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scale: 1 (lowest) to 10 (highest)    

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

More on the BTI at [http://www.bti-project.org](http://www.bti-project.org)


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Key Indicators

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Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than $2 a day.

Executive Summary

The country underwent a period of political chaos and uncertainty during the period under review. Despite his re-election in December 2006, President Ravalomanana was not without political enemies and critics in government and civil society. In late 2008, Andry Rajoelina, former mayor of the capital city of Antanarivo, emerged as a powerful opposition leader. He called on Ravalomanana to relinquish his hold on power, accusing him of ruling the country with an iron fist and as well as the misappropriation of public funds and corruption.

The power struggle intensified when dozens of people were gunned down during opposition protests in January 2009. By 7 February, the country was in the midst of a political crisis. Rajoelina was fired from his post as mayor and the struggle between the two leaders mushroomed into a tense stalemate with sporadic incidents of violence and killings.

By March 2009, a faction of troops removed their support for Ravalomanana’s government and forced out the head of the army. In the meantime, Rajoelina began talks with opposition leaders on forming a parallel government with himself as president, and discussed a transfer of power with Ravalomanana’s administration. On 15 March, while refusing to step down, the beleaguered president called for a referendum in an effort to resolve the deadlock and was rejected by Rajoelina. Shortly afterwards, the presidential palace and the central bank were seized by factions of the military, forcing Ravalomanana to step down and hand power over to the military on 17 March. This is despite the fact that Ravalomanana had the support of the international community, including the AU and the Southern African Development Community (SADC), which suspended the country’s membership. Foreign assistance was also cut and the country was diplomatically isolated.

The turmoil intensified with the unconstitutional change of power brought about by Rajoelina against Ravalomanana. The former president was forced into exile in South Africa as a result of pressure from street demonstrations and the military. In exile, he tried to garner international
support for his reinstatement. Meanwhile, Andry Rajoelina took the title of president of the High Authority of the Transition (HAT), and, demonstrations by Ravalomanana’s supporters against Rajoelina’s government took place in the streets of the capital city. In other developments, crisis mediation and diplomatic efforts were led by SADC, AU, the International Group of Contact (OIF), and the United Nations to broker an agreement on the establishment of an inclusive transitional government and a timetable for national elections, but failed.

A breakthrough occurred in early August when several international organizations, including the AU, the International Organization of the Francophonie (Organisation Internationale de la Francophonie), SADC and the United Nations sponsored mediation talks in Mozambique’s capital, Maputo. The talks were chaired by former Mozambique President Joaquim Chissano and included former Malagasy Presidents Albert Zafy and Didier Ratsiraka, who continued to garner widespread support among the country’s electorate. On 9 August 2009, a power-sharing deal was signed between the government and the main opposition leaders – Zafy, Ravalomanana, and Ratsiraka.

Beginning in late August 2009, Ratsiraka, Rajoelina, Zafy, and Ravalomanana met again in Maputo for several days to come up with a plan of action on how to allocate key positions in the transitional unity government. However, despite initial progress in bringing the various parties together, they failed to agree on key cabinet posts for the transitional government. This resulted in additional talks over the coming months and on 6 October 2009, the various factions and intermediaries announced an agreement that saw the appointment of the top three positions in the government of national unity. It was agreed that Rajoelina would remain in power on the condition that he would not run in the next presidential elections.

Following initial disagreements on the final details of the agreement, additional talks ensued, including those held in the Ethiopian capital of Addis Ababa in early November 2009. On 7 November, all parties signed an agreement that paved the way for a unity government with Rajoelina remaining one of three co-presidents. The fragile accord was threatened when Rajoelina refused to participate in the last round of talks held in Maputo. Consequently, Rajoelina announced in early December 2009 that he was scrapping the Maputo and Addis Ababa agreements.

Former Presidents Zafy, Ratsiraka and Ravalomanana together with international mediators proceeded to finalize the agreement without Rajoelina. An agreement was reached on 8 December 2009, which Rajoelina refused to accept. Nevertheless, the three former presidents announced that they were working on establishing a government of national unity. This prompted Rajoelina to dismiss the prime minister he had appointed in October as part of the power-sharing agreement. On 20 December, he announced that he was withdrawing from negotiations altogether. As a result, the AU’s Peace and Security Council voted to apply sanctions on 109 members of the ruling government, including an asset freeze and travel bans.

In November 2010, the country’s voters approved a new constitution that will allow Africa’s youngest leader (Rajoelina) to stand in presidential elections scheduled for fall 2011 or spring
2012. The government expects that both legislative and presidential elections will be held under international supervision, leading to the re-establishment of stable democratic institutions in Madagascar.

Economically, Madagascar has been dealing with a crisis in the wake of Rajoelina’s political maneuvering. Between 2003 and 2009, with Ravalomanana consolidating his hold on power and with the introduction of much-needed reform, real GDP grew by an average of 5% to 7% per annum. However, when Rajoelina came to power in 2009, real GDP fell by -3.7% in 2009 and -1.98% the following year. The economic situation continues to be fragile and uncertain.

Madagascar’s economic recovery largely hinges on the resolution of the continuing political crisis and the response of the international community. A large portion of development assistance, which represents approximately 75% of investments and 40% of the national budget, has been frozen, leading to a sharp decline in public investment programs. The country remains vulnerable to external shocks, including changes in global oil and food prices and changes in weather patterns.

Lastly, a series of decisions by the government in strategic sectors, particularly petroleum and telecommunications, have sent strong signals to the private sector and foreign investors. This has exacerbated friction between domestic and private investors and the government.

In 2009 – 2010, earlier decisions resulting from the continuation of previous investments were implemented. However, these economic activities slowed down as a result of the political crisis. Both imports and exports fell while public investments are at a third of their 2008 levels.

Meanwhile, unemployment levels have risen and continue to do so. Due to the sanctions placed on the country in 2009, foreign development assistance has dramatically fallen. Although emerging powers such as India and China are slowly starting to invest in the local economy, bringing in much-needed investment and capital, it is far less than had previously hoped.

There continues to be uncertainties over agriculture, which witnessed lower investments. On the other hand, there seems to be a slow recovery in the service sector, which accounts for approximately 60% of GDP. This is largely led by the tourism and telecommunications industries which have been unaffected by the political turmoil and economic uncertainty.

**History and Characteristics of Transformation**

Madagascar began the process of centralizing under King Andrianampoinimerina in 1787. Formerly an independent kingdom, the country became a French colony in 1896 but regained independence in 1960.

Madagascar’s economic and political processes of transformation have been asynchronous and repeatedly interrupted. The building blocks for a market economy and democratic order were
laid under the Merina empire and continued under French rule. These foundations were, moreover, conditioned by the post-colonial “Communauté Française” framework that was characterized on the one hand by oligopolist and monopolistic elements and, on the other, by the fact that it extended civil liberties exclusively to a socially and economically assimilated French-speaking Malagasy elite.

There was a short “military” period between the first and second republics. It wasn’t so much dissociation as a Malagasy version of African Socialism (common to Tanzania, Zambia, etc. at the time). It is worth considering this in the historic context. This was poorly conceived but it was not a kleptocracy and it did not make Ratsiraka rich. It was ideological at a time when small states were emerging from a tributary history to seek mechanisms within the non-alignment movement.

The transition to free markets and democracy was initiated in 1988 under pressure from the IMF and World Bank, when Madagascar’s external debt had reached soaring levels and supplies of goods in the country collapsed. The IMF negotiated a sequence of structural adjustment programs with the Malagasy government, and the Ratsiraka government began to slowly introduce reforms that ran against its own convictions.

Macroeconomic stabilization was achieved in important areas, which included the reduction of inflation and the public deficit, stabilizing the exchange rate, and stimulating economic growth. These gains, however, were accompanied by worsening figures in terms of nutrition, education, income distribution, health and employment.

Democratic transformation began toward the end of the 1980s and led to the fall in 1991 of long-term leader Didier Ratsiraka. Toward the end of Ratsiraka’s leadership, “Forces Vives,” a movement organized by clergymen, trade unionists, entrepreneurs and intellectuals, had gained momentum in response to Ratsiraka’s disastrous economic management, which had yielded high levels of debt and misallocated resources. From 1988 to 1991, these forces challenged the authority of the state party, the Association for the Rebirth of Madagascar (AREMA), by initiating long strikes and organizing demonstrations and civil disobedience activities. Tensions culminated in a violent confrontation with the state in which Ratsiraka’s army fired on protesters and youths, leading ultimately to Ratsiraka’s downfall. A new constitution and a democratically elected government under the leadership of President Albert Zafy were introduced in 1993. However, the democratic government that followed under Zafy’s leadership proved unstable and unable to face the challenges of economic and social modernization. It also struggled with changing majorities in parliament, and was finally toppled by an impeachment process.

The presidential elections of December 1996 swept Ratsiraka, in a second poll, back into office. His political innovation was to initiate territorial reorganization by introducing six “autonomous provinces” as a form of decentralization. In terms of establishing a market economy with relative prices and resource allocation, economic transformation in Madagascar was still incipient.
The emergence in 2002 of Marc Ravalomanana, an entrepreneur-turned-political-leader, gave rise to high expectations among many observers. His vision of transformation in Madagascar, referred to as “Madagascar Naturellement” (Madagascar Naturally) together with the Madagascar Action Plan (MAP) consisted of a scheme in which economic and sociopolitical goals were integrated as part of the “transversal task” of environmental stability.

In 2006, Mr. Ravalomanana was re-elected with 54.7% of the vote. Ravalomanana used his public persona to aid his business enterprises, which he then used to manipulate the institutions critical to maintaining power, obviating the need to “rig” elections. It is worth remembering that the executive order allowing for the sale of illicit timber, much criticized, was written in January 2009 under Ravalomanana, not Rajoelina, and that the cardinal event leading to Ravalomanana’s downfall was the somewhat dubious lease of significant arable land – predominantly in a region of his detractor – at the expense of local land-tenure systems, and with highly indirect benefits to the impacted populations.

With regard to sociopolitical issues, Ravalomanana failed to deliver his promise of introducing a reform of election legislation in order to improve equality of opportunity for every candidate. He also failed to open up debates regarding the reform of party legislation, instead deciding on this issue unilaterally.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

Politically and militarily, the state has authority over the land and its people. This is only disputed in sparsely populated and isolated communities in parts of the primary rain forest, south and west of the country where the government has no representative presence, but where its authority is not fundamentally questioned. On the other hand, political tensions between the highlanders and the coastal population periodically flare into limited violent conflict. There is growing factionalism within the military with some alignment to the geographic background of the military leader but there is no extensive division along ethno-territorial lines.

From an external perspective, there appears to be a unifying sense of national identity shared among the various Malagasy ethnic groups. The different groups accept the Malagasy nation as such and have access to citizenship. However, in the domestic political arena there is a significant degree of regionalism that is loosely based on ethnicity. Indeed, the degree to which the population from the various regions view themselves as sharing a unified culture is largely context dependent.

A common regional division is between the côtiers, who inhabit coast areas (or live outside of the high plateau) and the ethnic groups living on the high plateau. Each government has struggled to achieve a viable cultural balance between Western influences, particularly French, and traditional Malagasy customs. The Malagasy state of identity is arguably a product of these influences. Historically, the country’s largest ethnic group are the Merina who populate the high plateau. The traditions of this group (e.g., performing rites with the bones of the de) represent many Malagasy. However, groups who live in some of the outlying coast regions do not observe these traditions.
The current political conflict, however, is not easily defined by divisions of national or state identity. Since 2009 the contest has been between Ravalomanana and Rajoelina, both of whom are Merina.

The church plays an important role in Madagascar’s socioeconomic and political life. Historically, it has played a critical role in helping share the political dialogue between the various political factions in both 1991 and 2002. The church is the most influential part of civil society and plays an important political role. In 2002 and particularly in 1991, churches played a critical part in helping shape the political dialogue. While leading church organizations have held a more limited role in the recent political process, their relatively strong vertical communication structures give them a potentially important role well beyond their primary mandate.

Administrative structures are present throughout the entire country but their effectiveness is limited due to lack of resources and political conflicts. Political friction between some of the main Malagasy groups (côtiers and high plateau) continue to this day. It is largely fueled by allegations that the central government does not meet the need of the côtiers. The establishment of political networks with personal rule has contributed to the decay and erosion of administrative structures.

2 | Political Participation

The last elections took place in 2006 (presidential) and 2007 (legislative). The 2006 presidential elections in terms of political representation were very poor, marred by a multiballot system that exacerbated regional disadvantages, political intimidation, and, most importantly, a highly dysfunctional and personalized party system. The 2007 legislative elections were called in haste by the president in an unusual democratic move to dissolve the National Assembly, which Ravalomanana’s I Love Madagascar (TIM) party already controlled. He did so in order to purge elements within his own party seeking to create a national platform (which might ultimately challenge some of his dominance and initiatives). Even in the capital a majority of the population does not accept the 2006 or 2007 elections as legitimate.

The current Rajoelina government was not legitimized by elections, but is the result of an unconstitutional change of government. It has been severely criticized for not holding free and fair elections. On 14 April 2010, following pressures from the international community, particularly the AU and the SADC, and within days of receiving an ultimatum by the military to return to the power-sharing talks, President Rajoelina announced that he was ready to form an interim government with the opposition under the terms of a new agreement tabled by SADC, South Africa and France.
However, talks between Rajoelina and the other former presidents broke down. The following month, he unilaterally formed another government and scheduled presidential and parliamentary elections and a constitutional referendum for later in the year.

Later that year, Andry Rajoelina, while announcing that he would not stand as a candidate, attempted to establish a roadmap for elections. In recent months, the coalition of civil society groupings (CNOSC) launched a new initiative aimed at promoting a local solution to the ongoing crisis and received the backing of the SADC. A political agreement supported by the various political factions was finally reached in August 2010, which paved the way for elections. Although at the time no decision was made on the participation of the former presidents in the proposed elections, the process reached an agreement on a new constitution to be adopted by a referendum towards the end of the year.

On 17 November 2010, a constitutional referendum was finally held that would pave the way for national elections. Under the new constitution, a lower age requirement for the presidency was passed which would allow the young Rajoelina to run. It also failed to set a date for Rajoelina’s transitional regime. Even though the new constitution was approved, the referendum was marred by a boycott by the main opposition parties and was widely denounced by the international community.

The international community has also been influential in Madagascar’s electoral politics. The SADC, for example, has promoted the idea of keeping Rajoelina in power and is trying to extend the timeline for elections to ensure technical capacity. The international community has also arguably stalled the electoral process in order to push for an inclusive transitional government that would allow Ravalomanana, Zafy and Ratsiraka to participate.

The next elections are scheduled for fall 2012.

The organization of elections as well as democratic institutions and the precedence of representative government have deteriorated considerably during the period under review. A democratically elected government was overthrown in March 2009. The subsequent government led by Andy Rajoelina has failed to establish a transitional administration that would oversee free and open elections for the restoration of a legal government. Indeed, the right of citizens to choose their government has been effectively curtailed.

The country’s constitution provides for the right of association and permits citizens to organize political parties and associations. The government generally accepts this right in practice, although the Party Politics Law imposes stringent new requirements on political parties. It stipulates that parties are required to have
representation in 12 regions within the first 30 months of their creation, participate in at least three consecutive elections – excluding presidential elections – and hold regular national meetings.

There are some important church-based networks that are more effective than other non-NGO coalitions. Due to their credibility in the public arena, extensive country-wide networks and long track record of development work with donor funding, the church has played an important role in the development of the country. They have acted as service providers, democracy watchdogs (in terms of human rights and election monitoring) as well as civic educators (on issues such as corruption).

The country’s constitution and law provides for freedom of speech and of the press. However, both NGOs and government groups actively impeded political criticism with threats and violence against media owners, media outlets, and reporters. Government security forces attacked residences of editors and media-firm owners while journalists were sent to jail.

3 | Rule of Law

In Madagascar, the system of government is oriented towards the French semi-presidential system: The power of the executive branch is divided between a prime minister from the parliament who is nominated by his/her peers but who must be approved by the president, and an executive president who is elected by universal suffrage. Article 44 of the constitution stipulates that the president serves as the symbol of national unity. It is recognized that the president is the leader and enforcer of foreign policy and supreme commander of the armed forces. All presidential decrees must be countersigned. The executive’s powers are somewhat curtailed by the fact that the prime minister is responsible for the functioning of the government.

The constitution stipulates that the country has a bicameral parliament consisting of a Senate and National Assembly, each with a term of five years. The Senate consists of 33 members, of whom 22 are elected from each of the 22 various regions, by councilors and the mayors. The remaining 11 are appointed by the executive. The National Assembly has 127 seats. The executive has the right to dissolve the National Assembly without prior consultation. The judiciary consists of the Administrative and Financial Constitutional Court, the Supreme Court, courts of appeal, tribunals, and the High Court of Justice.

The constitution of the Third Republic empowered one of the strongest presidencies of any semi-presidential system in the world. The constitution of the Fourth Republic (2010) includes a possible further extension of presidential powers; however there is ambiguity in the new text as to who has final authority in core
areas (including the critical areas of decentralization and territorial jurisdictions). In practice the president in Madagascar has, since the second rule of Didier Ratsiraka (1997 – 2002), been extremely effective at expanding his own power.

Although the law requires the authorities to obtain arrest warrants in most cases, those accused of crimes are often arrested and detained largely as a result of accusations or political affiliation. Generally speaking, defendants have a right to be informed of charges against them prior to arrest and have a general right to counsel. However, this right has not always been respected. In addition, although the constitution and law provide for an independent and impartial judiciary, the judiciary is susceptible to executive influence at all levels and corruption remains a serious issue affecting the country.

In recent years, the Malagasy government established an anti-corruption national council by presidential decree which would be led by a well-respected magistrate. As a result, the ministry of the environment, water and forests revoked thousands of illegally issued logging permits; a presidential decree required high-level public officials to declare their assets; the magistrates’ Superior Court suspended 12 judges for corrupt practices; the ministry of justice installed an information bureau at the main court in the capital of Antananarivo; and an anti-corruption hotline was created in the police department.

Since 2009, the Bureau Indépendant Anti-Corruption (BIANCO)’s budget and thus its capacity to investigate, has been significantly diminished. Furthermore, most other activities, including logging, operate largely without fear of prosecution. This highlights the gap between text and practice in the areas of transparency and accountability.

The political crisis of 2009 resulted in widespread abuses of power, restrictions on press freedom, assembly, and speech and an increase in politically charged detentions and arrests. There have been numerous allegations of unlawful killings, under both the Ravalomanana government and Rajoelina’s interim government. Estimates of deaths during the recent unrest range from 150 and 300 nationwide. Although the constitution prohibits arbitrary arrests and detention, these governments have not respected these provisions in reality.

4 | Stability of Democratic Institutions

Currently democratic institutions such as the parliament exist in parallel with non-democratic institutions, particularly the government of Rajoelina, which was brought to power unconstitutionally. The period that followed the coup in March 2009 was characterized by political uncertainty and the virtual loss of democratic rights for much of the population.
President Rajoelina has made repeated promises of nation-wide elections, but has also reverted to an increasingly unilateral approach to controlling the transitional process, which critics see as an attempt to legitimize his unelected regime. Rajoelina’s command over the country’s political institutions remains uncertain, as many ministers lack respect for the young politician, and reportedly skip cabinet meetings frequently. The Constitutional Court, meanwhile, confirmed the results of the 17 November 2010 referendum – which was boycotted by opposition parties – and dismissed all objections about irregularities.

The country’s democratic structures, therefore, remain in a state of flux, with the risk of further institutional erosion if the current crisis is not resolved.

There is general disregard for the political institutions guaranteed by the constitution. These institutions exist but instead of operating through these competitive institutions, governance in Madagascar takes place through interlocking private and public networks seeking control of rents as a mechanism for maintaining stability and power. Political institutions have further been weakened since the unconstitutional change of power in 2009. This destroyed democratic reforms that have been introduced since the 1990s.

5 | Political and Social Integration

The constitution of the country recognizes the principle of political pluralism. According to the constitution, citizens may organize freely in associations and political parties without prior authorization. There are many political parties and associations in Madagascar. Only a few of the parties have a strong party organization and a secretariat offering services to candidates, members and the public. A research study on political parties in Madagascar further suggests that political parties in the country serve less as instruments of democracy than as tools of neo-patrimonial rule. Ravalomanana’s TIM party is a prominent example.

Madagascar, unlike other African countries, has a certain pluralist political tradition, even though this has always been limited and controlled by the authorities. The country’s governance system and the limits it placed on the development of competitive political institutions can be characterized as neo-patrimonial, a specific category of patron-client relationships.

This is in contrast to “big man rule,” or kleptocratic regimes found in other African states. In addition, there is no separation between the presidency and the president. Personal rule is generally embodied in the semi-feudal system of patronage and supported by a regulatory environment as well as the system of contract enforcement provided by the non-state actors that do not have a legitimate use of force.
There are numerous professional associations and other organizations that represent private sector interests and specific industries. These organizations regularly promote dialogue between firms and engage in coordinated policy advocacy. However, private sector actors argue that most of their policy recommendations are not yet followed and dialogue with the government is not yet well developed.

Diverse interest groups, including poor rural farmers, foreign environmental organizations, donors and competing local and national components of the Malagasy government, struggle to implement their separate visions of proper or realistic resource use. Sometimes these forces work together; sometimes they are diametrically opposed.

According to the Afrobarometer 2008, support for democracy is low, with less than half of Malagasies saying that democracy is preferable to any other form of government. Rejection of authoritarian alternatives is, however, much higher, and increasing. As in many other countries, patience with democracy dropped sharply between 2005 and 2008. Overall, Malagasies show relatively solid support for democratic institutions such as free and fair elections and multiparty competition.

Notwithstanding this, less than half of Malagasies (47%) support term limits for the president. Malagasies strongly agree that the media should play a role in monitoring the government and holding it accountable, but less than half of respondents believe that parliament or the opposition should play a similar role. There has been a marked drop in the perceived extent of democracy between 2005 and 2008, and the level of satisfaction has dropped sharply from its already very low level in 2005. Currently, there is no survey data available covering the post-2008 period.

Malagasy society as a whole remains divided into a number of unequal social groups based entirely on descent. Among the Merina, Madagascar’s dominant ethnic group, these are referred to as the andriana (nobles), the hova (commoners), and the andevo (slaves or, more properly, the descendants of slaves). The distinction between andriana and hova on the one hand and andevo on the other hand corresponds to the distinction between “whites” and “blacks” in Merina society.

Among the Sakalava, royal clans descended from the Maroserana occupy the highest social position, followed by noble and commoner clans; the descendants of slaves again occupy the lowest status. These differences play out socially and economically.

Trust is first and foremost built on clan and kinship lines.
II. Economic Transformation

6 | Level of Socioeconomic Development

The country is often referred to as the “eighth continent” due to its unique flora and fauna. However, the strength of its physical beauty has not been matched in terms of economic performance following its independence from France in June 1960. Post-independence, the country was regarded as one of the better performing economies in Africa.

Things began to change in the mid-1980s following the failed efforts of then President Didier Ratsiraka to implement a nationalization plan as part of his “Scientific Socialism” project. Madagascar’s GDP dropped from $4.04 billion in 1980 to $2.44 billion in 1988, while the population rose from 8.6 million to 10.6 million. By the 1990s, the country’s GDP growth averaged only 0.5% while the population grew exponentially at 2.8% per annum. This resulted in a drop in GDP per capita to $410 in 2008, down from $473 back in 1970, making Madagascar one of the poorest countries on earth. According to the 2010 HDI, the country was ranked 135 out of 182 countries, up from 145 in 2009.

From 2002 and 2009, the country undertook a series of reforms aimed at bringing improvements in governance, social and economic indicators. During this period, the economy grew at an average of 5% per year, while poverty rates dropped from over 80% back in 2002 to less than 68% in 2009. Nevertheless, the country’s macroeconomic prospects remain uncertain. Social indicators continue to remain weak despite improvement in economic growth. Economists predict that the country will fail to meet any of the United Nation’s Millennium Development Goals by 2015.

In 2010, the country’s population stood at 21.2 million with a population growth rate of 3%. Life expectancy at birth was put at 62.89 years and infant mortality at 54.2 deaths per 1,000 live births. Approximately 50% of the population live below the poverty line.
### Economic Indicators

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<td>33.7</td>
<td>35.0</td>
</tr>
<tr>
<td>External debt $ mn.</td>
<td>1707.2</td>
<td>2075.6</td>
<td>2203.2</td>
<td>2295.2</td>
</tr>
<tr>
<td>Total debt service $ mn.</td>
<td>21.6</td>
<td>32.8</td>
<td>50.2</td>
<td>55.8</td>
</tr>
<tr>
<td>Cash surplus or deficit % of GDP</td>
<td>-2.7</td>
<td>-1.9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tax revenue % of GDP</td>
<td>11.4</td>
<td>13.0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Government consumption % of GDP</td>
<td>12.3</td>
<td>11.3</td>
<td>11.6</td>
<td>-</td>
</tr>
<tr>
<td>Public expnd. on edu. % of GDP</td>
<td>3.4</td>
<td>2.9</td>
<td>3.0</td>
<td>-</td>
</tr>
<tr>
<td>Public expnd. on health % of GDP</td>
<td>4.1</td>
<td>4.4</td>
<td>4.1</td>
<td>-</td>
</tr>
<tr>
<td>R&amp;D expenditure % of GDP</td>
<td>0.14</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Military expenditure % of GDP</td>
<td>1.1</td>
<td>1.1</td>
<td>0.8</td>
<td>-</td>
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### 7 | Organization of the Market and Competition

The Malagasy government has tried to strengthen the market economy, although efforts have been erratic while corruption and political instability, the interconnectedness between private business interest and politics continue to constrain growth.
The country’s infrastructure remains poor, with inadequate roads preventing the transportation of agricultural products from farm to market. Railroads and the port system are also undeveloped, although the telecommunications system is being revamped.

The informal sector continues to be one of the most important pillars of the local economy. Development experts from the United Nations point out that the resilience of the economy during these turbulent times could be partially attributed to the strength of the informal sector. According to the World Bank, the informal sector is widely believed to have expanded by 13% in real terms in 2009, helping to offset the decline in official GDP. The positive impact of the informal sector on the local economy could be further emphasized by the record-setting rice harvests, rising by 40% from 2007 to 2009. Economists point out that as a result poverty rates decreased in the short term, as rice accounts for approximately 40% of the consumption basket of poor households in the country.

The rise of the informal sector is largely due to three factors: a) the rising illegal trade of protected species, such as rosewood and other natural resources; b) increasing informal trade in urban centers due to an influx of unemployed blue-collar workers from the tourism and textile industry who were forced out of work during the restructuring of industrial plants and closing down of factories and offices; c) the relatively well performing forestry, agricultural, and mining sector.

In recent years, several SOEs have been either privatized or liquidated under a privatization program. In the agricultural sector, most marketing boards have been liquidated while price controls were abolished on virtually all products. Monopolies or exclusive rights exercised by the SOEs which continue to operate in the agricultural sector, have largely been abolished. Companies such as SIRAMA for sugar and HASYMA for cotton will be privatized before the end of 2011. Nevertheless, the vacuum left by the boards has not been filled; this has limited the positive impact of the reforms on agricultural output.

It is important to note that the implementation of the privatization program has contributed to a significant liberalization of the services sector, including the national carrier (Air Madagascar), the airport authority (ADEMA), and Telma (the incumbent supplier of basic telecommunications services, currently 66%-state-owned). They are among the companies earmarked for privatization before the end of 2011. Madagascar’s commitments under the GATS are limited to certain business activities and do not reflect its liberalization efforts in the services sector. Steps have been taken, including the enactment of new legislation, to develop the mining sector.

Anti-trust laws are few and are enforced selectively. The principal benefactor of private sector enhancement from 2002 to 2009 was President Ravalomanana’s The
Tiko Group. Tiko work to create monopolies in multiple sectors from (cooking) oil and rice distribution to light aircraft machinery. Post-Ravalomanana the benefactors have changed but the process of marrying public sector power to private sector gains (and vice versa) remains. The current president of the region of Antananarivo (PDS), and the current prime minister are cases in point.

Although the government has had to deal with a chronic deficit in the balance of payments over the past period, the country’s current account deficit was partially covered by FDI, particularly in the mining industry. According to the World Bank and the U.S Central Intelligence Agency, the country’s exports amounted to $1.41 billion in 2010, up from $1.30 billion the previous year.

This is largely due to a rise in the exports of cloves, fine industrial stones, sugar and ilmenite (QMM/Rio Tinto). By the end of 2011, it is expected that QMM/Rio Tinto and Sherritt will account for about one third of the country’s total exports and contribute significantly towards the country’s foreign exchange. By 2013 it is expected that country will earn between $700 million and $1.8 billion in exports, depending on nickel prices.

In other developments, the decline in textile exports was largely contained as result of measures undertaken by companies following the U.S. Africa Growth and Opportunity Act (AGOA) suspension. Madagascar’s major exports include coffee, vanilla, shellfish, sugar, cotton cloth, chromite and petroleum products. France continues to be the country’s most important export destination, accounting for 28.9% of total exports. This is followed by the United States with 20.4%, Germany with 5.8% and China with 4.3%.

On the other hand, imports amounted to $1.95 billion in 2010, up from $1.89 billion in 2009. The country imports capital goods, petroleum, consumer goods and food, mainly from China (12.9%), Thailand (11.9%), Bahrain (7.1%), France (6.8%), and the United States (4.1%).

By 2009, there were eight commercial banks in the country, accounting for approximately 95% of total assets, up from 83% in 2006. There are mainly located in urban areas and remain profitable, with margins of approximately 12% by early 2009, Return on Assets (ROA) of 60% and Return on Equity (ROE) of 4%. They offer services such as loans and savings to large export-oriented firms as well as short-term products. In 2009, mostly short-term loans accounted for roughly 47% of total assets. Deposits accounted for 82% of the total current and saving accounts. Microfinance accounts for approximately 3.6% of total assets in the financial system in 2009 with the total number of microfinance institutions increasing to 25, up from 20 in 2008.

According to the World Bank, the country’s central bank sold a significant amount of international reserves in an agreement reached with local oil importers. This was
seen by investors as a measure aimed at shoring up the local currency, which was negatively affected by the continuing political crisis. By August 2010, petroleum prices have somewhat stabilized and oil imports became cheaper.

Consequently, between the end of August and end of September in 2010, international reserves declined by nearly $30 billion. This dropped to $100 million by the December of that year. In 2011, the country expects a continued increase in imports, further in parallel to an expected increase in exports with the start-up of several significant mining projects.

With similar trends witnessed in 2009, the government remained cautious when it came to domestic financing the following year. By mid-2010, government-issued T-bills increased only by 5% with both non-bank and bank holdings rising, in comparison to its level in December 2009. Economists saw very little variation in their rates of return, put at approximately 10% for one-year maturity bonds during this period. From January to May 2010, the government borrowed as little as MGA 3 billion from the country’s central bank.

In principle, the central bank is largely independent of political interference. The banking system and capital market are differentiated and oriented in principle to international standards. However, there is a de facto lack of supervision, which contributes to increased vulnerability, to sudden stops and capital flow reversals.

8 | Currency and Price Stability

The central bank’s 2009 monetary policy, as in previous years, centers on taming inflation. With the imploding political crisis, the monetary authorities attempted to rein in inflation and hold it to less than 10% to help shore up the local currency. To this end, the central bank employed three important strategies: Open-market operations, interest rates and minimum bank reserves.

In 2009, it cut the leading interest rate twice, from 12% to 10% and again to 9.5% in order to help stimulate the local economy. This helped to reduce the nominal interest rate to the level of inflation in order for real interest rates to drop to close to zero. At the same time, the required reserve ratio for the banks was kept at 15%. With regards to open-market operations, the central bank was forced to take up negative tenders given that the political crisis had made it next to impossible for the treasury to issue new securities.

Once again in 2009, inflation dropped to 8.9%, down from 9.2% in the previous year. As oil prices depreciated, the government had expected a further drop in inflation figures before the onset of the political crisis. Instead, rising prices of basic foodstuff, including sugar and flour as well as the depreciation of the national
currency kept inflation high. By 2010, the central bank’s objectives were primarily to firmly control inflation in the hope of continued progress towards regional monetary integration with the SADC region.

A second preoccupation had been to support economic recovery while avoiding a hike in inflation. Monetary economists were looking at a target of 10% increase in the monetary base, up from 7% in the previous year.

In 1998, the government lifted all restrictions on current payment and transfers and accepted the obligations of Article VIII of the IMF Articles of Agreement, which provides for the complete elimination of exchange controls. There are no restrictions on converting or transferring funds associated with foreign investment, including remittances of investment capital, earnings, loan repayments, and lease payments into a freely usable currency at legal market clearing rate. When delays occur in conversion or funds transfer, they are due to temporary shortages of foreign exchange.

By law, foreign investors must make remittances through banks. There is no limitation on the inflow or outflow of funds for remittances of profits, debt service, capital, and returns on intellectual property. Madagascar has a flexible exchange rate policy, allowing underlying exchange market pressures to determine rates and limiting central bank intervention to dampening temporary shocks and achieving its external reserves objectives.

The government’s fiscal policy was affected by the financial crisis. With the coming of the political crisis in March 2009, fiscal austerity has led to a sharp drop in public spending (down by approximately 47% from 2008 to 2010). It is important to note that debt payments and wages were fully paid during this period and the drop took place in capital outlays. By mid-2010, capital expenditures amounted to 105% of total committed expenditures, while wage bills were equivalent to 50%.

From January and May 2010, the level of fiscal revenues amounted to MGA 783.5 billion, up by approximately 13% over the same period in 2009, but down by 11% from 2008 figures. Moreover, by and large, all taxes collected generated few revenues in both 2009 and 2010, highlighting a drop in economic activity during this period, except for the Value Added Tax (VAT) and excise taxes on domestic transactions.

VAT revenues jumped by 42% from 2008 and 2010 while excise has increase to 250% from 150% during the same period. Madagascar’s government has traditionally relied on non-fiscal revenues that include royalties from forestry and mining activities as well as its stake in SOEs.
However, these revenues have not been significantly high in comparison to other African states. For example, these revenues amounted to 0.3% of GDP in 2008, in comparison to 5% in Kenya. By the same token, official figures were only equal to MGA 6 billion by mid-2010, even though there was a substantial increase in mining royalties and duties over the period.

This has raised suspicion that the treasury is under-reporting and committing illegalities with regards to out-of-budget procedures. This comes at a time of increased interest from foreign investors – particularly from India and China – in the country’s natural resources and the need for transparency in budgetary rules.

9 | Private Property

The country’s legal system is based on French civil law and its provisions contain adequate protections for private property rights. Its commercial law consists largely of the Code of Commerce and Annexed Laws, which are reportedly applied in a non-discriminatory manner. Although formally secured interests in property are recognized, they have yet to be fully enforced in the country. In most cases, insurance companies and banks use mortgages to guarantee loans relating to commercial property.

The country is a member of the World Intellectual Property Organization (WIPO) and is signatory to the WTO TRIPS agreement on trade-related aspects of intellectual property. Two government offices share responsibility for the protection of intellectual property rights: the Malagasy Copyright Office (OMDA) and the Malagasy Office for Industrial Property (OMAPI).

The government prohibits land ownership by foreigners, which in turn impedes access to real property. In 2008, a system of long-term leases – up to 99 years – was established following the adoption of investment law 2007-036 to address the issue. However, there have been considerable delays and few successes so far in the approval of land leases for foreigners.

The new investment law grants properties and land to firms registered in the country under certain conditions fixed by the Economic Development Board of Madagascar (EDBM), which issues authorization documents. In addition, Millennium Challenge Account’s contribution to the land tenure issue is thought to be improving the land rights process gradually.

Legal property rights are established through law created by the central government in a country with a historically weak state. Property rights that are legally recognized occur against a complicated backdrop of earlier rights. Indigenous land tenure systems in Madagascar vary by region, ethnicity, and kinship group but all
are based to some degree on historic cultivation practices. These indigenous land tenure systems are to some degree recognized under law but in practice are ignored.

The creation of the system of parks and protected areas in the late 1980s, for instance, was immediately tied by much of the population to land grabs by the French under colonialism, as regardless of purpose or noble intent it is foreign-supported state action that abrogates local decision-making. The fervor died down but the general concern remained. The lease law stoked new popular concern. This is why the 2008 Daewoo Affair contributed to the 2009 overthrow of Marc Ravalomanana. The deal would have concerned approximately 1.2 million hectares of arable land in a country with 2.3 million hectares of arable land.

Much of that land was already in use or otherwise recognized as private under indigenous land tenure systems. To the government it was, legally speaking, an empty landscape they could take and lease to serve larger development goals. In sum, the government can and does ensure well-defined private property rights. However, 1) there are net benefactors and 2) it does a poor job of ensuring that the acquisition and benefit of land is of benefit to the most vulnerable in the population. With the increase in extractive industries and related permits for exploration, this issue is likely to become more, not less, challenging and more, not less, destabilizing.

Madagascar has made considerable efforts to create an environment conducive to private investment, both domestic and foreign. With a few exceptions (including in real estate and areas still under state control), 100% foreign ownership is permitted in most economic activities.

The public and private sector in Madagascar is intertwined. The Tiko Group was responsible for much of Marc Ravalomanana’s success and served as his vehicle of public growth in lieu of churches, the military, unions, and other common vehicles giving entry into public office. In turn, it grew into one of the country’s largest conglomerates during his presidency. The Tiko Group came to control most media (television, radio, newspapers) as well as two key sectors related to food distribution and energy.

The political crisis has had a strong impact on the private sector. Firms suffered heavy losses in looting at the start of the crisis, and business activity has been greatly hampered by the ensuing insecurity. The fall in external financing and condemnation of the forced government change by trade partners reduced market outlets. For example, the suspension of the agreement with the United States under the AGOA should cut textile sector output by 20%. Among the social consequences of the troubles, unemployment is rising fast, particularly in urban centers.
The country is classified as a least developed country (LDC) by the United Nations and is also a low-income, food deficit state. Approximately 67% of the population continue to live below the poverty line. More than 50% of children under the age of three suffer retarded growth due to pervasive malnourishment. Food insecurity affects more than 8% of the population.

Given the shrinking pool of revenue going into the state’s coffers, the government was forced to adopt a restrictive fiscal policy to keep tabs on the increasing deficit. Total expenditure as a component of GDP dropped by a third in 2008. Investment spending was drastically cut given that the government didn’t make any changes to wage expenditure. Consequently, the total budget execution rate dropped to 58.8% in 2009 from 80% in 2008, investment and maintenance spending was put at 33% while the rate for wage and salary expenditures reached 94%.

As a result of the cuts in spending, budget appropriations by ministry were negatively affected. In the 2010 budget law, the center budget was trimmed by 15% in real terms due to the imploding political crisis. Basic education and literacy was one of the sectors least affected by the budgetary cuts. It saw only a 3% cut during this period. On the other hand, the health sector was allocated 9% of the national budget in 2009, 60% of which was to be used for hospital and clinic infrastructure development. Approximately 70% of this investment spending was expected to be financed through the domestic private sector, foreign investment and development assistance. In the 2010 budget, the sector underwent a budgetary cut of 34% in real terms and its share of the national budget dropped to 7%.

In recent years, highly labor-intensive (HLI) public works projects have gained popularity in Madagascar. The objective of these programs has been to provide a source of income to the poor during critical periods such as those following natural disasters, to address the lack of seasonal employment during the season of penury and to improve local infrastructure.

The available safety net programs are unable to respond to poverty and vulnerability in Madagascar. This is largely due to inadequate monitoring and evaluation of outcomes and effectiveness; lack of social protection policy coordination, given the plethora of actors involved; inadequate social protection public resources and linkage with donor funding; a dearth of mobilized funding, which reduces the sustainability of programs; management problems and low capacity levels; insufficient numbers of programs relative to the risks and vulnerabilities addressed
by these programs; problems associated with the targeting of intervention zones and the beneficiaries in these zones; and lack of clarity with respect to the determination of wages for highly labor-intensive projects, resulting in the exclusion of a number of targeted beneficiaries.

The Constitution of Madagascar prohibits any discrimination on grounds of gender and grants women the same legal status as men. In practice, discrimination still exists in relation to inheriting land and property and, in some regions, women have difficulties accessing land. Early marriage is common and there is widespread violence against women. But the status of women varies between regions and ethno-cultural groups.

The main goal of the Plan of Action (2007) is to promote a society that is underpinned by justice, democracy and good governance and that offers equal opportunities for individual development. The plan is informed by a situational analysis pointing to a political and public life that remains dominated by men in Madagascar and most African countries. This is despite programs and international instruments geared towards gender equity and non-discrimination towards women.

Research has shown a clear correlation between fertility and women’s access to education. This is significant for Madagascar as over 40% of the female population over the age of 15 is illiterate. Female literacy is exceptionally low in the spiny forest but higher in the central highlands in and around the capital, Antananarivo.

In sum, equality of opportunity remains incomplete but it is comparatively better than in many African countries.

11 | Economic Performance

Since 2009, the political crisis has had a detrimental effect on the economy, further exacerbated by the global economic, energy and food crisis. This in turn had put enormous pressures on export-oriented activities. The local economy has been in recession since the second quarter of 2009 with GDP contracting by 3.7% that year and 1.98% in 2010. This was followed by marked decline in export-oriented sectors, particularly tourism and a drastic cut in construction due to lower public investment.

Economists are predicting a slow recovery, with a conservative estimated growth of less than 2% by 2012. Although the political crisis had a detrimental on the economy as a whole, it varied across sectors. The sectors most affected include export-oriented activities as well as those linked to the public sector, such as horticulture, agro-processing, tourism and construction. During 2008 – 2010, exports dropped by more than 50% as companies laid off thousands of workers and removed social benefits from their current employees. On the other hand, the
agricultural industry, boosted by a strong rice harvest in 2009 (growing by 40% over 2008 levels), and the mining sector, strengthened by the QMM project that became operational in mid-2009, experienced favorable growth during the period under review.

In 2009, there was a large shortfall in fiscal revenues, which were put at roughly one quarter less than that projected in the 2009 Law of Finance. Moreover, domestic tax revenues were put at 84% of initial targets while customs revenues amounted to 64% of initial targets. From 2003 to 2009, public investment rose by an average of 30% a year. By 2009, it fell by 30% in real terms, or roughly $200 million.

2009 was the first year to feature profits from industrial mining (QMM), and in 2010 the second mine became operational (Sherritt). While currently only contributing a small percentage of GDP, it is expected to rise to upwards of 30% of GDP. Trading on the potential (including permits) has been considerable. Likewise, in 2010 there were two other large investments in permits and investments (WISCO and TOTAL) generating approximately $600 million, a considerable sum in a $9 billion GDP country.

Much to the surprise of the international community, the Rajoelina/Vital government has done a good job of creating a balanced fiscal policy. After two years of political crisis, the authorities seem to have kept the fiscal situation under control. The public deficit is estimated to be around 2% of GDP in 2010 – lower than the level reported in 2009. To do this in a significantly reduced budget environment has meant retreating from key sectors. Similarly, social sectors (health, education, sports and cultures) saw their investment spending cut between 2008 and 2010.

In 2009, fiscal policy was highly constrained as a result of the political crisis as well as the partial hold on development assistance and investment that followed the international community’s refusal to recognize the Rajoelina’s transitional regime. In 2009, the government cut expenditures by 37% across the board as a result of the sharp fall in tax revenues, which were already low.

In actuality, actual tax revenue was sharply below the projections of the 2009 Budget Act due to the fallout of the political crisis on business turnover, external trade and household incomes. The tax/GDP ratio, put provisionally at 12.5%, dropped to 9.6% in 2009 from 12.9% the previous year. Customs revenues saw the biggest drop, which amounted to only 65% of the target set in that year’s Budget Act. Meanwhile, overall fiscal revenue reached approximately 75% of the targets during that period. Grants, forecasted to be 4.2% of GDP, fell to 0.7% of GDP in 2009, from 3.4% the previous year.
As of 2010, the agricultural sector employed approximately 80% of the country’s labor force, but only accounted for roughly one quarter of its GDP. The main crops are coffee, vanilla, sugarcane, cloves, cocoa, rice, cassava (tapioca), beans, bananas and peanuts. However, the bulk of the population relies on subsistence farming for their livelihood, and this agriculture output is dependent on changing weather patterns. For the most part, farmers are engaged in monoculture where very little processing taking place. Agro-processing is relatively undeveloped.

In the period under review, the agricultural sector has benefited from good climatic conditions and government investments. This is evidenced in the 10% – 15% expansion in rice production (in volume) between 2008 and 2010, where 4.5 million –5 million tons was recorded. Rice accounts for approximately 15% of household budget. The country is the second largest producer of rice in Africa, although it remains dependent on rice imports to meet its consumption needs. It remains vulnerable to fluctuations in global rice prices, and is impacted by disruption in transportation routes – particularly in the Indian Ocean by Somali pirates – and by climate change.

Madagascar’s mining industry is booming. From 2006 – 2007, FDI increased to 13.6% of GDP. This could have been much higher were it not for years of earlier government policy that discouraged foreign investment and failed to improve infrastructure and business conditions for the private sector. Nevertheless, conditions improved greatly in recent years. In 2002, the country didn’t even issue mining permits.

The country, prior to the 2009 political crisis, was placed 10th in Africa when it came to FDI flows, largely due to the mining industry. Before two large mining projects were approved Sherritt (nickel) and QMM (ilmenite), mining employed some 500,000 workers and generated $125,000. However, many experts indicate that revenue generation was under-reported due to fraud as export revenues are thought to be at least $100 million.

The country produces more than half of the world’s vanilla, exporting approximately 800 – 1,200 tons a year. Global vanilla prices have dropped to $25 per kg in recent years, down from $500 per kg in 2003. This was largely due to continued liberalization of the industry by the government under pressure from donors and the discontinuation of the quota system. In addition, the industry is highly sensitive to changes in weather patterns and climate change that have caused production to decline.

With respect to the textile industry, the country expects to lose 40% of its exports following its suspension from AGOA as a result of the 2009 political crisis. In response, the government took steps to depreciate the local currency to help firms in the free zone make up for the 20% taxes they would have to pay to the United
States as a result. In 2009, textile production fell by 30%, although exports have been higher than expected, largely as a result of increased pressure to export before the AGOA suspension.

The country’s services sector accounted for approximately 60% of GDP in 2009, up from 54% in 2006. It is expected to grow even more over the coming year as a result of the increasing importance of financial services and tourism. Tourism plays an important role in the economy and is a significant part of the services sector. Due to the political crisis, revenues fell by 61% in 2009. In 2010–2011, the sector is expected to improve somewhat, although the level of recovery will depend on the resolution of the crisis. From January to August 2010, there were 123,994 visitors, a 17.9% increase over the same period in 2009. During this period, the country earned some MGA 352.7 billion in foreign exchange revenues, of which 59% came from France. This is a dramatic increase from the 2003 figures of 139,230 visitors and revenues of MGA 93 billion.

12 | Sustainability

The government continues to struggle with the enormous challenges in raising the country’s human capital. The need to meet the educational requirements of its people and create employment opportunities continues to place enormous demands on both the government and economy. This is in addition to the demands placed upon the government to ensure the preservation of biodiversity and that environmental standards are respected and safeguarded.

As already mentioned, the country is often referred to the “eighth continent” due to the island's unique flora and fauna. It is home to as many as 12,000 of the world’s plant species. Its rich wildlife and natural beauty continues to be the envy of many nations and makes it one of the most attractive countries on earth for tourists, especially nature adventurers. However, more than 80% of all plants and animal species found in the country are threatened with extinction. This fauna and flora is seriously threatened by illegal logging and poaching.

Groups like the Environmental Investigation Agency, Conservation International (CI) and the World Wildlife Fund (WWF) reported that illegal logging and wildlife trade skyrocketed in the aftermath of the 2009 coup. Unscrupulous traders have been blamed for the illegal logging that is currently taking place. Threatened animals, including several endangered species, are being captured for export and for food at rates that ensure their extinction unless concrete measures are taken.
The country has witnessed a 3% population growth in recent years. In 1990, the country had approximately 11 million hectares of forest and roughly 11 million inhabitants. Currently however, population has increased to 20 million while forests have shrunk to roughly 9 million hectares.

From 1988 onwards there has been significant donor investment in the environment, leading to EP1, EP2, and EP3 (15 years of donor-funded, state-led environment planning). The National Association for the Management of Protected Areas (Association Nationale pour la Gestion des Aires Protégées, ANGAP) was created and ultimately transformed into Madagascar National Parks (moving from a South Africa model to a U.S. protected-area model). CI, Wildlife Conservation Society (WCS), and WWF have been very strong actors in Madagascar. The loss of such environmental funding and initiatives since 2009 is significant.

The latest ministry of education statistics show that approximately 33% of all Malagasy children have no access to primary education. During the same period, government spending on education was between 2.6% and 2.9% of the country’s GDP, lower than the sub-Saharan African average of 5.1%.

Education is divided into primary (age six – 11), and secondary (junior is age 12 – 15 and senior is age 16 – 18). A vocational secondary school system is also available for Malagasy students. The professional college is the equivalent of junior secondary level while the technical college is the equivalent of senior secondary level and grants technical diplomas.

In 2007, Madagascar launched a major new education plan. It was just barely getting off the ground in 2009 at the time of the coup. Since then, a) funding for education has been reduced b) funding has also been delayed (up to eight months delay in teacher payment, etc.) and c) funding has become more disparate (the number of FRAM or parent-funded teachers as opposed to functionaries has dramatically increased). As a result, there is great confusion in the sector, and there are reports of a significant increase in private non-regulated educational delivery. The 2007 plan has been neither adopted nor replaced.

Some reports estimate that as many as 1,000 schools have been created since 2009. The problem is that while there is a regulatory system for private and faith-based schools, it lacks any teeth, and these schools have been completely para-system and there is no way of knowing if they prepare students for national testing. Donors have a real dilemma and they are not in agreement. USAID has been funding a system of parallel schools. On the one hand these offer education where it otherwise wouldn’t exist. On the other, it undermines the state at its weakest point. UNICEF, meanwhile, has been propping up parts of the state system through financial interventions. The World Bank has frozen funding of this type, arguing it supports an illegitimate government
Transformation Management

I. Level of Difficulty

The structural developmental challenges are massive (see also “socioeconomic barriers”): With regards to the transportation system, Madagascar has one of the least-developed road networks in the world with a density of paved roads estimated at 10 km for 1,000 sq. km against 100 km in neighboring Mauritius. Due to unfair business practices between various transport companies who fix prices, road transport is costly. Roughly 75% of merchandise transport is channeled through the Tamatave–Antananarivo corridor. There are signs that things are changing, largely thanks to the mining industry. A large number of investors are being encouraged to help build and rehabilitate roads across the country.

In comparison to other countries on the African continent, Madagascar’s NGOs and community-based organizations are poorly organized, have insufficient capacity and have little experience with policy engagement or advocacy. The country does not have well-established umbrella organizations that act as liaisons between the government, CSOs and donors. NGO leaders point out the lack of effective platforms for NGOs to coordinate programs or even to promote advocacy strategies, and the very limited NGO capacity to come together with one vision and engage with the government.

Civil society is almost completely ineffective in acting as a stakeholder in political conversation, let alone as a driver as evidenced by the failure of the only somewhat independent Malgacho-malgache process in the lead up to the constitutional referendum in 2010. Perhaps ironically, associational life is strong. That is, farmers groups, artisanal groups, dina (rule making), etc. are quite active and representative but they do not effectively engage upwards as members of civil society. Most of the organized NGOs, by contrast, are part of the service-delivery sector and don’t serve as an interlocutor to the state.

There are regular violent incidents based on social, ethnic or religious differences and animosities towards other groups. They are low grade: Arrests, civil disturbances, individual beatings, suppression of media, etc.
II. Management Performance

14 | Steering Capability

Since 2009, the Malagasy government has stepped away from establishing responsible governance, strengthening the transport and communication infrastructure network, transforming education, developing rural zones, investing in health, family planning and combating HIV/AIDS, stimulating economic growth, establishing environmental protection plans and boosting national solidarity.

Communication has become a political prize with contracts (from cell phones to cash register links for credit cards) being handed out to people close to either the president or prime minister. The Madagascar Action Plan (MAP) died in 2009. This was a strategic error on the part of President Marc Ravalomanana, the IMF (which placed it as a Poverty Reduction Strategy Paper or PRSP), and the World Bank (which funded many elements) because it conflated a national action plan with the political platform of an individual leader. Thus when Ravalomanana was pushed out, the Madagascar Action Plan went with him.

Concurrently, regulatory assessments have become extinct and regulatory policies have significantly weakened across sectors, particularly moneyed sectors such as mining. The government really has little facility to set strategic priorities that range for months let alone years.

To its credit, the government pursued a prudent fiscal and monetary policies aimed at mitigating the fallout of the political crisis on the economy. On the fiscal side, domestic revenues have been aligned to the level of expenditures, with limited use of domestic borrowing. Consequently, the government has had firm control over inflation, monetary expansion and other financial indicators, such as exchange and interest rates since 2009. This led to drastic cuts in public expenditures other than wages. From 2009 to 2010, there was no capital spending. In the meantime, new external financing, particularly from recent Chinese investment in the mining sector totaling $100 million, has been diverted to finance a series new investment projects, such as schools and hospitals.

In 2003, the government of Madagascar published its Poverty Reduction Strategy Document (PRSD) as a result of a participatory process involving many actors from Malagasy society, including civil society, NGOs, private sector, professional and religious groups and political parties.
In 2005, the poverty reduction strategy was updated with the aim of incorporating the objectives of the government document entitled “Vision Madagascar Naturellement.” The paper outlines key points aimed at transforming the country’s subsistence economy into a market economy by developing services and industries linked to the agricultural sector, and also by boosting trade and investment, exports and developing commodity chains.

All ambitious plans are difficult to implement because the administration suffers from insufficient resources, red tape and a lack of qualified personnel.

When Ravalomanana was removed from office in 2009, the MAP was abandoned by the Rajoelina regime. It has not been replaced with an alternative strategic vision or PRSP.

The government demonstrated willingness in policy learning during the continuing political crisis, but not in favor of democracy. It successfully derailed the approach of the international community, distanced the three other movements, and pushed the SADC Mediation Team until it had no choice but to write a roadmap that accepts the Rajoelina government as the transitional government with only very superficial cabinet changes, and supports the Rajoelina government in office before the elections.

The government has sought direct input and it has listened to the World Bank and IMF economists. In turn it has created a politically challenging but intelligent fiscal policy marked by a level of balance few European countries can boast.

15 | Resource Efficiency

The government does not make efficient use of most the country’s resources.

The PRSP has been set aside. The socioeconomic improvements have largely been lost. Education has been almost abandoned. Tax reforms have been all but abrogated. A number of issues plague the government’s tax reform initiative: Tax administration is understaffed, there seems to be inadequate tax audits for tackling tax evasion, and these reforms have been interrupted by the political crisis. As a result, its effectiveness remains unknown.

Moreover, major issues plaguing the mobilization of tax revenues include the loss of the notion of tax morality; the complexity of the system itself; the large informal sector and its increasing share of the economy; and the size of the agricultural sector, particularly with respect to subsistence agriculture.
Madagascar lacks a coherent institutional structure for managing its government programs and policies, and the institutions that do exist are largely incapable of carrying out their mandates. Responsibility for the environment is fragmented among several ministries which all suffer from inadequate funding, insufficient numbers and poorly trained staff at all levels, lack of information, a history of agricultural policies which have worked as disincentives to conservation, and weak capacity for policy analysis and planning. Policy coordination is difficult in an environment where individuals with their own political networks compete for power and influence.

The Ravalomanana government took steps to fight corruption, particularly in the tax administration. An anti-corruption law was passed and two bodies created in recent years: the Integrity Safeguard Committee (Comité de sauvegarde de l’intégrité, CSI) and the Independent Anti-corruption Bureau (Bureau indépendant de lutte anti-corruption, BIANCO).

BIANCO was effective in urban areas, notably the capital, as long as it functioned at below director level. As this “independent” bureau was formed in the president’s office it couldn’t maintain accountability at the highest levels. Today both still exist but with significantly reduced funding, in part because they have lost donor support, and also because of a near 50% reduction in state funding. The Norwegian Agency for Development Cooperation (NORAD) has tried to make up for some of this shortfall but it is still a significant loss of funds and it has significantly constrained BIANCO’s ability to carry out its functions. It is notable, however, that with the change of government, BIANCO’s leadership was not replaced and it is widely viewed as remaining outside of the political fray.

In other sectors, such as mining, there really are no significant anti-corruption mechanisms. The Extractive Industries Transparency Initiative (EITI) process has been a fiasco. Madagascar was almost the first country to fail to be EITI-certified after entering into the process. Instead, the EITI secretariat gave EITI Madagascar the opportunity to reform its practices. It tried with relatively little success. The new EITI director is a controversial, political figure. Meanwhile, there are very few transparency and accountability mechanisms in this fast-growing sector. It is difficult to accurately ascertain the level of corruption but some estimate that it is extensive.
16 | Consensus-Building

In general, there is a broad consensus on democracy and market economics. No one is openly challenging the path of limited democracy and no one is challenging the role of the market economy. There is no strong “socialist” movement and no strong religious movement. But it seems that often lip service is paid to these principles, since the behavior of political actors is often undemocratic in their efforts to gain power and privileges.

In Madagascar it is difficult to distinguish reformers from anti-democratic actors. History reveals that every president in the history of independent Madagascar (save the interim presidency of Norbert Ratsirahonana after the fall of Zafy Albert) has changed the constitution to suit his needs. Every one of these decisions was unilateral and not based on consensus.

Social, regional and political cleavages in the country are significant but not always easily recognizable. The current conflict is occurring on political network lines that involve ethnogeographic distinctions and intra-Merina conflicts that reflect both caste and family differences. There is also a notable role for the private sector in shaping these cleavages. The political leadership really has little control over these divisions and does little to try to ameliorate them. Currently, the government does not seem interested in preventing the escalation of conflicts.

Civil society is to large extent absent from the political process, which is dominated by a handful of individuals with clientelistic networks and support in the military. What little role it does have is largely captured by civil society leaders who themselves are embedded in the political process. Trade unions, students, and other such actors are largely irrelevant to the process. In the past, churches have played a more significant role (particularly in 1991) but much less so since 2009.

Most conversations of reconciliation start with 1947 – the year in which an estimated 100,000 people who were mostly Betsimisirika (East Coast), were killed. The memory of this period continues to permeate Malagasy society and politics. December 2001 saw Ratsiraka subvert the institutional process leading to elections (such as stacking the High Constitutional Court and changing the Electoral Code), an opaque count, and a January – June 2002 social movement that brought Ravalomanana to power. 2005 – 2007 saw questionable elections and the rise of a national reconciliation movement. There has been talk of reconciliation from 2004 to the present but very little has come of it.
17 | International Cooperation

The Ravalomanana administration has consistently used the support of international partners to implement a long-term development strategy. One of the key development challenges for the government is to improve the efficiency and transparency of government and public services. During the period under review, the World Bank supported the government and civil society to tackle these challenges through the Governance and Institutional Development and Social Accountability Technical Assistance Programs. They involved analytical work composed of a front review of the bank portfolio to identify the most important entry points for mainstreaming social accountability in government.

Moreover, the World Bank provided technical assistance to the government of Madagascar in adaptation and disaster risk management. This assistance has focused on facilitating links between national champions in key government agencies and international centers of excellence, and strengthening national capacity in several key areas. These include: a) analysis of key climate trends (temperature, rainfall, cyclone and climate variability indices), both past and future; b) a feasibility study for index-weather crop insurance (associated with droughts); c) a study of rice sensitivity to climate change; and d) a review of mechanisms for financial risk transfer.

The African Development Bank (AFDB) has contributed to the achievement of EITI candidacy status of three African countries, including Madagascar. Funding has been provided for the establishment of national EITI secretariats, the conduct of audits and validations, outreach activities, and provision of capacity building and technical assistance as the candidate countries move towards the compliance stage. AFDB has provided Madagascar with technical and financial support to: (a) assist with the country’s attainment of EITI candidacy status and EITI implementation; (b) create an EITI web page; and (c) organize regional seminars on EITI. The total costs for implementing the new EITI work plan is estimated at €650,000, of which the AFDB has committed to finance about €450,000 through the Fund for African Private Sector Assistance Trust Fund.

In reaction to the unconstitutional change of government, most donors have reduced or frozen their aid. But the new government signed an agreement in May 2010 with China’s WISCO for $100 million in exploration rights until 2013. The project is expected to total $8 billion, the largest of its kind in the country. It is understood that it will help generate more than 100,000 jobs and develop several investment zones, including a port zone of $3.4 billion and an industrial zone of $1.23 billion. Over the second phase, an additional $2 billion will be earmarked for further development.
In contrast to the Ravalomanana government, the current government is not trusted by most of the international community. The political uncertainty has strained relations between international donors and Madagascar. The country was the first nation to receive the Millennium Challenge Account (MCA) compact of $110 million aimed at addressing land reform and infrastructure rehabilitation. U.S. Ambassador Niels Marcquardt strongly condemned the coup in 2009. Since then, the United States suspended the country from AGOA, which gave Madagascar tax-free access to the United States until 2015.

The AU, the United States and the European Union, among others, warned against an unconstitutional transfer of power on the island nation and have suspended most foreign aid and threatened sanctions. The AU and the SADC have suspended Madagascar’s membership until constitutional order is restored.

That said, investors did not entirely flee and investors from everywhere – including the United States and Europe – continue to flock to Malagasy extractive industries.

In the aftermath of the unconstitutional change of government, relations between the new government and regional and international organizations deteriorated considerably. The AU formed an international contact group to coordinate international community action to ensure a return to constitutional rule as quickly as possible, and the SADC appointed former Mozambican President Joaquim Chissano as a mediator in the effort to find a consensual, negotiated solution to the ongoing political crisis. Additionally, the AU and others have enacted certain targeted sanctions or travel restrictions on members of the HAT regime who are impeding a return to free, fair, and durable democracy in Madagascar.
Strategic Outlook

In the period under review, Madagascar witnessed turmoil and political unrest. The mayor of Antananarivo, Andry Rajoelina, led an uprising against the country’s former strongman with the support of the army. He has since led his transitional government the “Haute Autorité de Transition,” consisting of both military officers and civilian groups. The international community, led by the AU and SADC, has refused to recognize him as the country’s legitimate leader.

At the time of writing the future of the country remains unclear. Despite intensive negotiations, a clear roadmap for a return to more democratic conditions and development-oriented policy is currently not on the agenda of the main domestic actors. There is still the danger of increased violence or even civil war. The propensity for conflict will largely depend on the ability of the current political elites to find mutually acceptable arrangements for the distribution of power, as well as the role of third parties such as the UN and the SADC in facilitating negotiations and providing sufficient security guarantees to all parties. It is not clear whether Rajoelina will eventually run for the presidency, despite his earlier denials. The possibility of a military coup is another negative scenario. The lines of conflict remain political rather than ethnic or regional since both Ravalomanana and Rajoelina are Merina.

The country needs well-prepared elections. This can only be organized with international support. In the event that elections are to be scheduled, the opposition may boycott the process to protest Rajoelina’s illegitimate claim to incumbent status.

Many analysts remain positive that the proposed national elections will result in a resolution of the political crisis, constitutional changes and stabilization under a participatory framework. Again, this largely hinges on smooth, peaceful and transparent parliamentary and presidential elections. It could pave the way for greater democratization, the rule of law and the restoration of relations with neighboring countries on the continent and foreign donors.

Even though it is too early to assess the broader ramification of the political crisis, it comes as no surprise that it has had a detrimental effect on the economy and that the situation will have to change in 2011 – 2012 to avoid disaster. Resources have been stretched to the limit, although the economic fallout of the crisis could have been more severe. The population appears to be growing impatient with the pace of political talks and economic stabilization measures following two difficult years.
The country needs a meaningful and all-inclusive political dialogue if it hopes to bring an end to the political crisis plaguing it. Madagascar has experienced many political crises in recent years and its citizens need a social contract that satisfies their basic aspirations for political freedom and democracy. The unilateral style of rule exercised by Rajoelina will only reproduce the conditions for future crises. The donor community should use its diplomatic power to pressure for a timetable for elections and safeguard the reform process.