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Folder ID: 1771118

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4549S

Series: Contacts - Member Countries files

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: June 28, 2013

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McNamara Papers

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President's papers - Robert S. McNamara Contacts with member countries: Malagasy Republic - Correspondence 01

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MALAGASY REPUBLIC

MALAGASY REPUBLIC

- 10/1/68 Victor Miadana, Minister of Finance and Commerce
- 11/4/68 Jacques Rabemananjara, Foreign Minister
Rajonson-Raymond, Chief of State
Rene Gilbert Ralison, Charge d'Affaires, Embassy
- 10/9/69 Jacques Rabenemanfara, Minister of State in charge of Foreign Affairs
Rene Ralison, Charge d'Affaires, Embassy
Raymond Raelina, Personal Assistant to the Minister of State
Leon Rajaobelina, Alternate Executive Director, IMF
1. 2/26/70 Ambassador Jules Razafimbahiny
 2. 5/17/72 Ambassador Jules Razafimbahiny (farewell call)
 3. 12/4/72 Ambassador Henri Raharijaona
 4. 7/26/73 Minister of Foreign Affairs Didier Ratsirake
Ambassador Henri Raharijaona
Claude Ratsimandresi, Director of International Cooperation,
Ministry of Foreign Affairs
 5. 10/1-2/
73) Mr. McNamara's Impressions (*Filed in McN office*)
 6. 10/1/73 Miss Jacqueline Granger, UNDP Representative
(Tanan-
arive)
 7. 10/1/73 Brig. Gen. Gilles Andriamahazo, Minister of Development of the Territory
(Tanan-
arive) Dr. Justin Manembelona, Minister of Education
Dr. E. Rakotovahiny, Minister of Rural Development
Lt. Col. Joel Rakotomalala, Minister of Information
Albert-Marie Ramaroson, Minister of Finance and Economy
Col. R. Rabetafika, General Director of Government
Mr. R. Randriamandranto, Director General of Finance
L. Rajaobelina, Governor of the Central Bank
R. Rabenoro, Economic and Financial Advisor to the Government
Mrs. C. Rabevazaha, Director of Planning



Mr. McNamara

*to see
ca 3/23*

OFFICE MEMORANDUM

TO: Record

FROM: Michael L. Lejeune

SUBJECT: MALAGASY REPUBLIC - Visit by Ambassador

DATE: March 20, 1970

On February 26, 1970 Mr. McNamara was visited by the Ambassador of the Malagasy Republic, H.E. Jules Razafimbahiny, Mr. Kochman and Mr. Lejeune were present.

The Ambassador had recently taken up his appointment and this was a courtesy call. Nothing of significance was discussed.

cc: Mr. McNamara (2)
cc: Mr. Halbe

Michael L. Lejeune

MLL:neb

President has seen

BIOGRAPHICAL NOTE

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* *

Mr. Jules Razafimbahiny,
Ambassador of the Malagasy Republic in Washington

Mr. Jules Razafimbahiny who has been recently appointed Ambassador of the Malagasy Republic to the United States was for the last three years Secretary of State for Foreign Affairs and External Trade. He was mainly responsible for African Affairs. Before becoming a member of the Government, he was Ambassador of Madagascar in London from June 1965 to August 1967. Originally, Mr. Razafimbahiny was one of the leaders of the Christian Trade Union Movement in Madagascar and in Africa; by training he is a lawyer and an economist. Prior to his entering the Foreign Service, he was the Secretary General of the OAMCE in Yaounde (African and Malagasy Organization for Economic Cooperation) from 1962 to 1964.

As Secretary of State he came to New York last November to attend the General Assembly of the UN and paid a visit to Mr. El Emary on November 13. During this meeting he indicated how much his Government was anxious to continue obtaining World Bank Group assistance for the development of his country. He showed a keen interest in development and aid problems.

M A D A G A S C A R

Briefing Paper

Political Situation

1. Madagascar has benefited from a stable political climate since independence in 1960. President Tsiranana, a popular political figure, closely identified with the struggle for independence, has ruled the country with gentle hand and has been something of a father-figure. The country has one important political party, "Parti Social Démocrate" (PSD) which can count on over 90 percent of the popular votes. The main opposition party (AKFM) has its stronghold in Tananarive, and is slightly more nationalistic and socialistic than PSD. On the national level, however, its influence is small. Political stability has been based on a delicate balance between the various ethnic power groups in the country, mainly between the Merina people of the Hauts Plateaux and the coastal people who represent about 60 percent of the total population.

2. President Tsiranana, in office since 1960, is apparently a sick man and might not be running for re-election in 1972. No one man stands out as obvious successor at this time, and with parliamentary and presidential elections coming up during the next two years, political questions are likely to be preoccupying.

Recent Economic Developments

3. A Bank economic mission visited Madagascar last November/December, and its preliminary findings are that economic growth in the last five years has not been very satisfactory. National income on a per capita basis has hardly increased between 1964 and 1966. In 1967 and 1968 economic growth may have been somewhat higher, but was still less than 2 percent per capita. This slow progress is mainly due to stagnation in agriculture. Lack of proper project preparation is one of the main reasons for this unsatisfactory situation. A certain number of investments have taken place in industry, mostly of the import-substitution kind (textiles, beer etc.). A major investment has been undertaken to exploit deposits of chromite.

4. Medium-term development prospects on the whole do not appear to be very bright owing mainly to poor export prospects for the country's main products, namely coffee, vanilla and sugar, and to rapid population growth (2.2 percent).

Bank Group's Activities

A. Current Operations

5. So far, the Bank Group has approved four operations in Madagascar for a total of \$25.6 million, of which \$11.1 million from the Bank and \$14.5 million from IDA. The Bank has also made a grant of \$196,500 for a port study.

(i) First Road Project - Credit No. 90, \$10 million, August 1966

The project consists of the reconstruction of a 160 km section of the Tananarive-Majunga road and the detailed engineering of a bridge over the Betsiboka river on the same road. The project is now more than 80 percent completed; thanks to favorable contracting, savings of about \$2.8 million are expected. At the Government's request, IDA agreed last month to the use of the major part of these savings for the financing of (a) bridge construction works on the Betsiboka river, and (b) detailed engineering for the Arivonimamo-Analavory road and feasibility studies for the Tananarive-Fianarantsoa road, the Moramanga-Tamatave road and the Lake Alaotra-Vavatenina road.

(ii) Education - Loan No. 510, \$4.8 million, August 1967

The project is the extension and relocation, on a central campus in Tananarive, of three secondary technical schools and two teacher training institutes. The project will allow an increase in enrollments from 1,350 to 3,110 students. The project is progressing satisfactorily.

(iii) Second Road Project - Credit No. 134, \$4.5 million, and Loan No. 570, \$3.5 million, November 1968

The project consists of the reconstruction of two road sections (146 km in total length) and the construction of three major bridges. Work is on schedule.

(iv) Beef Cattle Development - Loan No. 585, \$2.8 million, February 1969

The project is to develop commercial ranching of beef cattle by establishing four breeding-fattening ranches

and two fattening ranches. The ranches will be approximately 20-25,000 ha. each. They will be owned and operated initially by a State Farm organization, OMBY, but development is to be carried out so as to permit eventual sub-division for transfer to private ownership. The Bank has seconded Mr. R. Peck to the Ministry of Agriculture as project manager.

(v) Technical Assistance - \$196,500 grant, December 1967

This grant was to help in the financing of a study on the future development of the port of Tamatave. The study, carried out by SOGREAH and BCEOM, has been completed and has served as a basis for project appraisal (see B (i) below).

B. Prospective Operations

6. (i) Port of Tamatave

The project was appraised in October 1969; the 'yellow cover' report will be ready this week. The project will include extensions to the existing breakwater and quays, storage areas, supply of port equipment and technical assistance to a new autonomous port authority. We are awaiting receipt of satisfactory draft legislation prior to negotiations, which are scheduled for mid-April. The total project cost is estimated at \$17 million with a foreign exchange component of about \$10 million, to be financed by an IDA credit. Presentation to Executive Directors scheduled for June 1970.

(ii) Agriculture

In September 1968, a FAO/IBRD Cooperative Program mission went to Madagascar and was followed in May 1969 by two missions to prepare the following projects:

(a) Lake Alaotra Development - Irrigation Project:

This project was appraised by a Bank mission last October/November; the appraisal report is due in March. The project would cover about 9,000 ha. irrigated plus 2,000 ha. of rainfed cultivation, mainly for rice. Total project cost would be about \$8 million, of which \$5.5 million to be financed by IDA. Negotiations are scheduled for May 1970; presentation to Executive Directors in July 1970.

(b) Agricultural Credit

FAO/IBRD Cooperative Program missions were in the field in May and November 1969, and February 1970. There is, however, serious doubt whether a viable project can be pulled together at this time, in addition to which there could be institutional difficulties to resolve.

C. Other Activities

7. (i) Industrial Credit

The Bank was asked during the 1969 Annual Meeting to extend technical assistance and financial aid for the reorganization of the development finance institutions operating in Madagascar - la Société Nationale d'Investissement (SNI) and la Banque Nationale Malgache (BNM). The recent Bank Economic Mission has gathered useful information on the financial requirements for industrial development in the next five years. A DFC mission is now planned for end March 1970 to review the need for a possible Bank/IDA project and the appropriate institutional arrangements.

(ii) Tananarive Plain

In June 1969, the Government sought the Bank's advice concerning further studies to be made for a long-term multi-purpose program in the Tananarive plain. The program would mainly aim at: (a) protecting the lower parts of Tananarive against floods from the Ikopa river, thereby assuring a safe future growth of the town and implementation of industrial zones in the protected area; (b) in the longer run, additional river control and irrigation works for the development of the plain's agricultural potential (about 23,000 ha.) including dam construction and, possibly, installation of a hydro-power plant. A first review of existing studies on the program by the FAO/IBRD Cooperative Program suggests that irrigation does not merit priority in the Tananarive plain, and that the problem of flood protection of the urban area should be separated from the problem of irrigation and drainage of agricultural lands. The Government has approached the European Development Fund (FED) about possible financing of flood protection; their decision is unlikely to be taken before late 1970. It has been agreed with FAC that the final report of SOGREA/SCET, which had made the latest studies on this project, would be sent to the Bank as a basis for further discussions with the Government on a phased program of subsequent studies focussing on the economic evaluation of the various technical solutions so far advanced.

BIOGRAPHICAL NOTE

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Ambassador Jules Razafimbahiny

Ambassador Jules Razafimbahiny who has been in Washington for the last three years has just been appointed Minister-delegate at the Presidency of the Republic, responsible for the supervision of the national economy. From 1967 to 1969 he was Secretary of State for Foreign Affairs and External Trade. Before becoming a member of the Government, he was Ambassador of Madagascar in London from June 1965 to August 1967. Originally, Mr. Razafimbahiny was one of the leaders of the Christian Trade Union Movement in Madagascar and in Africa; by training he is a lawyer and an economist. Prior to his entering the Foreign Service, he was the Secretary General of the OAMCE in Yaounde (African and Malagasy Organization for Economic Cooperation) from 1962 to 1964.

BRIEFING PAPER
MALAGASY REPUBLIC

I. GENERAL

Political and economic situation

1. Madagascar is the fourth largest island in the world, covering an area of 590,000 km², or somewhat larger than France, with a population of 6.9 million, which is growing at an annual rate of about 2.2%. The population is of varied ethnic background, partly of Malayo-Polynesian and partly of African origin. Both economically and culturally, Madagascar's ties with France remain strong. The country is a member of the Franc Zone and 55% of its international trade is with other members of this monetary zone. Nevertheless, serious efforts have been made in recent years to widen the range of contacts with other countries, and relations with the Bank Group are excellent.

2. The personal prestige of President Tsiranana, his skill at maintaining political balance and the absence of strong support for any alternative Government have resulted in an unbroken political stability since the country became independent in 1960. Madagascar, which was known to pursue a pragmatic policy in its relations with neighboring white-dominated African countries, continues, although in a discreet fashion, to intensify contacts with South Africa.

3. Due to the coincidence of a favorable agricultural output and higher than average export prices, the economic situation in 1970 was unusually good, and resulted in the growth of GDP of about 6%.

4. The medium-term development prospects remain unaffected by the unusually high growth of GDP and exports in 1970. About two-thirds of the total increase in export earnings in 1970 are attributable to coffee and cloves, but it is unlikely that export proceeds from these crops will remain at the 1970 level during the next four years since the world prices of both coffee and cloves have declined since 1970. Export prospects are not very bright, and foreign exchange earnings are unlikely to grow at more than 3% per annum on average during the next five years. Consequently, real GDP growth in the next few years should average about 4% a year or some 2% per capita.

II. BANK GROUP'S OPERATIONS

A. Past operations

5. So far, the Bank Group has approved six operations in Madagascar for a total of \$40.2 million. They were, in chronological order, as follows:

First road project - Credit No.90, \$10 million, August 2, 1966

6. The project consists of the reconstruction of a 160 km section of the Tananarive-Majunga road and the detailed engineering of a bridge over the Betsiboka river on the same road. The project has been satisfactorily completed; thanks to favorable contracting, savings of about \$2.8 million are expected. At the Government's request, IDA agreed to the use of the major part of these savings for the financing of (a) bridge construction works on the Betsiboka river, and (b) detailed engineering for the Arivonimamo-Analavery road and feasibility studies for the Tananarive-Fianarantsoa road, the Moramanga-Tamatave road and the Lake Alaotra-Vavatenina road.

Education - Loan No.510, \$4.8 million, August 23, 1967

7. The project is the extension and relocation, on a central campus in Tananarive, of three secondary technical schools and two teacher training institutes. The project will allow an increase in enrollments from 1,350 to 3,110 students. The project is almost completed.

Second road project - Credit No.134, \$4.5 million, and Loan No.570, \$3.5 million, November 12, 1968

8. The project consists of the reconstruction of two road sections (Fanjakamandroso-Tsiroanomandidy, about 55 km long and Ambilobe-Ambanja, about 91 km long), and the construction of three major bridges. Work is on schedule, and the project is expected to be completed at the end of 1972.

Beef cattle development - Loan No.585, \$2.8 million, February 14, 1969

9. The project is to develop commercial ranching of beef cattle by establishing four breeding-fattening ranches and two fattening ranches. The ranches will be approximately 20-25,000 ha each. They are owned and operated initially by a State Farm organization, OMBY, but development is to be carried out so as to permit eventual sub-division for transfer to private ownership. The project is progressing satisfactorily.

Port of Tamatave - Credit No.200, \$9.6 million, June 19, 1970

10. The project includes extensions to the existing breakwater and quays, storage areas, supply of port equipment and technical assistance to a new autonomous port authority. Total project cost is estimated at \$17.7 million with a foreign exchange component of \$9.6 million, financed by an IDA credit. The project is progressing satisfactorily.

Lake Alaotra development - Irrigation project
Credit No.214, \$5 million, August 17, 1970

11. The project assists in financing the improvement and extension of existing irrigation facilities over an area of 12,000 ha for year-

round agricultural production in the south-western part of Lake Alaotra. Total project cost would be about \$8.2 million, of which \$5.0 million will be financed by IDA. The project is progressing satisfactorily.

B. Future operations

Morondava irrigation and rural development project

12. Negotiations have just been completed, and the project is expected to be submitted to the Board on June 13. The project would be the first phase of the Government's development plan for the Morondava Plain, in the central part of Madagascar's west coast. It would involve the irrigation of an area of about 9,300 hectares, for the cultivation of rice, cotton and tobacco in rotation with groundnuts and forage crops. Total cost is estimated at \$26.6 million, with a foreign exchange component of \$15 million which the proposed IDA credit would finance.

Highways III

13. The project has been appraised, and negotiations are expected to begin at the end of May. The major components of the project would be construction works on about 400 km of primary roads in the central part of the country, and consulting services for detailed engineering of a further 200 km of primary roads. Total cost is estimated at \$40.5 million with a foreign exchange component of \$28.3 million (70%). The foreign component would be financed by a Bank loan of \$14.3 million and an IDA credit of \$14 million.

Railway project

14. Total cost is estimated at \$13 million with an estimated foreign exchange component of \$9-10 million. Following-up on a Government request, an identification mission visited Madagascar in May 1971. It found that there are good prospects for a railway project which would aim at overcoming the difficulties which the Malagasy railways currently encounter: lack of signalization equipment, old rails, old locomotives and rolling stock. A Bank appraisal mission is planned for early June.

Second livestock project

15. An IDA credit of \$4 million is proposed in FY 1973 for this project in the five-year lending program. However, project preparation by the Government so far has not made good progress, and the IBRD/FAO Cooperative Program will send a mission to Madagascar in mid-June to assist the Government in project preparation.

Industrial credit

16. The Bank has been asked to extend technical assistance and financial aid for the reorganization of the existing development finance institutions providing medium and long-term finance for investments in

industry: la Société Nationale d'Investissement (SNI) and la Banque Nationale Malgache (BNM). A DFC mission visited Madagascar in April 1970 to consider how Bank Group assistance might be extended. The solution we could visualize focussed on a financial, management and policy redress of SNI, with the technical assistance of the Bank Group. SNI needs an overall reorganization: its financial soundness should be restored, a new Board and new management should be appointed, new policies should be formulated. The Government agreed in principle with the Bank's views. It is likely that a lending operation will shape up in FY 1974.

Didy Plain - Irrigation Project

17. The proposed project, which would follow the pattern of our previous Lac Alaotra Project, would cover the development of 8,000 ha in the Didy Plain, southeast of Lake Alaotra. A preliminary cost estimate by the consultants Sogreah and Scet of about \$450 per ha would make this development the cheapest of the remaining development alternatives in the Lake Alaotra area. The Bank's expressing an interest in this project in September 1970 has enabled the Government to obtain from FAC the financing of the required feasibility studies which, it is hoped, will lead to a bankable project by FY 1974.

Narinda Project


18. The Government has launched a scheme to develop the Narinda Bay area (off the Northwest coast of the island). The total estimated cost is about \$62 million. This development will consist mainly of the construction of a ship repair yard servicing large oil tankers which are expected to go through the Canal of Mozambique and a large cement factory. A preliminary study has been made by the French consulting firm Sogreah, which is being reviewed by our Projects Department and IFC.

19. The capital requirements for the shipyard are estimated by Sogreah at \$32.7 million, out of which \$9 million will be expenditures in local currency. They would cover the construction of a dry dock (servicing tankers up to 500,000 tons), pumps, equipment and machinery, buildings, etc... The project would also include:

- (i) a cement factory with an estimated cost of \$12 million;
- (ii) a power plant, tourist hotel, housing and water supply with an estimated cost of \$11.9 million; and,
- (iii) infrastructure of the environment with an estimated cost of \$4.8 million.

The Malagasy Government would probably seek Bank assistance in the financing of the shipyard infrastructure and the infrastructure of the environment.

20. Since the Bank had also been approached by the Senegal Government for a similar project in Dakar and there was not sufficient expertise in the Bank to resolve all the issues involved, consultants have been hired to help complete an expeditious review of the Narinda and Dakar proposals. Consultants' reports will be submitted to the Bank by the end of June 1972. There is considerable question as to whether the Narinda project would be economically justified and whether there is room for more than one project of this kind to service tankers in the Persian Gulf-Europe run. We have been careful not to become committed to this project.


B.Q.Lan:flm/acc
May 17, 1972

MAY 17 1972

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

OFFICE MEMORANDUM

TO: Mr. Michael L. Lejeune

DATE: May 17, 1972

FROM: Bui Quy Lan *BQL*

SUBJECT: Unrest in Madagascar

1. According to press reports, violent clashes took place between striking students and the republican security forces in Tananarive over the week-end May 13-14, resulting in about 20 people killed and about 150 wounded. The students at the university in Tananarive have been on strike for the last three weeks, demanding educational reforms with emphasis on "malgachisation" and revision of the French-Malagasy agreement on cooperation. The unrest has been confined to the capital, but the students have managed to obtain support for their grievances from civil servants and private sector employees. On May 15, an estimated crowd of 100,000 people, including students, workers and civil servants, marched on the presidential palace in support of the students' demands and asked for the immediate release of the 400 students who had been arrested on Saturday.

2. The President has recently announced a revision of the Constitution, including the creation of a Prime Minister position, and a reshuffle of the Government. A new Minister of Education has been appointed and has agreed to consider proposals for educational reform. The French press agency AFP speculated that the unrest might have a more profound influence on the President and might lead to a national coalition government. No fundamental changes are, however, expected in the relations with France.

President has seen

3.

OFFICE MEMORANDUM

TO: Records
DATE: December 5, 1972

FROM: J.-D. Roulet

SUBJECT: MADAGASCAR - Courtesy call on Mr. McNamara by Ambassador Henri Raharijaona

1. His Excellency Henri Raharijaona, Ambassador of Madagascar to the United States, paid a courtesy call on Mr. McNamara yesterday evening. Also present were Messrs. Kochman, Bell and Roulet.
2. The Ambassador said that the purpose of his visit was essentially to establish a first contact and that he did not wish to raise substantive issues. He expressed his Government's gratitude for the assistance that the Bank had been giving Madagascar and for the understanding that the Bank had shown for the country's problems. In this connection, he referred specifically to the Bank's recent economic mission. As a token of appreciation, he gave Mr. McNamara, on behalf of the Government, an album of stamps depicting various Malagasy sceneries.
3. Mr. McNamara thanked the Ambassador and pointed out that in the last few years the Bank had endeavored to increase its program of operations in Madagascar. He then inquired about the current status and prospects of the economy and asked if these had been affected by the recent change in Government. The Ambassador replied that the Government was currently embodying its objectives and program of action into a plan that should become available in a few weeks. Among the principal objectives of the new Government, he stressed the creation of new employment opportunities and fundamental improvements in the management of public finance, particularly on the expenditure side. These objectives, he said, were in line with those Mr. McNamara had outlined in recent addresses to the Board of Governors of the Bank and to ECOSOC. Mr. McNamara commented that he was looking forward with great interest to seeing Madagascar's new plan as well as the report of the economic mission.
4. Mr. Bell noted that preparation of the proposed Third Highway Project was now well advanced and that the proposal was expected to be circulated to the Executive Directors very shortly. The Ambassador commented that this project was an excellent example of a case where the Bank had shown great comprehension for Madagascar's difficulties and where problems had been approached in a constructive manner.

cc: Messrs. McNamara
Knapp
Bell
Hussain

JDRoulet:rl

President has seen

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
DATE: December 1, 1972

FROM: J.-D. Roulet

SUBJECT: MADAGASCAR - Visit of Ambassador Henri Raharijaona - December 4, 1972

12/1
His Excellency Henri Raharijaona, the new Malagasy Ambassador in Washington is scheduled to call on you next Monday, December 4, at 6:30 p.m. This is to be a courtesy call and the Ambassador is not expected to raise substantive issues.

Attached is a briefing paper consisting of:

- a) A biographical note on Ambassador Raharijaona;
- b) A summary of recent political developments and of the status of Madagascar's economy; and
- c) A statement of current and prospective Bank Group operations in the country.

Attachment.

cc: Messrs. Knapp
Bell
Husain

BQI:an/JDRoulet:flm

President has seen

BRIEFING PAPER

MALAGASY REPUBLIC

I. BIOGRAPHICAL DATA

H.E. Henri Raharijaona, the new Malagasy Ambassador in Washington, is 40 years old. He graduated from the Law School of the University of Paris in 1956 and holds a degree in history and a doctorate in law. He is a judge by profession.

He was Chief Judge of the Court of Appeals in Madagascar and assistant professor at the School of Law and Economics from 1965 to 1971. In March 1971, he was appointed Secretary of State for Foreign Affairs, responsible for African affairs and international economic affairs. In this capacity, he was mainly concerned with economic issues, notably as President of the Board for the African and Malagasy Sugar Agreement and the African and Malagasy Coffee Organization. This is his first post as Ambassador.

Ambassador Raharijaona has just presented his credentials to President Nixon, but he has already been in Washington for a few months. He attended the last Annual Meeting and participated in the Negotiations for the proposed Third Highway Project early last month.

II. RECENT POLITICAL AND ECONOMIC DEVELOPMENTS

A. Political Situation

The political climate in Madagascar now seems to be relatively stable and the new Government has the situation well under control. It may be recalled that, on May 18, 1972, and after two weeks of student riots, strikes and demonstrations, President Tsiranana, the uncontested ruler of Madagascar since 1960, transferred all powers of Government to General Gabriel Ramanantsoa, Chief of Staff of the Malagasy army. The student unrest seems to have been triggered by dissatisfaction with the excessive emphasis in higher education on French culture and curricula, and on the shortage of jobs for university leavers.

The causes of the May revolution are, of course, deeper. There is indeed a growing resentment among the population against unemployment, rising prices, lack of improvement in the living conditions, and an ill-adapted, foreign-oriented education system. There is also a resentment against the concentration of trade in the hands of a few French companies and the conspicuous presence of life style of foreign advisors and technical assistants.

The current military Government organized, on October 8, a referendum to seek a five-year mandate and approval of its program. As expected, some 80% of the electorate voted in favor of giving General Ramanantsoa, the new

Head of Government, the powers to rule for the next five years.

The new Government program, as outlined in a speech of General Ramanantsoa on July 28, 1972, is conservative. Apart from a reassertion of austerity and anti-corruption measures, it puts emphasis on: (a) priority for the integrated development of agriculture to reach the rural masses and create employment; (b) artisanal development programs for villages and urban centers, and review of the investment code to foster investments with real developmental impact; (c) education to be malgachized and adapted to national needs; (d) mobilization of national savings to complement foreign aid; (e) continuing use of technical assistance personnel where required, but more emphasis on the training of nationals; (f) relations and agreements with the outside world to be reviewed in the light of national sovereignty and to be renegotiated in case of need. Very likely this would include loosening of the ties between the Malagasy and French currencies.

The number of Cabinet Ministers was cut back from 40 to 10. The Ministers are partly military men, partly civilians. All are graduates of the "grandes ecoles" and universities of France. Their abilities as technocrats were the main criteria for their choice.

B. The Economy

The large area of the country and its comparatively small population significantly affect its economic development problems, opportunities and prospects. Whilst the country is sparsely populated (7.4 million people on a land area of 590,000 square kilometers - i.e. 13 inhabitants per square kilometer), there is intense population pressure on resources in certain areas, particularly the central highlands and the south. This gives rise to important migrations of a seasonal, semi-permanent and permanent character. In particular, migration to the west of the country where underutilized land is still plentiful is recurring on some scale. The geographical pattern of investment clearly must take account of this movement.

The Malagasy economy remains heavily dependent on France, for both financial and technical assistance. There are some 34,000 Frenchmen living on the island, playing a significant role in the economy, in education as well as industry, agriculture, and trade. Madagascar is also a member of the Franc Zone, thereby benefiting from free convertibility of its intrazone export earnings and from overdraft facilities with the French Treasury. Madagascar's trade with countries outside the Franc Zone has been generally in balance, primarily because of coffee and vanilla exports to the U.S.

Madagascar's GNP in 1970 was estimated at approximately \$880 million, and the per capita income was about \$125. The economy is basically agricultural. More than 80% of the population is rural, and agriculture accounts for roughly 30% of total GNP. About half of this production is, however, consumed on the farm; monetary income from agricultural pursuits is approximately 20% of total monetized income. The main product for local consumption is rice. The main export products are coffee, cloves, vanilla and animal products (mostly meat).

Between 1966 and 1971, real GNP grew at about 5%, representing an annual increase in per capita GNP of slightly over 2% a year. In recent years, the Government has made a strong effort to increase public sector investment and to create conditions for the expansion of private investment. Gross fixed capital formation rose from FMG 22 billion in 1966 to 36 billion in 1970. While detailed information for 1971 is not yet available, and is particularly scarce respecting private investment, there are indications that there has been a continued increase in investment. The proportion of GNP devoted to investment increased from 13% in 1966 to more than 16% in 1970. During the past few years, about one half of public sector investment, which represents, on average, 40% of total gross capital formation, has been financed by recurrent budget surpluses and the rest by foreign capital inflow. The European Development Fund (FED) had been the major source of external capital (about one half of the total) while others, principally France and the Bank Group have provided the rest.

The Government has been cautious in its overall fiscal policy. Current Government revenue increased faster than monetized GDP, at an annual rate of 11%, in the period 1966-71. Total tax revenue now represents about 25% of monetized GDP. Likewise Central Government savings have increased

continuously from 1966; in 1971, 27% of Central Government revenue was saved and covered close to the total of Government investment expenditures. There has been an overall cash surplus in the budget in four of the last eight years, and in 1970 and 1971 the surpluses were substantial. Deficits have never been large. Some deterioration is expected in 1972 and 1973 because of the abolition of the head tax and of the cattle tax which had been recommended as a phased policy by an IMF tax mission. These together had produced about 80% of the tax revenue of the provinces, and 12% of total tax revenue of the country. Accordingly, it is expected that transfers from the Central Government to the provinces will need to be increased. The administration is preparing several measures to reduce routine budget expenditures and increase revenues, such as abolishing free housing for civil servants and improving the collection of direct taxes. These measures to restrain routine expenditure will be in keeping with previous Government policies which have kept the real incomes of Government employees virtually unchanged over the last 5-6 years. The increase in the Government's outlay on salaries has resulted from a 2.5% per annum increase in Central Government employment exclusive of that in the education sector and a doubling of employment in education between 1966 and 1971.

External finances have reflected the cautious fiscal policy. In 1970, export earnings increased by 40% while imports lagged behind and the country's foreign exchange reserves almost doubled. In 1971, imports increased by 25%, while exports stagnated; however, foreign exchange reserves declined only slightly. They now amount to \$65 million, corresponding to three-and-a-half months' imports.

Madagascar's first Five-Year Plan period ended in 1968. It was followed by an interim Plan for 1969-70 and by the preparation of a new Plan, the official adoption of which has, however, been delayed though its main outlines have been followed. The development strategy since the end of the last Plan aims at: (i) self-sufficiency in rice; (ii) diversification of exports through stimulation of new exports (livestock, cotton, forest products) and the expansion of mining; and (iii) improvement in transport, particularly roads and ports. There has been progress with regard to each of these objectives.

At the end of 1971, Madagascar's external public debt, outstanding and disbursed, amounted to \$110.7 million equivalent. France is the major creditor, accounting for 61% of the total, while debt to the Bank Group accounted for 15%. Debt service payments in 1971 amounted to \$8.9 million or 3.9% of estimated foreign exchange earnings. Although debt service is relatively low and the country is creditworthy for further lending on Bank terms, it is desirable, in view of the country's poverty and the still limited prospects for its exports, that the major proportion of external aid continue to be provided on concessional terms. Furthermore, limited amounts of local currency financing is justified in view of the deterioration in the balance of payments situation after 1970, the Government's disciplined reaction to this deterioration, and the difficulty in the short run of increasing the number of investment projects financed by the Bank Group.

III. BANK GROUP OPERATIONS

A. Past Operations

So far, the Bank Group has approved six operations in Madagascar for a total of \$40.2 million. They were in chronological order, as follows:

Credit No. 90-MAG - \$10 million for roads, was signed in August 1966. The project is now completed with the exception of a feasibility study and a master plan of three road sections, now scheduled for completion by next summer. Thanks to advantageous contracting, savings of about \$1.16 million are expected in the Credit and the Government has requested IDA to use this amount to finance part of a cost overrun incurred in the Second Highway (Credit 134-MAG/Loan 570-MAG).

Loan No. 510-MAG - \$4.8 million for secondary technical education and teacher training was signed in August 1967. The project is almost completed and the Loan is expected to be fully disbursed by the Closing Date of June 30, 1973.

Credit No. 134-MAG and Loan 570-MAG - \$4.5 million and \$3.5 million respectively, for road and bridge construction were signed in November 1968. The project is now virtually complete and the Credit which was to be drawn before the Loan has been fully disbursed. Changes in design (due to unexpectedly difficult materials problems on one road not revealed until the work was well underway) have, however, resulted in a 16% (about \$2.3 million) increase in the cost of the project over original estimate; about \$1.6 million of this increase is in foreign exchange. As mentioned above, the Government has requested IDA to use the savings expected under Credit 90-MAG mentioned above to finance part of the overrun, and the Government would finance the balance of both the foreign and local currency cost.

Loan No. 585-MAG - \$2.8 million to help develop commercial ranching of beef cattle was signed in February 1969. The project has encountered a number of problems, which was not surprising since this is the first experience in ranching in Madagascar. The major cause of concern at present is the occurrence of disease among the imported cattle which the project authority is attempting to control. The Government is considering some changes in the project to intensify operations on four breeding/fattening ranches instead of establishing two additional ones, and to develop road transport instead of stock routes. The Government is also considering ways of inducing villagers to resettle off the ranches area. Developments are kept closely under review.

Credit No. 200-MAG - \$9.6 million for the development of the Port of Tamatave, was signed in June 1970. Construction works are proceeding satisfactorily, and as of October 1972, contracts had been awarded for \$6.2 million equivalent. On the other hand, the reorganization of port administration is proceeding more slowly than expected. In addition, the new Port Authority is currently experiencing some financial difficulties as a result of a substantial decrease (probably of a temporary nature) in traffic volume, but the Government is providing the bulk of the local currency required for the

project including that part of the Port Authority share which the latter is at present unable to provide.

Credit No. 214-MAG - \$5 million for irrigation, was signed in August 1970. Overall progress of construction is satisfactory, although disbursements were slow because of delays in submitting timely and adequate requests for reimbursement to IDA. Steps are being taken to improve the pace of disbursements. Progress of agricultural development has been slowed down because completion of the experimental farm has been delayed by about two years. Corrective measures have been taken, however, and experiments on double-cropping will begin shortly.

Credit No. 322-MAG - \$15.3 million for irrigation and rural development, was signed in June 1972. Some delays have occurred in the fulfillment of certain conditions of effectiveness, particularly with respect to the employment of consultants, but action steps are now being taken. The Credit should therefore become effective in the near future.

B. Future Operations

Highways III - the project is expected to be considered by the Board on December 19. The major components of the project would be construction works on about 400 km of primary roads in the central part of the country, and consulting services for detailed engineering of a further 200 km of primary roads. Total cost is estimated at \$43.9 million with a foreign exchange component of \$29.0 million (66%). A Bank loan and an IDA credit totalling \$30 million would finance the foreign component and about \$1 million equivalent of local costs.

Railway Project - total cost is estimated at \$13 million with an estimated foreign exchange component of \$9-10 million. An identification mission visited Madagascar in August 1971. There are good prospects for a project which would aim at overcoming the difficulties which the Malagasy railways currently encounter: lack of signalization equipment, old rails, old locomotives and rolling stock. Project appraisal is scheduled for mid-January 1973.

Second Livestock Project - this project would aim at increasing the production of the traditional cattle sector, through improved water supply and better disease control, nutrition and herd management. The project would affect a cattle population of 1.5 million head in the northwestern and western part of Majunga province. The IBRD/FAO CP is assisting the Government in project preparation. Total project cost is estimated at \$5.4 million with a foreign exchange component of 60%. If preparation is completed by February 1973, project appraisal could take place in May 1973.

Second Education Project - to assist the Malagasy authorities in project preparation, a UNESCO/IBRD mission arrived in Tananarive on May 12, but had to interrupt its stay due to political disturbances. Another mission is now planned for April 1973. Project preparation may take time since the new Government intends first to reform the Malagasy education system.

Forestry Project - the project was identified by an IBRD/FAO CP mission last February. It would establish 48,000 ha of pine plantations on the Haut Mangoro plateau (north of Tananarive), with a planting rate of 6,000 ha per year, to supply a pulp mill of 150,000-250,000 tons/ year capacity (to be constructed in 1982). The proposed markets would be for about 10-15% local with the remainder for export. Project cost is estimated at \$10 million.

Industrial Credit - the Bank has been asked to extend technical assistance and financial aid for the reorganization of the existing development finance institution providing medium and long-term finance for investments in industry. It is possible that a lending operation will shape up in FY 1974.

Didy Plain - Irrigation Project - the proposed project would follow the pattern of our previous Lac Alaotra Project and cover the development of 8,000 ha in the Didy Plain, southeast of Lake Alaotra. FAC is financing the required feasibility studies.

Narinda Project - the previous Malagasy Government has launched a scheme to develop the Narinda Bay area (off the northwest coast of the island). The project is estimated to cost about \$80 million and would provide for the construction of a ship repair yard and infrastructure to service large oil tankers (up to 500,000 tons). An evaluation made by our Industrial Projects Department, with the assistance of two consulting firms, indicates that although there would be a market for ship repair at Narinda, the project would yield a low rate of return (below 5%). The rate would be a few points higher if one applied shadow pricing for the Malagasy currency and for labor cost and by considering environmental infrastructure as sunk cost. We informed the Malagasy Government, early last month, of our findings and suggested that in these circumstances there seemed to be little point in pursuing the project further and that it would be preferable to look for more productive alternative investments.

BQLan/JDRoulet:rp
December 1, 1972

4

OFFICE MEMORANDUM

TO: The Records

DATE: August 7, 1973

FROM: S. Shahid Husain *SH*SUBJECT: Malagasy Republic: Visit of Foreign Minister

The Foreign Minister of the Malagasy Republic, Didier Ratsiraka, accompanied by the Ambassador to the United States, called on Mr. McNamara on July 26, 1973.

The Foreign Minister gave Mr. McNamara an account of the recent political events, including the referendum in which an overwhelming majority of the population voted in favor of the government of General Gabriel Ramanantsoa. The Minister said that the Government wanted to bring about significant economic and social change and was elaborating its program in agriculture and education. Furthermore, with the recent break from the franc zone, the Government had established a central bank and to emphasize its freedom of action in this field, it had rejected offers of technical assistance from bilateral sources.

The Minister said that he took a "global" view of economic development in Madagascar and consequently he thought that program lending from the Bank Group would be more suitable than project lending. Mr. McNamara said that a suitable program of economic developments was an essential prerequisite for any lending from the Bank Group and that the Bank's Articles of Agreement would prevent the Bank from making a program loan in the absence of a suitable program. Furthermore, even if a program loan were to be made, the amount would have to be spent on suitable economic development projects and therefore projects were essential to attract any form of lending from the Bank Group. Mr. McNamara expressed concern at the slow progress of project formulation and program elaboration for future Bank lending and said that the Bank could only complement the Government's efforts to formulate and implement schemes for economic development. He emphasized the Bank's continuing readiness to assist Madagascar in education and rural development.

The Foreign Minister conveyed to Mr. McNamara his Government's invitation to visit Madagascar. Mr. McNamara thanked him for this and said that he was making his travel plans for the coming year and would consult the authorities about suitable dates for visiting Madagascar.

cc: Messrs. Knapp
Bell
Roulet

SSHusain:cc

President has seen

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
DATE: July 25, 1973

FROM: S. Shahid Husain *HS*

SUBJECT: Malagasy Republic: Visit of Minister of Foreign Affairs, Didier Ratsiraka,
Thursday, July 26

The Foreign Minister of the Malagasy Republic, Didier Ratsiraka, is coming to see you tomorrow at 6 p.m. He will be accompanied by Mr. Henri Raharijaona, Malagasy Ambassador in Washington, and Mr. Claude Ratsimandresi, Director of International Cooperation at the Ministry of Foreign Affairs. A biographical note on the Minister is attached.

7/26
I understand the Minister wishes to invite you to visit the Malagasy Republic and would also take this opportunity to convey to you the priority which his Government attaches to rural development and education.

We have discussed a possible visit to some countries in the area preceding or following the Annual Meeting. The two possibilities I have mentioned to Mr. Ljungh, both following the Annual Meeting, are visits to Mauritius and Madagascar, or Mauritius and Botswana. Purely from the point of view of logistics and travel schedules, the former would be more convenient at this time.

This is as good a time as any to go to Madagascar. There have been significant political and economic changes in the last year. After extensive student riots, strikes and demonstrations, President Tsiranana, who had governed Madagascar since 1960, had to transfer power to the Army Chief of Staff, General Gabriel Ramanantsoa, in 1972. Since then, the present Government has held a referendum in which 80 percent of the electorate voted to keep the new government in office for five years.

Earlier this year extensive discussions were held between France and Madagascar on Madagascar's place in the franc zone and after the breakdown of these negotiations, Madagascar opted out of the franc zone. This decision will have its advantages as well as disadvantages. On the side of disadvantages, Madagascar will lose the convertibility of its currency into francs. However, it is difficult to see how Madagascar could have continued to leave its monetary management outside the immediate control of the Government. In the longer run, Madagascar's decision to quit the franc zone should force the authorities to focus more closely on the issues of economic management than they have in the past.

Pres. has seen

I visited Madagascar earlier this year and had discussions with the Head of State as well as other members of the Government. The impression I came back with was mixed. The rule of the former President Tsiranana was marked by the preservation of the status quo and heavy French influence in all spheres of economic activity. Little was done to broaden the economic base. While the new Government came to power in response to discontent with the situation, little in terms of a concrete program has emerged and the leadership at the top is not sufficiently vigorous to promise a significant improvement in the near future. The economy is stagnant and important issues of policy, such as education and manpower, development of rural infrastructure, agricultural prices, financing and incentives for industrialization, are receiving scant attention. Our own prospective operations in Madagascar are affected by this. We have under preparation a railway project, a livestock project, with emphasis on the smallholder, and a forestry project. Beyond that, we are trying to focus on transport, rural development, education, industrial finance and electric power. Our efforts are somewhat hindered by inadequate effort and policy guidance at the highest echelons of Government.

You may wish to mention to the Foreign Minister that while we will maintain our effort to mount suitable projects for Bank Group financing in agriculture, education and transport, complementary effort on the part of Government would be essential.

I also feel that a visit by you at this time may help to sharpen the Government's focus on economic issues.

Attachment.

cc: Mr. Knapp

SSHusain:cc

Biographical Data of Minister Didier Ratsiraka

The Minister of Foreign Affairs, Commander Didier Ratsiraka, who is 36 years old, graduated from the French Naval School of Brest with a diploma in communications engineering. He also holds a diploma of the Naval Staff College of France. He is the highest ranking officer in the Malagasy navy and before his present appointment was military attaché to the Embassy of Madagascar in Paris.

Promoting the establishment of friendly relations with both Eastern and Western countries, he successively visited, during the second half of 1972, the Soviet Union, the United States, the People's Republic of China and many countries in Africa and Asia. From January to June, 1973, he led a Malagasy delegation in the negotiations with France for a complete revision of the cooperation agreements between the two countries.

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OFFICE MEMORANDUM

TO: Records

FROM: J.-D. Roulet, Division Chief, EACP II B

SUBJECT: MADAGASCAR - Mr. McNamara's Meeting with UNDP
Resident Representative

DATE: October 26, 1973

1. On October 1, Mr. McNamara met in Tananarive with Miss Jacqueline Granger, UNDP Resident Representative in Madagascar. Also present for the Bank were Messrs. Kochman, Bell, Husain, Clark and Roulet.
2. Referring to the discussions that he had had earlier in the day with various Malagasy Ministers and subsequently with the Head of State, Mr. McNamara said that he had been struck by the fact that while the Government had begun to define sets of general economic and social objectives, all of which were very worthwhile, Madagascar still had a long way to go towards defining means to achieve these objectives. In fact, very little work had been accomplished in this respect. Planning, overall as well as sectoral, was practically non-existent and as a result, he felt that it would be extremely difficult to find specific projects that would respond to the country's needs and have a substantial impact on the economy. While this could be achieved on a small scale with modest individual projects, such as, for example, in the case of the Omby state farm, this would prove impossible on a larger scale.
3. Miss Granger expressed full agreement with Mr. McNamara's appreciation of the situation. There was in Madagascar a crying need for planning as well as for project preparation. In her opinion, this was partly due to historical causes. Until very recently, the country had been flooded by expatriates, mainly French, who often acted in an executive capacity. This had resulted in a suffocation of the Malagasy personality as well as in what she described as a balkanization of the administration, where most services worked in total isolation from each other. This was not unlike what had happened in other countries under French influence, but the case was particularly acute in Madagascar. In her opinion, this situation was changing and there were signs that the Malagasy personality, particularly after the conclusion of the negotiations with France a few months ago, was beginning to emerge. Because of the conservatism of the society, including the peasant population, however, changes were very slow. Furthermore, the Government, since it had come to power, had been mainly preoccupied by day to day problems and no one seemed to have been able so far to look further ahead. This was particularly acute in education but also apparent in the field of rural development. At the same time, Miss Granger felt that expectations had increased among the population and that unless things started moving more rapidly, the Government would find itself faced with serious difficulties. Another factor was growing unemployment, particularly among youth.

President has seen

In her opinion, these problems were more important than the racial issue between coastal and highland populations. UNDP was trying to help, but their activity was mainly confined to pre-investment. She personally thought that Madagascar would, for about the next five years, go through a very difficult time.

4. Referring to the need for Technical assistance, Mr. McNamara enquired if the Malagasy Government was conscious of their deficiencies and if there would be a receptive attitude to Bank support in this respect. Miss Granger thought that as the Malagasy felt increasingly responsible and began to assert their personality, they would become increasingly aware of this need, but one should attempt to provide support without showing it. In reply to a question by Mr. McNamara as to whether some form of association could be devised between UNDP and the Bank in the field of planning, Miss Granger said that UNDP had already several people active in certain sectors, for example, industry. In her opinion, relations and cooperation between the UNDP and the Bank in Madagascar were at present excellent, and closer collaboration in the field of planning would be feasible. Elaborating on planning Miss Granger said that in her opinion, what Madagascar needed was an occasional external push. By being obliged to accomplish certain things by certain deadlines, the Government would be forced to take action and she expressed the thought that perhaps the establishment of a Consultative Group would be helpful by stimulating them to prepare a meaningful development plan. In reply to a question by Mr. Bell as to whether Madagascar would be able to answer the challenge of a Consultative Group without foreign expertise, Miss Granger thought that they probably would not, but that they would quickly realize why and that this would induce them to seek such assistance.

5. Mr. McNamara said that the Bank would explore this further but in the meantime, he was concerned by the difficulties that project preparation would encounter. To identify meaningful projects would mean looking into sectoral plans. He hoped that by January, it would be possible to have further discussions with the Malagasy Government to define a program of work in this respect. Miss Granger welcomed this proposal, but cautioned against the risks of pushing Madagascar too fast. Many projects in the past had faced difficulties for various reasons, such as deficient institutional basis, lack of participation by the population, etc., which probably meant that the projects were more than the Government could carry out. Referring to recent successful experiences by UNDP in the south of the country, she felt it preferable at this stage to begin on a small scale and use these schemes as focal points to spread gradually, as capacity grows, into larger areas.

6. In conclusion, Miss Granger expressed appreciation for the excellent cooperation that was presently existing between the Bank

and UNDP and she referred particularly to projects such as Morondava and Forestry. She expressed the hope that these close contacts would be maintained in the future and that additional areas of collaboration could be developed.

JD Roulet:mm

cc: Messrs. McNamara
Knapp
Kochman
Bell
Husain
Clark

OFFICE MEMORANDUM

TO: Records

FROM: J.-D. Roulet, Division Chief, EACP IIB

SUBJECT: MADAGASCAR - Working Meeting between Mr. McNamara
and Malagasy Ministers

DATE: October 29, 1973

1. On October 1, 1973 Mr. McNamara met in Tananarive with various Malagasy Ministers. Present for Madagascar were: General G. Andriamahazo, Minister of Aménagement du Territoire; Dr. J. Manambelona, Minister of Education; Dr. E. Rakotovahiny, Minister of Rural Development; Lt. Col. J. Rakotomalala, Minister of Information; and Mr. A.M. Ramaroson, Minister of Economy and Finance and Governor for IMF. Also in attendance were: Col. R. Rabetafika, General Director of Government; Mr. R. Randriamandranto, Director General of Finance and Governor for IBRD; Mr. L. Rajaobelina, Governor of the Central Bank and Alternate Governor for IMF; Mr. R. Rabenoro, Economic and Financial Advisor to Government; and Mrs. C. Rabevazaha, Director of Planning, Alternate Governor for IBRD. Also present for the Bank were Messrs. Kochman, Bell, Husain, Clark, Roulet, Khoury, Ljung.

2. After a brief exchange of courtesies during which the Minister of Finance welcomed Mr. McNamara and expressed the hope that despite the short time available he would have the opportunity to appreciate the economic potential of Madagascar as well as its problems, the Minister of Finance referred to the memorandum that the Government had prepared in anticipation of the visit to summarize the broad lines of Madagascar's development strategy. The Minister stressed that the major objectives were to get everyone to participate in the benefits of economic development and to improve the living conditions of the population, particularly of the poorest segment. As most Malagasy lived in rural areas, this meant that the major efforts would have to focus on the agricultural sector.

3. Mr. McNamara, referring to his address at the Bank's Annual Meeting in Nairobi, said that he shared the views of the Minister on the desirability of these objectives. He added that his visit earlier in the day to the Omby State Farm had given him a view of the country's potential for development and of the need to spread the benefits among the population. While the Omby project had been successful in introducing in Madagascar new forms of pasture, which probably constituted a real technological breakthrough, it had failed entirely to bring these benefits to the neighboring farmer population.

4. Mr. McNamara then inquired about the Government's plans to achieve its objectives. The Minister of Rural Development explained that the Government had defined its goal in terms of minimum revenue per farmer families, as well as in terms of minimum areas. Specific criteria were still being worked out, but it was generally recognized that FMG 35,000 (about \$175) was regarded as the minimum annual income for a farmer's family. The size of the minimum holding would depend on the kind of crops to be cultivated. Organizationally, the Govern-

President has seen

ment was in the process of establishing new rural structures based on local communities (Fokonolona). To increase agriculture output would require increasing yields in areas already under cultivation as well as the opening up of new land since at present only about one third of the arable land was under cultivation. This would require direct action by Government, possibly through the setting up of colonization schemes.

5. In reply to questions by Mr. McNamara on the Government's specific plans to increase rice production, the Minister of Rural Development said that the aim was to regain self-sufficiency in five years, while continuing to export high quality rice. The targets set up originally had been more ambitious, but these had been revised recently to be more realistic. (Following a conversation with Mr. Bell later on, the Director of Planning prepared a brief note showing that the present deficit is 250,000 tons. Taking into account population growth, the required increase to reach self-sufficiency in five years would be around 300,000 tons. Government was hoping to achieve an increase of 100,000 tons in the first year and of 50,000 tons in each of the next four years. Three fourths of increased production is expected to come from the extension of areas, with the remaining fourth coming from increases in yields. According to this note, specific areas have already been located in various parts of the country. Fokonolonas would develop the smaller ones while larger ones would need to be developed by the Government. Increases in yields are expected from the use of high yielding variety of seeds already developed by Madagascar's Institute of Agronomic Research, as well as by increased use of fertilizers.)

6. In reply to a question by Mr. McNamara about incentives, the Minister of Rural Development explained that the Government had recently decided to increase substantially, for the coming year, the price of paddy paid to the producers, from FMG 11-12 per kg to FMG 22. The price for high quality rice for export had been set at FMG 25 per kg. This compared with a price of FMG 90 per kg for imported rice. The Minister stressed that while these prices had been agreed for the coming season, they would be kept under review and further increases in future years would be made as required. The Government felt, however, that the current prices were considered attractive enough when related to the cost of inputs (particularly of fertilizer, which presently stood, including subsidies, at FMG 14 per kg). The Minister of Rural Development also stated that extension services were being reorganized to improve their efficiency and to spread the use of improved seeds and fertilizers. These services were currently working in coordination with the Ministry of the Interior which, together with the Ministry of Rural Development, was in close contact with the Fokonolonas.

7. Turning to livestock, Mr. McNamara inquired about the Government's plans to increase production. In reply, the Minister of Rural Development explained that the Government aimed at: a) bringing diseases under control, which should, among other things, substantially reduce calf mortality, which at present was in the order of 10%; b) spreading the use of new forms of pasture already in use in certain areas; c) accelerating the construction of water points; and d) improving the quality of the local cattle. The breeding of beef for export would also be emphasized. The Minister said that detailed plans were still to be devised, but that this would require a considerable strengthening of extension services as well as the importation of suitable equipment. Regarding extension services, the Minister of Rural Development explained that steps were being made to increase the number of agents to work in close collaboration with the Fokonolonas, and to expand the output of the agricultural college.

8. In reply to various questions, the Ministers of Finance, Rural Development and Information, explained in general terms the concept of the Fokonolona as well as the role which they were expected to play. This was not a new concept for Madagascar but an adaptation, to reflect requirements of modern life, of the traditional form of social organization that had existed before the colonial period and had survived until today. Basically, the system involved four different levels. The basic cell, called Fokonolona, would consist of groupings of people with a minimum size of about 500 persons and would correspond to small villages or groups of hamlets. Throughout Madagascar there would be about 10,500 Fokonolonas, all of which had already been formally constituted and were already active (since they had actually never ceased to exist). Groups of Fokonolonas would form units at the second level, which in turn would be grouped to form the third level. The top level, called Faritany, would correspond to areas slightly smaller than that of the current provinces (the total number of Faritany is expected to be 17, as against 10 provinces). Ultimately, this new organization would replace the current administrative structure consisting of provinces, prefectures and sous-prefectures.

9. As the Fokonolonas were based on the principle of voluntary association, they would, to a large extent, determine their own activities. This would obviously vary substantially from area to area. At present, some Fokonolonas, like those located on the seashore, were obviously focusing on activities like fishing, while those in the highlands dealt primarily with agriculture. Some Fokonolonas amounted to nothing more than simple self-help organizations while others were engaged in activities such as pooling of equipment, distribution of agriculture inputs, collection of agricultural production or even in some form of processing in the case of those on which area rice mills were already in existence.

10. Fokonolonas were expected to cover not only economic activity but all forms of communal life. Specific works that could not be carried out by single Fokonolonas would be carried out by the units of the next levels (for example, operation of irrigation schemes

covering the areas of more than one Fokonolona, pooling of heavier equipment, etc.). The Central Government would only take direct action for activities that the various levels could not carry out, such as large scale construction (roads, dams, etc.).

11. The Minister of Finance, in reply to a question, explained that Fokonolonas had no power to raise taxes, but that they would be allowed to manage funds and might derive revenues from communal activities. In this connection, he added that the method of providing agriculture credit was being reviewed and that the intention was to have funds channeled through a national institution such as the Banque Nationale Malgache pour le Développement (BNM), which would make the funds available, depending on the kind of inputs required, either to Fokonolonas directly or to units at a higher level. For example, small agricultural implements, fertilizers or seeds, could be made available to Fokonolonas while items such as tractors would probably be made available to units at a higher level.

12. Turning to transportation, Mr. McNamara asked about requirements in that sector, in relation to the needs of other sectors and more especially agriculture. The Minister of Aménagement du Territoire stressed that inadequate transportation was a major bottleneck particularly in light of Madagascar's difficult terrain. The Government's plan called for a continuation of the program of construction of main roads, as well as for the development of feeder roads to open up new areas with agriculture potential and to facilitate marketing operations. In addition, maintenance represented a heavy load although it was hoped that maintenance of smaller roads could be carried out by Fokonolonas. For heavy construction works, the Government was planning to create a national construction corporation. Financial requirements in his Ministry had been determined by taking into account expectations about available funds. The Minister also stressed the need to continue developing other forms of transportation, including railroads, ports and internal airports.

13. In reply to a question by Mr. McNamara, the Minister of Education gave a general outline of the principles underlining the reorganization of the education sector currently under consideration. In this respect he stressed the need to shift from general to technical education and to decentralize education to reflect the geographic diversity of Madagascar. He added that during this past year the Government had had to cope with serious problems requiring immediate attention and that it had not yet been able to draw up long term plans although work in this respect was progressing.

JDRoulet:mm

cc: Messrs. McNamara
Knapp
Kochman
Bell
Husain
Clark