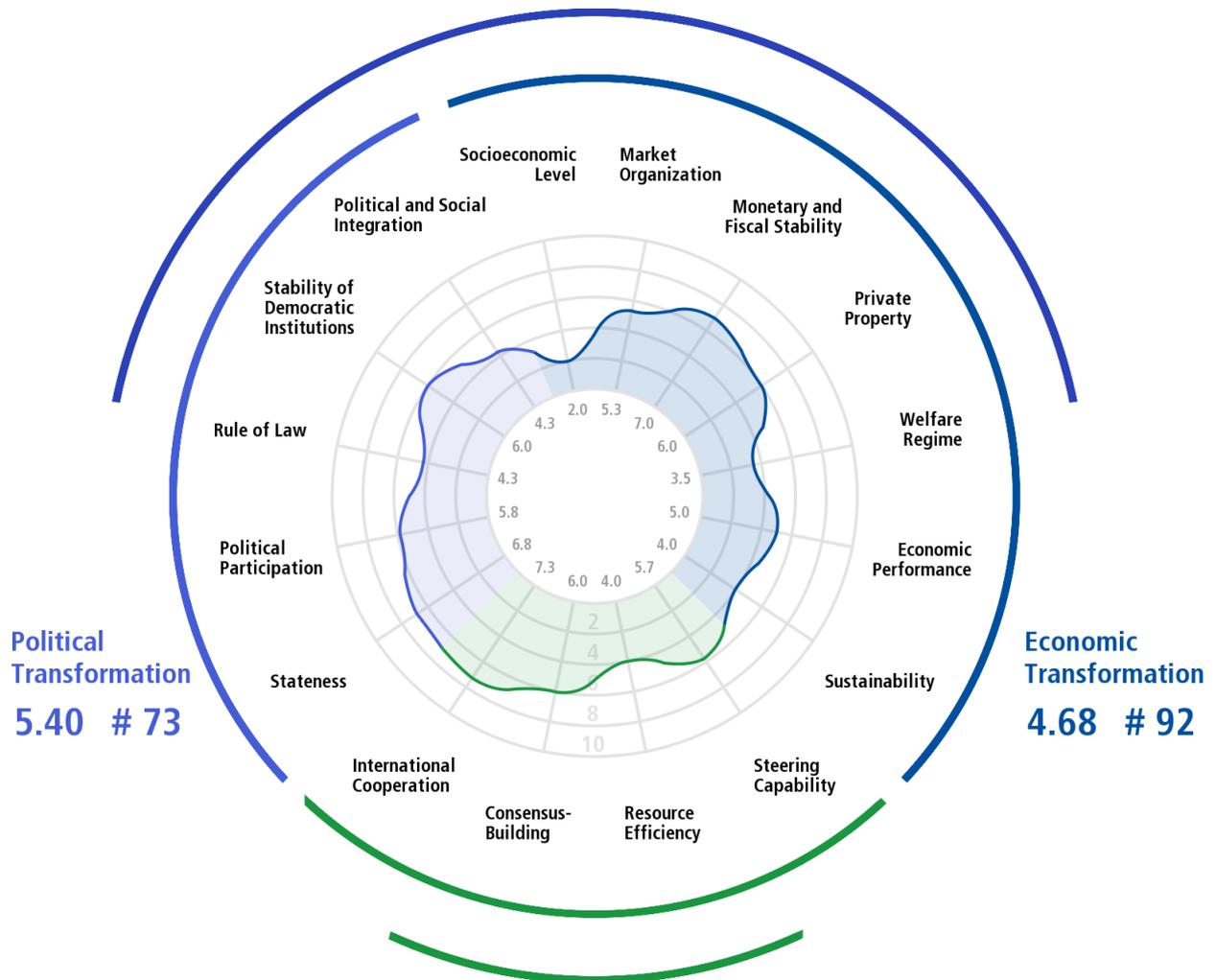


Madagascar

Status Index

5.04 # 81

on 1-10 scale out of 137



Political Transformation
5.40 # 73

Economic Transformation
4.68 # 92

Governance Index

5.38 # 52

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	26.3	HDI	0.521	GDP p.c., PPP \$	1634
Pop. growth ¹	% p.a.	2.7	HDI rank of 189	162	Gini Index	42.6
Life expectancy	years	66.3	UN Education Index	0.493	Poverty ³	% 91.0
Urban population	%	37.2	Gender inequality ²	-	Aid per capita \$	30.5

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

In 2016, the government-initiated discussions of electoral law reform through the electoral commission. In 2017, the government set up an inclusive advisory commission (reflection on and proposals for improving the legal framework) and an interministerial committee (revision of the legal framework and the elaboration of preliminary draft legislation). These laws were adopted in 2018, causing protest from the opposition in April 2018. At the request of the High Constitutional Court, which acted as a “political mediator,” a new prime minister was appointed and a consensus government was set up in June 2018 to calm the political situation and to conduct the electoral process in a peaceful climate.

Having relinquished power in September 2018, as required by the constitution (Senate president Rivo Rakotovoao acting as interim president), in order to run in the November 2018 presidential election, Hery Rajaonarimampianina was defeated in the first round by two former Heads of State, Marc Ravalomanana and Andry Rajoelina. The latter was elected president of the republic with 55.66% of the vote. Marc Ravalomanana accepted defeat and called on his supporters to stop demonstrating so as to promote solidarity and national reconciliation.

At the economic level, since 2014, ambitious economic reforms were initiated with the support of donors, which has resulted in economic growth from 2.3% in 2013 to 5% in 2018, but greater inclusion should be ensured. Growth was driven largely by public and private investments in infrastructure (roads, airports, energy, the port of Toamasina). External demand for textiles, vanilla and essential oil also contributed to growth. It is projected that economic growth will remain dynamic, rising to an estimated 5.4% in 2019. In order to ensure the development and especially the emergence of Madagascar, Andry Rajoelina intends to implement his program, Emergence Initiative for Madagascar (2018–2023), which includes four main points: (i) accelerate growth at a rate of 7%; (ii) make growth more efficient through massive job creation; (iii) achieve full employment in 10 years; (iv) engage Madagascar in a process aimed at ecological resilience.

These events are positive boosts to further enhance the countries' macroeconomic stability, up to today, considered as still fragile and the country being among the poorest in the world. However, political stability and profound improvements in governance and the fight against the widespread corruption are necessary conditions to realize the needed economic reforms to get the country out of poverty. Huge challenges are still facing Madagascar both in terms of macroeconomic stability and democratic performance.

History and Characteristics of Transformation

While many African states were created by colonial forces, Madagascar's modern era began with the Merina King Andrianampoinimerina (1787–1810), who began the process of taking control of the Highlands, first through the twelve sacred hills of Imerina and then toward the coasts. When the French deposed the monarchy in 1896, the colonial power had merely to take advantage of the administrative system in place. The Merina system of slavery was abolished, but the caste system was adopted in order to develop a new plantation system. Even the system of taxation established by the Merina monarchy was maintained in order to pay for labor and infrastructure development. The Malagasy uprising of 1947 was one of the most violent anywhere in the colonial world, with an estimated 100,000 losing their lives, but it helped bring about the French Loi Cadre of 1956, and ultimately the move to an independent Madagascar on June 26, 1960.

The president of Madagascar's first republic (1960–1972), Philibert Tsiranana, is largely viewed as having remained too close to France. Social movements in the capital led to a peaceful handover to military government. Vice Admiral Didier Ratsiraka adopted a particular brand of scientific socialism in 1975. By 1979, poor economic decisions led to a complete depletion of foreign reserves. Ratsiraka called on the IMF and instead adopted a market-oriented economy.

Political change came in the form of a civil servants' strike that led to the establishment of a transitional government on October 31, 1991. A new constitution was ratified a few months later, and the country's first nominally democratic elections were held in November 1992, bringing Albert Zafy to office. The Zafy period was marked by economic decline, and he was impeached on July 26, 1996, after manipulating a constitutional change and being charged with corruption and abuse of power. The 1996 election was an exercise in banality, with the choice between the disgraced Zafy, the technocratic interim president Norbert Ratsirahonana, and Didier Ratsiraka running as a new kind of democrat. Ratsiraka won, changed the constitution through popular referendum, and set out to consolidate much of the character of the second republic.

The 2001 elections gave rise to a conflict between acting president Ratsiraka and Marc Ravalomanana, the mayor of Antananarivo and a self-made millionaire. After six months of social, political and economic conflict, Ravalomanana was recognized as president of the republic. Although he was re-elected in 2006, and his administration did usher in economic progress, his domination of both the political and economic spheres led to conflict and political unrest. In 2009, president Ravalomanana relinquished control to a military directorate, who then gave the power

to Andry Rajoelina, the mayor of Antananarivo. The latter became president of the so-called High Authority of the Transition. Marc Ravalomanana was forced into exile in Swaziland, and then in South Africa. The unconstitutional change of government was heavily criticized by the African Union (AU) and the Southern African Development Community (SADC), and much of the international community (United States, European Union, etc.) aside from France imposed sanctions. Consequently, Madagascar was deprived of foreign budget support.

In September 2011, a roadmap was signed calling for presidential and legislative elections. These elections took place in late 2013. The candidate supported by Rajoelina, Hery Rajaonarimampianina, defeated Ravalomanana's favorite, Jean-Louis Robinson, garnering 53.5% of the presidential vote on December 20, 2013. In July and December 2015, the HVM (New Forces for Madagascar (Hery Vaovao ho an'i Madagasikara, Rajaonarimampianina's political party) won the majority in the local and Senate elections. Since 2014, ambitious economic reforms have been initiated with the support of donors, which resulted in economic growth from 2.3% in 2013 to 5% in 2018.

The government has initiated discussion on electoral law reform in 2016. New laws were adopted in 2018, causing opposition protests in April 2018. After intense negotiations, which involved both national and international mediators, a new prime minister was appointed and a consensus government was set up in June 2018 to contribute to the conduct of the electoral process in a peaceful climate.

Having relinquished power in September 2018, as required by the constitution (Senate president, Rivo Rakotovoao acting as interim president), in order to run in the November 2018 presidential election, Hery Rajaonarimampianina was defeated in the first round by two former Heads of State, Marc Ravalomanana and Andry Rajoelina. According to the final results pronounced by the High Constitutional Court, Andry Rajoelina was elected president of the republic (55.66%). Marc Ravalomanana accepted defeat and called on his supporters to stop demonstrations so as to promote solidarity and national reconciliation. The handover with the outgoing president took place on January 18 and the oath of office for the new president on January 19. Andry Rajoelina plans to implement his program, Emergence Initiative for Madagascar, which includes four main points: (i) accelerate growth at a rate of 7%; (ii) make growth more efficient through massive job creation; (iii) achieve full employment in 10 years; (iv) engage Madagascar in a process aimed at ecological resilience.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Although the state has a monopoly on the use of force (army, police, gendarmerie), Madagascar's security sector has always been weak as it is subject to external influences and has been politicized by successive heads of state. Poor working conditions within these services, including low pay and a lack of equipment, as well as corruption more generally, have cultivated the conditions for armed violence. The state's monopoly on the use of force has moreover been challenged by bandits (dahalo) in the southern region of the country, called the "red zone," and by other economic predators primarily in rural areas, where security forces have colluded with the bandits. Another example is the case of Captain Faneva who is at the head of a militia of 5,000 men, who are former dahalo. The latter was able to compete with the state regarding the monopoly on the use of force and is a source of instability. The state is absent in the "red zone" – which represents approximately 200,000 square meters – due to lack of transportation and road networks.

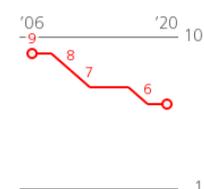
Some groups are denied full citizenship rights. The outdated Malagasy Nationality Code (1960) prescribes that only those of Malagasy descent are eligible for Malagasy nationality. The application of this concept of nationality, based on a rigorous principle of jus sanguinis, renders the country's communities of foreign origin effectively stateless, despite their presence in Madagascar for generations. This includes about 400,000 Indo-Pakistani persons (the so-called karana), between 70,000 and 120,000 Comorians, about 15,000 Chinese, and some 5,000 people of Arab origin. In 2014, discussions to reform this legislation were opened, and in June 2016, the council of ministers discussed a new law. However, although the modifications adopted by parliament in December 2016 ("Loi n°2016-038 modifiant et complétant certaines dispositions de l'Ordonnance n° 60-064 du 22 juillet 1960 portant Code de la nationalité malagasy") gave Malagasy women a new right to transmit nationality (which was not the case before), they did not resolve the question of the stateless population recorded in the country. Naturalization remains the only way for a stateless person to obtain Malagasy nationality. But the process seems "stuck." Since 1960, only 1,600 people have been naturalized.

In general, the nation-state is accepted by the major groups in society.

Question
Score

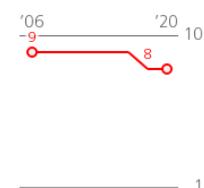
Monopoly on the
use of force

6



State identity

8



The constitution states that Madagascar is a secular state. However, churches and religious groups such as the Council of Christian Churches in Madagascar (FFKM) have played an important role in politics. The FFKM consists of four churches: the Protestant Church of Jesus Christ in Madagascar (Fiangonan'i Jesoa Kristy eto Madagasikara, FJKM), the Catholic Apostolic Church of Rome (Eglizy Katolika Apostolika Romana, EKAR), the Malagasy Lutheran Church (Fiangonana Loterana Malagasy, FLM), and the Malagasy Episcopal Church (Eklesia Episkopaly Malagasy, EEM). However, religious dogmas have considerable influence on legal order. For example, abortion is forbidden. Members of the LGBTI community face considerable social stigma and discrimination, often within their own families and particularly in rural areas.

Religious dogmas have also played an important role in Madagascar's history. The FFKM has been involved in all modern political crises (1991; 2001 – 2002; 2009), and most political leaders use their religion as an instrument of mobilization. Protestant and Catholics have the most practitioners.

During the 2018 presidential campaign, the Catholic Church said it had no candidates. This statement was made during the World Youth Days in October 2018, in which several presidential candidates took part. In addition, one of the candidates is a pastor of a reformed church while others publicized their religious faith.

As a consequence of French rule, legal texts are free from religious influence.

Basic administrative structures are present across the country, but remained weakened by a lack of decentralization, and particularly by the absence of fiscal autonomy. The central government does not meet the needs of the many regions.

The 2010 constitution defines three levels of decentralized territorial entities (Collectivités territoriales décentralisées), provinces (six), regions (22) and communes (1,693). One strategic priority of the National Development Plan 2015 to 2019 (Plan national de développement, PND) is decentralization, but the budget for decentralization accounts for only 5% of the national budget. Madagascar remains a very centralized country, both administratively and fiscally.

As a consequence of these weaknesses, basic state functions are often performed today by national and international organizations and this is the case for the different sectors such as accommodation, nutrition, medical assistance. Most services such as hospitals, housing, schools, at least those of high quality, are concentrated in the capital and to a lesser extent in the urban centers of the provinces and regions and to a very little extent at the communal level. At the regional and local level, some minor basic services exist but their quality is significantly inferior, especially in terms of medical assistance, education, accommodation, nutrition. This is why international organizations try to focus their interventions at a more decentralized level.

No interference of religious dogmas

8



1

Basic administration

5



1

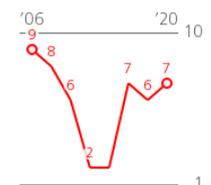
2 | Political Participation

Madagascar has a rich electoral history. Indeed, since its independence in 1960, Madagascar has organized 12 presidential elections, 11 legislative elections, seven referendums and has experienced four republics (1960–1972; 1975–1991; 1992/93–2009; 2013–?). The country has had a number of multiparty elections and is one of the few countries in sub-Saharan Africa that has gone through several electoral transitions (1993, 1996 and 2001). Although the country has a history of frequently held elections, the regimes elected in the run-offs tend to be hegemonic, as one party “takes it all” and installs authoritarian governance practices. These practices and the lack of credibility and transparency in the organization of the electoral process led to violent protests in the post-election phase, the mobilization of power outside the institutions and the seizure of power through public demonstrations and a coup d’état in 2009. The latter caused an almost five-year-long political crisis and international isolation of the country. Internal and external mediation efforts suffered serious challenges but ultimately led to the organization of elections as a necessary condition to end the crisis in 2013.

In April 2018, after demonstration against the new electoral laws, a number of members of parliament, calling themselves “deputies for change,” filed an appeal before the High Constitutional Court (HCC) to denounce the president of the republic. Although the HCC did not confirm this request, the institution deviated from its function to guarantee respect for the rule of law by imposing on the political actors a “scenario of exit from crisis” and sanctions against the president of the republic if he would not accept the formation of a new government of consensus, called the “transition government.” A new prime minister was appointed on June 5, 2018 and a new government on June 11, 2018. The mission of the government was to organize a credible, transparent and inclusive presidential election. After consultation with the electoral commission, the government announced the dates of the presidential election with the first round on November 7, 2018 and the second round on December 19, 2018. On September 7, 2018, President Hery Rajaonarimampianina resigned in accordance with the constitution in order to run in the presidential election and was replaced by the president of the Senate. During the first round, there were 36 candidates. Some of the candidates had requested the postponement of the election because of, according to them, imperfections in the electoral process and they also asked for the cancellation of the election after the first round. This did not prevent the second round from being held on December 19 between two former presidents and protagonists of the 2009 crisis, Andry Rajoelina (2009–2013) and Marc Ravalomanana (2002–2009). On January 8, 2019, the HCC confirmed Andry Rajoelina as the winner of the presidential election. Marc Ravalomanana accepted defeat and called for reconciliation and solidarity and for the demonstrations to stop.

Free and fair elections

7



The newly elected president of the republic (of the TGV/MAPAR political party) may have limited power to govern. He has the majority only in the National Assembly. Elections are scheduled in mid-year. The majority in the Senate and the town halls belongs to the former ruling party, HVM. But an elite accommodation and a hegemonic exchange will be set up to allow the new regime to ensure the support of the other political parties. Moreover, this is facilitated by the fact that political transhumance occupies an important place in Malagasy political life.

Informally, presidents have consistently maintained significant informal networks of power (economic elite, religious elite (FFKM), military elite). This is a necessary condition of maintaining formal power, as these groups have the potential to undermine democratically elected representatives.

The constitution of the fourth republic (Article 10) guarantees the freedoms of association and assembly, but obtaining a permit to hold unrestricted events has become more difficult. On April 25, 2016, the commandant of the CIRGN (Circonscription inter-régionale de la Gendarmerie nationale) of Antananarivo declared that all demonstrations were prohibited without the authorization of the prefecture. Throughout the regime, demonstrations were banned and suppressed by the defense and security forces until April 21, 2018. Intimidation, harassment and restrictions on movement were directed against the opposition. Moreover, after the adoption of the electoral laws on April 4, 2018, a demonstration of opposition members of parliament was violently repressed by the security forces on April 21, 2018. Following this event, demonstrations are allowed.

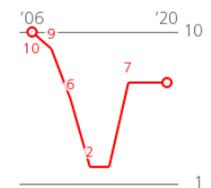
The constitution of the fourth republic guarantees freedom of expression. In practice, the media are free to publish a variety of opinions, but the government does not hesitate to call them to order if it considers they have overstepped their role. This means they are often subject to interference or government restrictions, and some journalists consequently practice self-censorship.

On June 19, 2014, the National Assembly adopted a cybercrime law (Law No. 2014-006) that provides for prison sentences for anyone insulting or defaming a state representative online. Under Article 20 of the new law, using print or electronic media to “insult or defame” state representatives will be punishable by two to five years of imprisonment and/or a fine of MGA 2 million to MGA 100 million (€600 to €30,000).

In July 2016, a communication code was adopted by the parliament. This is seen as a repressive law under which journalists will potentially face imprisonment. The law provides penalties of disproportionate fines for certain offenses committed in the press, including defamation. For example, article 23 stipulates that defamation against a (foreign) state, a state body or the army is liable to receive a fine ranging from one million to six million Ariary (between €300 and €1,800); seven times the

Effective power to govern

7



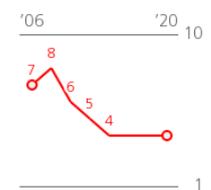
Association / assembly rights

5



Freedom of expression

4



minimum wage. Article 30 introduces the highly questionable notion of “false news,” thus penalizing any potential journalistic mistake, however legitimate.

There have been various demonstrations against this law without much success. A meeting between journalists and the president of the republic also failed to bear fruit. The various international organizations working in the field of media have made public their concerns about the code of communication. It has to be said that by January 2019, the National Media Regulation Authority had not been created, although foreseen by the code. In the absence of this regulation authority, the electoral commission set up an ad hoc commission to follow up on the reset of media regulation during the campaign. Even if irregularities have been observed in media content, no sanctions were filed against the media during the 2018 electoral process, apart from the closing down of a radio station in Morondava, following accusations of propagating hate speech.

3 | Rule of Law

The constitution of the fourth republic consists of 168 articles. The state is organized along the three branches of power: the president and his or her government form the executive; the National Assembly and the Senate form the legislature; and the High Constitutional Court, the Courts of Appeal and the lower courts attached to them constitute the judicial power.

The president, who serves as head of state, is elected for a five-year mandate through universal direct suffrage and can serve no more than two terms. The prime minister is appointed by the president and is nominated by the majority party or group of parties in the National Assembly. The president can also terminate the prime minister’s service, either through the resignation of the government, or in the case of grave fault or manifest failure (Article 54 of the constitution).

The separation of powers established by the constitution is weak in practice. The executive is the main power, dominating the other branches. The president holds vast powers; under Article 85, he appoints half the Senate seats, can convene extraordinary sessions of parliament and call for referendums.

In April 2018, 53 deputies of Madagascar asked the Constitutional Court to pronounce the deprivation of Mr. Hery Rajaonarimampianina of his mandate as president of the republic. In its decisions of May 25, 2018 and June 1, 2018, the Constitutional Court did not confirm this request, but moved away from its role of imposing the rule of law by imposing on the political actors a “crisis scenario” and sanctions against the president of the republic in case he would not accept the appointment of a new prime minister and the installation of a government of

Separation of powers

4

'06 '20 10



consensus. Thus, the Constitutional Court acted rather as a mediator than as the supreme justice power.

The personalization of power by successive presidents has undermined checks and balances and the presence of an authoritarian power for such a long time has hampered the emergence of independent and credible institutions. The entry into office of a new president of the republic in 2019 following the election of late 2018 should not change much.

The Malagasy judicial system derives from the French tradition. There are three levels of courts in today's Malagasy judicial system. First, lower courts handle civil and criminal cases and can issue limited fines and sentences. Secondly, the Court of Appeals includes a criminal court for cases carrying sentences of five years or more. Finally, the Supreme Court is the country's highest court.

Additionally, the Constitutional High Court reviews whether treaties, laws and ordinances conform to the constitution. Moreover, it rules on disputes related to referendums and presidential or legislative elections and proclaims the final results of the presidential and legislative elections and referendums.

The military courts are organized by civilian magistrates. Their mandate includes issues dealing with national security.

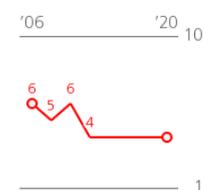
The president serves as formal guarantor of the independence of the judiciary. To this end, he is assisted by a Superior Council of the Judiciary, on which he serves as president, and the minister of justice is vice president. The judiciary remains under the control of the Ministry of Justice, and reports of corruption in the judiciary continue. Efforts are underway to address this problem. The court system has a large backlog of cases, a fact that contributes to excessive investigative detention.

The personalization of power by successive presidents has affected the functioning, transparency and independence of other institutions, especially the judiciary. As a consequence, the Malagasy have lost faith in the court system. Madagascar ranked 128 out of 137 countries in the World Economic Forum's Global Competitiveness Report 2017 to 2018 with regard to judicial independence.

Madagascar ratified the United Nations Convention Against Corruption on September 22, 2004, as well as the African Union Convention on Preventing and Combating Corruption on October 6, 2004, the SADC Protocol Against Corruption (Loi N° 2007-007 du 20 juin 2007 autorisant la ratification de l'adhésion au Protocole de la SADC contre la corruption), and international treaties and conventions on terrorism and organized crime (Loi N° 2014-005 contre le terrorisme et la criminalité transnationale organisée). A new national anti-corruption strategy was adopted in September 2015. There are also several institutions fighting against corruption: the Independent Anti-Corruption Bureau (Bureau indépendant anti-corruption,

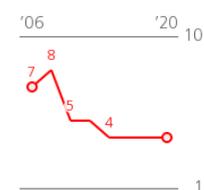
Independent
judiciary

4



Prosecution of
office abuse

4



BIANCO), the Comité pour la sauvegarde de l'intégrité (CSI), the Service de renseignements financier (SAMIFIN) and the Pôles anti-corruption (PAC).

However, the government has not implemented these policies effectively, and corruption remains a serious issue, as does the lack of government transparency.

The inefficiency in sanctioning corrupt public officeholders is due to the lack of independence within the institutions fighting corruption, political pressure and the power of money. BIANCO lacks sufficient resources, and political interference is evident. The CSI, BIANCO and SAMIFIN are financially linked to the administration. In addition, the president appoints the leaders of these institutions.

A variety of cases has illustrated the widespread impunity for officeholders who break the law, especially with regard to the trafficking of natural resources. This is particularly the case for some members of political institutions – such as members of parliament – who despite their involvement in trafficking are not prosecuted.

The overall worrisome state of civil rights in Madagascar did not change during the mandate of President Hery Rajaonarimampianina (2013 – 2018). There are still abuses of power, and additional restrictions on press freedom (with the new communication code) and the freedoms of assembly and speech. Significant civil-rights concerns have been associated with the new regime's inability to ensure adherence to the rule of law, resulting in abuses perpetrated by the security forces (for instance, in the south with the operation against the dahalo, and in Antananarivo with the death of two people during the demonstrations of April 21, 2018, against the electoral laws). There have been unlawful killings and mob violence in different regions of the country. The inability of the government to enforce the rule of law has also led to life-threatening prison conditions, and a lack of judicial independence and judicial inefficiency, which results in lengthy pretrial detention.

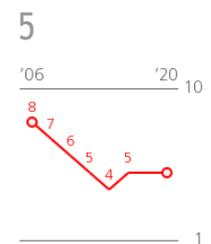
Some media are subject to government censorship, harassment and intimidation, even though the constitution provides for the freedoms of speech and of the press.

Legal provisions prohibit discrimination based on race, gender, disability, language and social status. However, traditional, cultural, social and economic constraints still prevent women from having overall equal opportunities.

Members of the LGBTI community face social stigma and discrimination even with their own families, particularly in rural areas. They also faced discrimination in hiring practices.

Ethnicity and caste are manipulated by politicians and may be used to discriminate.

Civil rights



4 | Stability of Democratic Institutions

During President Hery Rajaonarimampianina’s mandate (2013–2018), political and institutional instability was a constant. In May 2015, the deputies voted in favor of a motion to disqualify President Hery Rajaonarimampianina, but it was rejected by the HCC; in June 2015, a motion of censure against Jean Ravelonarivo’s government was narrowly rejected; three prime ministers have been appointed since 2013; in April 2018, “the deputies for change” filed an appeal before the HCC to denounce the president of the republic. Although the HCC did not confirm this request, it imposed on the political actors a “scenario of exit from crisis” and sanctions against the president of the republic if he did not adopt a government of consensus and appoint a new prime minister. A new prime minister was appointed on June 5, 2018 and a new government on June 11, 2018. The mission of the government was to organize a credible, transparent and inclusive presidential election.

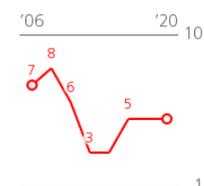
Despite the various institutional crises, parliament adopted the laws presented by the government, thus demonstrating the inconsistency of the position adopted by parliament. It is motivated by cyclical interests. In addition, the judiciary is often under pressure from the executive. Corruption is also present, making it difficult to respect the rule of law and fundamental rights.

In April 2018, the opposition led demonstrations in the capital, Antananarivo, against the new electoral laws because it did not allow, according to them, an inclusive election with the exclusion of former president, Marc Ravalomanana, and the coup-maker Andry Rajoelina. The “deputies for change” filed an appeal before the HCC to denounce the president of the republic. The HCC deviated from its function to impose on the political actors a “scenario of exit from crisis” and sanctions against the president of the republic so that the latter allows the appointment of a new prime minister and a government of consensus. A new prime minister was appointed on June 5, 2018 and a new government on June 11, 2018. The mission of the government was to organize a credible, transparent and inclusive presidential election. After consultation with the electoral commission, the government announced the dates of the presidential election with the first round on November 7, 2018 and the second round on December 19, 2018.

Despite the challenge of minority candidates who asked for the postponement of the election, most of the democratic institutions accepted the decision of the HCC and called for compliance with the electoral calendar. In addition, the majority of the relevant actors – the military, economic interest groups, the major political parties – accept democratic institutions as legitimate.

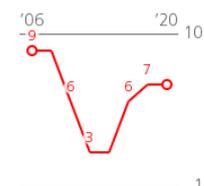
Performance of democratic institutions

5



Commitment to democratic institutions

7



5 | Political and Social Integration

Madagascar's political institutions are inefficient, partly due to the lack of a stable pattern of political-party organization, which in turn is an expression of the parties' shallow roots in society. Nearly all presidents have created their own political parties after their elections. With about 230 registered political parties, the system is highly fragmented, volatile and polarized. However, polarization is affected by power relations; politicians will happily change party according to their interests and most will try to join the party in power. For example, during the presidential election of the end of 2018, there were 36 candidates, some of whom were introduced by little-known political parties.

In January 2019, Madagascar installed a new president of the republic and it is expected that a majority of politicians will join his political party. This situation confirms the winner-takes-all aspect of Malagasy politics, and illustrates the prevailing reluctance to play an opposition role.

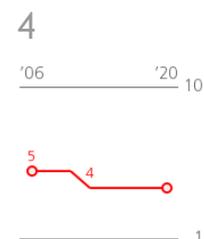
The absence of public funding continues to make political parties dependent on wealthy individuals.

There are numerous professional associations and other organizations that represent private sector interests and specific industries. These organizations regularly promote dialog between firms and engage in coordinated policy advocacy. However, private sector actors argue that few of their policy recommendations are followed.

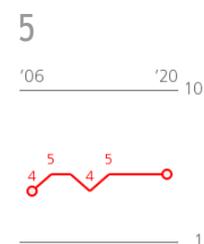
According to a report by the central bank of Madagascar, in 2013, around 800 associations and NGOs were recorded and this number is increasing as organizations are created frequently. More than 60% are in the province of Antananarivo, with the provinces of Toamasina and Fianarantsoa also host to a healthy number. According to a 2013 report by the Madagascar National Institute of Statistics (Instat), most of these are active in the areas of social welfare, health or education. However, only a small number of groups have significant capacity for interest representation. Most are instead groups that are either NGOs funded by donors for a specific community-level purpose, but with limited capacity for representation, or are capital-based groups largely dependent on the funding and activities of their leaders. Organizational capacity therefore remains very low on the average, with limited financial resources, human resources and communication, even among core constituents. Another major problem is that some interest groups are politically connected and are consequently unable to play an effective watchdog role.

There are a few notable exceptions to this general picture. Some faith-based development organizations, such as Sehatra Fanaraha-maso ny Fiainam-pirenena

Party system



Interest groups



(SeFaFi), have created significant vertical integration and can thus communicate effectively both up and down organizational levels.

Concerning faith-based interest groups, the Council of Christian Churches of Madagascar still plays a political role. Since December 2014, it has been leading the national reconciliation process, but this process has not been further developed and no concrete results have been achieved in this area. Moreover, it also spoke in favor of the re-founding of the state and in the presidential election of 2018, the FFKM called on voters to make the right choice.

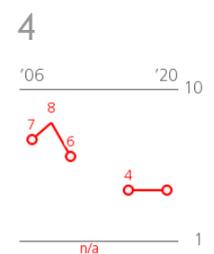
According to the most recent Afrobarometer survey, published in September 2018, the population's trust in existing institutions is relatively weak, a phenomenon explained by the high level of corruption. This mistrust has increased since the previous Afrobarometer surveys (2005, 2008 and 2014), as corruption (perceived and real) has also increased, especially during the political crisis beginning in 2009.

In the most recent survey, about 80% of respondents declared the country is not a democracy or was one with major shortcomings. Around 80% are not satisfied with the functioning of democracy.

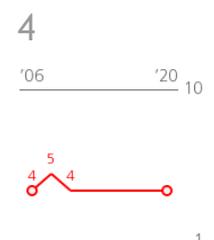
Approval of a democratic system slightly decreased between 2014 and 2018 from 50% to 47%. While a majority still said they supported democratic principles, 60% (83% in 2014) of the respondents said they were against a one-party system that monopolizes all power. A majority of Malagasy, 76%, suggests that free, fair and regular elections should be held to select leaders.

Survey data on social capital and solidarity among the citizens are limited. However, the concept of social capital may be defined in Malagasy society as “fihavanana,” which can be translated as solidarity, mutual understanding and respect, social justice and peaceful cohabitation. This is generally present within Malagasy culture. However, observers note that solidarity and trust among citizens have been affected by the 2009 to 2013 political crisis, deepening social and economic rifts. There was not a big change during the previous regime (2013–2018) and the trend will be difficult to reverse. At the same time, the weakened presence of state services has pushed people to rely on solidarity as a means of survival. While self-organized groups fulfill this role, no quantitative data exist to confirm an increase of this type of group. In general, trust and solidarity tend to be organized along family, regional and religious lines and are structured by the strong presence of community traditions.

Approval of democracy



Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

In 2018, Madagascar slightly improved its Human Development Index from 0.512 to 0.519 (between 2000 and 2018, its HDI index increased from 0.456 to 0.519). The country, however, fell three ranks in the world rankings, from 158th to 161st place. The country is in the low human development category.

The World Bank estimates that 92% of Malagasy live on less than \$3.10 a day and 75% live below the \$1.90 per-day extreme-poverty line. There is a slight improvement over time. Moreover, the poverty line should reach 73% by 2020.

Poverty rates are more than two times higher in rural areas, where 80% of the Malagasy population lives, than they are in urban areas. Furthermore, two-thirds of rural residents are extreme poor. The poverty ratio in rural areas exceeded 75%, and even 90% in the south of the island, compared with 31% in the capital and 55% in the secondary cities. The Gini index was last measured at 42.6 in 2012; income inequality has increased since 2005 (Gini index was 38.88 then).

One-third of the population is deprived in consumption, literacy education, basic household assets and access to public services as health care, electricity.

If Madagascar does not take appropriate measures, it will be difficult to achieve the Sustainable Development Goals (SDGs).

Madagascar scores a 4 (out of 6) on the World Bank's Country Policy and Institutional Assessment (CPIA) gender-equality rating (2017); the score has not changed compared to 2016. Traditional, cultural, social and economic constraints still prevent women from having overall equal opportunities. The difficulty for women in inheriting land and property is a prime example of gender inequality. The general literacy rate in Madagascar is below the average in sub-Saharan Africa, and access to secondary and tertiary education remains limited for the vast majority of the population. However, the difference between literacy rates for men and women is just 5.8%. This may help explain the effectively equal labor-force participation rate for women and men (with women making up 49.5% of the total labor force).

According to the World Bank, women's labor-market earnings are not as high as those of men when controlling for various other factors.

Inequality in terms of ethnicity, religion and political preference is a less well-documented topic, and indeed a rather hidden, subtle and sensitive reality. Although no systematic exclusion on the basis of these characteristics exists, there is evidence that ethnic and regional origin play a role in access to education, employment and the market.

Question
Score

Socioeconomic
barriers

2

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Economic indicators		2015	2016	2017	2018
GDP	\$ M	9744.2	9958.7	11465.9	12100.5
GDP growth	%	3.1	4.2	4.3	5.2
Inflation (CPI)	%	7.4	6.7	8.3	7.3
Unemployment	%	1.8	1.8	1.7	1.7
Foreign direct investment	% of GDP	3.4	5.4	4.1	5.1
Export growth	%	12.2	10.0	-	-
Import growth	%	1.5	6.0	-	-
Current account balance	\$ M	-280.5	20.5	-65.3	80.1
Public debt	% of GDP	35.7	47.1	46.0	45.7
External debt	\$ M	3006.7	2975.7	3381.7	3716.2
Total debt service	\$ M	140.6	123.0	131.9	119.8
Net lending/borrowing	% of GDP	-2.8	-0.7	-1.5	-
Tax revenue	% of GDP	10.4	11.0	11.5	-
Government consumption	% of GDP	10.8	10.0	10.9	-
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	2.4	2.9	-	-
R&D expenditure	% of GDP	-	0.0	0.0	-
Military expenditure	% of GDP	0.6	0.6	0.6	0.6

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

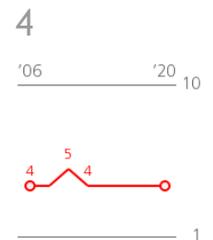
Malagasy political culture is liberal, and some parts of the country have a long history of market integration. For instance, the country is the world's largest supplier of vanilla, and the vanilla industry of the northeastern coast has remained a significant economic and political force since the colonial period. There are nonetheless significant market distortions. The vanilla coast is one of the world's wettest inhabited regions and infrastructure remains a challenge. Vanilla growers remain largely at the mercy of organized vanilla companies and a scandalously ruthless, largely Chinese intermediary market. As a result, growers commonly receive less than 5% of the international market price for their product.

This dichotomy between a market culture and opportunity on the one hand and significant structural barriers on the other is characteristic of the ongoing challenge Madagascar has faced with regard to market fundamentals. This places it among countries struggling with market-economy issues, but above the direst cases. The currency has long operated on a floating exchange basis with relatively little political interference.

Improvement has been evident in some areas, like dealing with construction permits, getting credit and enforcing contracts. In the Doing Business 2019 report, Madagascar was ranked 81st in the world in terms of the ease of starting a business (up from 113rd in 2017 and down from 76th in 2018). It takes eight days and five procedures to start a business in Madagascar, at a cost of 33.0% of the average income per capita. The Economic Development Board of Madagascar (EDBM) takes care of all the formalities necessary to open a business. The government incentivizes investment in manufacturing for export through its Law on Free Zone Companies and, in the mining sector, through its law on large-scale mining investments. Madagascar also plans to set up a special economic zone in partnership with Mauritius. Since the restoration of Madagascar's Africa Growth and Opportunity Act (AGO) eligibility in June 2014, textile manufacturing exports have increased (+13.3% in 2017).

Structural barriers, such as a high level of corruption, state monopolies, restricted access to domestic markets to certain groups of society and a large informal sector, remain and even have worsened. Insolvency has reached crisis proportions and addressing that problem has become more difficult. The formal sector has improved structurally, but has actually shrunk. As industries that face a large tax burden have grown, the percentage of small and large businesses that have exited the formal sector for the informal sphere has increased. Moreover, the state plays an important role in administering prices and allocating markets to certain groups/families.

Market
organization



There is a law on competition, which requires the Ministry of Commerce and Consumption to ensure fair competition. The National Council of Competition provided for by law was established only in September 2015. Moreover, Madagascar is a member of the Common Market of Eastern and Southern Africa (COMESA). As part of the effort to promote economic integration, COMESA adopted a competition law regime to address anti-competitive business practices and to exert merger control.

During the 1990s and particularly the 2000s, Madagascar saw a large sell-off of state-owned enterprises. For example, the state companies producing sugar and cotton were privatized. However, the state remains a shareholder in hotel operations, fishing, textiles, wood, the production and distribution of beverages, air travel, telephony and the exploitation of granite and marble resources. The presence of the state in these areas helps to explain the lack of competition these firms have enjoyed over the years.

The state has a monopoly in the electricity and water industry, which provides irregular power supply in many regions, particularly in remote coastal provinces, even if a new law (law n°2017-020) tries to reverse that trend. In addition, the sector is undermined by corruption and dominated by large groups, most of which sell their energy to the Jirama and do not pay their taxes.

Several monopolies or cartels have been consolidated in areas such as the production and distribution of food (dairy products, oils, flours) and beverages (beer and non-alcoholic drinks). There is evidence of collusion between the political and the economic elite. These competition-dampening monopolies have helped maintain relatively high prices for consumers, particularly for the poorest, and discourage technological development.

The adoption of the Industrial Development Act in 2017, with the support from the private sector, offers a numbers of benefits that will allow Madagascar's industries to better compete on both the international and local markets, the latter of which remains dominated by imports.

Madagascar belongs to the World Trade Organization (WTO). It is also member of several regional groupings COMESA, the (SADC) and the Indian Ocean Commission (IOC), but has little trade with them.

In 2017, the European Union remains the country's largest trading partner, accounting for 42.7% of exports.

China is the primary point of origin for imports (18.6%), India is the second (9.3%) and France is the third (6.4%).

As a WTO member, Madagascar is required to implement that body's Trade Related Investment Measures (TRIMS). In general, performance requirements are not imposed as conditions for establishing or maintaining investments, with the exception of the Export Processing Zones (EPZ) regime. In this case, firms must export 95% of

Competition policy

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1

Liberalization of foreign trade

6

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1

their output in order to qualify for EPZ investment incentives. Projects owned by foreign or local investors can benefit from EPZ tax exemptions if they fit into the following categories: 1) investment in export-oriented manufacturing industries; 2) development or management of industrial free zones; or 3) provision of services to EPZ companies.

The government has established free industrial zones (FIZ) to revive exports, in particular in the clothing manufacturing sector. Equipment and other import materials that are used in this type of zone are exempt from custom duties. Moreover, most of the products can be imported without an import license.

According to the United Nations Conference on Trade and Development, in 2017, Madagascar received \$389 million in FDI, up from \$451 million in 2016.

The trade deficit narrowed by 31% in the context of a strong growth in exports (+30%) driven by sales of agricultural products, in particular vanilla and cloves, despite a significant increase in imports (+16.2%). Madagascar imported a record volume of rice in 2017 (nearly 600,000 tons) while imports of capital goods rose sharply in 2017 (+57.6%).

As of 30 June 2018, according to the WTO, Madagascar had 11 non-tariff measures in force. In addition, not only do judicial and regulatory barriers deter foreign investment, but state-owned enterprises distort the economy. The simple average most-favored nation (MFN) applied tariff was 11.6% in 2017. Its highest value in recent years was 13.33% in 2006, while its lowest value was 3.76% in 2004.

Until fairly recently, the Malagasy banking system was composed of a central bank and six commercial banks. However, the number of financial institutions has increased over the past five years, reaching 11 banks, six non-bank financial institutions (NBFIs) and 31 microfinance institutions. However, a large proportion of the country's banking assets are concentrated within four banks, which hold 87% of total assets, 88% of total deposits and share 94% of profits, reflecting the lack of competition.

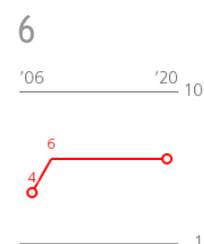
Banking sector assets increased to 26.6% of GDP in 2017 compared to 25.5% in 2016. The total assets of the banking sector as a whole are approximately \$2.1 billion.

The Banking and Financial Supervision Commission (CSBF) oversees banks and financial establishments and must provide operation permits to commercial banks.

Only about 5% of the population uses banks in Madagascar (7.4% are members of a microfinance institution and 6.6% of households use mobile banking).

The situation in the banking system remains profitable. Between 2013 and 2017, returns on equity increased from 30% to almost 42%.

Banking system



Financial markets in Madagascar are relatively rudimentary, and the bank penetration rate is very low. This could be explained in part by high interest rates, strong requirements for collateral and guarantees, limited competition among banks, and a reluctance to finance foreign trade or working capital even when loans are secured by letters of credit. In general, financing is expensive and difficult to access. Local firms are confronted with numerous constraints, making expansion almost impossible. One of these limiting factors is the difficulty in increasing working capital through bank borrowing.

Madagascar has had an autonomous central bank since 1973. The new Central Bank Statutes of 2016 and 2017 strengthen the central bank's independence in monetary policy. The main provisions are (i) gradually reduce central bank statutory advances to the government; (ii) automatically transfer central bank losses and profits to the government; (iii) establish an Audit Committee of the Board of Directors; (iv) modernize the monetary policy operational framework, including by improving liquidity management and forecasting; (v) develop foreign exchange markets; (vi) strengthen banking supervision; and (vii) improve central bank internal audit functions to bring them up to international standards.

8 | Monetary and fiscal stability

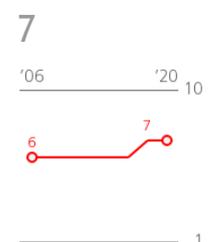
Madagascar is not part of any monetary union. The central bank is responsible for guaranteeing the stability of the local currency in the country and abroad. The authorities initiated several actions to strengthen the central bank's capacity and independence in 2016 and 2017. The new law, which governs the central bank, Law n°2016-004, is inspired by international standards of financial institutions, which include the institutional and operational independence of the central bank of Madagascar (Article 7), financial independence (Article 4 (5), Articles 35 and 90) and personal independence (Article 51 and thereafter).

The bank's interventions on currency markets has kept the ariary relatively steady against major currencies. But this is also due to the stability of major exports, which was reflected positively on the external reserves, and thus kept the ariary stable.

In 2017, the ariary lost nearly 10.2% of its value against the euro and appreciated 3.4% against the dollar. The parities of these two currencies compared to the ariary seemed almost stable between January and July 2018. The central bank's analysis is based on the real effective exchange rate, which includes all the actors involved: consumers, exporters, importers and the state. These analyses make it possible to say that the real effective exchange rate did not change in the first eight months of 2018.

In addition, inflation rose by 8.3% in 2017 from 6.7% previously, mainly due to higher food and energy prices. Underlying inflationary pressures remained moderate, with core inflation at only 6%. In 2018, inflation began to ease to reach 7.2%, supported by an improvement in local rice production.

Monetary stability



In 2017, efforts to improve the state of public finances continued, through increased revenues, including domestic tax revenues and limits on state spending. The tax burden rate increased from 11.4% in 2016 to 11.8% in 2017 and to 12% in 2018. All major taxes (VAT and incomes taxes) contributed to this good performance, mainly due to the strengthening of tax administration (modernization of the customs and tax revenue administrations to improve compliance and reduce tax evasion). Revised petroleum taxation (January 2018) also contributed to this revenue increase. In 2018, the ratio of public debt-to-GDP was 35.2% of GDP while it was 36% in 2017 and 38.4% in 2016. This was achieved thanks to stronger revenue collection, rising nominal GDP growth and an appreciating real effective exchange rate.

At the end of 2017, outstanding gross external assets held by the central bank amounted \$1,115.4 million, an increase of 30% compared to 2016. These reserves could cover four months of imports goods and non-factor services.

9 | Private Property

Private-property rights are protected within the Malagasy legal system, which is inspired by French civil law. Malagasy commercial law is mostly formed by the country's Code of Commerce and associated laws, which are reportedly applied in a non-discriminatory manner. A bankruptcy law has been in place since 1996 and is included in the Code of Commerce. However, the Malagasy judicial system has the reputation of being slow, complex, opaque and subject to corruption.

The government accepts binding international arbitration of investment disputes between foreign investors and the state under the privatization law. The Malagasy Arbitration and Mediation Center (CAMM) was created in 2000 as a private organization to promote and facilitate the use of arbitration to resolve commercial disputes and decrease reliance on an overburdened court system. As a result, many private contracts now include arbitration clauses.

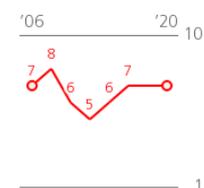
Madagascar is a signatory to the International Center for the Settlement of Investment Disputes (ICSID) Convention, as well as the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Madagascar has been a member of the Multilateral Investment Guarantee Agency (MIGA) since 1989.

Despite legal advances, the prohibition on land ownership by foreigners remains controversial and problematic. A system of long-term leases (up to 99 years) was established to address the issue in 2008, following the adoption of investment law 2007-036.

At the end of 2017, parliament adopted a new law to redefine the status of land: to determine the management of titled properties, the registration procedures for immovable property and the procedure for restoring land documents.

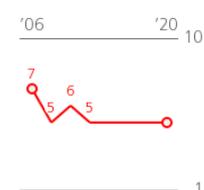
Fiscal stability

7



Property rights

5



Since 2006, the Economic Development Board of Madagascar (EDBM) has been the issuer of authorization documents. The EDBM is intended to bridge public and private interests and facilitate investment.

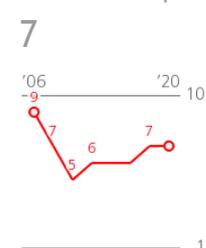
However, land leases remain one of the most politically controversial issues in Madagascar, leading to tensions between the State and the population, especially when it comes to mining interests, and large-scale foreign-led agricultural operations. These often benefit the political elite and private companies, at the expense of the population, with land often expropriated without proper compensation.

Though there is no formal discrimination against foreign investors, foreign companies are frequently the target of harassment by tax authorities and are often subject to nuisance suits regarding questionable tax assessments and labor law violations. Moreover, the lack of transparency in regulatory decisions creates a difficult environment for doing business in Madagascar. However, since his election in 2013, the president has emphasized the importance of attracting foreign investment, citing private sector-led growth as the engine for the future economic development of Madagascar. To this end, the government has promised to undertake a number of revisions to update the legislative framework governing the business and investment environment.

In addition to the right to invest and to equal treatment for foreign and national investors, Madagascar's Investment Law (2007-036) includes articles on the protection of patent rights, freedom to transfer funds abroad without prior authorization, protections against expropriation and a stability clause guaranteeing investor privileges from future legal or regulatory measures. There is no legal requirement that nationals own shares of foreign investment (aside from the cap in the telecommunications sector), nor any restriction on the mobility of foreign investors.

Madagascar initiated a privatization program in 1996 and subsequently identified over 50 public enterprises for privatization. The targeted sectors included: agriculture, downstream petroleum, mining, transport and telecommunications, among others. From 2003 to 2010, the government successfully privatized a number of firms through public tender processes, including a large cotton plantation and a telecommunications firm. Foreign investors were allowed to participate in these tenders. However, the privatization program stalled in 2010 and remains on hold with no timeline in place for further privatizations. The government continues to own shares in 53 companies, seven entities are wholly owned, 12 majority-owned and 24 minority-owned, and there is much public resistance to privatization of the remaining large state-owned enterprises, particularly the national airline and monopoly water and electric utilities.

Private enterprise



10 | Welfare Regime

As more than 70% of the population live below the poverty line, Madagascar is one of the world's poorest countries. The lack of a distribution of wealth coupled with the consequences of recurrent natural disasters have had serious effects on food security and human development (health care, education). The former government (2013–2018) adopted a National Social Protection Policy in 2015 that focused on four axes: (i) increasing the incomes of the poorest members of the population; (ii) improving access to basic social services; (iii) protection and promotion of specific groups at risk; (iv) progressive consolidation of the contributory scheme. It also implemented a national social safety net program, the National Social Protection Policy adopted in September 2015, which includes two pillars: (i) a conditional cash transfer program related to primary and secondary school attendance, and (ii) a cash transfer program for a productive safety net. The program has limited geographical coverage (only 11 out of 119 districts, five out the 22 regions and four out of six provinces). Therefore, the new government should continue the expansion strategy and find additional financial means.

The program is not yet able to respond to major crises. Humanitarian stakeholders have an important role in helping the state in his mission.

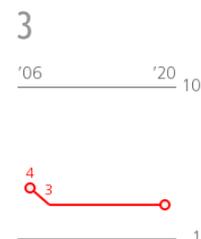
The Ministry of Population, Social Protection and Women's Promotion and the Development Intervention Fund (FID) are taking action to create a better social protection sector with the support of development partners. There was also a complementary safety net like the cash for work activities and a conditional cash transfer program (to provide the poorest families with short-term income support while encouraging their children's school enrollment and attendance, and to promote the spread of nutritious food and healthy eating habits, particularly for children).

Legal and constitutional provisions guarantee ethnic, racial and gender equity. However, the achievement of equality of opportunity is still a challenge in practice.

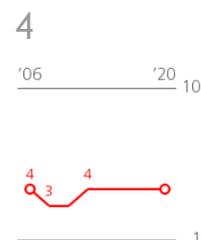
Madagascar stagnates in the rankings in terms of gender equality; as in 2016, the country scores a four (out of six) on the World Bank's Country Policy and Institutional Assessment (CPIA) gender-equality rating (2017).

At the political level, women saw their presence doubled in the National Assembly when comparing the 2007 to the 2013 elections. Women members of parliament constitute 32 out of 151 members, that is, 21.1%. In the Senate, women comprise 13 out of a total of 63 senators, that is, 20.6%. However, at the communal level, women are severely underrepresented as less than 5% of elected mayors or councilors are women.

Social safety nets



Equal opportunity



The current government of Prime Minister Christian Ntsay has six women as ministers out of a total of 22, that is, 27%, although the president, Andry Rajoelina, had promised a government with equal numbers of men and women. This is, however, a slight increase compared to the former government, which included eight women as ministers out of 30, or 26%. That was an increase over the previous government of Olivier Mahafaly, which had six women as ministers out of a total of 32, or 18%.

However, traditional, cultural, social and economic constraints still prevent women from having overall equal opportunities. The difficulty for women to inherit land and property is a prime example of gender inequality. In some regions, depending on local ethnic and kinship norms, women have difficulties acquiring land. Early marriage is common, particularly in rural areas, and violence against women is widespread among some ethno-cultural groups.

World Bank figures show no significant differences between school enrollment figures among men and women. The general literacy rate in Madagascar is below the average in sub-Saharan Africa, and access to secondary and tertiary education remains limited for the vast majority of the population. According to the last available data from the World Bank, the Gross Enrollment Ratio is 143.8 for primary education, 38.3 for secondary and 4.8 for tertiary education. Women have fewer opportunities to learn at the tertiary level. The drop in enrollment from primary to tertiary is extremely significant and illustrates the very limited access to higher education for the largest segment of the population. However, the difference between literacy rates for men and women is just 6.7%. This may help explain the effectively equal labor-force participation rate for women and men (with women making up 48.8% of the total labor force).

According to the World Bank, women's labor-market earnings are not as high as those of men when controlling for various other factors.

Inequality in terms of ethnicity, religion and political preference is a less well-documented topic, and indeed as a rather hidden, subtle and sensitive reality. Although no systematic exclusion on the basis of these characteristics exists, there is evidence that ethnic and regional origin play a role in access to education, employment and the market. In the capital, the Merina-côtier divide runs through the political, societal and employment spheres. The Merina population has privileged access to education, employment and public office. This is explained in part by the strong centralization of all services and infrastructure in the capital city, which complicates access for the people from the coast.

At the same time, there is a significant number of non-citizens who are deprived of their most basic rights and have to pay for health services, in particular.

11 | Economic Performance

Madagascar is a low-income country with a fragile political situation. This poses major development challenges, although it is a country with huge potential human and natural resources. Madagascar has experienced sustained growth for two years, but poverty persists, particularly because economic growth has not kept pace with population growth. Poverty reached a rate of 76% in 2017, which has consequences for the general business environment for private companies and investors, such as the population's low purchasing power, the country's limited infrastructure and a general environment of corruption. Following the return of constitutional order in 2014, the authorities embarked upon an ambitious economic reform supported by a 40-month Extended Credit Facility (ECF) arrangement with the International Monetary Fund (IMF) in July 2016 (\$350 million).

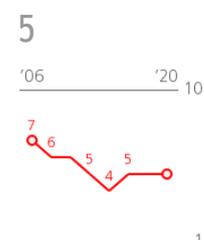
In 2017, the economy grew by more than 4% for the second year in a row. The recovery was sustained, despite a drought followed by a major cyclone and an outbreak of plague. Economic growth was around 5% in 2018, the highest rate in the last decade. Growth should continue in 2019, driven by improved confidence, a scaling up of public investment, further re-engagement of development partners and increasing mining exports. In addition, the fact that the 2018 presidential election was not followed by a crisis could strengthen the confidence of the country's various partners. It will be also necessary to wait for the first economic measures implemented by the new government.

The budget deficit was contained at 2.3% of GDP in 2018 (2.4% in 2017), thanks to measures targeting low-priority expenditures. Total public debt fell from 38.4% of GDP in 2016 to 35.1% in 2018. According the IMF, public debt remains sustainable, with moderate risk of external debt overhang. Inflation declined slightly from 8.3% in 2017 to 7.7% in 2018. Monetary policy is expected to continue to focus on controlling inflation, which was estimated at an average of 6.4% for 2019 and is expected to average between 4.4% to 6% between 2020 and 2022.

Gross official reserves reached 4.1 months of imports in 2018. The current deficit deteriorated to an estimated 2% of GDP in 2018, due to a 19% rise in the value of imports and a 13% rise in the value of capital goods. Exports are dominated by products with little added value, including cloves, vanilla and mining products. Unemployment rates remain the same as in the previous period, which means 1.8% in 2017, according to the latest World Bank data available.

GDP per capita PPP and GDP per capita growth has been increasing gradually since 2016 (GDP per capita in PPP terms, for 2017, \$1,555, slightly up from \$1,506 in 2016; GDP per capita growth at 1.4% in 2017 up from 1.4% in 2016, but it still far from the pre-crisis (2009 – 2013) level of 4.1% in 2008).

Output strength



12 | Sustainability

Natural capital represents 49% of Madagascar's total wealth. In this regard, natural capital can be deemed to include: i) forest land that produces timber (roundwood and fuel wood), non-timber forest products and bioprospecting; ii) protected areas; ii) agricultural land, including cropland and pastureland; and iii) fisheries.

Madagascar accounts for more than 5% of the world's biodiversity, about 90% of it endemic.

Within the African region, Madagascar is the second most vulnerable country to natural disasters. The country's vulnerability is a function both of high exposure levels due to its geographic position, and its low adaptive capacity, which is driven by high rates of poverty and unsustainable land and natural-resource usage. The cost of environmental degradation is estimated between \$450 million and \$500 million per year (i.e., 9% – 10% of the gross national product).

Since the 2014 World Parks Congress in Sydney, Madagascar has seven million hectares of protected areas.

The Initiative for the Emergence of Madagascar (l'initiative pour l'émergence de Madagascar, IEM), the program of Madagascar's new president elected in 2018, has an environmental policy that is based on three pillars (i) climate issues: reducing greenhouse gas emissions, adapting to climate change and switching to renewable energies; (ii) environmental issues: preserving natural resources and combating all forms of pollution in order to cope with natural hazards and disasters; (iii) governance issues: translating the program into a national policy targeting efforts to combat climate change.

This program seems to be in line with the National Development Plan of the previous regime and the Environmental Sustainable Development Program (ESDP, August 2016).

Environmental policies are effectively implemented and enforced to the point where, over the last 15 years, considerable progress has been made in structuring the skills and the actors working in the field of safeguarding the environment and biodiversity and preventing a decline in biodiversity. This is because of the difficulty of reconciling the needs of a resource-poor rural population dependent on natural resources with conservation policies, but also with the development and the permanence of natural resource traffic.

Environmental
policy

5

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The administration of education runs vertically in parallel with governing bodies across eight levels, from the Ministry of Higher Education and Scientific Research, through regional directors of national education (Directeurs Régionaux de l'Éducation Nationale, DREN), local CISCOS (circonscription scolaire), and down to the schools. The private sector plays an important role, with faith-based and independent schools subject to national instructional and examination guidelines. The majority of teachers used to be civil servants. Today, 80% of teachers are “community teachers” (Fikambanan'ny Ray Amandrenin'ny Mpianatra, FRAM) with little or no training, and who are hired and funded by parent associations. The system is generally well organized and pervasive, but the challenges of ensuring funding, training, oversight and payment through the official system have become acute. These teachers are much more present in poor and vulnerable areas.

The Ministry of National Education (MEN) implements the state's general policy on education and literacy. The Sectoral Plan of Education (Plan sectoriel de l'éducation, 2018–2022, PSE) aims to ensure the harmonious development of the Malagasy education system. This plan lists challenges that revolve mainly around three axes (i) Access/Retention, (ii) Quality and (iii) Management/Governance. The PSE refers to the PND of the previous government and the Education 2030 Framework for Sustainable Development Goals (SDGs). It thus has a political vision and the new minister of education plans further consultations before deciding upon its full application.

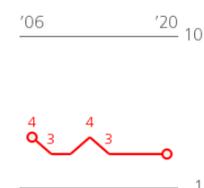
In addition, the PSE foresees that the school calendar will be modified on the grounds that it favors absenteeism of pupils and teachers during the rainy season and the lean period from December to February. This period was previously from October to July. Thus, the school year in 2018 to 2019 should have begun in February 2019 and ended in November 2019, but the MEN finally decided that the start of the school year begins on November 19, 2018 and runs until August 30, 2019. It will be divided in five periods. The gap at the beginning of the school year illustrates the difficulty of implementing the PSE and reluctance toward it. In the long term, especially for the start of the 2020 school year, the school calendar will run from March to November, in order to avoid the lean period, to respect the calendar year and to facilitate budget execution.

The system is structured so that the primary-school cycle lasts five years, lower secondary lasts four years, and upper-secondary lasts three years. Madagascar has a total of 3,351,579 pupils enrolled in primary and 4,157,887 pupils enrolled in secondary education.

Madagascar's tertiary education sector is one of the least developed in the world and is far behind the average for sub-Saharan Africa. The public sector includes six universities, three senior technology institutes and a national distance-learning center. The private sector includes a growing number of poorly documented institutions that lack coherent framework authorization, accreditation and quality assurance. During

Education policy /
R&D

3



the 2014 to 2015 period, the number of students in public universities was 90,168, an increase of 4,740 compared to the 2013 to 2014 period (85,428), and in private universities 28,620, a slight increase (1,023) compared to the 2013 to 2014 period (27,597), for a total of 118,788, an increase of 5,763 compared to 2013 to 2014. The enrollment rate is extremely low, and heavily concentrated in Antananarivo. The six public universities have a total of 70,638 students with 46.5% at the University of Antananarivo, followed by the University of Fianarantsoa (15.6%). The percentage of female students is at 45.51%, which represents a slight increase compared to the previous report, when the proportion of female students was 45.49%.

Total public spending on education declined significantly to 3.1% well below the average for low-income countries. This is explained more by the general contraction of public expenditure than by a lack of prioritization by the government. On average, education accounted for more than 20% of total government spending, which is considerably higher than the average for sub-Saharan Africa and low-income countries as a whole. About 20% of total education spending was financed by external funds.

However, Madagascar has an average score, according to the United Nations Education Index of 0.48, which indicates that the level of education is average. This seemingly high average can be explained by the unequal access to education between rural and urban areas, with the majority of the population living in the rural areas.

Governance

I. Level of Difficulty

Structural constraints on governance are high. The return to constitutional order after the 2013 elections and reintegration within the international community helped to slowly recover from the extremely deteriorated situation, in terms of economic and social indicators. However, structural constraints such as weak and fragile institutions, climate constraints, diseases and geographical isolation and poverty remaining extreme, meaning that the country encounters difficulties in drastically improving its governance performance. In addition, other intensifying structural constraints include infrastructure deficiencies (roads, electricity and water provision, communication), education and the lack of a skilled labor force (less than 15% of the labor force has a secondary education, and only 3.4% of workers have a tertiary education). According to the World Bank, recovery from the political crisis started in 2014 but remains slow partly due to external factors but mainly because of fragile governance (during the 2014 – 2018 period, the prime minister changed four times and there was a pre-electoral crisis in April 2018). Weak political and economic performance, with widespread corruption being a significant obstacle.

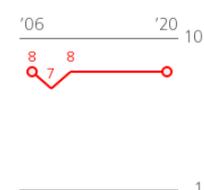
However, the country has seen a gradual increase in public investment, as well as in economic growth over the past two years. But this economic growth has struggled to keep up with the rapid population growth. Consequently, poverty has risen to high levels (76% in 2017).

The new government will have to tackle all these issues in order to pursue development.

In general, civil society is rather weak in Madagascar. Although many associations and NGOs exist on paper and new organizations continue to be created, their actions are limited in terms of impact, especially in terms of playing a watchdog or advocacy role with regard to government institutions. The Afrobarometer survey from 2016 to 2018 indicates that 30% citizens are active members of an association or community group, which is not far from the average of 37% over 23 African countries. Among the factors that weaken civil society are politicization; the lack of coordination or collaboration between different associations due to competition for limited resources; and a lack of social rooting on the part of organizations' leadership, which often act in their own interests instead of the general interest. Since the 2013 elections, donors, conscious about this lack of strong civil society and convinced by the necessary role

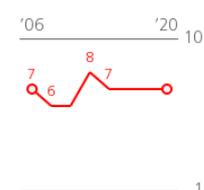
Structural constraints

8



Civil society traditions

7



civil society organizations should play in the process toward democratization, supported several initiatives of civil society groups to create platforms and projects to control government performances, especially in the fight against corruption and access to basic services. As part of the presidential election of 2018, donors financed a number of NGOs to work in the field of voter education, observation and election watching, among other things. This contributes to a more present civil society able to build slowly a counter-voice to political forces.

Malagasy society is structured by several cleavages of varying type: political, social, ethnic and religious. However, these cleavages do not lead to widespread violence or open, violent conflict. As demonstrated by the results of an Afrobarometer survey on this topic (2016 – 2018), 90% of respondents said they were not victims of violence during political rallies or electoral campaigns and 78% stated they would never take part in a protest or use violence for a political cause. One of the reasons is that the population in general does not benefit from political change and has lost confidence in political movements promoting change. Another reason is that, in general, demonstrations (of a political, social or economic nature) are forbidden, and when they take place, they are repressed by force. In April 2018, clashes with members of the security forces during an opposition demonstration against the new electoral laws took place in the capital, resulting in the death of two people. The opposition failed to mobilize a lot of people.

The former government promised to tackle cleavages through national reconciliation processes, but this has not been completed. The new government said it would restart the national reconciliation process.

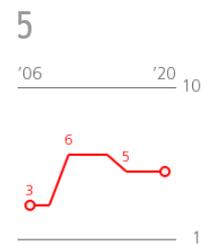
II. Governance Performance

14 | Steering Capability

The president of Madagascar possesses sweeping powers in comparison to other semi-presidential systems. The constitution of the fourth republic (2010) did little to mitigate executive strength, but it did reduce certain powers or relegate them to the policy realm, where the president maintains de facto control. However, presidential power in Madagascar is embedded in sociopolitical networks subject to electoral vicissitudes.

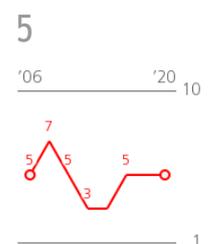
In terms of priority setting, the years 2017 and 2018 were dominated by discussions of the next electoral cycle, particularly of the new electoral laws. These discussions left little room for other strategic priorities. Discussions had been initiated by the electoral commission among different actors in order to elaborate bills that were

Conflict intensity



Question Score

Prioritization



submitted to parliament. These were passed into law after several sessions and led to demonstrations by the opposition in April 2018, causing the death of two people. A national unity government was set up in June 2018 to conduct the electoral process. The presidential election took place at the end of 2018 and the new president was sworn in in January 2019.

In the economic field, the authorities embarked on economic reforms beginning in 2014 (improving governance, fostering economic recovery, broadening access to basic social services, combatting corruption and improving the business and investment climate), supported since July 2016 by a 40th month ECF arrangement. GDP grew between 2013 and 2017, rising from 2.3% to around 4.2%, and reached 5% in 2018. This increase is expected to continue in 2019.

In the framework of the National Development Plan of the previous regime and the IEM of the current regime, the administrations have used both national and international experts.

The program of the new president, IEM, the Emergence Initiative for Madagascar, is articulated around four points: (i) accelerate growth at a rate of 7%; (ii) make growth more efficient through massive job creation; (iii) achieve full employment within 10 years; (iv) engage Madagascar in a process aimed at ecological resilience.

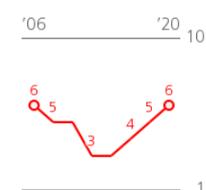
After the 2013 general elections, the government developed the National Development Plan, setting strategic priorities for the presidential term. However, since the installation of the president in January 2014, four changes in the person of the prime minister have taken place. These changes affected political stability, which is necessary to concentrate on strategic priorities aimed at improving the democratization process and the market economy. The last cabinet shuffle took place in June 2018 after protests by the opposition in April 2018 against the new electoral laws. His main task was to manage the organization of the presidential election at the end of 2018.

The previous government partially implemented the National Development Plan and initiated a number of ambitious reforms that resulted in economic growth. In June 2017 and December 2017, the IMF released the second and third tranches of the ECF, the amounts, respectively \$86 million and \$44.5 million.

Discussion will take place between the new government, which emerged from the election in December 2018, and the various donors at the beginning of 2019. It is possible that they will concern the continuation of reforms and the government's economic program (IEM, the Emergence Initiative for Madagascar).

Implementation

6



The previous regime underwent four changes in government. The last one happened in June 2018, after protests by the opposition against the new electoral laws. The formation of a consensus government was expected to calm the political situation and facilitate a peaceful election process. As an indication of support for the economic reform program, the minister of finance was re-appointed as a member of the consensus government, which also reiterated its commitment to the reform program supported by the IMF ECF agreement. In addition, the new minister of finance (January 2019), indicated that he would continue the reforms initiated in connection with the program of the new president of the republic.

Experts generally see this as a change in terms of continuity and not as innovation in policy-making. In terms of flexibility, given the high dependency on external grants, loans and investment, the government is obliged to adapt its policies toward conditionalities and recommendations from donors and investors. The country showed willingness to adapt and learn from the past when accepting the recommendations formulated by the IMF in order to have access to an arrangement under the Extended Credit Facility. The same is observed when it comes to other donors and the administrations' flexibility and innovative capacity in terms of macroeconomic growth and democratization seem to be rather externally driven than stimulated by internal vision and forces. This explains why in general change is slow and difficult, especially at the political level where longstanding traditions of power concentration in the hands of a small political and economic elite make it difficult to introduce real change and a culture of accountability.

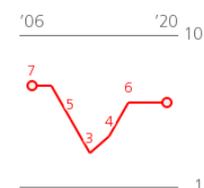
15 | Resource Efficiency

The government does not make efficient use of most available human, financial and organizational resources. There is a lack of transparency in recruitment and promotion. A significant number of the members of the administration were not recruited on the basis of their qualifications. This is true for the highest ranks in government. There are also weaknesses with regard to capacity-building. Training programs for state officials lack the means to qualify them fully for their ongoing responsibilities. The fragmentation of the public service and the emergence of corporatist structures impose additional constraints and management problems. The existence of various special statuses of certain parts of the administration means that public service bodies receive broadly unequal treatment.

The General Internal Audit Directorate, which is overseen by the Ministry of Finance, rarely conducted audits during the review period. After 14 years of silence, the national Courts of Auditors published in 2016 its report covering the period from 2001 to 2014. The court subsequently submitted its 2015 report in July 2017, its 2016 report in April 2018 and its 2017 report in September 2018. It noted a number of irregularities in the payment of expenditures, even the creation of state bodies.

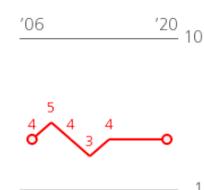
Policy learning

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Efficient use of assets

4



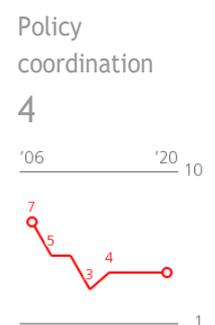
The National Assembly, which is officially tasked with overseeing public expenditure, does little to fulfill this function and is in general seen as a chamber that approves government-proposed texts, rather than a counter-voice or a body that proposes amendments. Thus, the national budget is primarily prepared by the government, and the National Assembly approves it with few modifications.

The policy of decentralization has not produced the expected results, not even after the communal elections that took place in July 2015. The high concentration of civil servants in the region of Analamanga affects the state's ability to provide public services in the outlying regions. The civil service is aging, with nearly half aged 50 or above. A quarter of civil servants will retire during the 2011 to 2018 period. This will require the state to allocate considerable funds to pay pensions.

The allocation of financial resources to the provinces, regions and municipalities is not fairly organized. Most expenditure remains concentrated in the capital.

As stated by the World Bank, Madagascar is a country with many advantages, including unmatched biodiversity, great agricultural potential, mineral resources and abundant labor. Madagascar has shown its ability to be efficient when its resources are deployed effectively, but these periods have been punctuated by recurrent political crises. Disturbances have left the majority of the population living in a condition of extreme poverty. Since the installation of the new government in 2014, ambitious reforms have been made to reverse this trend. Several arrangements were signed with the IMF to promote sustained and inclusive growth and to support a medium-term economic reform program, based on the National Development Plan (NDP). The country has experienced economic growth since 2016. This should continue in 2019. In November 2016, Madagascar held the Donors and Investors Conference and was able to mobilize a record amount of \$6.4 billion for the period 2017 to 2020. This funding will support the implementation of the NDP. But the 2018 presidential election brought to power a new president with a new program, Emergence Initiative for Madagascar. Discussions will be held with donors to determine the nature of the new cooperation.

Continuity in the reforms undertaken is necessary to continue the progress made during the last years. In addition, coherent and adequate policy will require a change in governance style from the “rule of man” to the “rule of law.” Rules must be clear, applied equally to all, and should be implemented through discussions with stakeholders. However, Madagascar's political system has historically been marked by a strong executive power that undermines the separation of powers and the independence of the judiciary. Political contests are structured by personal relations and influence rather than actual policy, and clientelism and favoritism are common features. Rent-seeking tendencies have emerged with increasing force, fueled by financial gains linked to the discovery of oil reserves. Bureaucratic corruption is as common as political corruption, but the latter is only rarely prosecuted.



According to the IMF country report published in August 2016, Madagascar suffers from systemic corruption, even compared to other fragile states. This has a serious impact on potential economic and political performance. The share of individuals reporting personal experience of corruption increased slightly. The government adopted in 2015 its National Strategy of Fight Against Corruption 2015 to 2025, which seeks to achieve 50/100 score. This strategy was modified in 2015 and includes different programs to fight against widespread corruption, the various forms of which include petty and bureaucratic corruption, electoral and political corruption, organized crime and human trafficking (corruption and the complicity of public officials have contributed to making human trafficking possible), and corruption in the renewable-resources and extractive sectors.

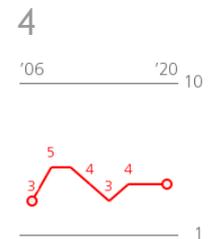
The 2015 to 2025 strategy reinforces the already-existing relatively strong legislative framework that complies with international conventions and the different anti-corruption institutions. However, all anti-corruption bodies are under the supervision of the executive in one way or another, which undermines their independence. After several postponements, a court against corruption was set up in Antananarivo in June 2018. It is planned that five other such courts will be set up in the other five provincial capitals.

Madagascar adopted its anti-corruption law in 2004 (law No. 2004 – 030). This law criminalizes active and passive bribery, abuse of power, embezzlement of public funds, influence trading and favoritism, among other activities. The law also details the sanctions for violating its provisions. Another law adopted in 2004 criminalizes money laundering.

The 2011 law on political parties prohibits corporate donations to political parties, but not anonymous donations. It obliges political parties to report regularly on their finances, but no specific oversight institution is identified, and there are no sanctions imposed in cases of non-compliance. In December 2018, Madagascar adopted a law against money laundering and to combat the financing of terrorism, but it could not pass a law on asset recovery. A special session of parliament is scheduled for January 30, 2019, but the law on asset recovery is not on the agenda. This law cannot be passed by this parliament because the term of the National Assembly ends on the evening of February 5 and the Senate cannot legislate alone. Maybe the president of the republic can do it by way of a decree. Otherwise, the country risks international censure with inscription on the “gray list” of FATF and the loss of correspondent banking relationships.

Madagascar has been party to the U.N. Convention against Corruption since 2004, and to the U.N. Convention against Transnational Organized Crime since 2005. The country ratified the African Union Convention on Preventing and Combating Corruption in 2004.

Anti-corruption policy



16 | Consensus-Building

In general, there is a broad consensus on democracy, and there are no serious disagreements between the major political actors with regard to the desirability of a market economy.

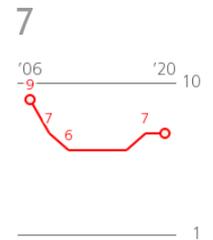
The results of the 2013 elections (presidential and legislative) were accepted by the main political actors, as were the 2015 local and Senate elections. President Hery Rajaonarimampianina secured the support of a majority in the National Assembly (and this despite the fact that members of parliament change position to belong to the party in power), the Senate and in the countryside (mayors and councilors). But laws and institutions matter less than personal relationships in the prevailing condition of zero-sum politics. The malleability of political alliances rose again to the fore over the nomination of the prime minister in recent years. Since the 2013 elections, there have been four prime ministers. The last was appointed in June 2018 after the April 2018 opposition protests against the new electoral laws. His appointment, as well as the formation of a consensus government in June, calmed the political situation and facilitated the electoral process. A new president was elected in December 2018 and the results were accepted by the main political actors despite some protests. This marks the first transfer of power between an outgoing president, Hery Rajaonarimampianina, and an elected president, Andry Rajoelina.

There is a broad consensus on the value of a market-oriented economy. The National Development Plan of the former regime was discussed and accepted by the National Assembly. The program of the new president of the republic, Emergence Initiative for Madagascar (IEM, 2018–2023), should be discussed and accepted by the National Assembly and this should occur during the special session that begins on January 30, 2019, because the mandate of the National Assembly expires on February 5, 2019.

The IEM is articulated around four points: (i) accelerate growth at a rate of 7%; (ii) make growth more efficient through massive job creation; (iii) achieve full employment within 10 years; (iv) engage Madagascar in a process aimed at ecological resilience.

A part of the private sector has close ties with the political power that facilitates consensus but sometimes distorts the game. Indeed, corruption is a non-negligible fact that often goes unpunished.

Consensus on goals



The armed forces are not under civilian and democratic control and played a key role throughout the crisis and the unconstitutional change of power. The military is historically weak and has been politicized as various presidents have sought to ensure its support. But the former president of the republic, Hery Rajaonarimampianina, has initiated a Security Sector Reform.

Meanwhile, he appointed 30 generals in December 2015, 10 more in February 2016, 52 in December 2016 and 58 more in December 2017 in order to guarantee their support. In the four governments, there have been several members of the military. A military coup seems unlikely in the short term and would represent a step backward for democratization. During the April 2018 opposition protest, the military played the role of mediator and helped to find a solution to the conflict between the government and the opposition.

A minority of political actors have initiated maneuvers to postpone or cancel the presidential election, citing the presence of irregularities and the need for a refounding of the state and a change of constitution, but they did not manage to accomplish this.

Social, ethnic, religious, regional and political cleavages in the country are significant. Ethnic cleavages sometimes drive the dynamics of associations and initiatives, but ethnic strife is rather limited. These cleavages largely do not produce widespread violence or open, violent conflict.

The regional cleavage is primarily the effect of the strong centralization of politics at the capital level and an ineffective decentralization policy. It has not been to date addressed with a coherent policy, as most important political and economic elites are based in the capital and are not generally interested in developing other regions. However, during the election campaign, the current president promised to tackle this issue. The new mayors were elected in July 2015. The next elections are scheduled for August 2019, and there were some nominations for the heads of regions. The expected changes did not take place, especially since the budget devoted to decentralization is only 2%. Under such conditions, effective distribution of resources is difficult.

As civil society in general is weak, political leadership is not encouraged to involve civil society organizations in agenda setting, policy formulation and evaluation. When this happens, it is often on the request of external donors. Very few mechanisms for communication, dialog and accountability exist. This situation explains partly the status quo in terms of governance performance and the widespread culture of corruption at the political level. However, in the last few years, initiatives have been created and funded to set up mechanisms to create dialog between political authorities and civil society. This has been confirmed by the law on decentralization that requests local elected authorities to create platforms of consultation with civil society to elaborate on local development plans. Civil society organizations are also

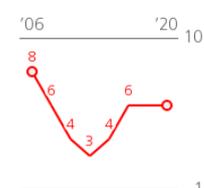
Anti-democratic actors

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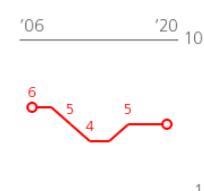
Cleavage / conflict management

6



Civil society participation

5



increasingly supported by external partners to develop mechanisms to evaluate political performance and formulate policy recommendations.

For example, there are several initiatives financed mostly by external donors and implemented by national and international organizations. These initiatives consist in organizing trainings and debates between local authorities and associations so as to develop a common understanding of the functioning of the locality and the priorities that need to be addressed. Moreover, civil society organizations started tentatively setting up mechanisms to evaluate political performance and formulate policy recommendations. Among them is the Rohy movement, representing more than 100 organizations.

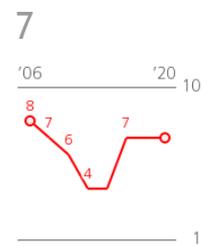
A reconciliation process was organized by the Council of Christian Churches in Madagascar (FFKM) in December 2014 between current and former presidents. Several meetings were organized in 2015, these meetings have lacked transparency, and their results have not been made available to the public. However, in February, the FFKM and the Comité pour la Réconciliation Nationale (CRN) organized meetings to discuss the resolutions of the May 2015 national meeting.

A law on national reconciliation was adopted in December 2016. The reconciliation organ, Conseil du Fampihavanana Malagasy (CFM), will not be a government institution but an organ that can be consulted and can give advice. The CFM was set up in October 2017. It works on requests for amnesty, compensation, re-foundation of the state, conflicts between communities and also appeasement within the framework of the 2018 electoral process. In this way, the CFM participated in the drafting of a charter of good conduct and integrity for candidates so as to ensure a peaceful presidential election. The CFM, like the FFKM, also failed to mediate among various political actors after the opposition demonstrations in April 2018. This body is increasingly criticized by all political actors.

This reconciliation process represented a major step in the normalization of the political situation. This process had the potential to reduce the effect of the country's prevailing winner-take-all politics, and even end the condition of exclusion and exile that has followed each crisis, but the process was not followed up upon.

The new president intends to continue the process of reconciliation, though he is introducing changes to the process involving a pact. This pact results from merging the regional pacts to which traditional authorities, economic actors, civil society and political parties contributed. This new process of national reconciliation is tied to a political agenda and a political vision and may not have the support of a number of political and other actors.

Reconciliation



1

17 | International Cooperation

The former government clearly aimed at political and economic development through the elaboration of different strategic plans such as the National Development Plan, the Program of Presidential Priorities, the General Policy of the State and the main pillars of the government program. These key documents shape all ministry activities.

These strategic documents are being developed through the use of internal and external expertise and recommendations from international partners and donors. These strategies have only been partially implemented due to the presidential election of 2018. The goals were to improve governance; to foster economic recovery; to broaden access to basic social services; to combat corruption and to improve the business and investment climate.

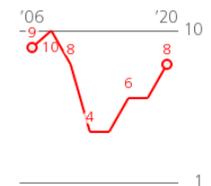
The donor community has again expressed a willingness to assist the country, and the government has responded positively. This has led to close collaboration with the international donor community (the IMF, the World Bank, European Union, U.N. agencies, bilateral donors). The European Union granted Madagascar €518 million under the 11th FED. In June 2014, the United States announced the restoration of the country's eligibility for the Africa Growth and Opportunity Act (AGOA) program, granting preferential access to specific African countries to the U.S. market. On July 27, 2016, the IMF approved \$304.7 million under 40-month Extended Credit Facility (ECF) to help to reinforce macroeconomic stability and boost sustainable and inclusive growth. In June and December 2017, the IMF released the second and third tranches of the ECF. The IMF evaluated the implementation of the IMF-supported program as generally satisfactory in 2018, except for some weaknesses in revenue collection. The new government's plans to boost social and investment spending depend on a continuing effort to increase revenues and reduce lower priority spending, especially for subsidies in the fuel and electricity sectors.

The 2013 elections helped Madagascar regain credibility with the donor community. The multilateral and bilateral donors-initiated dialog with Malagasy authorities to support democracy and market-economic development. The local and Senate elections in 2015 have brought stability in the country, even though it is fragile.

This has led to collaboration with the international donor community (the IMF, the World Bank, the European Union, U.N. agencies, bilateral donors). Madagascar signed international agreements with various states (China, France, Germany, India, Japan, Mauritius, Morocco, Russia, South Korea, and the United States) and is again part of regional and international organizations. Madagascar hosted the COMESA summit in October 2016 and the Francophonie Summit in November 2016. The fact that these summits were organized in Madagascar shows international trust in the

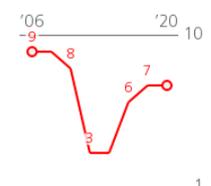
Effective use of support

8



Credibility

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country's capacity to host these important events. Madagascar has also organized international conferences.

A donor conference was organized in Paris in order to finance the National Development Plan in December 2016. The partners pledged to support Madagascar with a total of \$6.4 billion over a four-year period.

Following this conference, Madagascar signed multiple international agreements. These include partners as diverse as China, India, Japan, South Korea, South Africa, Mauritius, the United States, France, Germany, Russia and international organizations in various fields, such as energy, trade, investment protection, infrastructure, defense, education and protection and conservation of the environment.

After the 2013 elections, Madagascar was once more accepted as a member of regional organizations such as the Common Market for Eastern and Southern Africa (COMESA), the SADC and the Indian Ocean Commission (IOC).

Cooperation agreements in the aviation sector, in the field of agriculture, in tourism (Vanilla Island), and in maritime safety are planned as part of the IOC. But the IOC has also an objective to make Madagascar the granary of the Indian Ocean and to improve cooperation between member states on security issues, in particular the fight against maritime piracy and terrorism.

Madagascar plans to boost trade cooperation with the countries of COMESA. The country hosted the COMESA summit in October 2016. Madagascar holds the presidency of the COMESA. Exchanges during the summit confirmed the vital need for industrialization of the region in order to improve the living conditions of the population, in particular through the creation of jobs and wealth and, to contribute to achieving the Objectives of Agenda 2063 in the global economy.

Madagascar has also cooperative agreements with neighboring states. The president of the Comoros made a state visit in March 2016. Agreements were signed regarding education, trade cooperation in the fight against illicit trafficking.

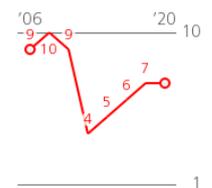
The president of Madagascar made a state visit to Mauritius in March 2016 to mark 48 years of independence. Several agreements were signed, trade, agriculture, tourism, air cooperation, establishment of special economic zone in Fort Dauphin (in the south of Madagascar).

Madagascar has also cooperation with South Africa in the field of trade, education and defense.

In August 2017, Madagascar joined the Interreg V OI program (with the support of the European Regional Development Fund under the European Development Fund), which includes Reunion, Mayotte, the Union of Comoros, Mauritius, Seychelles,

Regional
cooperation

7



South Africa, India, Sri Lanka, the Maldives, Australia, French Southern and Antarctic Lands.

Madagascar and Mauritius consolidated their relations in May 2018 through a joint commission on issues such as agriculture, tourism, air services, textile clothing and higher education.

In September 2018, the 11th edition of the Indian Ocean Islands Economic Forum was held in Madagascar with the aim of strengthening the Union of Indian Ocean Chambers of Commerce and Industry's networks and its Chambers of Commerce and Industry, as well as of highlighting opportunities and common economic challenges.

Strategic Outlook

As most institutions have, since 2015, elected representatives (except at the regional and provincial levels), one condition is in place for improving institutional and political stability and macroeconomic and social indicators. Recovery from the past political and economic crisis and lifting the country out of extreme poverty will be crucial in the years to come. From this perspective, the donors and investors conference held in December 2016 that generated important commitments both from donors and investors to contribute to the implementation of the National Development Plan (2015 – 2019) is an important step.

The 2018 presidential election resulted in a change of head of state with the election of Andry Rajoelina who has a program called Emergence Initiative for Madagascar (IEM, 2018 – 2023). An important challenge will be to guarantee a certain continuity in political and economic governance. In order to improve the general democratic and economic climate, the following actions are suggested, not differing much from the previous period, as the major challenges remain mostly the same:

- strengthening institutions and governance at all levels;
- continuing the reconciliation process with the participation of all relevant political, economic, military and social actors, as a necessary condition for political dialog and stability;
- promoting the creation of political parties rooted at a national level, while regulating the participation of independent electoral candidates in order to reduce political fragmentation;
- concerning the law on political parties, implementing the provisions on accounts and spending transparency before and during the elections to guarantee a level playing ground.
- implementing the 2015 to 2019 strategy on the fight against corruption and developing institutional integrity by implementing the five other courts against corruption (PAC) and promoting the independence of institutions already in place.
- continuing the reforms of the security sector and judiciary (for example, by barring military officers from serving in political or civilian administrative capacities; improving maritime security; participating in peacekeeping missions; ensuring that career advancement within the military is shielded from political manipulation and in line with international best practices, and facilitating cohesion and professionalism);
- improving the national-budget development process by organizing consultation rounds with the National Assembly, the private sector and civil society;

- implementing an effective decentralization process through concrete distribution of state resources;
- promoting free competition and a healthy fiscal climate, and improving infrastructure in order to stimulate growth by attracting national, regional and international investors;
- further increasing fiscal maneuvering room in order to raise the level and efficiency of pro-poor/pro-growth spending while preserving the sustainability of the public debt. This must involve further broadening the tax base, a comprehensive revenue-mobilization strategy, improvements in the composition and quality of public expenditure, and strengthening public financial management;
- increasing public expenditure on social protection, education and health care, especially in rural areas;
- improving the “watchdog” role of civil society, giving it the ability to oversee public actions and request accountability. This can be done through capacity-building and the reinforcement of social networks; and
- improving access to information, while allowing private audiovisual media to establish national coverage.