

The Republic of Madagascar

The Center for Global Development prepared this summary based solely on the publicly available proposal submitted by the Republic of Madagascar to the Millennium Challenge Corporation.

Overview

The government of the Republic of Madagascar seeks an unspecified amount in financial assistance from the MCA. The financial package would be used to restore the rule of law, expand the economic growth base, and revamp social investment programs, particularly in rural areas. The MCA fund would support parts of the PRSP program, which aims to reduce the poverty rate by 50 percent in ten years through rapid and sustainable development.

Context

Despite its abundant natural resources, which could spur economic growth, particularly in the food and agricultural sectors, Madagascar remains one of the world's poorest countries. This poverty is most apparent in rural areas where 80 percent of the population lives. According to the proposal, bad governance, .i.e., cumbersome legal system, corruption, opaque land tenure policies and weak infrastructure, slows productivity and the development of the agricultural sector. Public mismanagement also hinders access to markets for rural producers.

Limited access to credit and the lack of market opportunities discourage the agricultural sector from adopting new technologies, preventing producers from fully taking advantage of the market. As a result, the informal sector hampers the economy. Poverty reduction and economic growth programs cannot yield positive results without rural development.

Elements of the Proposal

The MCA program takes into account other existing programs that make up the PRSP. According to the proposal, Madagascar has chosen an integrated approach to poverty reduction and economic growth. The three priority areas of the MCA proposal (rule of law, economic growth and social investment projects) are interdependent. Fourteen initiatives have been selected to support these priority areas. They range from the fight against corruption, the promotion of democracy, to education, health, economic stability to rural development. The three priority areas are:

1. The Rule of Law

This area encompasses all initiatives related to the development, improvement and enforcement of an institutional framework for good governance, such as land tenure reform, decentralization of public management, democratization, and reform of fiscal and custom services. According to the proposal, the government aims to create an

environment which is favorable to rapid and sustainable growth. The State could then fulfill its role as a catalyst for economic change with efficiency in a transparent system.

2. Expansion of Economic Growth

In this area, Madagascar would increase productivity across economic sectors. The project would establish frameworks for a public and private sector partnership, and build networks for the transfer of technical, professional and research skills. The private sector would play a critical role in this initiative, particularly in capital acquisition. This project would encourage the emergence of new entrepreneurs by creating business cooperatives and by extending access to credit for small businesses. The objective is to modernize production to help induce growth by diversifying economic activity opening the country to the world economy. The government would monitor the process to ensure an equitable allocation of resources.

3. Increase in Social Investment

In recent years, Madagascar has increased its social development expenditures. According to the proposal, education expenditures as a percentage of the country's total expenditures grew from 20.2 to 26.6 percent in 2004. The same year, health expenditures increased from 8.5 to 10.4 percent. Building on this momentum, parts of the MCA fund would be used to help increase school capacity and build teacher's technical skills, vaccinate all children, preserve the environment and promote sustainable management of renewable natural resources.

Proposed Outcomes

At the conclusion of this program, Madagascar would, among other things:

- Create an environment that is conducive to investment, particularly for rural development, i.e., land law reform to facilitate land acquisition by small farmers, institutional reforms at the local, regional and national levels, business law reform
- Rehabilitate 14,000 kilometers of roads by 2008; Built new roads to meet market needs
- Increase access to potable water and sanitation services
- Strengthen the comparative advantage of various regions by diversifying and modernizing their economic activities
- Increase women's access to prenatal care and child delivery assistance; Reduce infantile mortality rate
- Modernize higher education to meet the demands of the job market

Consultative Process

According to the proposal, Madagascar used the same consultative approach the government relied on for the formulation of the PRSP. The government hosted a national consultative workshop in September 2004 to which about 200 people participated, representing the private and public sectors, civil society and the academic world.