ enterprises are in the textiles and apparel subsector.

60. Exports from Madagascar's export-processing zones constitute approximately 35% of all merchandise exports; the figure more than doubled between 1995 and 1999. EPZ exports are increasingly composed of textiles and apparel goods; in 1997, exports of these goods to the European Union amounted to SDR 135.8 million.

61. The average MFN tariff (including the import tax) on manufacturing is 16.2% (Chart IV.1).<sup>5</sup> Average tariffs by subsector are highest for tobacco products, clothing, furniture, and beverages (Table AIV.1).

62. Concern has been expressed by various private-sector business associations regarding the lack of competitiveness of Madagascar businesses. With the process of reform and trade liberalization, businesses have seen an increase in foreign competition. Business groups also express concern about low domestic demand, which makes economies of scale impossible to achieve. Poor infrastructure and Madagascar's geographic isolation add to the difficulties. The Reflection Committee on Competitiveness has been established to handle these issues.

#### **(5) SERVICES**

63. The services sector contributes around 52% to Madagascar's GDP; tourism is the largest component. Madagascar's Schedule of Specific Commitments under the GATS covers only a few business services activities (Table IV.4).

##### **(ii) Financial services**

###### **(a) Banks and other financial institutions**

64. Until the early 1990s, virtually all financial institutions in Madagascar were wholly owned by the Government. Banks' operations were under the direction of the Government and competition was non-existent. Due to lack of competition and perceived inefficiency in the provision of services, the performance of the financial institutions was recognized to be a hindrance to economic development.

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<sup>5</sup> This group corresponds to ISIC (Rev. 2) Major Division 3. The average MFN tariff, excluding the import tax is 6.2%.

**Chart IV.1****Tariff averages in the manufacturing sector, ISIC (Rev.2), 2000**

Per cent

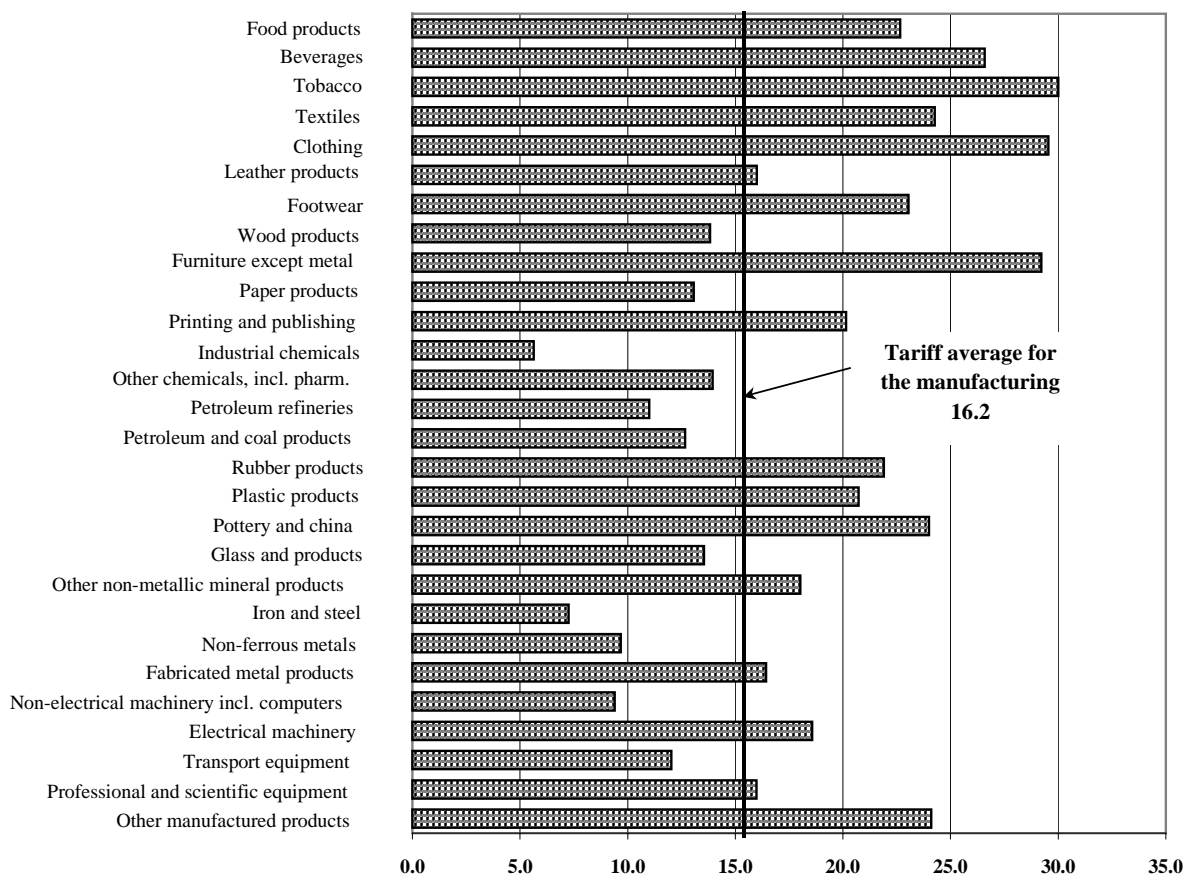
**Note:** Averages includes import tax.**Source:** WTO Secretariat calculations, based on data provided by the Madagascar authorities.

Table IV.4  
Summary of Madagascar's specific commitments in services

Sector or subsector	Modes of supply			
	Cross-border supply	Consumption abroad	Commercial presence	Presence of natural persons
1. Business services	Market access/National treatment			
F. Other business services				
(e) Technical testing and analysis services (CPC 8676) <sup>a</sup>				
Research, analysis and control of basic equipment in the following sectors:	U/U	NL/NL	LSP <sup>b</sup> /NL	U/U
- preparation of products of vegetable origin				
- logging and industrial reforestation				
- storage and packaging of food products				
(n) Maintenance and repair of equipment (CPC 886) <sup>a</sup>	U/U	NL/NL	LSP <sup>b</sup> /NL	U/U
Preparation and control of basic equipment in the following sectors: <sup>c</sup>				
- tourism and hotels, with the exception of transport activities relating to tourism				
- industrial fishing				
- packaging of food products of animal origin				

a The service sector specified represents only part of the activities covered by the corresponding heading of the CPC.

b Enterprises must obtain approval from the authorities concerned, and comply with the performance requirements set forth in the approval documents in accordance with the stipulated criteria, including the number of local jobs created and the national value-added criterion.

c These activities do not include the sale or rental of equipment or new or used parts required for maintenance activities.

Note: NL No limitations.  
U Unbound.  
LSP Limitations apply under specific conditions.

Source: WTO document GATS/SC/51, 15 April 1994.

65. In keeping with the Government's reform efforts and the new appreciation of the critical role of financial institutions in the economic reform process, the subsector has been fully privatized. The reform was initiated with the passage of two statutes.<sup>6</sup> These laws and subsequent decrees and regulations created the new structure for the subsector. The Government of Madagascar has recently notified to the WTO a number of regulations governing the activities of banks and financial institutions.<sup>7</sup>

66. There are seven banks operating in Madagascar, six of which are subsidiaries of foreign banks. They are: BSM (Banque de Solidarité Malgache); BNI/CLM, which is affiliated with Crédit Lyonnais; BFV/SG, affiliated with Société Générale; BTM/BOA, affiliated with the group African Financial Holding; BMOI, affiliated with Banque Nationale de Paris; UCB, affiliated with Mauritius Commercial Bank; and SBM, affiliated with State Bank of Mauritius. There are also two non-bank

<sup>6</sup> Law No. 95/030 of 22 February 1996, and Law No. 96/020 of 4 September 1996. The provisions of Law No. 95/030 define its scope of application and the activities of credit institutions, specifying the categories into which they fall, how they are regulated and controlled and the penalties applicable in case of violation (WTO document S/C/N/132, 6 October 2000).

<sup>7</sup> WTO documents S/C/N/133 to 137, 6 October 2000.

financial institutions, Investco and Equipail, and a number of credit unions and micro-finance entities.

67. The Government still maintains shares in three of the banks: 15% in BTM/BOA, formerly the Agricultural Bank of Madagascar; 30% in BFV/SG; and some 33% in BNI/CLM.

68. The Banking and Financial Supervision Commission (Commission de Supervision Bancaire et Financière, CSBF) is responsible for supervision of banks and other financial institutions. The Commission is chaired by the Governor of the Central Bank of Madagascar; it includes representation from the Treasury, the Finance Ministry, and others with experience in financial (including banking) issues.

69. The CSBF grants licences for "territorial" banks, which may provide all banking services; "offshore" banks, which may only provide services to non-residents; and other financial institutions. No specific limits are set on the ownership of financial institutions. However, prior authorization by the CSBF is required for a corporation to hold more than 33%, an individual to hold more than 50% and a group of individuals to hold more than 66%.

70. In order to ensure the safety and soundness of the financial sector, the regulatory and supervisory environment is being modernized consistent with the Basle Committee's Core Principles for effective banking supervision.<sup>8</sup> Financial institutions – in particular, credit unions and institutions in the emerging micro-finance sector – will also be governed by prudential regulations and effective supervision, similar to those applicable to banks.

(b) Insurance services

71. The insurance market in Madagascar is regulated by Law No. 99/013. The Act brought to an end the Government monopoly in insurance services, which had existed since 1975. The National Insurance Company (NIC), a parastatal organization, is scheduled to be privatized.

72. The Ministry of Finance is responsible for licensing providers of insurance services. Before an insurance provider may commence operations in Madagascar, it is required to obtain approval from the Ministry of Finance, which, in consultation with the Insurance Council (Conseil des Assurances), assesses the proposed operations of the provider. The licence may be issued for one or more types of insurance policies. The premium rates are set by the Council, subject to approval by the Minister of Finance.

73. Subsidiaries of foreign insurance companies established in Madagascar are subject to the same regulations as Malagasy companies. Cross-border supply of insurance services is permitted for companies established in Madagascar. However, a Malagasy resident may not take out insurance abroad.

74. The Government is currently developing regulations on the minimum required capitalization of insurance providers. Insurance providers are required to maintain sufficient assets in Madagascar to cover their obligations and to notify the Ministry of Finance of any changes in assets and ownership of the company.<sup>9</sup>

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<sup>8</sup> This is in response to an IMF technical assistance mission in November 1999, which examined the conformity of Madagascar's banking regulations with the Basel Core Principles.

<sup>9</sup> The level of the assets will be set by the regulations under preparation. The regulations are to be adopted before March 2001.

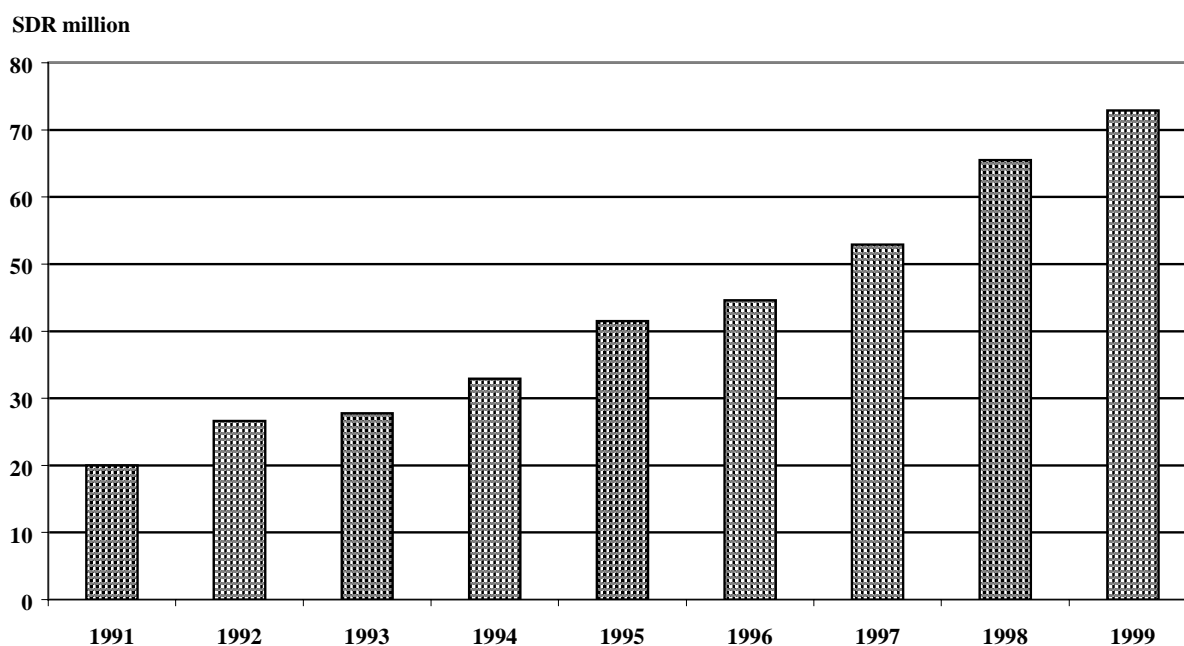
75. Currently, there are three insurance services providers: two corporations organized pursuant to Malagasy law, ARO et NY HAVANA, and a mutual insurance company, M.AMA. ARO and NY HAVANA are parastatal entities operating under the umbrella of the Comité des Sociétés d'Assurance (C.S.A.), and provide life insurance as well as other insurance policies. M.AMA provides only automobile insurance. As at November 2000, no subsidiary of a foreign insurance company has been established in Madagascar.

**(iii) Tourism, restaurants, and hotels**

76. The Government of Madagascar places heavy emphasis on the potential of an expanding tourism subsector in economic development and as a source of foreign currency earnings. In 1995, a separate Ministry of Tourism was created to set policy for the development of the subsector. Tourism constitutes around 16.5% of Madagascar's GDP and employs approximately 16,000 persons. Earnings from tourism activities have increased consistently over the past decade: in 1999, tourism generated gross earnings of SDR 72.9 million, up from SDR 20 million in 1991 (Chart IV.2).

**Chart IV.2**

**Tourism service earnings in Madagascar, 1991-99**



Source : Ministry of Tourism.

77. The tourism subsector is governed by Law No. 95-017 and Decree No. 96-773.<sup>10</sup> Because of the difficulties related to land ownership, the Ministry of Tourism is attempting to facilitate the process for investors in tourism activities to have access to developable land. In collaboration with the Ministry of Development Planning, the Ministry of Tourism is identifying parcels of land suitable for development. The Ministry is also trying to address the lack of sufficient professionalism in the tourism subsector by providing training to the operators.

<sup>10</sup> Loi No. 95-017 du 25 août 1995 portant code du tourisme; Décret No. 96-773 du 3 septembre 1996 relatif aux normes régissant les entreprises, les établissements et opérateurs touristiques.

78. Tourism is underdeveloped and efforts are being focused both on the supply and demand side. The Ministry of Tourism is working to further develop tourism; it is collaborating with other relevant ministries with the understanding that issues that are the responsibility of other ministries, such as telecommunications, infrastructure, and immigration procedures all have an impact on tourism. The Ministry's objective is to develop high quality tourism, while maintaining relatively low volumes. The Ministry set a target of approximately 300,000 tourist visits per year by 2005. In 1999, nearly 140,000 tourists visited Madagascar, spending an average of 20 days in the country, of which four in hotels (Table IV.5).

**Table IV.5**  
**Tourism in Madagascar, 1992-99**  
(Number and SDRs)

	1992	1993	1994	1995	1996	1997	1998	1999
Number of tourists	53,655	55,102	65,839	74,619	82,681	100,762	121,207	138,253
Earnings (SDR million)	26.6	27.8	32.9	41.5	44.6	52.9	65.5	72.9
Average number of days per tourist	..	..	18	18	16	15	20	20
Average stay in hotels	..	..	..	5	4	4	4	4
Number of hotels (1-5 star)	..	..	..	..	111	111	111	111
Number of rooms	..	..	..	..	3,040	3,040	3,040	3,040
Average room occupancy per year (%)	..	..	..	55	57	57	58	60
Total number of employees in tourism industry	9,107	9,812	10,145	13,355	13,707	13,979	14,363	15,574

.. Not available.

Source: Ministry of Tourism.

79. A National Committee for the Development of Tourism (CNDT) was established at the end of 1991. The CNDT consists of representatives of the ministries involved in the tourism subsector. The Committee proposes solutions, to the Government, to problems affecting the subsector. Moreover, Maison du Tourisme de Madagascar, a private association, is responsible for the promotion of Madagascar as a tourist destination. The association collects a tourism tax ranging from the equivalent of FF 1 to FF 3 per night spent in a hotel in Madagascar; the rate depends on the standard of the hotel.

80. Madagascar attracts visitors from around the world, although the largest percentage of arrivals are from France (54% of the total in 1999). Other countries, individually account for less than 10% of the total number of visitors. The Ministry recognizes that Madagascar is still relatively unknown as a tourist destination, and that distances to Madagascar make visits expensive. Nevertheless, the authorities are committed to the expansion of tourism in Madagascar.

81. Private investment in tourism has declined since 1996, when sector specific incentives under the former Investment Act were discontinued. In 1994, private investment amounted to FMG 154.4 billion; after reaching a high of FMG 358.7 billion in 1996, it fell to FMG 196.9 billion in 1998.

#### (iv) Telecommunications

82. Madagascar's telephone density is three main telephone lines per 100 people, well below the average for near-by Seychelles (19.2), Mauritius (16.2), and South Africa (10.0).

83. Madagascar's telecommunications subsector is undergoing significant change as the Government increasingly recognizes its vital role in economic development. In 1993, the public company in charge of telecommunications and postal services was split; Telecom Malagasy (Telma), is responsible for telecommunications services.

84. In 1996, the Government began the liberalization process in telecommunications, seeking to improve services by restructuring the subsector and favoring development of private initiatives. Telma was partially privatized: 66% of its capital is still held by the State; and France Cable et Radio (FCR) holds the remainder. Telma is the only supplier of basic telecommunications services; it also manages the network. Further privatization of Telma is under preparation, following which the State will no longer be a majority shareholder. Moreover, four mobile telephone services suppliers (Telecel Madagascar, Sacel Madagascar, Société Malgache de Mobiles, and Madacom) are also operating in Madagascar.

85. With the assistance of the Office Malagasy d'Études et de Régulation des Télécommunications (OMERT), the Ministry of Post and Telecommunications is responsible for the formulation of national telecommunication policies, as well as network planning. OMERT, *inter alia*, grants licences, sets and approves standards for radio and telephone equipment, manages frequency resources, and settles disputes in the telecommunications subsector. OMERT is financed with revenue from fees and taxes it collects (e.g. licence and frequency allocation fees).

86. Prior to providing any telecommunication services, or supplying any equipment, the provider or supplier must obtain either a network licence, an authorization to provide services, or an agreement to supply equipment. The procedures vary depending on the activities of the operator.<sup>11</sup> In principle, in areas where the number of licences is limited for technical reasons, public tendering is required for their allocation.<sup>12</sup> With the exception of tariffs of mobile telephone services (freely set by the suppliers), prices of all the other telecommunications services are subject to approval by OMERT. Interconnection prices are negotiated between the suppliers concerned, subject to approval by OMERT.

87. There are no plans to privatize the postal service. Upon obtaining the appropriate licence from the Ministry of Post and Telecommunications, private enterprises are permitted to participate in functions traditionally carried out by the postal service. The delivery of letters and packages weighing less than 2 kg. (by ordinary courier) is to remain exclusively with the State's postal service.

88. Madagascar has not made any specific services commitments under the GATS with respect to telecommunications.

#### **(v) Transportation**

89. Improvement of the transportation system is among the objectives of the economic reform programme of the Malagasy Government. Madagascar's Ministry of Transport is moving ahead with privatization of transport services. Indeed, it is removing itself from the operation of any transportation services, and is focusing its efforts on the planning, policy setting, and monitoring of transportation services. The private sector is expected to provide transport services and to participate in provision and management of infrastructure. New legislation and regulatory structures are being implemented to assure standards of performance, safety, protection of infrastructure, environment, and protection of consumers against monopolistic practices.

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<sup>11</sup> Decree No. 97-1155 of 19 September 1997.

<sup>12</sup> Law No. 96-034 of 27 January 1997.



(a) Land transport

90. Madagascar has a road network of approximately 49,837 km.; only 5,781 km. is tarred. Significant capital investment is needed to improve the road network.

91. Madagascar's rail network consists of 883 km. of narrow gauge track. The network is currently state-owned. A private company has been commissioned by the Government to manage the network and operate rail transport in north Madagascar. A state-owned company, Réseau National des Chemins de Fer Malagasy, is still managing the network and operating rail transport in the Southern region. Although, there is only one concessionary company, the Government intends to put into place a regulatory pricing process. Truck transportation currently competes with rail transport.

(b) Air transport

92. Domestic air travel is important in Madagascar because of the long distances between major regions of the country and the poor ground transportation infrastructure. Like other subsectors of the economy in Madagascar, aviation has been undergoing reform. The ongoing liberalization of the industry is likely to create opportunities for private-sector participation.

93. Liberalization of the air transport subsector has been under way since 1994. In 1997, international services were liberalized. A new regulatory framework was established in 1999, and a new civil aviation regulatory body, Aviation civile de Madagascar, came into existence in January 2000 as well as a new civil aviation law.

94. Air Madagascar, the national carrier, is currently wholly state owned. The Government intends to privatize Air Madagascar in 2000: approximately 65% will be offered to the private sector; the balance will remain in the hands of the State. The privatization has encountered some problems but the Government is fully committed to concluding privatization soon.

95. Before air transport services were liberalized, Madagascar's aviation arrangements with foreign countries were governed by 24 bilateral agreements, dating back to 1962 in the case of an agreement with France. Madagascar is pursuing an open-skies policy in parallel with the privatization of Air Madagascar. Charter companies have been permitted into the local market in order to improve competition in domestic air transport. Air Madagascar will continue operating eight national routes for a period of five years, although other carriers will be allowed entry if they meet internationally recognized technical standards.

96. Madagascar's major airport is Antananarivo/Ivato. The country technically contains 211 airfields, but only around half are usable, and only thirty maintain permanent-surface runways. Madagascar's airports are currently owned and operated by the Government. The Government is planning to privatize airport operations through the granting of long-term concessions to private operators. In addition, SOFITRANS, which operates airport duty-free shops, catering, and aircraft handling services is also scheduled to be privatized.

97. Madagascar is a signatory to the Chicago Convention, and abides by the standards and practices of the International Civil Aviation Organization.

(c) Maritime transport

98. Madagascar has 15 ports along its 4,828 km. coastline. The major ports are at Antsiranana, Antsohimbondrona, Mahajanga, Toamasina, and Toliara.

99. Consistent with reforms under way in other areas, the Government's policy is to promote private-sector enterprises (including harbour services such as pilotage) and to improve the operation and efficiency of Madagascar's ports. Importers and exporters are free to use the service of any freight company. Port facilities are in the hands of the State, and capital improvements are the responsibility of the Government. Port operations have been privatized through a system of long-term concessions.

100. There are approximately 20 maritime transport companies. With the exception of SMTM, which is 59% state-owned – SMTM currently manages one maritime fleet –, all the companies are privately owned.

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