Madagascar trade

Kjartan Fjeldsted

Madagascar's reform program dates back to the elaboration of *Madagascar Naturally,* Madagascar's vision on how to achieve the Millennium Development Goals, which was formally unveiled in November 2004. To realize that vision, the Madagascar Action Plan (MAP) was subsequently drawn up. One of its commitments is for the economy to achieve a growth rate of between 7% and 10% by 2012. The document places a strong emphasis on the role of the private sector in spurring and sustaining economic growth and identifies international trade competitiveness as a key challenge to be addressed.

Since the reform program was adopted, Madagascar's full integration into the Common Market for Eastern and Southern Africa (COMESA)'s free trade framework in 2005, and into that of the Southern African Development Community (SADC) in 2007, has created a new sense of urgency. "It simply isn't possible to continue our old ways. We have to catch up with our competitors in the region," says Patrick Ravaoarisoa, Director of the Bureau of Standards. A private sector respondent offers a more somber analysis: "Free trade has come too early for Madagascar—prepare for large-scale disappearance of economic operators in the country." Globalization and regional integration were catching up with Malagasy reality—it was reform or demise.

Making things happen

In early 2003, the state and the Société Générale de Surveillance (SGS) signed a four-year agreement to the effect that SGS would conduct a capacity-building program for the Malagasy customs service. The agreement provided for the gradual transfer over the agreement period of valuation, tariff classification and inspection functions from SGS to Customs. Furthermore, the pre-shipment inspection services that SGS had been providing would be replaced by a destination inspection scheme carried out by Customs themselves. The total cost to the state of the agreement would be around 30 billion Malagasy aryary (approx. $16 million) per year.

Also in 2003, new ports legislation was adopted in parliament, creating the new status of autonomous ports. Madagascar's main port at Toamasina—through which 80% of Malagasy merchandise trade passes—became one of the designated autonomous ports and passed under the direction of a new commercial company, the Société du Port Autonome de Toamasina (SPAT). Among the new company's first acts was to concession the operation of the container terminal and handling functions to a Philippine company, MICTSL, which proceeded to

upgrade the container terminal's equipment and invest in electronic tracking systems.

The real breakthrough, however, came in June 2005, with the appointment of Mr. Ramiandrasoa Vola-Razafindramiandra as Director General of Customs. A customs officer by training and previously attached to the Malagasy embassy in Mauritius, Vola-Razafindramiandra had come into contact with an earlier version of an electronic single window based on TradeNet—a proprietary software developed by CrimsonLogic of Singapore and pioneered at Singapore port—on the gradual implementation of which the Mauritians had been working since 1994. It was, however, the experience of Ghana that most directly inspired the reform in Madagascar. The Ghanaians were among the first to follow Singapore's example and were using the latest version of the TradeNet platform.

With the existing agreement between SGS and customs due to expire on March 31, 2007, the reformers had their work cut out for them: customs was in such a poor state that the World Bank and other multilateral lenders were advising the government to privatize customs services entirely. Vola-Razafindramiandra disagreed. With the help of a few trusted advisors, he elaborated a strategy plan for customs for the years 2005–2007. He then approached SGS with ideas about implementing a system similar to the Ghanaian one in Madagascar. SGS, which has an exclusive partnership with CrimsonLogic to set up and operate TradeNet outside of Singapore, were receptive and the decision was therefore made to set up a public-private partnership to develop the idea. Malagasy Community Network Services—or Gasynet for short—was born in 2006, with SGS holding 70% of the capital to the state's 30%.

The reform required an initial budget of approximately \$12 million, about \$10 million of which was used to procure scanners for the port of Toamasina and two smaller ports as well as for Ivato airport near the capital, Antananarivo. The rest of the budget was spent on the technical implementation, with the programming work done at CrimsonLogic headquarters in Singapore. After only around a year of preparations, Gasynet became operational in June 2007.

Opposition to the reforms was widespread and came from many quarters. The private sector—resigned to the inefficiency and corruption in customs—was reluctant to start paying the additional fees that the project would require and skeptical that such an ambitious and advanced solution would work in the Malagasy context. The 1,400-strong customs service itself was also reluctant to change its ways. Wedded to the old way of doing things, many customs agents also had a vested interest in existing arrangements, which brought steady revenues under the table.

Even at the Ministry of Economy, Trade and Industry, the Minister was opposed to any new arrangement that would mean his giving up the privileges he had long accorded himself of bringing goods duty-free into the country at his leisure. When an investigation was launched into his affairs by the anti-corruption agency, the President finally cut the Gordian knot and gave Vola-Razafindramiandra the green light to proceed with the project.

E-Government in the making

The arrangement chosen by Customs involved the integration of TradeNet and ASYCUDA++, which Customs had already been using. TradeNet connects most of the entities involved in the import and export process together in a single online platform and enables them to share data and transmit their approvals electronically. This includes importers and customs brokers with Customs, the port, the container terminal, the commercial banks, the Central Bank and the Treasury.

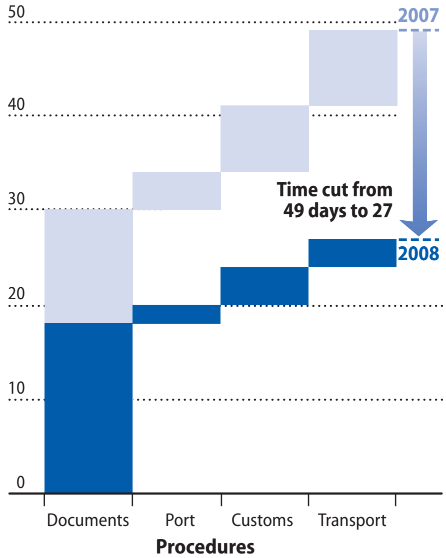
Everyone wishing to export to Madagascar must first register on TradeNet and fill in an electronic form, called *Bordereau de Suivi de Cargaison (BSC),* for each consignment. The exporter attaches copies of the trade documents, such as the commercial invoice, the bill of lading and certificate of origin, to the BSC and these are then transmitted electronically to customs in Madagascar. The documents are inspected by customs inspectors to ensure that they conform to certain minimum standards. Once this is done, the customs declaration can be input into ASYCUDA++ by the importer or customs broker.

Gasynet also incorporates a risk management system, which directs containers into one of four lanes—red, yellow, blue or green—depending on criteria specified by Customs. Containers selected for the red lane are subject to scanning and, if the results of the scanning require, physical inspection of its contents. Containers on the yellow lane are cleared based on an inspection of the documents. Containers subject to blue-lane procedures are allowed straight through subject to post-audit procedures, and green lane containers are automatically cleared without any human intervention at all.

Customs still employ a dual system of risk management. ASYCUDA++ automatically selects around 20% of containers for scanning based on criteria, such as country of origin and nature of the goods, specified by Customs. However, the parameters in ASYCUDA++ are difficult to calibrate just right and customs agents therefore select another 10% of containers based on an inspection of the supporting documents. Currently, around 95% of consignments on the red lane originate in China. This is because documentation is often insufficient or

declared values appear too low. As part of the risk management system, Customs has introduced a trusted importer program: certain import firms that have not been found to commit any infractions for the past 3 years automatically have their goods cleared through the green lane.

FIGURE 1
Madagascar speeds imports
Time to import (days)



Source: *Doing Business* database.

Gasynet is currently in the process of implementing the second phase of the project, which will see a greater number of agencies linked up to TradeNet. In the future, agencies that conduct technical and phytosanitary inspections will be able to access all relevant data and transmit their clearances online.

As the custodians of the most advanced information technology infrastructure in Madagascar, Gasynet have developed an ambition to leverage their advantage and make it a basis for an e-government system on the island. To this end, Gasynet have made an offer for a government tender to implement a national unique identification number scheme that will regulate access to a variety of government services.

Making things work

From the time the reform was conceived until full implementation, the reform took less than two years. This is a considerably shorter time than comparable reforms in other countries. How was this result achieved? Part of the reason has to do with the fact that SGS had acquired experience from other countries, such as Ghana and Côte d'Ivoire in implementing similar projects. "SGS have been a very competent technical partner," says Vola-Razafindramiandra. "But the speed with which we implemented the reform is also thanks to the fact that we had a clear idea of where we were going. Reforms are never just a question of introducing information technology, you have to have a clear strategy if things are to work out," he adds.

Nonetheless, there were a number of challenges that had to be overcome. The key technical challenge in the implementation was to **make sure TradeNet and ASYCUDA++ could communicate with each other.** As the overall arrangement is in effect a hybrid involving the two software packages, where importers

input their customs declaration into ASYCUDA++, which is then transmitted to and reconciled with data that originates in TradeNet, it was essential to get this aspect of the implementation right.

Another critical factor in the success of the reform was the **incentives provided to customs employees under the new system.** Gasynet user fees amount to 0.50% of the CIF value of goods and parts of this amount is paid to Customs and distributed among customs inspectors. "Before the reform, there was a problem with staff assignments. Certain customs posts were more attractive than others due to the amount of money an inspector could earn under the table. Now, everyone earns a similar amount no matter where they are located, provided that their performance is satisfactory." If it isn't, supervisors retain the discretion of taking away this performance incentive. "We are the only country in the world to have adopted this exact arrangement," says Vola-Razafindramiandra. "It has greatly improved discipline within the customs service and strengthened management's authority."

To ensure that end-users know how to operate the system, Customs and Gasynet have **organized numerous workshops.** Things have gradually been improving—in the beginning, for instance, notification by the commercial banks to the Central Bank and the Treasury that payment of duties and fees had been received used to take up to 72 hours, delaying clearance by as long. This delay has now been all but eliminated as banks get more used to the system and aware of the importance of quickly processing notifications. And Gasynet has set up a helpdesk at its headquarters, which responds to enquiries from users. The number of e-mail enquiries has gradually decreased, indicating that users are becoming more used to transacting through the system.

As to lessons learned, Vola-Razafindramiandra is adamant that it is **essential for customs to be the agency leading trade logistics reforms.** "Customs has to be the agency leading reform efforts in the domain of trade facilitation. If it's some other agency, such as the port authority, as in the case of Côte d'Ivoire, customs won't necessarily play along thereby jeopardizing any progress."

As with any reform, a **committed reform advocate** who sees the reform through is essential for success. Says Pascal Bezençon, Gasynet's director: "The Director-General of Customs was indispensable in the reform process, attending literally hundreds of meetings to co-opt and persuade the various stakeholders that the project was worth going ahead with. Without his energy and commitment, the project would never have stood a chance of succeeding."

This is perhaps one reason behind the overall momentum behind the reform program in Madagascar. For all the objectives identified in the Madagascar Action Plan, specific people were made **responsible for the attainment of specific objectives, and thus were also accountable for outcomes.** Asked about how to ensure successful implementation, Eva Razafimandimby, Director General of International Relations at the Ministry of Economy, Trade and Industry, herself responsible for reforms in the area of export promotion, describes her role and that of her department as a team competing on a soccer pitch: "our objective is always to score goals."

"From rickshaw to Rolls Royce"

The results of the reform have been impressive—according to *Doing Business 2009,* overall time to import a container into Antananarivo was cut by three weeks. Customs clearance time has been reduced to 72 hours at Toamasina, through which 80% of imports pass by value.

But quicker customs clearance isn't all the reform has achieved. Since 2005, customs receipts have doubled—from approximately 900 billion Malagasy aryary to around 1,800 billion today. And from the time TradeNet started operations in June 2007, receipts increased by 50%. This is vital in a country where customs receipts still account for around half of state income. Vola-Razafindramiandra is in no doubt that although increasing volumes of trade have played their part, most of the increase is due to improved clearance procedures, which have increased compliance. "I'm convinced that at this stage, no container can exit the container terminal without all of the proper procedures having been concluded," he asserts with confidence. "Before, I wasn't so sure."

Introducing greater transparency has been an integral part of the reform. Whereas corruption used to be endemic, such behavior is now heavily discouraged; since the implementation of Gasynet, 15 customs officials have been suspended pending an investigation into possible corruption-related infractions. Members of the public can denounce any customs inspector to the anti-corruption agency, which acts as a further deterrent. Nonetheless, the private sector indicates that some corruption still remains, especially surrounding cargo that passes through the red lane. Customs officials retain considerable discretion and bribes sometimes change hands in exchange for speeding up the process.

The exemptions regime, which before the reform was subject to the discretion of individual customs agents and much abused by those with influence, is now wholly transparent. Allowable exemptions—such as goods destined for diplomatic missions or public use—are now itemized in detail online and at the

headquarters of the customs service in downtown Antananarivo. In the same place, a sign reminds clients in no uncertain terms: "If your consignment does not fall into one of the above categories, it does not qualify for an exemption. Please do not waste your own time and that of the administration by requesting one." Furthermore, details on all exemptions granted are published online where they can be held up to public scrutiny.

Already this year, Gasynet is expected to recoup its initial investment and should start turning a profit next year. Therefore, rather than paying SGS $16 million per year for customs-related services, the state is now set to reap a part of that profit through its 30% shareholding in the company. At the same time, the trading process in Madagascar has been improved dramatically, saving entrepreneurs unnecessary bureaucracy and vastly improving competitiveness.

But although clearance time has been brought down to 3–4 days, there's still work to be done to achieve Customs' ultimate objective of providing 24-hour customs clearance of goods at Toamasina. The main obstacle at this point is logistical—the customs post at Toamasina is on the opposite side of the port from the container terminal. This means a great deal of delays and inconvenience in having to transport containers from the terminal to the customs post for scanning. Negotiations are underway to move the customs post right next to the container terminal to a site now occupied by disused oil tanks. Customs expect to request funding from the World Bank for the new customs post, which would dramatically increase efficiency and enable Customs to attain their objective.

Vola-Razafindramiandra is in no doubt that the reforms have transformed Customs from a fossilized organization to a state-of-the-art one. "There really is no comparison. We've truly gone from making do with the equivalent of rickshaws and ox carriages before to driving around in a Rolls Royce."