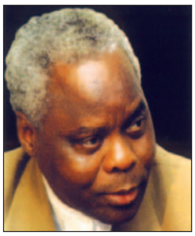
REPUBLIC OF BENIN

MODEL OF DEMOCRACY

The West African state of Benin was one of the first in the region to embrace multi-party democracy. In 1991, it adopted a new constitution and held free elections, and so began its journey to a liberal economy, global integration and steady growth.



Mathieu Kérékou, President

The path has not always been easy, but with strong leadership, the government has established a growing economy supported by careful and transparent fiscal management. Wide-ranging reforms have delivered a politically secure nation, with macroeconomic stability and a dynamic banking and financial system, resulting in a *B+* award from Standard & Poor's in 2003. Public and private investments have increased, particularly in transport and communications.

Democracy has been accompanied by steady growth, averaging 5% over the past three years. However, the rate slowed with the fall in price of the country's main export, cotton, together with reduced exports to Nigeria, Benin's traditional major trading partner. Growth fell from 6.2% in 2001 to 4.2% in 2002 and 3.9% in 2003. Inflation, however, is well under control at 1.5% in 2003.

The Ministry of Finance and Economic Planning (MFE) set a target of 7% growth for 2004, which they hoped to achieve through diversification of the economy and promotion of agro-business, tourism and services, including new technology. The government are also targeting new markets for Beninois goods and continue to pursue a privatization program.

Another key goal is to reduce the size of the informal business sector. The MFE has made great efforts to collect revenue and encourage businesses to formalize their management. Public earnings were up 30% in 2004, and taxes on transactions have been abolished in favor of value added tax at 18%.

Such rapid development inevitably requires both domestic and foreign investment. Support from organizations like the World Bank and the IMF has helped to kick-start expansion, and foreign investors are attracted by the vast untapped potential and favorable investment environment. "Our long term strategic vision is to create a flagship country, a well-governed country, united and at peace, with a prosperous and competitive economy, cultural influence and social well-being," says President Mathieu Kérékou.

International recognition

Global acknowledgement of the move to democracy and open government has played an important part in Benin's transition. Paris Club debt was cancelled and growing international confidence is reflected by the choice of Benin in June 2000 as the venue to sign the Cotonou Agreements between the European Union and the Africa Caribbean Pacific group (ACP).

Benin is also an influential member of the New Partnership for Africa's Development. NEPAD is built on the principle of open government to encourage confidence in investors and citizens, and puts the development of infrastructure at the heart of its development strategy, while putting forward key issues concerning continental Africa for discussion. Minister of Foreign Affairs and African Integration, H.E. Rogatien Biaou, is convinced that regional integration and NEPAD are key to African industrialization. "Without the support of the international community, NEPAD objectives cannot be reached, especially in this period when external resources are harder to secure in the face of global economic difficulties." He calls on multinationals and international businesspeople to invest in Benin "where the law protects their capital in a reliable and stable political and legal environment."

Within the framework of the West African Economic and Monetary Union (UEMOA), which also includes Togo, Burkina Faso, Niger, Senegal, Mali, Guinea Bissau and the Ivory Coast, members are working towards greater convergence to allow the free movement of goods and services. Harmonization of customs rules and the tax system within UEMOA would greatly simplify doing business with Benin, and help to improve the management of import tariffs. The Common Exterior Tariff (TEC), implemented in 2000, has led to a 6% increase in customs revenue.

Economic convergence will require integration on multiple levels across the region, including transport infrastructure.

Rogatien Biaou, Minister of Foreign Affairs and African Integration

A UEMOA Regional Economic Program signed in Cotonou in May 2004 has required US$1.6 billion to be delivered, and the West African Development Bank is seeking this finance to modernize regional infrastructure, improve industrial competitiveness and combat poverty. Meanwhile, a $500 million gas pipeline will stretch across 375 miles connecting Nigeria, Benin, Togo and Ghana to provide reliable and affordable energy.

Relations with the IMF and the World Bank now take place at both regional and national level. Since joining UEMOA in 2000, Benin has been able to prepare and adopt a Strategy for the Reduction of Poverty 2003-2005, which identifies priority actions for the government and development partners. It aims to tackle issues such as health, education and clean water. Again, significant progress has been made here. The human development indicator, which takes GDP, life expectancy, literacy and education into account, has risen by 20% in the last 10 years.

UEMOA also plays a key role in encouraging and supervising macroeconomic frameworks and economic restructuring programs within the member states, and the MFE sees this as pivotal in increasing Benin's economic competitiveness. Through the UEMOA, the region as a whole will develop at the same pace and be more attractive to investors, offering a market of 70 million consumers. Meanwhile, the UEMOA common currency – the CFA franc, which is pegged to the euro – will ultimately be extended to all members of the Economic Community of West African States (ECOWAS), enhancing free trade across its 15 member states.

West African gateway

Benin can act as a gateway to the whole region. "With access to the Atlantic, Benin can be a transit country for the landlocked nations – Niger, Burkina Faso, Chad and Mali," says Biaou. In fact, the government has allocated 10,000 square meters at the Port of Cotonou to each of these neighbors. "It's a factor that helps speed up integration of countries in the region," says Biaou. Benin can also be a bridge between French-speaking and English-speaking West Africa, particularly Nigeria, which alone has 130 million consumers. "An investor in Cotonou has access to a vast market to roll out their goods," he adds.

The government recognizes the need for improved infrastructure to enhance transit routes. While the Port of Cotonou cannot be enlarged due to lack of space, a World Bank study is now being implemented to improve the management of existing space and to double capacity without adversely affecting efficiency.

A dry port, set back from the main port area, will handle containers destined for the countries of the hinterland, a move which will also go some way to reduce the problem of pollution and congestion caused by huge container lorries crossing the city. The government also hopes to allow cargo ships to unload at another port zone some 19 miles from Cotonou, ultimately connected to the main port and the countries of the hinterland by rail.

The railway network and rolling stock are to be upgraded, including connecting to the rail networks of Niger, Togo and Burkina Faso under the AfricaRail project. This is designed to link the capitals of these countries, as well as Senegal, with a 1,242-mile rail network. Feasibility studies are already under way, some funded by the African Development Bank.

Maintenance of the port opened up to competition in 1998, and there are now three operators – the state-run SOBEMAP which handles 28% of traffic, and two private organizations, one Danish and one French, who handle some 72% between them. Security on the ground has been strengthened and the port is working with Canadian security firm Sea Quest to prepare for the International Ship and Port Facility Security (ISPS) standard. The port is being computerized and cameras and magnetic entry cards are being installed to maximize security.

Meanwhile, upgrading of the airport and its security is nearly completed, and studies for a new airport are under way. Benin is too small to have its own airline, but has key partnerships with major airlines. The latest to launch services is Delta, a partner of Air France, which already offers four flights a week.

The highway through routes – Lagos-Cotonou-Lomé-Accra-Abidjan – are already the best in the sub-region, according to former Minister for Public Works and Transport, Ahamed Akobi. "Crossing Benin today is very easy and is one of our main assets in terms of connection with the rest of the world." Much of the improvement has been achieved in partnership with the European Union, with Germany and Denmark particularly involved. The Islamic Bank of Development has also lent support, as well as the West African Development Bank and other partnerships through UEMOA.

Similarly, the African Development Bank allocated $76 million to Benin to help improve the highway network, increase rural electrification and fight poverty. Already, a project to link the cities of Djougou and Ndali by road, and provide a link between Togo and Nigeria has completed the planning stage. Rural electrification will provide a means to start small industries and increase productivity, for example harvesting crops by machine. At the same time, it will improve the quality of life and help combat poverty.

Improved infrastructure will also facilitate the transport of goods, and enable the diversification of the economy. Minister Biaou argues that globalization is adding to the marginalization of Least Developed Countries and forcing them to rely on preferential agreements to gain access to world markets. One example of Benin's over-dependence is the Cotonou agreements with the European Union.

FACT FILE

Population: 7.2 million, growing at 2.9% (2004 est.)

Capital: Porto Novo

Seat of government: Cotonou

Location: West Africa, bordering the Bight of Benin, between Nigeria and Togo

Currency: CFA franc

Exchange rate: 1 US$ = 503.652 CFA franc

Natural resources: gold, iron, limestone, minerals

Industries: textiles, food processing, chemical production, construction materials

Agriculture: cotton, cashew nuts, palm oil, cassava, peanuts, corn, yams, beans, livestock

Export: $485 million f.o.b. (2003 est.)

KEEPING SIGHT OF THE FAMILY JEWELS

Benin has recognized the importance of processing its own quality goods, to stop the exportation of raw materials and so add value within the country's economy, but foreign investment is needed to make this possible.

Port de Cotonou, one of the biggest transhipment ports on the African West Coast.

This is particularly urgent in the processing of cotton, the largest export. Processed cotton will bring in more revenue, while creating jobs and extending benefits to a wider circle of citizens. Benin produces between 300,000 and 400,000 tons of cotton a year, with 97% of it exported. The aim of Benin and the wider region within UEMOA is to process at least 15% internally within ten years, and therefore be able to make the most of preferential access to US markets through AGOA (African Growth and Opportunities Act). Foreign investment is needed to build facilities to dye and process the raw cotton.

The Ministry of Industry, Commerce and Employment Promotion, has expressed the government's concern, with the "grave consequences" the cotton industry is experiencing in Benin "against World Trade Organization rules." It asserts that the U.S., Europe and China are all subsidizing their cotton industries, causing serious distortions to the market, oversupply, and falling prices. The WTO agreed in November 2004 to create a body to focus specifically on cotton, following demands for a fairer cotton trade by Benin, Burkina Faso, Chad and Mali. Cotton is now to be "addressed ambitiously, expeditiously and specifically" within the WTO's agriculture negotiations.

Fatiou V. Akplogan, Minister of Agriculture, Breeding and Fisheries, is equally vehement about unfair competition, asserting that Benin's agriculture is "pushed around" by the competitiveness of European countries and the U.S., and by the subsidies that exist in these countries. The small Beninois producer living on less than a dollar a day – around 70% of the population – cannot sell onto the international market because of competition from the European and American national treasuries.

Most of the population work in agriculture, producing cotton, pineapples, cashew nuts and palm oil for export, as well as cassava and other food crops for domestic consumption. Yet only 80% of arable land is currently exploited. With a good climate, fertile soil, and an extensive coastline, there could be significant growth in agriculture and the agro-food sector.

The Ministry has identified 10 agricultural sectors for development, including pineapple production, but there are still obstacles to overcome, including conserving the fruit. At present, pineapples cannot be kept for any length of time and have to be transported by airplane – improved conservation facilities would allow larger shipments by sea, rail or road at significantly reduced costs.

The government hopes that agriculture will also benefit from NEPAD infrastructural projects like a rail link between Dakar and Abuja, which would enable produce to be transported more cheaply, and the development of the Niger river and its banks to allow more sustainable exploitation.

Boosting tourism and industry

Tourism is seen as a key sector for development because of its potential to deliver sustainable economic and social development. With 80 miles of coastline boasting white sandy beaches, as well as magnificent expanses of wild and varied countryside, and a rich cultural history, Benin has much to attract the visitor.

One initiative concentrates on the "Fishing Route", a 25-mile stretch of coast between the historical town of Ouidah and Cotonou. The government is encouraging tourist facilities such as hotels, holiday villages and leisure centers, and hopes to provide an additional 2,000 beds, generating an extra 4,000 jobs.

Meanwhile, industry only accounts for a small percentage of GDP. Just four activities contribute some 90% of value added by the sector. Textiles account for the majority at between 67 and 72%; food, drink and tobacco 10%; chemicals 7% to 10%; and cement 9%.

The MFE's main objective is to create the conditions necessary to improve the performance of industrial enterprises and facilitate the creation and development of new competitive businesses, particularly SMEs. Administrative procedures have been simplified to facilitate investment and incentives put in place, including free trade zones. The Chamber of Commerce and Industry also offers a one-stop-shop to encourage foreign investors.

Biaou believes Benin should take inspiration from the Asian countries which began as under-developed nations and are now emerging economies. Relations are already good with Asian nations such as Japan, China, South Korea, Malaysia and Singapore, and negotiations are under way for these countries to build factories and manufacture goods within Benin's free trade zones.

Chinese investments in Benin, for example, already total $50 million, and China has provided some $60 million in development aid. Among other projects, Japan has contributed towards vaccination programmes and the construction of school buildings, and invested in the fishing port of Cotonou. One flagship project is the 1,235-acre free trade zone to the east of Cotonou. Total investment by the state is in the region of 1.3 billion CFA francs ($2.5 million). The free trade zone is just 12 miles from both the port and airport, and is on the major highway network. Companies operating within the zone benefit from significant tax concessions such as tax-free imports on certain materials and tax exemption for the first 10 years.

Privatization

The government is fully behind the embryonic privatization process, which is seen as a key weapon in the fight against poverty. "Private operators need to have faith in the country's legal system and stability, and security must prevail for them to come and invest. The role of the government is to support the private sector to reinforce these three elements. The strongest weapon in the fight against poverty is employment," says Biaou.

The state is gradually beginning to disengage from huge public operations and is privatizing the industrial base, including the state-owned SONAPRA (Société Nationale pour la Promotion Agricole), responsible for cotton processing. Other candidates for privatization include the water and electricity utility, Société Béninoise d'Eau et d'Electricité, which will be separated into two bodies – the Société Béninoise d'Energie Electrique (SBEE) and the Société Nationale des Eaux du Bénin (SONEB). The state has decided to offer these two sectors to private enterprise so that they can guarantee the management, with the aim of optimizing the delivery and quality of service.

The Office of Post and Telecommunications will also be divided, with postal services remaining with the state, and telecoms passing to the private sector. The faster this can happen, the better it will be for the economy, because of the renewed interest in business for investors, who will find conditions more favorable for setting up work.

Telephone penetration has leapt from 0.7% five years ago to nearly 5%, with 65,000 fixed lines and 430,000 cellphones from four different operators. The target is to reach 10% to 15% penetration within five years. Competition for telephones and equipment is now open to the international community, with technology transfer top of the agenda.

The determining factors will be price, and the readiness of bidders not only to sell products, but to effectively transfer expertise and maintenance capability along with technology and after sales service, according to the Ministry of Communications and Promotion of New Technologies, headed by Frédéric Dohou. For him, the privatization process is one of collaboration. "Privatization is, above all, restructuring. It isn't selling to foreigners, to private companies, but opening ourselves up to greater efficiency, to foreign capital investment and expertise," he says.

His ministry sees great potential in information and communications technology (ICT), and is keen to educate the public and introduce ICT into schools. It has just granted three licenses to develop ADSL Internet access.

Education of the workforce is also a high priority. Currently, Benin offers a competent labor force and qualified executives, commonly trained abroad. The European Union is also working across the region on a massive training project to educate the workforce on international standards.

International relations

The enlargement of the European Union is seen as both an advantage and a potential setback for Benin. While 10 new member countries broadens the potential for new markets, it may also mean that the EU dedicates fewer resources to partners like the ACP. Benin currently receives funds under the ninth round of the European Development Fund. The total amount to be allocated is $276 billion, and 60% is already in place. There is also a concern that some European countries might see fellow European nations like the Baltics and Poland as more natural trading partners than African countries.

Meanwhile, Benin has strengthened its relationship with the U.S. over the past four years. It has been selected to benefit from preferential access to the U.S. textile markets within the framework of AGOA, although standards need to improve before exports can begin.

Around 70% of the population work in the agricultural sector

At the same time, it has been selected as one of only 17 countries to qualify under the Millennium Challenge Account which provides development assistance to countries that rule justly, invest in their people, and encourage economic freedom. It will soon submit its programme to the governing Millennium Challenge Corporation. Benin was put on the United Nations list of countries to receive investment at the beginning of 2004, and already the benefits are being felt. This not only brings increased access to international capital, but guarantees that the questions of political and economic transparency are taken seriously.

Meanwhile, annual bilateral talks have been established, which alternate between Cotonou and Washington DC, and delegations between the two countries show strengthening relations. At the same time, other international partnerships are growing. Denmark is now the second largest aid donor after France, and is heavily investing in clean water projects.

Sustainability

The government is mindful of the importance of the environment and sustainable development in all that it does. The budget for the Ministry of Environment, Housing and Urban Development has tripled over the past four years to 27 billion CFA francs ($53 million). The ministry has representation across government departments, to guarantee awareness of environmental issues.

Projects include working with Niger under NEPAD to promote sustainable management of the Mono River valley, encourage agriculture and maintain bio-diversity. Benin is also liaising with other countries bordering on the Gulf of Guinea on managing the marine ecosystems, and with Niger, Burkina Faso and Togo on preserving the northern parks. Meanwhile, a $38 million project to protect the coastline east of Cotonou is seeking finance. Maintaining bio-diversity is a key priority both for the environment and to encourage the embryonic eco-tourism industry.

In the more traditional areas of housing and urban development, the ministry is striving to be innovative. In housing, for example, two government programs working with four private operators have constructed 4,000 new homes. The state also has a 5% stake in Home Bank, which is able to offer longer-term credit at preferential rates to fund construction.

UNLOCKING THE KEYS TO DEVELOPMENT

Benin has a clear vision of where the country needs to go to achieve prosperity for all. Focus is increasingly concentrated on the key commercially beneficial factors, like the port, the banks, and new technology.

Labiyi Joseph Chaffa, Director General, Port of Cotonou

Known as the "lung of the economy" the Port of Cotonou is a powerful lever for industrial development of the country as a whole. It already handles 100,000 containers a year, 92% of all commercial transactions. The port accounts for more than 100,000 indirect jobs and over 60% of government tax revenues.

No wonder it is a top priority for investment. A viability study to part-privatize the port as been completed and the government has chosen a development strategy which "takes into account the recent developments in public-private partnerships in the management of port infrastructures." A single customs point for processing and clearing goods has been established, and a blueprint to maximize the existing space is under preparation. Infrastructure improvements include lengthening the breakwater to reduce tidal flow, the construction of two dry ports and possibly a second deep water port.

The Port of Cotonou acts as a gateway to West Africa and although ports in neighboring countries such as Mali, Burkina Faso and Niger compete for the transit traffic, they are working together to combat the general problems facing maritime transport. The port has already allocated 10,000 square meters to each of these three inland neighbors, which together account for up to a quarter of the port's traffic. Niger alone takes in 700,000 tons of the total 4.5 million tons shipped each year.

Director general of the Autonomous Port of Cotonou, Labiyi Joseph Chaffa, welcomes the International Ship and Port Facility Security (ISPS) code brought in in July 2004. However, it comes at a price. "At the port we need to take urgent measures but they are expensive," he says.

As well as additional security measures, Chaffa is also introducing a central computerized system for the whole port community, rather than just the customs data organized by the current system. "The advantage is collecting reliable statistics in real time. This will accelerate procedures and lower costs, especially the false costs linked to corruption or the inadequacy of our current management system," he says.

Port maintenance

For 30 years the Benin Port Maintenance Company (SOBEMAP) had the monopoly on port maintenance services at the Port of Cotonou. Since the sector was opened to competition in 1998, two European companies have begun operations at the port.

SOBEMAP is a state entity but runs as a private company, and director general Bernard Amoussou-Sossou is proud of how the company has been able to compete on the grounds of its experience and reduced costs. It now has a 28% market share, and employs 300 permanent staff and 3,500 temporary workers.

"Landlocked Mali, for example, had a choice of ports – Dakar, Guinea, Abidjan, Lomé or Cotonou. We managed to attract them to Cotonou. At SOBEMAP, the client is at the top of the pyramid; he decides and we make sure it happens," says Amoussou-Sossou.

SOBEMAP has worked closely with other ports such as Marseille in France and Gan in Belgium, as well as other African ports. "We also listen to the ship owners and take on board their concerns because they are the people who choose the ports and the maintenance companies," he says.

New technology

The banking system is also looking to new technology to improve its services. The Central Bank of West African States (BCEAO) has been modernizing the payment systems across UEMOA for the past five years, supported by the World Bank. Banks in member countries can now install automatic cash machines and issue clients with electronic cards valid across the world. The system is based on proven technology and will be operated to international standards, says Idriss L. Daouda, BCEAO national director for the Republic of Benin. The bank has performed well, she says, as demonstrated by the low inflation in member countries and the international recognition of the bank's good management and world class standards.

The single currency across UEMOA, linked to the euro, adds greatly to the economic stability of the region, affirms Joseph Kossi Ayeh, director general of Continental Bank, one of Benin's major banks. Currently, the majority of the bank's investments are within Benin, but it is open to invest in other countries of the West African region.

Continental is run as a private company, with the government hoping to sell its 44% shareholding. It is expanding its product range to include Internet home banking, and a partnership with Visa/Mastercard, part of the BCEAO initiative to modernize payment systems.

Other enterprises are based entirely on new technology. "Benin needs the Internet if it wants to be part of the world economy," says Philippe Amavi Bocco, director general of Unitec Benin. An entrepreneur with 22 years' experience in the field, he has spent the last five years building Unitec into an e-business to connect Africa with the rest of the world. There are currently only 20,000 internet subscribers in Benin, but Bocco is keen for this to increase.

Bocco believes that the only way forward is in a public private partnership. "A private business is better positioned to develop a strategy which can respond to demand, but the state has to give it political momentum. You have to look to the long term. Inevitably it is not profitable straight away." That's why he is preparing the company to deliver services on a regional scale, rather than in one country. "It's a question of volume," he says.

Unitec has built a technological platform along the lines of Yahoo – the first in Benin – which will be available for just three euros a month. The platform – www.africapro.com – will serve as a portal to the world of business, and ultimately as a single point of reference and payment.

Unitec has the pedigree to make the portal work – it already provides the single invoicing point for Benin customs. "We want to build a community like the EU in West Africa," says Bocco. "Our goal is to have a model that would allow us to enter into the systems of the whole community."

There are three basic modules – the free circulation of goods and of people, and a community-wide insurance card. Unitec signed the first contract for these with CEDEAO in May 2003, and has already delivered 100,000. "It is a real portal. Our system has caught up," concludes Bocco.

Communications are indeed catching up, and the division of the Office of Post and Telecommunications into two bodies, with telecoms passing into private hands, should enable the sector as a whole to become more dynamic. In all, Benin's future looks extremely promising. BO

MADAGASCAR

OPEN FOR BUSINESS

President Marc Ravalomanana is a man with a mission: to bring prosperity to his people by building a thriving economy, and to see Madagascar become a major player in international trading.

President Marc Ravalomanana

The President hopes Madagascar's future can parallel his own rags-to-riches story. Born in a village not far from the capital Antananarivo, he began his working life selling home-made yogurt from a bicycle. Today his dairy and oil products business TIKO is the largest locally-owned company on the island. Madagascar will also have to fight against the odds to improve its fortunes and alleviate the poverty of its people, but like the President, it has been gifted with the resources and potential to achieve its goals.

Ravalomanana had a rocky start to his presidency when his victory in the elections of December 2001 was disputed by the outgoing leader. The crisis lasted for six months until Ravalomanana was recognized as legitimate leader by the U.S. and France. He received a fresh mandate in elections in December 2002, and with the full support of his people has achieved political and economic stability.

The figures are impressive – 2003 saw unprecedented GDP growth of 9.6%, with 8% expected for 2004 and just 5% inflation. The President has introduced strict measures to tighten fiscal management and increase transparency and good governance. Together with the gradual liberalization of the economy and political stability, there is much to interest foreign investors. Areas of great potential include agriculture, mining and tourism.

Private investment is seen as the driver for development and policy has been focused on creating the right infrastructure to foster public private partnerships, including upgrading transport, energy and telecommunications, and reforming institutions. Tax has been reduced to 0% and for the first time since independence from France in 1960, land can now be owned by foreigners. "The engine of the development of Madagascar is the private sector," says the President. With stability, good governance and transparency in place, the main priorities are to improve the infrastructure and deliver education, health and clean water for all. In November 2003, Ravalomanana set out a roadmap for development, the Poverty Reduction Strategy Paper, which received approval, without amendments, at the highest international level from the World Bank and the IMF.

Great efforts have also been made to diversify the economy from over-dependency on the export of vanilla, cloves and coffee by creating other export industries such as textiles. At the same time the economy has had to cope with the inflationary effect of rising world oil prices, and the government has taken steps to stabilize the Malagasy franc. Working with institutions such as the World Bank and the African Development Bank, the government has also created a bank to help finance the private sector in joint ventures, called IFC.

Within the regional framework, Madagascar works with COMESA (Common Market of Eastern and Southern Africa), SADEC (South African Development Community), and COI (Commission of the Indian Ocean) to minimize transaction costs and improve competitiveness. Foreign Affairs Minister Marcel Ranjeva has been instrumental in building strong links with international partners such as NEPAD, through which Madagascar is receiving G8 support.

Decentralization of power is a key factor in the government's strategy to open up the rural economy and infrastructure. The selection process has already started to find the heads of the 22 regions, who will act as co-ordinators between the mayors, local bodies and associations, and central government. This devolution of power is welcomed by the Ambassador for the European Commission, Pierre Protar. "The EU supports the opening up of Madagascar, local development, and the consolidation of the macroeconomic and budgetary framework to improve public finances," he says.

The European Commission is financing the 280-mile RN6 highway linking the capital to Diego in the north. This is the biggest tender in Africa and worth 19 million euros.

Transport infrastructure

Opening up the transport infrastructure will transform domestic and international trade and liberate the rural population. Within the next four years, the aim is to have nearly 9,000 miles of highway connecting the main arteries of the country: the port and airport.

Toamasina is the largest port, handling 70% of international trade, and the target is to double its productivity in the next two years to handle five million tons of merchandise a year. Management of the port is being taken over by SPAT (Society of the Autonomous Port of Toamasina). The transition will take four years. "We want to transform the port into an industrial and commercial zone," says deputy director, Pierrot Botozaza. "The port must become a national economic catalyst and a backbone for the development of the country."

Development of the rail network will be co-ordinated with the ports to integrate transport logistics. Currently, a railroad run by private partner Madarail links the capital Antananarivo with Toamasina, and the government is finalizing the concession for a rail link in the south. "We are looking for more private investment for the main airport, to open up the capital, and welcome more freight traffic from overseas," says Vice PM and Minister of Transport, Zaza Ramandimbiarison.

The state-operated Air Madagascar began after independence in 1962. It now has 13 aircraft and made an operational profit of around $10 million in 2003. Air Madagascar is heavily involved in upgrading Tana airport, putting in new counters and a new IT system. "We are hoping for increased foreign investment and business set-ups to bring more business travelers to Madagascar and encourage air travel within the country. Considering the state of the roads, flying remains a good option," says Berend Bruns, director general.

Pierrot Botozaza, Port of Toamasina

Meanwhile, Madagascar is completely reforming its post, telecoms and information and communications technology. The post is becoming more reliable, and Minister of Telecommunications, Clermont Mahazaka says work has already begun on an undersea fiber optic cable to link Madagascar directly to the African mainland. Fixed, cellphone and telecenter operations will put people in touch with the world and open up the possibility of service industries in the ICT sector, such as call centers.

Time to modernize

Minister for Trade and Industry, Olivier Andrianarison says Madagascar must modernize to compete and its young population will be of great benefit in developing the services sector. "Madagascar must increase capacity, and modernize agricultural and industrial production," he says.

This is certainly true of agriculture, where expansion and diversification will help alleviate widespread rural poverty. Although over 80% of the population make their living from

Berend Bruns, Air Madagascar

Olivier S. Andrianarison, Minister of Trade and Industry

agriculture (it accounts for a third of GDP and 70% of exports), only 10% of the land is currently being exploited. Add to this the opportunities for fishing and aquaculture of the extensive coastline, and the scale of possible development becomes clear. Tapping this potential is a key priority of the Poverty Reduction Strategy, which aims to grow the sector by 4% a year. "We are surrounded by countries who have problems with resources, for whom Madagascar could act as a bread basket," says Harison Randriarimanana, Minister of Agriculture and Fishing. Madagascar could become the rice store for COMESA, he argues, and could supply Arabic countries with the thousands of sheep they currently import from Australia. Its vanilla is the best in the world, and with proper investment, such development can be successful, as the shrimp industry has already proven. "Our small farmers cannot do it alone," cautions the minister. "We need investors to build a large industrial plant with high productivity."

The experience of the Food and Allied Industries Ltd (FAIL) group shows this kind of development can bring rewards. FAIL has been in Madagascar for around 10 years. Its poultry arm, Avitech, produces 80,000 poussins a week. It later created the society Panagora, to import and distribute food throughout Madagascar, and now has four distribution centers. Meanwhile, its service company FTL Madagascar offers logistics and international transportation, and newly formed LFL Sarl provides animal foodstuffs for the livestock industry. FAIL's ambitious plans include entering the tourism industry using expertise gained from running hotels in Mauritius.

By far the largest agro-food company is TIKO, which has been in operation for 25 years. Despite the political crisis of 2002, sales bounced back by 60% in 2003 and were projected at 25% up in 2004. This growth is in part due to the launching of four MAGROs – Malagasy Wholesale Centers – to manage supply and distribution. Another 20 will follow this year. Like FAIL, it takes its social responsibilities seriously "Our social priority remains to keep prices down in order to make our products accessible to a majority of Malagasy people," says director general Nasolo Ranaivoson.

Progress is already evident in the growing demand for housing, particularly from the middle classes, working in the private or public sector, who would like to own their own home. The Bank of Africa has loaned 5 billion Malagasy francs ($502,500) to state construction organisation SEIMad, which currently has five large building sites on the go. SEIMad has also developed an anti-cyclone house with a steel frame able to resist winds of up to 250 kilometers an hour. It now needs to promote the house and find funding, possibly from the government, to subsidize construction.

The first anti-cyclone house produced by SEIMad. www.seimad.mg

SEIMad has already secured international funding. The Bank of Montreal has agreed to $15 million in principle, and director general Harimamy Rajaonarison hopes to get another $15 million from the African Development Bank. "With this, we could build 900 houses, which is modest compared to the demand," he says. SEIMad also acquires land on behalf of the state for tourist development, and identifies hotel groups who would like to invest in Madagascar.

Tourism

2003 saw the construction of 540 extra hotel rooms and the creation of 1100 jobs. By 2007, Minister of Culture and Tourism Jean Jacques Rabenirina aims to be attracting some 500,000 visitors a year. "Our aim is to promote our cultural diversity and prioritize tourism development, to safeguard our cultural heritage, encourage the arts at national and international level, and make tourism a lever for sustainable development which respects the natural, social, economic and cultural environment," he says.

With 3,100 miles of sandy beaches, vast biodiversity and strong culture and traditions, the world's fourth largest island has much to offer visitors from all over the world. The main destinations are at Nosy Be, Tuléar and the island of Sainte Marie. The government has produced a master plan targeting higher-end tourism and new direct links, like Bangkok-Antananarivo and Milan-Nosy Be should help bring more visitors.

The ministry has created the Tourist Real Estate Reserve to identify areas for investment, while Guide (a one-stop shop for investments and business development) is smoothing the way, cutting bureaucracy and red tape. Current projects include a possible five hotels from the Accor group, the 3,000-room Eden Park complex near Morondava with French, Mauritian and German interests, and a hotel on the islet Iranja by South African company Legasy Bullington. The independent three star Hotel du Louvre in Antananarivo has 60 rooms and is strategically located for both tourists and business visitors, near the banks and ministries. It has first-class facilities, including a Business Center with Internet, fax, and wi-fi.

Energy and mining

Half the country's energy needs are supplied by thermal plants, and half by hydroelectric power. Over the next 10 years, the government aims to increase hydroelectric power to 75% – more cost-effective long term. "Energy is a tool for development. If one wants to attract industry to Madagascar (in tourism and so on), if one wants each village to have water, electricity, not to use wood for cooking and to decrease deforestation in Madagascar, one must supply energy everywhere in the country," says Jacquis H. Rabarison, Minister of Energy and Mines.

Jacquis H Rabarison, Minister of Energy and Mines

The oil and gas to fire the thermal plants is still imported, and exploration for oil has so far yielded no results. Recently, however, three companies – one U.S. and two U.K. – have signed agreements/joint ventures with state operator OMNIS on oil exploration. Managed like a private company, OMNIS promotes the sector overseas and advises potential investors.

A new mining law was introduced in 1999, and is being rigorously applied to allow transparency and good governance. Potential for mineral exploration is huge – foreign companies such as Dynatec and QMM are mining or conducting feasibility studies for iron, uranium, cobalt and ilmenite, while state company Kraoma is already mining chromite. Its price has nearly tripled in the past two years. Meanwhile, the World Bank is financing a study to determine the extent of the island's mineral resources to inform potential investors.

Shell has been operating in Madagascar since 2000, when it bought the distribution activities of the state-run Solima. It has 52 retail gas stations, and is part of Shell Oil Product Africa (SOPA) based in Nairobi. It imports directly to three terminals in Toamasina, Mahajanga and Diego. "The improvement of the highways will determine where and how we can do business in the different regions of the country. According to the privatization agreement, each company had to be present in all regions," says Jean Pierre Wyns, country chairman. "We also pay a great deal of attention to protecting the environment, which is very unique in Madagascar."

Wyns is also keen to stress Shell's good relations with oil regulator, OMH. Although no longer in control of oil prices, the organization, led by director general Manitrisa Ratisimiala Ramonta, is currently redrafting all regulations in consultation with the private sector under the private public partnership principle.