

Madagascar

Status Index (Democracy: 3,2 / Market economy: 2,3)		5.5	Management Index		4.2
System of government	Presidential-parliamentary democracy		Population	16.4 mill.	
Voter turnout	67 % (Parliamentary elections 2002)		GDP p. c. (\$, PPP)	830	
Women in Parliament	7 %		Unemployment rate	39 %	
Population growth^a	2.8 %		HDI	0.468	
Largest ethnic minority	n. a.		UN Education Index	n. a.	
			Gini Index	46.0 (1997)	
Data for 2001 – if not indicated otherwise. ^{a)} Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.					

1. Introduction

In regular presidential elections in December 2001, the people of Madagascar elected Marc Ravalomanana, a businessman and the mayor of Antananarivo, with a majority of around 52 %. The losing candidate, incumbent president, Admiral Didier Ratsiraka, who had governed the nation since 1975, except for the period from 1991 to 1996, refused to recognize the election results and plunged the nation into a constitutional and economic crisis, and a four-month civil war. It would take Madagascar about five years to undo the damage caused by the war, which included destruction of bridges on all major roads, economic blockades, and the collapse of the export and tourism industries.

Historically speaking, this scenario was not unusual for Madagascar. Periods of modernization and transformation have alternated with periods of stagnation and regression on a regular basis since the 18th century. Madagascar's colonial history was also marked by a series of attempted transformation processes, alternating with phases of growth and contraction in the economic sector.

2. History and characteristics of transformation

The various transformation processes in Madagascar were all markedly different; they proceeded at different paces and were either interrupted or discontinued. The foundations for an economically competitive and socially functional market were

established under the semi-authoritarian government of President Philibert Tsiranana (1960-1972). However, this process occurred under post-colonial conditions within the *Communauté Française* (French Community), with civil liberties being guaranteed only for the French-speaking upper class and economic activity being heavily distorted by oligopolistic and monopolistic elements.

The first real democratic transformation began at the end of the 1980s and was officially established in 1991 with the removal of Ratsiraka from power and a gradual change toward a democratically legitimized government under President Albert Zafy in 1993. The desolate economic situation (centralized economy, mismanagement, overindebtedness, bad investments) under Ratsiraka had led to the emergence of a popular movement called *forces vives* (active forces), which comprised churches, union members, intellectuals and businesses. This opposition plagued the AREMA regime with long strikes, civil disobedience and demonstrations between 1988 and 1991, so much so that Ratsiraka had forces shoot at demonstrators in 1991. He thus brought about his own fall from power.

The government, under heart surgeon Zafy, was unstable and overwhelmed with the work of economic and social modernization. It often had to deal with ever-changing, short-lived majorities in parliament. This eventually led to Zafy's impeachment and resignation. During this time, the still-effective AREMA had modernized its image through several younger leaders, and with its help Ratsiraka was able to return from exile. A runoff ballot in the December 1996 presidential elections, the results of which had been disputed, put Ratsiraka back in office. Ratsiraka pushed through a constitutional amendment with vague wording that gave the President the power to dissolve the parliament "for decisive reasons." Ratsiraka also introduced a new process of decentralization by establishing six autonomous provinces.

Madagascar is still far from what one would generally consider an "economic transformation." Whereas in the early colonial period, and into the 1960s, Madagascar was considered an "emerging nation," a process of de-industrialization began in 1972 that brought it down to the level of a "least-developed country." From 1972 to 1975, Madagascar isolated itself. First, the French were expropriated. Then, additional areas of the economy were collectivized. Big businesses were brought under state ownership and run on a bureaucratic, rather than economic basis. Investments were guided by political rather than economic or business considerations—sometimes with the active support of the World Bank.

An administrative machinery was developed that employed many people in bogus companies that did not actually manage or produce anything. State combines emerged in almost every sector of the economy—agriculture, public services, transportation, and trade. The transition to democracy in 1988 was undertaken under pressure from

the Bretton Woods institutions (IMF and World Bank) because Madagascar was overindebted and its public services had collapsed. The IMF arranged a sequence of structural reform programs known as PAS I & II (*programme d'ajustement structurel I & II*), in which funding commitments were tied to the devaluation of the currency, privatization of state-owned enterprises and modernization of the economy.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

With respect to the transformation of its political regime, Madagascar has made progress in some of the areas under review. Elements of the centralized Jacobin state after the French model were dismantled and federal, supporting elements were introduced—though at first only in the constitutional contexts; political practice lagged behind. Shortcomings exist with respect to political representation and the rule of law. The year 2002 was marked by a clear regression in terms of democratic stability. The fact that the democratic composition of the Third Republic was maintained is certainly a sign that several influential figures such as deputies and parliament thought further ahead in democratic terms than the rest of the old Ratsiraka guard.

3.1.1 Political organization

(1) *Stateness*: Problems of state identity do not exist in Madagascar. The state has an unimpeded monopoly on the use of force. There is a power vacuum in some extremely sparsely populated regions such as in the vast steppes and deep in the jungles, but this does not cast fundamental doubt about the government's authority. The definition of citizenship and who qualifies as a citizen of the state are not politically relevant issues.

All citizens have the same civil rights, a situation that is supported by the integrative phenomenon of a single official language—Malagasy—that has a written form and has been the communication standard for centuries. Religion and state are separate. The political process is secularized. There is a comprehensive system of public administration. Public safety and order are safeguarded, although under certain circumstances, the administration can also be considered hypertrophic and dysfunctional.

(2) *Political participation*: Universal suffrage, the right to campaign for office and correct electoral procedures are safeguarded only to a limited degree. Although the

constitution guarantees political participation and a macroanalysis would suggest that it is safeguarded, a closer look reveals many weaknesses that can be attributed to structural weaknesses as well as deliberate intent. The keeping of electoral lists and the actual running and evaluation of elections are carried out by organizations that are subject to political influence. The 2000 and 2001 elections clearly confirm this assessment.

Although the December 2000 elections for the autonomous provinces were run in a relatively neutral manner and the regime supported pluralist expression, the spring 2001 Senate elections and the June 2001 gubernatorial elections were heavily manipulated. Ratsiraka did not want to accept the outcome of the December 16, 2001 presidential elections and manipulated the results considerably via the computing centers, the Interior Ministry and the High Constitutional Court.

On the other hand, if civil society, the candidates and the church had not asserted their rights with regard to the election process, the last elections would also have once again been deemed representative and correct. Incidentally, the process was, in principle, to be deemed objective and neutral, as there were 16 matching counts for the 16,000 or so polling stations.

The close ties between the party, the government and the military ensured the Ratsiraka clan's effective power to govern. In principle, there were no power vacuums as a result of military or traditional political factors. In some regions in the extreme southern part of Madagascar and in the North, traditional tribal leaders have exercised a limited degree of political influence in the informal sector.

The constitution guarantees freedom of speech for the state-run and private media. The media are, nonetheless, subject to severe pressures. The dismissal of leading individuals from the state-run television and radio stations after Ratsiraka took over of power in 1997 limited the freedom of expression of these media in particular. The print media had greater freedom, largely because the majority of individuals in leadership positions there were critical of Ratsiraka.

Political and civic initiatives were able to develop freely. However, Ratsiraka made no secret of his disdain for civil society. The rights of unionization are safeguarded. The government has signed all ILO conventions, including the bans on child labor and gender-based discrimination. Ethnic splits sometimes arise within associations, but have remained within limits. Recent accusations that the Ravalomanana/Sylla government jailed half of the political elite from the coastal regions as political prisoners have been proven untrue. There is also virtually no cleavage between Muslims and Christians.

(3) *Rule of law*: Considerable deficiencies exist with respect to checks and balances between the executive, legislative and judiciary. The reason for this can be traced back to the constitution, which was conceived according to the French model and is clearly presidential, granting the parliament a mere watchdog role. There are also shortcomings in the judiciary, where the Minister of Justice is the judges' ultimate superior (*garde des sceaux*), meaning judges do not have legal and administrative independence in the traditional, constitutional sense.

The president determines Parliament's agenda. Due to its internal organization—it has low attendance and is in session just a few weeks of the year in two regular sessions—Parliament cannot assume an efficient watchdog role over the excessively powerful executive. In addition, there are personality-related political processes. The ruling clique surrounding Ratsiraka deliberately assigns weaker AREMA members to the parliament. The result is that a dozen high-profile independent individuals are powerless against the overwhelming majority of weak AREMA individuals. In addition, Ratsiraka built a constitutionally questionable “joker” into the 1997 constitutional amendment. According to Article 91, the president has the power to dissolve the parliament on “decisive grounds,” but these grounds were not defined or even outlined in a list of sample cases.

In the last stages of the Ratsiraka regime, toward the end of 2001, the High Constitutional Court was reorganized. The president of the High Court was an old friend of Ratsiraka's. The justices who were selected and dispatched from the Senate and National Assembly were appointed in a plenary session without an electoral procedure, and the number of justices selected and dispatched by the judges' union was determined without due constitutional and democratic process. When the results of the presidential elections went to court at the end of January 2002, the decision was correspondingly one-sided and led to a typical political crisis.

Political and bureaucratic corruption is considered to be very high in Madagascar. After three years of preparatory work, Transparency International published its first corruption perception index and ranked Madagascar at the very bottom, among the five worst-case countries. That is why citizens of Madagascar consider curbing corruption to be one of the most pressing matters for good governance. Corruption generally goes unpunished. Cabinet members, members of the presidential family and high-ranking elected officials used to have *de facto* immunity.

It wasn't until Ravalomanana took over the government that reasonably convincing attention was paid to the political demand for corruption to be curbed. In some respects, civil liberties in the press and politics could be exercised. However, even deputies and vice presidents of the National Assembly were intimidated and

imprisoned for expressing criticism of the actions of the presidential family Voninahitsy affair, December 2000-January 2001).

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: Under Ratsiraka, the democratic institutions gave an outward impression of stability, but instead of serving to differentiate political opinions and processes they helped cement authoritarian structures. Until the middle of 2002, Madagascar was dominated by a single party that was formed around Ratsiraka and his inner circle, and merely created an illusion of party pluralism.

Contrary to all expectations, 2002 revealed the remarkable stability of Madagascar's democratic institutions. This is one of the greatest transformation successes of the Malagasy people. Majorities changed, the presidents of the National Assembly and the Senate were replaced, and institutional efficiency was given greater priority than belonging to the AREMA party—with just a few exceptions. Ratsiraka's attempts to derail the process were dealt with and rectified. One could say that as from 2002, political and social stakeholders began to accept the democratic institutions and view them as legitimate.

(2) *Political and social integration*: The lack of a stable pattern of political party organization has contributed to the inefficiency of political institutions. During the period of this study, an organizationally stable party system rooted in Malagasy society could not be established. The party system remains highly fragmented, with 160 political parties registered with the Interior Ministry.

One large “state party,” AREMA, stood against a dense tangle of small political groups. The features of Madagascar's party landscape included: a low level of organization, insufficient ability to form party platforms, a lack of anchoring within society (in its modern sense), considerable weaknesses in terms of social integration or interregional aggregation, strong tendencies to focus on personalities and patronage, and a high level of voter volatility. The political parties are largely personality-oriented voter associations with a strong regional or local focus. A large number of “independents” found expression in these associations. This political landscape is one of the biggest obstacles to democratic consolidation in Madagascar.

Madagascar also does not have a well-differentiated landscape of interest groups in which businesses and unions can take root. Although employers are organized in various interest groups (large-scale enterprises, small businesses, chambers of commerce, and an association of young entrepreneurs), they do not have any standing in economic policy debates at the international and national levels. In the past and

continuing into the period of this study, businesses were considered economic manifestations of a political will but not as an autonomous force for transformation. Extremely high external tariffs made businesses dependent on fiscal and economic policy—not the other way around.

The election of one of the country's most important entrepreneurs as president of a transformation-oriented elite could result in a paradigm shift in the future. The representation of employee interests was in the past based on the French model of trade unions with party-political or religious affiliations. Thus, communist, socialist (*Force Ouvrière*), Christian and, to some extent, revolutionary Maoist unions shaped the landscape and were primarily supported and held together by the civil service and state-owned enterprises. Their influence has, therefore, been fragile and fragmented since the economic reform efforts at the end of the 1980s.

In the form they exist today, the unions can hardly be considered representative of the workforce. The tripartite mechanism to promote concerted action that the ILO has introduced in many third world countries ended in a blockade in 1999 in Madagascar. At that time, the government refused to give employers and trade unions a say in the appointment of the members of the administrative council for the social insurance fund (CNAPS) through internal elections, choosing instead to establish a state administration for the social insurance fund. On the whole, the “social dialog” in Madagascar remains delicate.

The differentiation of the civic organizational landscape is continuing, albeit starting at a very low level. The willingness of civic organizations to cooperate is high. The best example of this is the *consortium des observateurs* (consortium of observers) for the December 2001 presidential elections, which comprised promoters of democracy, the Christian clergy and Christian lay groups. There is also a fairly active platform of organizations for human rights .

However, civic initiatives are often led by “lone wolves” who are not particularly well suited for promoting new blood and capacity building. In addition, the groups generally have severely limited financial and material resources, as the initiatives are generally dependent on external funding that is often granted on an ad-hoc basis. However, despite these structural weaknesses, the fact that the will of Malagasy voters was realized in 2002 can be interpreted as a success of civil society. This is because the Association for the Promotion of the Rule of Law took up the issue of Ratsiraka's unconstitutional appointment by the High Constitutional Court before the Supreme Court's Administrative Chamber. Thus, the organizational dynamics of Madagascar's civil society won a kind of victory in 2002.

Opinion polls have shown that the general population is not disaffected with democracy in principle but that it rejects the elitist politics of the past. With voter turnout for the 2001 presidential elections at 69 percent and turnout for the National Assembly elections at around 67 percent, democracy is not being directly called into question. Instead, the population is demanding more progress in transformation.

3.2 Market economy

Distinctions must be made with regard to Madagascar's achievements in the transformation of its economy. During the period of this study, requirements for market liberalization and privatization were met in principle, but in practice, some of the old monopolistic tendencies persisted.

The state-run banks were privatized, but French banks bought heavily into the newly privatized banks. As a result, the oligopolistic aspect remained very strong. Solima, a large state-owned company that produces gasoline and petroleum products, was denationalized and divided up among international consortia. The end result was more a movement toward an oligopoly than a market economy. Other areas that were not or only half-heartedly dealt with were Air Madagascar, the telephone service, water and electricity.

The Ratsiraka regime initially delayed reform toward a fundamentally market-based economy, then took up and implemented the matter half-heartedly. It was not until President Ravalomanana, who is a successful businessman, took power that a transformation toward a market-oriented economy and society was truly conceivable. However, his time in office has been too short to determine any successes critically and objectively.

3.2.1 Level of socioeconomic development

The key indicators reveal a very low level of development in Madagascar. The nation's level of development, as measured by the HDI, does not allow its citizens equal opportunity. 75 % of the population lives in absolute poverty, below the line of \$1 per day. In rural areas, that percentage is as high as 80 %.

Although all basic human rights are established in the constitution, and Madagascar has signed all relevant international UN and ILO conventions, social exclusion due to poverty, lack of educational opportunities and caste-like social discrimination persist in Madagascar. After the period under review, problems of distribution intensified and the poverty rate rose once again despite the fact that, in purely statistical terms,

macroeconomic aggregates demonstrated economic growth. Apart from the 2002 crisis, which resulted in an economic contraction of around 12 %, Madagascar is marked by social stagnation, regional imbalances, and unequal distribution of income and wealth. In this respect, Madagascar can be considered among the hard core of the least developed countries.

3.2.2 Market structures and competition

The constitution safeguards the elements of free-market competition. Government policy with regard to competition and development is still characterized by historically rooted imbalances. The pre-colonial period was dominated by a privilege-based order with castes, forced labor and royal fiefdoms. This order was absorbed, virtually unchanged, into the new colonial structures; there was forced labor for major colonial infrastructure works, latifundia, sinecures and licensing, monopolies, and foreign-controlled transformation attempts in modern service companies. The first corporate reforms motivated by market considerations were implemented in 1988, under the influence of the IMF.

The informal sector of the economy is dominated by atomistic competition. Other markets such as energy and public utilities (water, telephone) are severely distorted by oligarchies or monopolies. Foreign trade was liberalized but still runs through real or established rights of exclusive representation and is largely in the hands of the Karana (Muslims who immigrated to Madagascar from India four to five generations ago) and Chinese. There are only very few Malagasy businesspeople in the modern sense. The restructuring of the formerly state-run and politically regulated banking system continued. Five major international banks (Crédit Lyonnais, SG, Paribas, Bank of Africa and Mauritius Commercial Bank) dominate the financial scene, which is undercapitalized but overliquid. There is no structured capital market. Large sections of the population are excluded from the money market as well as from the capital and savings markets.

3.2.3 Stability of currency and prices

During the period of this study, the government pursued a consistent anti-inflation policy and a stability-oriented exchange rate policy. In so doing, it was able to reduce the nation's double-digit inflation rate to around 4 % and to secure a stable exchange rate. Although the central bank is independent in principle, the state has kept open various options for borrowing and sources of liquidity. In accordance with the IMF's

guidelines under PAS I and II, the budget deficits were reduced and tax and tariff revenues were improved.

Nevertheless, fiscal policy in 2001 and 2002 was off course. In order to finance the election campaign, the budget minister and AREMA chairman had directed tariff revenues right past the budget and into party coffers. In 2001, the president overdrew his special fund for campaign expenses by 6000 %. It was impossible to maintain orderly public finances under these circumstances. In addition, Ratsiraka bypassed the central bank and had money printed in France; however, some of the bills were intercepted in containers being delivered to Réunion and Tamatave (Toamasina).

Madagascar met the selection criteria for the debt-relief program for the least developed of the world's highly indebted poor countries (HIPC), and some of its foreign debt was forgiven. Nevertheless, the central bank had to stop servicing the nation's debt in February 2002 due to a lack of foreign currency. As a result, Madagascar's credit abroad was frozen. It was not until Ratsiraka fled and the authority of the elected president Ravalomanana was established that Madagascar's public finances were corrected from a good governance perspective.

At the Donors Conference in Paris at the end of July 2002, the international donor community granted the new government \$2.5 billion in medium-term funds. The sanctions at the start of 2002 had temporarily pushed the rate of inflation up to 24 %. The annual average rate for the year 2002 should be around 6 %. Ravalomanana's policies, which are influenced by principles of good governance, is accelerating growth and freeing productive forces from red tape. As a result, a 6 % growth rate and 4 % inflation rate were forecast for 2003.

3.2.4 Private property

The rights for all to acquire and own property are sufficiently well defined. However, foreign persons cannot acquire ownership of land, at least not without a front man. Government land can be acquired on a long-term basis by way of a 99-year lease. However, here, too, uncertainties have arisen in the past when rival groups within the Ratsiraka clan have disputed distribution rights. A notorious case that went through the courts concerned Ratsiraka's daughter, who had initiated expropriation proceedings against other members of the Ratsiraka elite. She won in the first instance but lost her claims after her father fled the country.

Under Ratsiraka, there was, ultimately, no real security in terms of commercial law. Toward the end of the study under review, a privately organized arbitration institution established itself with the aim of safeguarding international commercial

practices in Madagascar. The privatization of state-owned companies progressed, but too slowly and too hesitantly—even in the IMF's opinion. The concentration of power and the lack of economic legal safeguards are far below the level of most OECD states.

3.2.5 Welfare regime

Madagascar has a social welfare system for employees in the formal sector that follows the French model. High contributions on the part of employers and low contributions on the part of employees fuel a traditional social welfare system that covers old age, healthcare and invalidity/inability to work. However, the amounts paid out do not allow individuals to continue to live adequately after leaving formal employment. As a result, the family and the concept of subsidiarity at the employer level play a significant role in providing security.

Corruption, mismanagement and evasion of contribution payments have undermined the effectiveness of the established welfare institutions. Extensive paid-leave provisions, a high degree of protection against termination even in cases of embezzlement, and early retirement (at age 60 for men and 55 for women) make the system impracticable and unviable over the long term. With an unemployment rate of 50 % in the modern urban sector, plus underemployment and youth unemployment, providing unemployment benefits would overload the system.

Unemployed persons tend to live within their extended families. Qualified professional training is underdeveloped, fragmented and privately organized. The fact that it is virtually impossible to dismiss employees in the formal sector and in public enterprises and the civil service stands in stark contrast to the conditions for employees in small and medium-sized companies in the informal and agricultural sectors. These offer mostly day-jobs and the conditions are not conducive for promoting professionalism, development of a work ethic or innovation. Economic and social transformation will remain unthinkable unless the discrepancies among labor standards are reduced.

3.2.6 Strength of the economy

Madagascar's economic potential is not being effectively exploited. Large export zones produced textiles for the global market, and the fishing sector produced seafood (shrimp) successfully. To become competitive, other modern agricultural sectors, such as rice, beef cattle, coffee, cocoa, pepper, vanilla and other tropical products, would have to investment in modernization efforts that have been neglected

in the past. For the future, a broad-based campaign for restructuring and transformation is necessary.

In principle, the population has nothing against an economy that is oriented toward the global market and focused on exports. However, in terms of transformation policy, a global orientation must also be combined with domestic growth. Assuming that Ravalomanana's radical vision of modernization marks the end of the economic policies of the Second Republic and of the Ratsiraka phase of the Third Republic, then the economy can now embark on an accelerated development track. The human resources are there and they can be equipped with the necessary qualifications if there is a sufficient incentive framework. Although the natural resources are ecologically damaged in some areas, they can, in principle, be rehabilitated and developed.

Capacity building will be the decisive factor for success. Even if certain subsectors of the global economy collapse, Madagascar can still increase its market share considerably. This is especially true since Madagascar would be starting at the lower end of the spectrum and the size of the country and variety of resources can have accelerating and multiplying effects that would help to expand and deepen economic activities.

3.2.7 Sustainability

A social safety net to offset poverty and social risks is only available to a very small section of the population (less than 10 %). The nation cannot afford to extend the social insurance system, which is funded through taxes and duties. The only safety net outside the money economy is, therefore, the extended family. Equality of opportunity and access to public services also would only be possible if considerable reforms are made. In the past, the only way to make entries in the civil registry or process widows' or children's inheritance claims was by paying bribes to the necessary officials.

Individuals can receive public healthcare and enter their children into school only after paying an "admission fee" (i.e., corruption). Drinking water is available only to a minority of households, even in big cities. Mechanisms to improve the lot of women, handicapped persons or the socially disadvantaged exist only as the initiatives of civic groups or groups that are active in the area of social policy on an international level (churches, *Coopération Française*, USAID, etc.). Gender is another issue that is promoted by civic groups as well as some government institutions that are not generally opposed to the idea.

Environmental awareness among the government and general public increased in the last few years, but the extremely poor rural population continues to practice illegal tree cutting, charcoal production and slash-and-burn practices. Ravalomanana's was the first government to make random burning of the steppe and rainforests (*feux de brousse*) a punishable and punished offence. To a great extent, the infrastructure and management of the primary and secondary school systems are supported by international donors. Teachers' salaries are demoralizing, and classes are overcrowded. As a result, scholastic achievement is mediocre, and school dropouts are in the majority. What was once a modern infrastructure from the nation's first period of independence is now virtually in ruins.

4. Trend

(1) *Democracy*: Before the period under review, the state monopoly on the use of force, an effective administrative system, the functionality of the courts, and public safety and order were safeguarded in principle. However, there was regression in some areas of transformation during the period of this study.

During the colonial period, in the First Republic and in the first stage of the Third Republic, Madagascar was more politically developed in some areas than many comparable nations. In terms of transformation and democracy, Ratsikara's so-called "people's democracy" period in the Second Republic was a step backward, as was the period from 1998 to 2003. The political and intellectual elite, including employers, the media, and promoters of the Malagasy middle class rebelled against this period, setting up democratic initiatives.

For this reason, the "Ravalomanana revolution" is regarded as Madagascar's best chance for transformation. The calls for reform are loud, with pressure to make huge strides immense. Ravalomanana has been pushing through the necessary structural reforms since July 2002. For instance, he established the independence of the judiciary, accelerated legal proceedings, disclosed the financial circumstances of judges and ministers, fought corruption at every level of the administration, and established partnerships between civil society and the public sector. Although Ratsiraka had also spoken out against corruption, in reality his clique encouraged corruption.

Despite a national uprising, Madagascar's elite managed to maintain the basic stability of constitutional institutions by performing "global surgery" aimed at restoring the functionality, operability and—it is hoped—the efficiency of the institutions which are defined by the constitution as pluralist, democratic and based on the rule of law. The clear majority held by the reform movement surrounding

Ravalomanana (80 % in parliament) will likely provide favorable conditions for transformation in the next period of study. The parties' capacity for political organization must still be viewed as only now coming into being.

As the new government had only been in place for 6 months during this study, it is not feasible to make projections about the future of citizen participation and capacity building; and any such projection would simply reflect an interpretation of leaders' declarations of intent. The seeds for a civic culture exist, but need to be systematized and expanded. Surveys show a high level of expectations among 95 % of the population, who expect the Ravalomanana government to improve everything. Citizen participation still needs to be fostered and consolidated.

(2) *Market economy*: During the period of this study, the fundamental indicators of development toward a market economy were already positive, with some qualification, under Ratsiraka. However, due to the unreliability of statistical data, one should exercise caution when interpreting sustainability indicators and the Gini index.

The institutional framework for free-market activity has improved. Regression is unlikely with an entrepreneur serving as president. Shortcomings in competitiveness remain. Reforms have lost momentum and are not likely to gain speed again until 2003. Despite the crisis conditions of the first half of 2002, the latest data for the second half of 2002 suggest significant successes for the government's development policy.

Table: Development of macroeconomic fundamentals (1998-2002)

	1998	1999	2000	2001	2002 (2/4)
GDP growth, in %		4.7	4.8	6.4	-12

Export growth, in %		13.1	21.5		
Import growth, in %		5	46.9		
Inflation, in % (CPI)		9.9	11.9	6.4	12
Unemployment, in %				3*	
Budget deficit, in % of GDP	5.0	3.6	4.8	4.2	10**
Current account balance, in millions of \$	-289	-225	-260		

* In 2001, the ministry of labor reported a concrete unemployment figure of 200,000. If we assume that the labor force is 6 million, the percentage of unemployed would be 3 %. However, the figures are unreliable, as there is no unemployment insurance and, thus, no means of obtaining true unemployment statistics. Experts suggest that the actual unemployment (or underemployment) rate may lie in the 50 to 60 % range. ** Loss of tax revenues due to the crisis in the first half of 2002.

5. Transformation management

5.1 Level of difficulty

The low level of economic and social development, the existing basic market structures, the low level of education in society as a whole, the endemic poverty of the population and an administration beset with corruption have long been the baseline for transformation—and continued to be during the period of this study. Thus, the level of difficulty was extremely high.

The Ratsiraka regime did not in any way meet these challenges. Of course, the Third Republic was not the Second Republic. Some goals in terms of democracy, human rights and a market economy were pursued and achieved. However, there was already a basic oral consensus with respect to democracy and a market economy. In actual political practice, however, the rules governing a modern social transformation were often overlooked.

Civic initiatives were only able to achieve their objectives to a limited degree. In economic terms, the results were also mixed. Structural reform programs brought liquidity to the country, but this liquidity was not always put to good use. Clinton's initiative, the African Growth and Opportunity Act (AGOA), also brought initial growth and investments. However, they did not have a sufficient multiplying or income-generating effect on the domestic economy.

Finally, by refusing to step down after losing the elections and, thus, triggering off a minor civil war, Ratsiraka destroyed the seeds of growth for some six months. At the time this study was written, one could make nothing more than suppositions about how long it would take to restore the nation to the state it was at the end of 2001.

5.2 Reliable pursuit of goals

The government's economic reform strategy—if it can, in fact, be called that—for the period of this study was engined from the outside by the IMF and implemented half-heartedly within the country. Privatization was delayed and only implemented after the IMF threatened to stop making payments on the grounds of Madagascar's non-performance. There was no indication of a serious policy-mix geared toward opening up markets, liberalization and cushioning the impacts of reform on the populace.

There were programs to provide a safety net for employees who were laid off from state-owned companies, but the actual implementation of these programs was sporadic. The Ratsiraka/Tantely Andrianarivo government was largely concerned with making a good media showing in the eyes of its big multilateral donors (World Bank, IMF, EU, etc.) by targeting macroeconomic data like the budget deficit, growth and foreign debt. The government did not seek to bring about true social and economic transformation.

Only in the second half of 2002, under Ravalomanana, did the legacy of neglected reforms become the subject of open discussion. The market and market access for economic stakeholders, goods and services play a key role in Ravalomanana's world view. And it is from this that he developed his strategy of building roads and infrastructures, developing education and healthcare, improving communication and information, and providing transparency and good governance. The old centralized Jacobin state with strong welfare components was seen to be no longer feasible, and hence, decentralization, subsidiarity and partnerships between the private and public sectors were to play an increasingly important role as mechanisms for transformation.

5.3 Effective use of resources

The Ratsiraka government did not make proper use of available human and organizational resources. Reforms were approached in a dilatory and sometimes amateurish manner. Analysts suggest that there may have been a simple reason for this: to ensure that parts of the weakened companies went to the presidential family at a very good price. Ratsiraka himself did not work according to the Malagasy

principle of “mora-mora” (slowly-slowly), although he did cultivate the attitude as a Malagasy idiosyncrasy.

Since July 2002, the Ravalomanana government has been proving that Malagasies can also work efficiently. Ravalomanana undertook the formation of the government, the running of elections, and cooperation with business and industry, employers and trade unions, and civil society and the international donor community quickly, efficiently, and without making any major management mistakes. Ravalomanana began the fight against corruption in the same efficient manner. The legal framework for a functioning state founded on the rule of law is in place. Sentences are now being handed down for corruption and white-collar crime, although it is not intended that this be done in courts of summary jurisdiction.

The professionalization of the courts is being undertaken simultaneously with an effort to accelerate procedures. The qualities inherent to the character of the Malagasy are reflected in the high value they place on their own culture and their sense of self-esteem. These qualities are being systematically drawn on. Malagasy belief in *Fahamarinana*, *fahamasinana* and *fihavanana* (roughly: love of truth, human dignity and the willingness of citizens to seek compromise) are values that can be put to good use in a democracy and a market economy.

However, Malagasy society must also overcome the deeply rooted legacies of its past: the hierarchical structure of the monarchy and the self-destructive periods of colonialism and authoritarianism, which have resulted in hierarchical thinking, nepotism, a lack of civil courage, and a tendency to bend the law. In this area, leadership must be exercised and management reforms must be implemented in order to advance transformation across the board.

5.4 Governance capability

The Ratsiraka regime made serious management errors both in terms of economic reform and democratic transformation. Even if one can attribute its hesitance to undertake economic reforms to a lack of experience and a fear of not being able to cope with the task at hand, the political mistakes are inexcusable. This was the second time Ratsiraka and his AREMA party failed to take political calls for change seriously, decipher them and accept the obvious political consequences.

The leadership proved itself inflexible and incapable of learning, and, to some extent, part of the old school. Although vote-buying, manipulation of elections and political

prostitution were carried out openly by elite circles and therefore could not possibly have been hidden from government, the order of the day was “don’t ask, don’t tell.”

The Ratsiraka regime even rejected offers from diplomats within the country and internationally to help interpret the election results and find a compromise to resolve the political crisis. From a political management perspective, the Ratsiraka regime failed miserably and, as a result, forfeited what scope for action it may have had.

5.5 Consensus-building

All relevant political and social forces are in agreement with regard to the reform objective of market-based democracy. There are, however, differences in opinion regarding the pace and modalities of reform.

Of course, there are still macropolitical groups within Madagascar that harbor radical alternative ideologies, “revolutionary” unions, for example, that were supported by the Second Republic, and movements within the once-dominant AREMA that foster political nostalgia. However, these groups have no significant influence on economic activity, social dialog or in parliament, where they hold only two of the 160 seats.

The new Ravalomanana government is aiming at a different policy model. In light of the breakdown of the Jacobin welfare state of the 19th and 20th centuries, which Madagascar had inherited from colonial France, Ravalomanana is now seeking to establish political discourse through a new type of public-private partnership. A public administration and government that will always be structurally limited in relation to the massive challenges of its society can only meet its responsibilities as a modern state if civil society and other relevant actors are motivated, involved and nurtured.

New forms of interaction must also be developed. The first parliamentary elections in December 2002 illustrated this new concept. Ravalomanana consulted with all of the social stakeholders (political parties, civic initiatives, entrepreneurs, the military and the administration) before deciding to hold the elections early. When the decision was made, Ravalomanana also invited international observers, thus leaving no doubt that the elections would be run correctly. The previous government had always refused to invite international observers.

Reform of the media, the modernization of the social welfare system, the promotion of small and medium-sized companies, and the fight against poverty will follow. Competition, subsidiarity and decentralization will be the guiding themes of these efforts.

5.6 International cooperation

Improvements in the judgement of transformation after 1988 and above all during the period of this study are closely linked to Madagascar's increased cooperation with external stakeholders such as the IMF, World Bank, African Development Bank, *Coopération Française*, EU and USAID. In order to gain new credit commitments, both the transitional government under Zafy and the Ratsiraka government from 1997-2001 had to address the demands of the international donor community.

However, the Ratsiraka government made only limited use of the proposals that the international donor community offered to promote transformation. In particular, managerial reform offers were taken up half-heartedly and their implementation was neither inspirational nor innovative, but merely bureaucratic. The government also failed to promote major regional opportunities for political cooperation.

The Ratsiraka government cooperated most closely with the regional policy initiative of the COI (*Commission de l'Océan Indien*, which comprises Réunion, Mauritius, Madagascar, Comoro Islands and the Seychelles), which is under the influence of France and funded by the European Union. Madagascar also integrated itself into the regional COMESA alliance because this cooperation was related purely to trade policy. Ratsiraka ignored the somewhat more political SADC because this alliance required a democratic dimension, involving parliament, civil society and human rights, and because South Africa, as a center of transformation and reform, had begun to cast doubt on the traditional thinking that Madagascar belonged to France.

After Ratsiraka's removal from office, the Ravalomanana government decided in November 2002 to make a formal application for membership in the SADC. Ravalomanana's regional orientation was made obvious after his first visits to Johannesburg and Mauritius. As a businessman, Ravalomanana wanted to develop growth markets, not divisions. He remained a part of the *francophonie* but was also developing a new, pluralist approach to foreign policy that included additional partners such as the United States (AGOA), the EU (Germany), Africa (Morocco and Senegal) and Asia.

6. Overall evaluation

This report comes to the following conclusions with respect to the baseline conditions, current status and evolution:

(1) *Baseline conditions:* The initial conditions for transformation are to be rated as adverse overall. Although functional structures—and even market structures—existed before the period of this study, they were not activated or used constructively. The fundamental issue of national identity was never in question. Against all better judgment, Ratsiraka politically exploited the question of a secession of provinces, playing on the differences between the coastal inhabitants and the inhabitants of the interior in the hopes of achieving short-term political gain. Madagascar's 200 years and more of existence as a nation-state made the possibility of division unlikely, although this issue has raised its head from time to time.

The nation of Madagascar did not need to be reinvented, even though there was insufficient rule of law and a lack of civic and democratic traditions during the long period from 1975 to 1990. However, close contact with the West, an educational system that leaned heavily on the French system, an already well differentiated society, and the absorption of civic and democratic values in previous decades provided fertile ground on which to establish such traditions.

During the period of this study, “transformation” was a combination of half-hearted toleration of democratic principles and economic reform management coupled with initial steps toward further levels of transformation for the state and the nation that are now being taken through Ravalomanana's reform and development offensive. The “old regime versus democratic opposition” issue was not resolved by democratic means but rather through a civil war that ended in favor of progress. As of mid-2002, Madagascar can be said to have a new configuration of democratic “normalcy,” with a government that is loyal to the tenets of democracy and an opposition that is loyal to the system.

(2) *Current status and evolution:* Democratic transformation has not yet gained much ground in Madagascar. It was not until July 2002 that the political decision-makers managed to deepen the process of democratic transformation in qualitative terms. On the whole, democratic and free-market transformation and consolidation now seem to be taking off after having stagnated under Ratsiraka and reform bottlenecks.

At present, there seem to be no internal threats to democracy. The main problems lie in the areas of political representation and integration, institutional efficiency and the rule of law (neutrality, expediency, and corruption). Greater progress was made with respect to economic transformation. The political decision-makers were able to stabilize macroeconomic development, even during the civil war. The foundations were laid for an orderly market economy.

However, economic transformation to an efficient social market economy is by no means complete. Although key quantitative indicators suggest that economic

management has been successful, other important structural reforms of the market system remain incomplete. These include establishment of a sound banking system and a capital market, the break up of monopolies, the development of competition, a reduction in unemployment and absolute poverty, and the establishment of a social safety net to cushion the effects of adjustment policies on the populace. The actual process of transformation is just beginning, under a president who is also an entrepreneur in the spirit of a free market economy.

(3) *Management*: The verdict on the actors' relative management performance is ambivalent. Reliability in achieving goals, speed, and the prospects for success in the process of economic transformation did not improve during the period of this study as compared with the previous period. Under Ratsiraka, there were no management strategies with respect to establishing a broad pro-democratic consensus within society, negotiating economic reform measures, achieving macroeconomic stability or cooperating with external stakeholders.

Despite 40 years of independence, Madagascar is only now beginning to undertake domestic reforms with respect to conflict management, the party system, support for democracy, institutional reforms, and curbing corruption. The outcome of its macroeconomic reforms—restructuring and privatization of the business sector, reform of the financial market, and reform of the banking sector with the aims of capital deepening and capital widening—remains uncertain.

7. Outlook

The meager results on the whole underscore the assessment made by numerous observers that Madagascar's transformation still lies ahead of it.

The key strategic tasks for the country's democratic and market-economy reforms for the medium term will be to establish the rule of law, improve the government system's institutional efficiency, cement patterns of democratic representation and democratic attitudes, curb population growth, reorient educational policy toward development and the labor market, continue to reform the existing organization of the market and competition, and ensure the sustainability of Madagascar's economic development.

In terms of strengthening the rule of law and civil rights, Madagascar does not need legislative or constitutional reforms—the existing texts provide a legal framework that is almost ideal. What it needs is to actually implement the existing laws.

Therefore, intensive observation and assistance will be essential to Ravalomanana's transformation offensive. The reform of the electoral system also does not require new laws—the existing legal texts provide solid regulation of voter registers, the running of elections, and transparency in counting the ballots. The existing laws are only violated because of administrative neglect or political abuse.

Citizen watchdog groups are needed. Public funding is essential to improve the effectiveness of the political parties. Here, too, there is an awareness of the need for change. What is lacking is the actual implementation of this change. The decade ahead—the decade of Ravalomanana—will be a monumental management challenge in terms of modernizing the political and economic elite, shaping a new generation in leadership, and establishing a performance-oriented structure for all areas of life in keeping with an achievement-based transformation policy.