

BTI 2008 | Madagascar Country Report

Status Index	1-10	6.23	# 45 of 125	
Democracy	1-10	7.45	# 33 of 125	➔
Market Economy	1-10	5.00	# 78 of 125	➔
Management Index	1-10	6.23	# 26 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	18.6	HDI	0.51	GDP p.c.	\$	821
Pop. growth ¹	% p.a.	2.7	HDI rank of 177	143	Gini Index		47.5
Life expectancy	years	56	UN Education Index	0.66	Poverty ³	%	85.1
Urban population	%	26.8	Gender equality ²	-	Aid per capita	\$	49.9

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

President Marc Ravalomanana's re-election on 3 December 2006 with a strong majority (54.8%) points to a mandate for his continued efforts at modernizing Madagascar politically, economically and socially during the period under review. Supported by a comfortable parliamentary majority in the National Assembly of about 80% and a slightly slimmer two-thirds majority of the old AREMA-network in the second chamber, the Senate, Ravalomanana was able to continue his modernization approach in terms of both political and economic development. In terms of overall growth, shortcomings persist in the areas of infrastructure, education and health. Though schools and classrooms have been built to mitigate some of the quantitative bottlenecks in enrolling students, newly recruited teachers are poorly trained, which engenders a quality problem in education. Access to health services is difficult for the poor and often available only upon payment of bribery. Macroeconomic have yet to yield a tangible effect for the extremely poor and the poor middle class. Nevertheless, the majority of Malagasy society sees no evident alternative to Ravalomanana's approach, all competing candidates from the left, right and center alike have found little favor with voters.

Ravalomanana continued to overhaul Malagasy society in structural terms with ongoing efforts directed toward institution building, combating corruption, fighting AIDS, and inviting international capital, investors, grants and donors to accelerate the developmental effort. In order to coordinate the projects initiated under the auspices of multiple international donors – including the World Bank, UNDP, European Union and other bilateral aid – Ravalomanana designed a strategic roadmap for his second mandate, the “Madagascar Naturellement” (Madagascar Action Plan). This plan has also facilitated the implementation of conservation efforts according to the targets of the UN Millennium Development Goals.

With respect to private economic activity, development has been slower than anticipated. Private ownership facilities, regional integration, tax grants, and the one-stop-approach to foreign investors have not produced the results anticipated by the government. Increasing oil prices and a global surge in shipping tariffs due to China's demand and competition have had an impact on the traditional de-localization pattern of internationally active companies. Therefore, the strategies that were successful in promoting development over the last decade might not be the same as those in the decades to come.

History and Characteristics of Transformation

Transformation in Madagascar has been disparate, asynchronous and haltingly pursued. The building blocks for a market-oriented and democratic order were laid under the semi-authoritarian government of President Philibert Tsiranana (1960 – 1972) following independence. These foundations were, however, conditioned by a post-colonial “Communauté Française” framework that extended civil liberties to a socially and economically assimilated French speaking elite and was characterized by economic transactions that were massively biased by oligopolistic and monopolistic elements.

The country's democratic transformation did not begin in any meaningful sense of the term until the end of the 1980s. Transformation was facilitated by Ratsiraka's fall in 1991 and subsequent constitutional change. This in turn created the Third Republic, which provided for a democratically elected government under President Albert Zafy, a heart surgeon elected in 1993. Ratsiraka's disastrous economic management, which was characterized by high investment in state enterprises, the misallocation of funding, and increased indebtedness, had led to a peoples' movement (“forces vives”) composed of clergymen, trade unionists, intellectuals and entrepreneurs. By way of long strikes, civil disobedience and demonstrations from 1988 to 1991, this movement undermined the authority of the state party AREMA until Ratsiraka's army fired on protesters and youths, which prompted the end of his rule. The Zafy Administration was, however, proved unstable and not able to face the challenges of economic and social modernization. It struggled with changing majorities in parliament and was finally toppled by an impeachment process. The presidential elections in December 1996 swept Ratsiraka back into office, albeit with results of dubious integrity. During his second term, Ratsiraka worked to decentralize government, introducing a territorial re-organization in six “Autonomous Provinces.” The country remained far from having achieved the goals of market economic transformation.

A middle-income country from its colonial era through the 1960s, Madagascar underwent a process of de-industrialization from 1972 onwards, eventually becoming a “highly indebted less-developed country.” From 1972 to 1975, Madagascar dissociated

itself from global developments. French citizens' were expropriated of their land and large swaths of domestic and international economic activities were collectivized. The large enterprises were taken over by the government and managed in an economically unsound manner; investments were guided by political considerations, in part with the consent of the World Bank. In "virtual industrial estates," the government sponsored an "administrative personnel machinery," but there was no production or value added by these ventures. Instead, all sectors – including agriculture, transport, public utilities, and commerce – were run according to the Soviet model. The transition to democracy was initiated in 1988 under pressure from the IMF and World Bank, when Madagascar had to announce its encumbrance and supply collapsed. The IMF negotiated a sequence of structural adjustment programs with the Malagasy government. The Ratsiraka government initiated reforms hesitantly, as they ran counter to its doctrine. As is often the case with this sort of transformation, the reforms did not yield the anticipated benefits, at least in the short term. Whereas the state of social welfare, as indicated by income levels, nutrition, health, education and employment suffered erosion, there were some observable gains in macroeconomic terms as inflation and public debt were reduced and the exchange rate was stabilized, which stimulated growth.

Following these setbacks, everyone – citizens, international donors, and states alike – attached high expectations to Ravalomanana's reform initiatives and his prime minister, Jacques Sylla. Ravalomanana's "Madagascar Naturellement," or, Madagascar Action Plan, integrated economic and sociopolitical aspects of transformation, both of which he saw as being associated with the "transversal task" of environmental sustainability. According to Ravalomanana, there will be no real economic progress unless citizens and economic subjects live within transparent political conditions that are conducive to economic progress and growth. Social conditions such as education, health, effective state and good governance are as important as purely economic issues such as access to credit, private property guarantees, access to the market, low taxes or a competitive environment. Currently, at the beginning of Ravalomanana's second mandate, the balance of successes and failures of his government is equally mixed.

Transformation Status

I. Democracy

1 | Stateness

Problems of state identity do not exist in Madagascar. There is a respected monopoly on the use of force. There are, however, isolated cases in marginally settled areas of the south (in the savannah) and in some parts of the primary rain forest patches where there is no state presence, but where – at the same time - the state’s authority is not questioned.

Monopoly on the use of force

The definition of citizenship and who qualifies as a Malagasy are not issues. All citizens have the same citizenship rights, reinforced by the integrative effect of one single state language – Malagasy – which has been codified in a written form for centuries and is the standard of communication.

State identity

State and religion are separated and the political process, by the provision of the constitution, is secular. In the past, political decisions have been strongly influenced by the churches, which also played a decisive role in Ravalomanana’s takeover of power in 2002. Recently, this influence has been reduced by the pope’s decision to designate a new cardinal of the capital Antananarivo, as the former archeveque of the capital Razafindratandra interfered too obviously in the political process. The churches remain, nevertheless, privileged partners in the development process, as Ravalomanana stressed after his re-election. There is, however, a great deal of interaction between the state and the churches, given the dominant Christian character of society. The Christian churches play a crucial role in everyday life by providing social services, education, health and participation for large parts of the population.

No interference of religious dogmas

A comprehensive system of administration is established. Public order and security are guaranteed, although dysfunctional qualities in the administration are observable on occasion.

Basic administration

2 | Political Participation

Universal suffrage and the organization of elections have progressed considerably since 2002. Indeed, presidential elections in December 2006 were in accordance with international standards for free and fair elections, despite some infrastructural difficulties and flaws that are common in African states. Although political participation has always been guaranteed in the constitution, the actual organization of elections was highly deficient under previous regimes, when low voter participation, faulty voter lists, a lack of transparency and vote-rigging were routine. Since the Ravalomanana/Sylla government came into power, the quality of elections has been improved upon considerably through the creation of the National Election Commission (CNE), which provides for the update and completion of voter's lists, the introduction of securitized transparent ballot boxes, digitalization of lists and voters cards, and the invitation of the international community to monitor the elections. This invitation, which came from the Ministry of Foreign Affairs, was issued somewhat late in the year. Citing its internal procedures, the European Union rejected the official invitation for coming too late to enable them to send observers. The Delegation of the European Union internally expressed regrets that the government failed to make the CNE independent of the state, as recommended by SADC guidelines demanding independent electoral commissions. An independent commission organized by EISA and NDI emphasized the need for political reforms in order to modernize the electoral code and the national observatory network when CNOE declared that there had been serious problems encountered with digitalizing the voter list.

Free and fair elections

The highly centralized and personalized constitution grants all political power to the president of the republic, who effectively governs. There are, however, structures in the established middle class (such as judges) who block changes and tend to preserve neo-patrimonial privileges of their class or group.

Effective power to govern

Freedom of association is guaranteed, but whether the associations canalize the population's aspirations in a complex situation is another question. Political and civic initiatives can develop freely. According to the Ministry of Interior, the number of political parties in Madagascar is about 160. Sometimes, ethnic cleavages are presumed in the dynamics of associations and initiatives, but objectively ethnicism is rather limited. The potential religious cleavage between Muslims and Christians is practically nonexistent.

Association / assembly rights

State and private media have considerable freedom of expression provided for by the constitution, but journalists or editors are sometimes too hesitant to exploit their liberties to a full extent. The freedom of expression has often been limited by the state, and the president has threatened journalists whom he often considers

Freedom of expression

too critical. As a result only two out of five big national newspapers are distributed on flights of the national Airline Air Madagascar, one of them – “Le Quotidien” – belongs to the president himself. The other newspapers have been banned either without further explanation or because of articles that “harmed the national identity” as it was expressed by the Ministry of Communication.

3 | Rule of Law

Since the Malagasy constitution is clearly influenced by the French presidential system, there are considerable deficiencies in terms of checks and balances. The executive is clearly dominant, while the parliament (which is bicameral, composed of the General Assembly/Assemblée Générale) and the Senate/Sénat) has only limited control and ability to enforce its will, but no way to initiate legislation. Article 91 of the most recent constitutional reform in 1996 undermines the parliament’s authority with the provision that the president can dissolve the parliament on unspecified reasons. Nevertheless, given the presidential character of the constitution, there is considerable interaction between the executive and legislative branches. The government reports back to the Assemblée Nationale and the Senate on achievements, initiatives and finance.

Separation of powers

The judicial corps is also not independent; the Minister of Justice is both the supreme administrative and disciplinary head of the judges (garde des sceaux). Considerable effort has been invested in modernizing the judicial institutions with the program help of the European Union. One of the main properties of Ravalomanana’s “protestant ethic” is the introduction of regulations binding officeholders to a code of conduct.

Independent judiciary

In the past, corruption went unpunished and cabinet members, members of the presidential family, and top civil servants enjoyed a de facto immunity. The old Ratsiraka elite have been fined for abuse of power, fraud, misappropriation of funds and crime. The present leadership is altogether more tightly monitored by the public and by anti-corruption campaigns. The government established a Council against Corruption in September 2003 and an operative agency against corruption in September 2004, the Independent Bureau for the Fight Against Corruption (Bureau Indépendant de la Lutte contre la Corruption, BIANCO). Twelve corruption cases were monitored in 2004; six in 2005.

Prosecution of office abuse

Civil rights and freedom of association and expression are guaranteed and protected. The lack of civic engagement in Madagascar can be attributed to poverty, a shrinking middle class and the secular disenfranchisement of active civic participation. In practice, we find a “limping” rule of law in which justice is rendered not according to laws but according to social status, wealth or the capacity to organize a professional judicial defense. Judicial procedures are

Civil rights

inappropriate with respect to the crime committed, to the speed cases are dealt with and with respect to the verdicts, which are, in many cases, disproportionate to the gravity of the crime and do not respect the “principle of re-socialization in law.” Prisons are overcrowded and their daily management subject to bribery and corruption.

4 | Stability of Democratic Institutions

Withstanding criticism and pressure from all sides, the government remained stable, allowing democracy to develop steadily despite the controversial bicameral structure of parliament and the president’s use of discretionary power in organizing government and administration. A clear example of the latter is visible in the president’s unlawful appointment of the 22 region chiefs (nominally an elected post) according to his own personal priorities and his periodic re-organization of ministries, which he has at times attached directly to his own office. It should be noted, however, that the prime minister was not replaced in the same fashion and the fluctuations in the cabinet also followed the constitutional rules. Personal arguments within the National Assembly resulted in some instability. The opposition failed to mobilize the population. Finally, the organization of presidential elections on 3 December 2006, as well as its results, point to stability in Madagascar’s democratic institutions.

Performance of
democratic
institutions

Except for some hardliners in the opposition (Zafy, and some AREMA leaders), the leadership supports the country’s democratic institutions. Particularly, the reaction of leading players in the attempted coup d’état on 17 November 2006, when Randriafidisoa, the “Contender- General” for the presidential election, staged a coup and tried to mount a military directorate, is illustrative. During this time, the society as a whole stuck to constitutional rule and continued preparations for the upcoming election. A strong indicator of the continuity of democratic institutions was the solid voter turnout of 64%.

Commitment to
democratic
institutions

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 is an expression of the parties’ shallow roots in society. With about 160 registered political parties, the system is highly fragmented. The old former state party AREMA has been challenged by the majority party Tiako I Madagasikara (“I love Madagascar” or TIM), founded by Ravalomanana after his presidential victory in 2002. But even TIM, less a structured political party than a loose group of like-minded senior illuminaries aiming at rapid transformation, did not get off the ground during the period under review. In essence, TIM is an electoral machine that functions with

Party system

efficiency in the pre-electoral period, providing access to positions and benefits afterwards. The lack of internal democracy and an absence of public funding continue to impede political parties. In addition, according to a public opinion poll, society does not attach any particular priority to party development. Instead, there is a large bloc of independents – or groups allied with a single personality, which constitutes one of the main impediments to a consolidation of Malagasy democracy.

Madagascar does not have a well-differentiated landscape of social interest groups. Employers are to a certain extent organized (large enterprises, small scale enterprises, chambers of commerce, banking associations and an association of young entrepreneurs) but their integrative capacities are limited and they have no influence on the formulation of domestic or international economic policy. This lack of policy influence has, historically, to do with the fact that enterprises have been considered a product either colonial expansion or socialist ideology, but never an autonomous agent of transformation. Fiscal and economic policy created a climate whereby protective high external tariffs were sustained. The Ravalomanana government opted for regional integration (joining SADC, COMESA, and Economic Partnership Agreements in the Cotonou Treaty context), which led to a reduction in customs duties. Union organizations follow the French trade union pattern and are organized along ideological lines: communist, Maoist, socialist (in the case of the Force Ouvrière) and Christian. They are dominated by public sector employees and subject to the government's legal intervention. Nothing has changed during the period of assessment: trade unions are highly fragmented, weak and cannot be considered representative of the work force. The differentiation of civil society initiatives continues, considering that it started from a low level. They demonstrate a high willingness to cooperate. Anti- AIDS initiatives, nutrition and social development projects are run in part by civil society. There are no “big players” among the range of interest groups who could serve as watchdogs toward the government. The churches' influence is evident, but it is not as strong as it has been in the past; the army is weak and not likely to seriously threaten the government; trade unions are in a very weak position. The opposition is divided and without effective leadership.

Interest groups

The interpretation of the elections results on 3 December 2006 show that the population is not disaffected by democracy as such, but that it rejects the elitist politics of the past. The fact that Ravalomanana's challengers gained 10% or less of the vote demonstrates the degree to which the old political families, names and “trade brands” of politics have been devalued. The Malagasy population calls for progress and transformation, not for names and futile discussions. Self-help ideas beyond family and clan ties are not well developed.

Consent to democratic norms

Classical cooperative approaches on the basis of voluntarism were misused during colonialism, independence and socialism. In theory, political leadership

Associational activities

and multipliers of a broad spectrum stress the importance of self-help initiatives, but there is little factual evidence to back this up. This must be seen against a background of a century of Jacobean tradition and socialization, where the citizen was supposed to be part of a general will of equal treatment for all.

II. Market Economy

Madagascar's market economic transformation is still incipient. Whereas the Ratsiraka administration deferred or diluted economic reforms; Ravalomanana has shown a willingness to increase the speed of reforms, as illustrated by his credo is productivity, competitiveness, market and market accessibility, liberalization and entrepreneurial initiative for everyone. One has to acknowledge, however, that this vision is not accepted by all, and in particular not by the academic and administrative elite, inspired socially and psychologically by a century of French interventionist economic theory and about three decades of socialist administration. The reforms will need at least decades to produce results. It is therefore too early to judge reasonably on the short-term outcome of the reform initiatives of the government.

6 | Level of Socioeconomic Development

The level of socioeconomic development in Madagascar is characterized by a classic dual economy structure and marginalization effects. Even during the assessment period about 60% of the population lived in rural areas and largely under subsistence economic conditions. In the 1960s, Madagascar was once one of the world's premium quality rice producers, but productivity and output have stagnated since then, making the country a massive importer of rice from Pakistan and Thailand. Vanilla, cacao, litchis, mangoes and other products including coffee and tea are export items, but sometimes of poor quality, and often marketed by mafia groups. Generally, these items are directed toward traditional markets in France with limited prospects for growth. The new government has made a considerable effort to diversify the consumer markets to new horizons: Near East, South East Asia, China, Japan, Northern Europe, Southern Africa. Seafood (shrimps) is a potential growth sector, but it is highly sensitive to non-tariff restrictions such as hygiene regulation in the European Union and the United States. Madagascar is endowed by rich subsoil products (precious stones, chromites, other metals and even crude). Their exploitation has been artisan or of poor managerial quality. Recently, a textile and apparel industry in the so-called Export Processing Zones has made some progress, allowing for good export prospects to the United States and European markets in the context of the African

Socioeconomic
barriers

Growth and Opportunity Act (AGOA) Initiative and the Cotonou-Treaty. Yet the end of the Multi-Fibres-Agreement changed production pattern to the detriment of third world countries and to the benefit of mainland China. The Gender-related Development Index (GDI) is of 0,507. World Bank reports stress the relative success in poverty reduction – particularly in rural areas, while the overall poverty rate has could not been reduced.

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	4,397	5,474	4,364	5,040
Growth of GDP	%	-12.7	9.8	5.3	4.6
Inflation (CPI)	%	15.9	-1.2	13.8	18.5
Unemployment	%	4.5	-	-	-
Foreign direct investment	% of GDP	0.2	0.1	0.5	0.6
Export growth	%	-45.9	40.7	1.5	8.1
Import growth	%	-25	32.6	24.8	18.5
Current account balance	\$ mn.	-269.6	-188.5	-158.4	-188.4
Public debt	\$ mn.	4,130.1	4,615.8	3,486.7	3,177.6
External debt	\$ mn.	4,511.1	4,951.8	3,790.3	3,465.2
External debt service	% of GNI	1.5	1.3	1.9	1.6
Cash surplus or deficit	% of GDP	-22.2	-18.4	-22.5	-
Tax Revenue	% of GDP	38.3	50	54.4	-
Government consumption	% of GDP	8.2	9.1	9.6	8.1
Public expnd. on edu.	% of GDP	-	-	3.3	3.2
Public expnd. on health	% of GDP	2.7	2.2	1.8	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	1.1

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

Madagascar inherited a strong French interventionist economic pattern where some colonial houses and capital groups built over a period of a century a semi-governmental, at times parastatal layer of basic industries: agriculture, processing, transport, extraction and public utilities. The colonial-era market administration was followed by a socialist system. Only since the late 1980s, can a general trend toward market orientation be identified, and then at the behest of the IMF and World Bank. However, this orientation has encountered a skeptical public, elite and administration. “Schumpeterian” or “Marshallian” thinking in economic policy has not yet taken root. An entrepreneur in Madagascar wants to have a quasi-monopolist segment of the market, reserved or earmarked by an administration and freedom to exploit it accordingly. This is the case for most TIKO (huge network of firms owned by the president) products. Market changes and competition by relative pricing should be reduced to a minimum. Some of the government’s reform difficulties have been rooted in this underlying paradigm. On top, large sectors of factor markets (labor, raw materials) remain informal or in subsistence.

Market-based competition

In principle, the formation of monopolies or market constraints are regulated, but the results are incoherent or unconvincing. Supply side constraints produce direct government intervention for basic products such as rice and oil to avoid speculation. Here, large companies (TIKO) have a natural advantage on distribution organization and marketing. This “natural” advantage has been boosted by the president’s decision to reduce tax and import duties, which translates into a 90% tax and import duty reduction on TIKO products.

Anti-monopoly policy

Foreign trade is liberalized and will be liberalized further by regional integration (SADC and COMESA) and by the ongoing negotiations on the Economic Partnership Agreements (EPA) within the framework of the EU/ACP Cotonou-Treaty.

Liberalization of foreign trade

The banking system was established by French Overseas Companies and is about to be enlarged by Chinese and other groupings. There are investment trusts (companies), but the capital market is still rudimentary. There is an absence of popular saving banks and saving/building cooperatives for large sectors of the rural population, although there are some pilot schemes.

Banking system

8 | Currency and Price Stability

Massive tax and import duty reduction in 2002 led to massive monetary instability in 2003 and 2004 within 6 months of being instituted. The Malagasy

Anti-inflation / forex policy

currency (ariary) depreciated against the dollar and euro by 67%. At the same time, oil prices soared in 2004. Both factors produced an inflation rate of 27%. In 2005 and 2006, particular emphasis has been attached to inflation control and price stability.

Macroeconomic stability is a key government priority. Due to an unbalanced external payment situation and a large influx of international grants for development purposes, however, there is only a limited possibility of steering the macroeconomic variables.

Macrostability

9 | Private Property

Private property illustrates Madagascar's dualistic structure. Whereas the right to private property is guaranteed in principle, exercising this right requires social influence to bear the cost of legal consultation necessary to exercise one's rights. Hence, only 10% of the total territory is registered by the land survey office and is appropriated properly to individuals. In rural areas, private property ownership is mixed with traditional collective (tribal) property forms. Malagasy people believe that the soil is the seat of their ancestors' spirits. According to the belief of many, property is therefore considered a public collective good that cannot be privatized. In the past, foreign investors were not permitted to buy property titles on Malagasy soil. In general, the property rights of investors were long-term lease contracts, allowing for some investment stability. In a radical breach with the past, Ravalomanana introduced free access to land for foreigners in 2003, provided they were prepared to invest in industry, and the process would follow a specific administrative screening process through an investment bureau. Society was deeply split over this issue. The outcome of this radical initiative, however, is in tangible terms meager and foreign private investment influx in some sense disappointing.

Property rights

Though private companies and private economic initiatives are considered to be the backbone of the economy, this bore little resemblance to actual economic interaction during the assessment period. Nevertheless, the demand to open up and privatize the economy was respected and pursued, in principle, during the review period. State-owned banks had been privatized prior to the period under review, though French banks took the majority of the shares, thus conserving an oligopoly rather than creating a competitive market. In 2001, the state energy and petroleum products distribution enterprise "Solima" was split and sold to different international capital interests. However, this sector continues to retain more oligopolistic structures than competitive ones. On the initiative of the Ravalomanana/Sylla government, Air Madagascar was reorganized by Lufthansa Consulting and brought back into profitability during the assessment period. Telecom, the state telecommunication company, was sold to a capital group based

Private
enterprise

in Hong Kong and the public utility enterprise JIRAMA (which services water and electricity needs) is undergoing a rather slow process of privatization after consolidation by the international consulting group of Lahmeyer. The deficits in public enterprises are more structural than short-term and will require much more time to redress than anticipated. The management of JIRAMA has been disastrous and even during the assessment period the administrative council failed to dismantle or even address serious shortcomings and cases of mismanagement. There appears to be a payoff for this neglect: The former mayor of Antananarivo, Patrick Ramiaramanana, who was head of this administrative council, has been nominated Minister of Energy after Ravalomanana's re-election. In 2006, Lahmeyer was banned from World Bank contracts due to proved corruption cases in Lesotho. In general, the privatization of state companies will require more time than anticipated.

10 | Welfare Regime

Even during the assessment period, the Malagasy welfare regime was very weak, both in breadth and substance. Social security and health insurance exist, but covers only a limited portion of the population (5 - 10% of the workforce), and contributions to the system are correspondingly limited. Moreover, welfare was poorly administered due to corruption and political patronage. In rural areas, churches provide much of public health and education services. In general, informal networks, such as the extended family, must provide welfare since the amounts paid by the government are not commensurate with survival needs. The age of retirement is 60 years for men and 55 years for women. Combined with low levels of contributions, poor management and corruption, the low retirement age will prove the system unsustainable in the long run.

Social safety nets

The government's efforts to counter unequal opportunities are insufficient. Mainly charitable initiatives deal with disparity and lack of opportunities in society. Churches, international development and solidarity initiatives work for welfare beyond strict family cohesion structures. Gender issues are neglected.

Equal opportunity

11 | Economic Performance

Madagascar's economic performance during the assessment period of did not live up to expectations. According to the World Bank, Madagascar is unlikely to reach the Millennium Development Goals if the current trends continue. The poverty rate of 68.7% in 2005 is very close to the rate of 69.7% in 2001, when Ravalomanana took over power from Ratsiraka. Certainly, some macroeconomic data suggest that growth and public investment in infrastructural projects such as roads and schools are being financed by international grants. While the growth

Output strength

recorded during the assessment period was above average, it was not sufficient to boost disposable income or employment levels. Facilitating a declared policy for growth in the first part of his mandate, Ravalomanana reduced tariffs and import duties for a variety of investment and consumption goods, which resulted effectively in an explosion of private demand and produced a growth of about 9%, thus recovering from the slump in 2002 but placing pressure on the exchange rate. This strategy was disastrous for the country's economy and failed to attract international direct investments. Despite the unfavorable context, the government on the whole gained respect by the international donor society, as evinced by the World Bank's Poverty Reduction Strategy Paper, published 17 January, 2007. While such positive reviews focus on indicators of investment in physical and social infrastructure such as roads, schools, teacher, nutrition, and health, the limited improvement in the of the standard of living of large sections of the society remain unsatisfactory.

12 | Sustainability

Environmental considerations and sustainability constitute core elements of Ravalomanana's policy. The "Agenda 21" is now the core theme of the road map Madagascar Action Plan "Naturally Madagascar" (MAP) which was concluded during the assessment period. MAP provides for water conservation, proper management of towns, reforestation, health, education, and preparing the ground for long-term development for future generations. Given its resource endowment, Madagascar could be self-sufficient, as water resources could produce electricity in abundance and, with proper management and organization, the industrial process could be made sustainable. While the president declared that large parts of the country's surface is protected, illegal logging continues and large areas are still being destroyed by bushfire. Given the considerable resources that have been given by the international community to protect the environment, it is difficult to understand why there is not even one fire engine or plane in any the protected areas, except perhaps, to note that corruption is highly prevalent in the environmental sector. Ravalomanana's political discourse has shifted from the concept of "rapid" to "sustainable development," since things do not change rapidly at any rate, particularly not in the area of social behavior of society. Nevertheless, he believes that he must accelerate all processes in order to use the present window of opportunity to recover the lost four or five decades in development and to re-inspire the virtues that drove early development efforts under King Radama the First in the early 19th century.

Environmental
policy

The state and system of education is in poor shape: primary education suffers from overcrowded classes; buildings in near ruins, poorly paid and de-motivated teachers, and outdated curricula and methods. Secondary education and university

Education policy
/ R&D

systems are also in poor shape. The outcome of these deficiencies has produced hazardous academic results. This is in part due to a privatized micro-type of secondary schooling. Furthermore, professional training is underdeveloped. This is to some degree caused by an explosion in enrolment related to the country's age structure. Professional training is underdeveloped due to the second republic's failure to re-invest in and deepen social capital. The HIPC debt relief initiative has set budget means free, which are invested in new teachers, buildings and better curricula to improve education. Education expenditures are now in the area of 3.3% of GDP. While reforms have begun, it will take a cautionary 15-20 years before these reforms will yield results.

Transformation Management

I. Level of Difficulty

Ratsiraka's electoral slogan in June 2001, "Me or the chaos," called for a continuation of his authoritarian rule, which many were prepared to agree in the wake of the disastrous outcomes of the country's first democratic transition in 1991. France, European partners and the United States were prepared to continue to live with Ratsiraka. The donor community adopted a passive-pessimistic vision; aid routinely showed no prospects. Furthermore, Malagasy society grew accustomed to a long-term economic, social and moral decline. In the words of Ravalomanana, the "backbone" of the Malagasy people was broken three times: first by colonial France (alienation), second by Ratsiraka's communist experiment (expropriation), and third by Ratsiraka's come-back (de-motivation). This background must be considered in evaluating management performance during the review period. Ravalomanana, a successful, self-made industrialist without formal university training, and a company lawyer, Sylla, continued to lead Madagascar along the path of transformation during the review period (Sylla resigned in early January 2007 following Ravalomanana's electoral victory). Whereas Ravalomanana advocates a modern vision for Madagascar, Sylla sought to put this vision into legal action. There are some structural difficulties such as poverty, a lack of infrastructure and poor education resulting in a shortage of skills that constrain governance capacity.

Structural
constraints

Madagascar has some civil society traditions, but this has had greater impact on the intellectual milieu than in everyday life. Civil society engagement is highly personalized and lacks mass popular appeal, with the exception of churches.

Civil society
traditions

Malagasy society is polarized along regional, ethnic and especially social lines. Madagascar also continues to be deeply influenced by the civil strife and near civil war of 2002. The government and leadership have had to deal with political unrest almost continuously during the review period. Strikes were held regularly in sensitive sectors: university students struck for better funding and living quarters, petrol refinery workers cut off gasoline flows to the capital, and public service administrators demanded salary increases. Although there is a historical cleavage between "Merina" (upper class) and côtiers (lower class masses) this

Conflict intensity

cleavage is more accurately described as a conflict over access to modernity, that is income and market access, political participation and social welfare. Among churches there is a strong ecumenical tie, more than the Catholic Church normally admits, and this includes the Muslim society in a larger sense. Muslim belief is of a reform tendency and its adherents represent an upper social class.

II. Management Performance

14 | Steering Capability

The president sets clear strategic priorities. Ravalomanana's reform and transformation program "Madagascar Action Plan" lists the following as priorities: good governance, reforms in education, health and family planning, infrastructure, rural development, diversifying the private sector, environment/sustainability, and national solidarity. (For more information, see Preliminary Version of the Madagascar Action Plan, president's Office, Antananarivo June 2006). As an extremely ambitious reform, it can be regarded as an organizational adventure in implementing a program with an administrative body that has been socialized over decades along the authoritarian practices of the second republic. The day-to-day practice of such a program is prone to trial and error. One must re-motivate old practitioners while introducing new administrative cadres from abroad or from responsible local training centers. Such endeavors are not immune to the risk that emerging democratic actors will return to non-democratic habits. In the beginning, the president himself monitored and motivated the process of change. His first decision was to mobilize the presidential office itself by buying a second-hand Boeing 737 jet, which allowed free movement within and outside the country. He thus allowed Air Madagascar to operate independently without interruption by presidential timetables, as had been the case under Ratsiraka. While the costs of a presidential jet have been constantly subject of criticism, Madagascar's topography and poor infrastructure make a presidential jet a necessity to implement the work of government. In the meantime, the jet has been replaced by a smaller turboprop ATR. Overall, the Malagasy government demonstrated considerable steering capacity, given the government's accountability to two distinct groups. In the international context, every decision of the government is subject to consultation with the IMF and the World Bank. Domestically, decisions which, at times, are not fully understood by Malagasy society, must nevertheless be communicated.

Prioritization

Madagascar has experienced massive change and reform in administration (e.g., on-stop-clearance for investment, anti-corruption) but the effects have yet to manifest themselves or do so only with considerable time lag. Nevertheless, the overall qualitative outcome has been remarkable, so far. Given the administrative and bureaucratic sclerosis and red tape in the international process, it is not surprising that only 7 to 67% of projects and programs are implemented in Madagascar and that this varies from agency to agency. Ravalomanana's plan to require judges to publicly declare their property as a means of increasing transparency in the judicial system collided with a strong corporatist attitude within the judicial system. Judges opposed this policy and went on strike. The international negotiations for debt reduction, the Paris club debt management and the bilateral aid negotiations were executed on professional grounds with surprising success. Ravalomanana was able to convince some of Madagascar's internationally-exposed younger elite to join government and help organize it differently. At times, this conflicted with conventional wisdom. Ravalomanana was repeatedly criticized for a lack of professionalism and statesmanship as he gave priority to managers from outside established government circles. The opposition repeatedly demanded government reshuffles, calling in particular for the resignation of Prime Minister Sylla. Implementing reforms often meets resistance from the public. The fact that decisions are not always understood by the public has to do with the fact that the president's office has no apparent communication strategy. Decisions are frequently made on an ad hoc basis, or the president himself makes a decision without further consultation. Public diplomacy efforts in the aftermath of all such decisions are absent.

Implementation

One of the government's major policy errors has been the post-crisis tax and tariff-reduction initiative, which was disastrous not only in terms of its inflation target, but also in terms of its monetary and exchange rate targets, the latter being particularly worrisome. As a result, the central bank was forced to devalue the currency by 67%. After acknowledging the error, taxes and levies were redressed and the exchange rate stabilized, albeit at a depreciated level. Globalization pressures, as well as pressure exercised by the European Union can push third world governments in directions that prove disastrous to long-term development goals. Some international trade consultation is therefore counterproductive to development and should be viewed with caution.

Policy learning

15 | Resource Efficiency

Resource efficiency in Madagascar is still low, despite the will for substantive reforms. Deficits continue in the administration due to lack of resources and qualified personnel as well as inadequate-decision making procedures. The

Efficient use of assets

decentralization process has made only limited progress. It enhanced neither economic growth nor regional development.

Ravalomanana reformed the official government ministers' bloc by dividing them among different task forces, foreign affairs, defense and decentralization were linked directly with the president's office. Road construction, transport and finance were allocated to a task force under a vice-prime minister. The remaining government departments were put under the auspices of the prime minister. Ravalomanana aimed here to reduce hierarchy, maintain direct access to decisions and expedite delays caused by red tape. However, the traditional elite labeled this modernization anti-constitutional. The president tends to prefer to do everything on his own. The president's and prime minister's offices have introduced an annual quantified target planning system and a quarterly review system in order to spot disfunctionality in the development investment program. Moreover, the incoherence in the different development projects has now been tentatively corrected by the "road map."

Policy coordination

Political and administrative corruption is endemic in Madagascar, though the Ravalomanana/Sylla government made particular efforts to combat this. Transparency International's 2002 Corruption Perceptions Index placed Madagascar near the bottom of the list, with a ranking of 98th and a value of 1.7. In 2004 and 2006, Madagascar ranked 84th and 82nd, respectively, with a value of 3.1. Good governance and anti-corruption are assigned to a special department in the president's office but massive change in the perception will be a matter of decades and not of years. Control on leadership is more closely and some cases were marked in public.

Anti-corruption policy

16 | Consensus-Building

Given the historical experience of colonialism and socialism, internationally, it is possible to say that the majority of actors (party and individual leadership) subscribe to the overall goals of a market-oriented democracy. There are, perhaps, some of the 2nd Republic's old guard who do not subscribe to these goals. The question is not one of recognizing the benefits of democracy and a market economy, but rather on the ability to attain them on a fast-track modus. Ravalomanana is running against time.

Consensus on goals

If politically accessible, the government invited various opposition groups to join hands. The relatively fair and transparent elections showed that veto actors (mainly opposition politicians) had little approval from society, having each gained less than 10% in elections. There is only one veto actor of some importance: that of the Secretary General of AREMA, Pierrot Rajaonarivelo. He has been living in Paris in exile (taking for granted that the 80 year-old Ratsiraka

Anti-democratic veto actors

is in effective retirement). This main veto actor has been de facto “exiled” by the government, as the authorities denied his access to the country without a substantive legal basis (as there is still no legally binding verdict against him). Criticism is voiced by groups discredited by history and regression: the apparatchiks of AREMA have eroded the country’s economic, social and moral substance for 30 years, and the UNDD leadership surrounding Zafy did not prove efficient during their reign. Clearly, not all innovative proposals implemented by Madagascar’s government and administration were met with widespread agreement by civil society and journalists. Generally, the public demonstrates a theoretical desire for change but responds with criticism and a conservative attitude once changes are put into practice. The process of a successful transformation is not (only) a question of reforms launched, but the trickling down of its positive effects into everyone’s perception. Apart from some politically controversial voices in the parliamentary opposition and Zafy’s coastal or anti-Merina drive, there was no political threat to the government during the review period.

So far, the Ravalomanana government has managed political cleavages and deep divisions successfully. Madagascar has not stood at the brink of civil war as it once did in a similar situation at the end of the 1990s. But it will take a long time for the country to overcome its structural and regional cleavages.

Cleavage / conflict management

The government invited civil society to co-operate particularly in social and developmental issues and projects, where progress without participation of civil society is not feasible.

Civil society participation

The leadership has made various efforts to reconcile, but reconciliation must obey the rule of law. Radical opposition of AREMA conditioned reconciliation by “General Amnesty.” This could be considered as having been extra-legal, thus paving the way for impunity for political-motivated crimes and is thus regressive in historical terms. It was therefore unacceptable to the majority party TIM.

Reconciliation

17 | International Cooperation

The low level of development makes Madagascar heavily-dependent on external assistance resources. There is total convergence between the international call for reforms and the drive of the Ravalomanana government. Government cooperates and pushes international donors to advance more rapidly towards the implementation of the Millennium Development Goals (MDG).

Effective use of support

The Ravalomanana government is widely regarded as a reliable and trustworthy partner by the international donor community. It fully subscribes UN, ILO and

Credibility

other international cooperation agreements. As a matter of fact, World Bank and IMF seem to overstress the exemplary character of the Malagasy success story in their reports and discredit government by presenting them a status of “good guy” of international co-operation.

Madagascar has been fully integrated in the SADC regional grouping since 2005, and is part of COMESA and COI (Indian Ocean Grouping).

Regional cooperation

Strategic Outlook

Ravalomanana's vision is to accelerate the country's development in terms of both industry and social goods, following in the footsteps of countries like Malaysia and Singapore. He believes that Madagascar has the potential to become a state like these "Asian Tigers," probably in an axis of growth in Southern Africa which includes South Africa, Madagascar and Mauritius.

Subsoil resources, as well as human and natural resources are available for a wide range of productive activities. Since the environmental conditions are conducive to development, much depends on organization and governance: a society with endemic corruption that lacks transparency in politics and economics will not achieve its goals. Therefore, Ravalomanana has insisted on a particularly far-reaching definition of transformation which extends far beyond purely economic or managerial terms. His aim is to restore confidence in society, fostering democracy and people's participation. With respect to these goals, it is not very encouraging that the existing diamond extraction industry is 90% informal and there is no evidence of any real political will to change this. A report financed by the EU shows that Sapphires from Madagascar play an important role in international markets while the official numbers in the national budget do not at all reflect the real dimensions. Once democracy, good governance and confidence are achieved, a correct set-up of relative prices in the economy and an operating market space (physically and economically) will automatically produce benefits.

The implicit danger is that Ravalomanana regards democratic procedures as a waste of time and not efficient enough to produce the results he wishes to see. In his entrepreneurial approach, he fails to understand the complex mechanisms that are needed to transform an entire society. It is possible that this could produce a development dictatorship, that is, authoritarian rule for the sake of developments. African contemporary history provides many striking examples of this.

However, such a transformation policy needs a far more ample financial framework than that presently offered by the World Bank, IMF and the EU in the Cotonou-Agreement. Under present conditions, the individual foreign investor is by nature hesitant meaning that the influx of capital and investments will remain too low. Ravalomanana, however, thinks in dynamic interaction of domestic and international multipliers and accelerators. The Madagascar Action Plan represents a sort of "Marshall Plan" for Madagascar, in which has invited the international community to help the country to take a qualitative and

quantitative leap forward. This vision does not change the fact that Madagascar must compete with Eastern Europe, China, India and others on the highly competitive and volatile international “investment market.” Late-comers to this market from Africa require “positive discrimination.” In general, the present Malagasy leadership stresses economic, political and social development objectives simultaneously, while constitutional reforms are of secondary importance. Given the presidential structure of government functioning, inherited by pre-colonial disposition, colonial practice and post-colonial orientation toward France, there are little prospects for a “parliamentarization debate” in Madagascar. But probably the defunct decentralization in the form of the “Autonomous Provinces” will be addressed in 2007, abolishing the Senate and giving the regions a democratic legitimation.

Enhancement of good governance, an operating system of checks and balances, enhanced public awareness, the reduction of corruption by one-third, reduced cleavages between civil society, political parties and state authority would be sufficient as a political reform agenda. Yet, the implementation of this extensive agenda is not only for the task of the political leadership, but of the society as a whole and its emerging elite. One core problem is that the expectations of a society are increasing rapidly in the course of the transformation process. While Ravalomanana has been reasonably successful during the assessment period, society expects more progress in economically tangible terms. With 54.8% of the electoral vote in favor of Ravalomanana, the electorate appears, for the moment, to have placed measurable trust in his leadership.