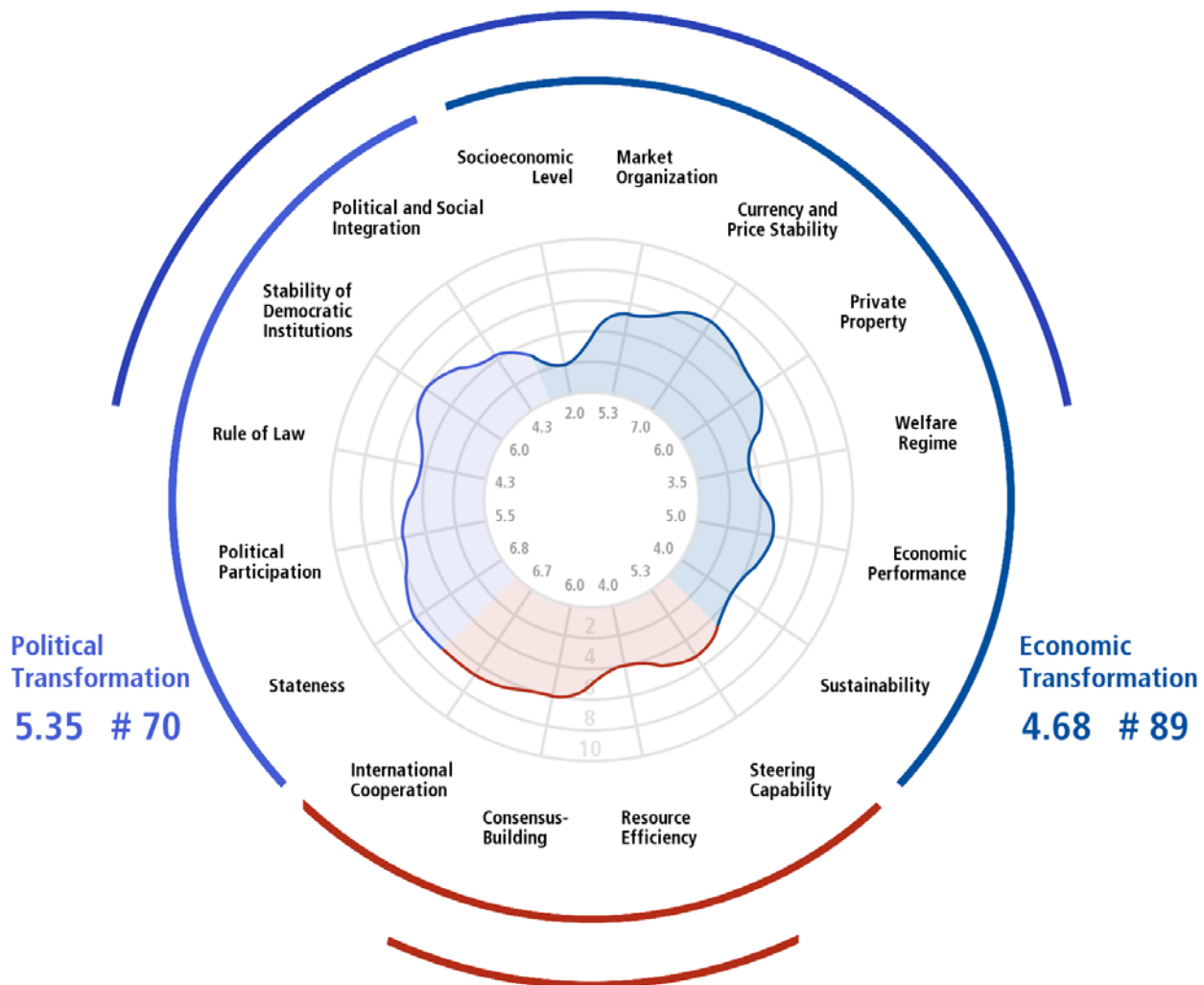


Madagascar

Status Index

5.01 # 82

on 1-10 scale out of 129



Political Transformation
5.35 # 70

Economic Transformation
4.68 # 89

Governance Index

5.12 # 61

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	24.9	HDI	0.512	GDP p.c., PPP \$	1506
Pop. growth ¹	% p.a.	2.7	HDI rank of 188	158	Gini Index	42.7
Life expectancy	years	65.5	UN Education Index	0.516	Poverty ³	% 91.1
Urban population	%	35.7	Gender inequality ²	-	Aid per capita \$	27.9

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. 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 2015, Madagascar further completed its electoral cycle, after the presidential and parliament elections in 2013, by organizing communal (July) and Senate elections (December). Elections that still need to be organized before having accomplished the entire cycle are provincial and regional elections. Up to today, no firm decision has been taken on when to organize these elections (still before the general elections foreseen for end 2018 or after).

With elected institutions at the national and at the communal level, Madagascar is slowly recovering from the almost five years during political crisis that left the country with a deep governance and economic crises. The country has done a lot of efforts to gain again the confidence of international partners, both donors and investors, and the ultimate test for the country was the organization of the 16th Francophonie Summit in November 2016, preceded by the 19th Common Market for Eastern and Southern Africa (COMESA) Heads of State and Governments Summit. Although a lot of challenges were facing the realization of these summits, the general outcome was evaluated positive and Madagascar confirmed to be again fully part of the international community. Another success was the organization of the Donors and Investors conference in Paris in December 2016 where Madagascar succeeded in mobilizing \$6.4 billion of commitments to finance the National Development Plan and \$3.3 billion has been promised by private Investors. These events are positive boosts to further enhance the countries' macro-economic 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. At the political level, the past years were still characterized by institutional instability. In May 2015, Parliamentarians voted to impeach President Hery Rajaonarimampianina. Although not approved by the Constitutional Court, this event created a general climate of mistrust between the institutions. Moreover, government changed three times over the last years, also affecting political stability. Another destabilizing factor is the unsolved

roots of the political crisis as the reconciliation process has not been achieved and as political dialog has in general stagnated. Moreover, discussions and potential tensions are growing concerning the conditions characterizing the organization of the upcoming general elections in 2018. In the upcoming months the government and parliament will have to evaluate the legal reforms presented by the electoral commission to adapt the electoral code and other laws as the actual ones are incoherent and date from the transition period.

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 reelected in 2006, and his administration ushered 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 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, 11 political parties signed a roadmap calling for presidential and legislative elections. These elections took place in late 2013, Marc Ravalomanana and Andry Rajoelina both signed an agreement stating they would not stand as candidates. 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. He was inaugurated on January 25, 2014. In July 2015, local elections were held, the Hery Vaovao Madagasikara (HVM) - Rajaonarimampianina's political party - won more than half of the constituencies, Tiako I Madagaskara (TIM) came second, and Lalao Ravalomanana (Marc Ravalomanana's wife) was elected in the capital, Antananarivo. The Miaraka Amin'ny Prezida Andry Rajoelina (MAPAR) came third and won the major cities (Antsiranana, Mahajanga, and Toamasina). In December, the HVM won the majority of seats in elections to the senate.

The 2013 elections (presidential and legislative) ended a protracted transition (2009-2013) and can be seen as both a re-establishment of democracy and as a legitimization of the 2009 coup. The 2015 local and senate elections gave a majority to the HVM political party and brought fragile stability (there have been three prime ministers since 2014). A donor conference was organized in December 2016 to finance the National Development Plan. At the end of the conference, the partners pledged to support Madagascar for a total of \$6.4 billion over a period of four years. Investments announced by the private sector amount to almost \$3.3 billion.

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. The state is absent in the "red zone" - which represents approximately 200,000 square meters - due to lack of transportation and road networks.

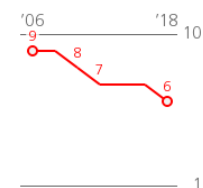
Some groups are denied full citizenship rights. The outdated Malagasy Nationality Code (1960) prescribes that only those of Malagasy descent are eligible for Malagasy nationality. The application of this concept of nationality, based on a rigorous principle of jus sanguinis, renders the country's communities 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.

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

Question
Score

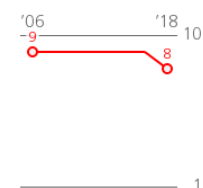
Monopoly on the
use of force

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).

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.

The FFKM were involved in the reconciliation process in December 2014 and in April 2016, they stated their ambition to relaunch the reconciliation process.

In 2016 there were changes at the top of the FJKM and the FLM. It seems that the new leaders of these groups are less politically inclined, but the current President of the Republic Hery Rajaonarimampianina and the former President Marc Ravalomanana were notably present at these elections.

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. This is also the result of the last political crisis and Madagascar's international isolation in terms of development aid.

The 2010 constitution defines three levels of decentralized territorial entities (collectivités territoriales décentralisées): provinces (six), regions (22) and communes (1,693). One of the strategic priorities of the National Development Plan 2015-2019 (Plan national de développement (PND)) is decentralization, but the budget allocated for this represents 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 by national and international organizations, and this is the case for a range of sectors such as accommodation, nutrition, and medical assistance. Most services such as hospitals, housing and schools, especially those of higher quality, are concentrated in the capital and to a lesser extent in the urban centers of the provinces and regions. At the regional and local level some basic services exist, but their quality is significantly inferior, especially in terms of medical assistance, education, accommodation and

No interference of religious dogmas

8



1

Basic administration

5



1

nutrition. Therefore, international organizations try to focus their interventions at a more decentralized level.

2 | Political Participation

Madagascar has seen several multiparty elections and is one of the few countries in Sub-Saharan Africa that has been through several electoral transitions (1993, 1996 and 2001). The electoral system tends to produce a one party takes all outcome, and as a result elected regimes tend to be hegemonic and install authoritarian governance practices. In 2009 these practices and the lack of credibility and transparency in the organization of the electoral process led to violent protest, the mobilization of power outside institutions and the seizure of power through public demonstrations and a coup d'état. The 2009 coup led to almost five years of political crisis and international isolation of the country, until presidential and legislative elections were organized in 2013. These elections were generally accepted as free and fair, as the major national and international observation missions concluded.

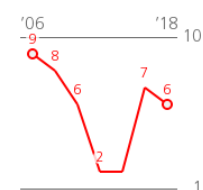
The 2013 elections were the first to be organized by an Independent Electoral Commission (Commission Electorale Nationale Indépendante pour la Transition, CENI-T, Law number 2012-004 of 1 February 2012) with the support of the international community, and the first time that a single ballot sheet was used. Previously political parties were asked to distribute their individual ballots to the country's 20,001 polling stations. The new structure helped level the playing field for all candidates, and helped avoid incidents of fraud. Although there were shortcomings in the technical organization of the process, especially with regard to the electoral register, and the major protests organized by the losing candidates, the results were ultimately accepted and the elected candidates took their positions.

In July 2015, local elections were organized by the CENI-T. A new president Ralaiariliva Mamy was appointed on February 23, 2015, after the nomination of the former president Béatrice Attalah as Minister of Foreign Affairs in January 2015. The ruling party, HVM, won the majority of seats but the elections were contested by the opposition (lack of credibility and transparency).

A new independent electoral commission was established in October 2015. A motivating factor here was the new president's actions in 2010 as former president of the electoral commission in 2010 that organized a constitutional referendum subject to criticism. The fact that the president appoints one of the nine members of the electoral commission could be seen as a challenge to the independence of the commission, especially since opposition parties do not appoint a representative. The other members of the commission are appointed by the National Assembly, the Senate, professional bodies and civil society. Another challenge to the independence of the electoral commission is how its budget is allocated by the government, meaning the government has the potential to influence the actions of the CENI due

Free and fair elections

6



to its control over funding. The first test for CENI was the organization of the Senate elections in December 2015 which were indirect elections. The party of the president won these elections with a strong majority and these elections were strongly criticized by national observers and political opposition. Most of the complaints accused the president's party of intimidation and corruption.

The ruling HVM party have considerable formal power to govern. They also enjoy the majority of seats in the town halls and the senate. The party has some supporters in the National Assembly - there is a HVM parliamentary group.

Informally, presidents have consistently maintained significant informal networks of power (economic elite, religious elite (FFKM) and 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.

Several times during 2015, security forces used tear gas to disperse demonstrations by university students in Antananarivo and other places. In July 2016, a number of demonstrators protesting against a mining project were arrested in Soamahamanina. The police used excessive force during the protest.

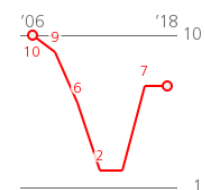
In practice, opposition political parties and civil society organizations are often denied permission to engage in protests. In the capital, the police prefecture rarely issues permits. In September 2016, the opposition, Malagasy mivondrona ho an'ny fanorenana ifotony (MMF), and Mitsangana ry Malagasy (M-MRM), was unable to hold its meeting despite obtaining authorization from the town hall. The mayor of the capital, Lalao Ravalomanana, is the wife of the former president Marc Ravalomanana, and is close to another opposition party. The site of the demonstration was also checked by the military.

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

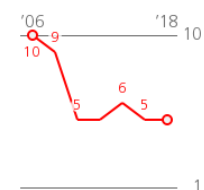
Effective power to govern

7



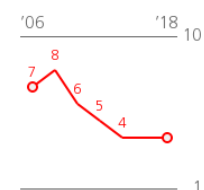
Association / assembly rights

5



Freedom of expression

4



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 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.

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 2015, the National Assembly voted to impeach the president of the Republic, but the Constitutional Court threw out this action, calling the move “unfounded.” Observers defined this as “a political rather than legal decision” and the political opposition accused the Constitutional Court of not being independent. 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.

Separation of powers

4

'06 '18 10



1

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 127th out of 140 countries in the World Economic Forum's Global Competitiveness Report 2015 – 2016 in 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 (BIANCO)), the Comité pour la sauvegarde de l'intégrité (CSI), the Service de renseignements financier (SAMIFIN) and the Pôles anti-corruption (PAC).

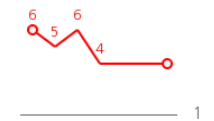
However, the government has not implemented these policies effectively, and corruption remains a serious issue, as does the lack of government transparency.

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

Independent
judiciary

4

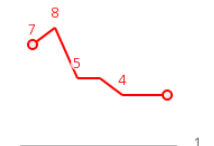
'06 '18 10



Prosecution of
office abuse

4

'06 '18 10



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 MPs - who despite their involvement in trafficking are not prosecuted.

The overall worrisome state of civil rights in Madagascar did not change with the 2013 elections. 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 Soamahamanina in response to the strike against gold mining). 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.

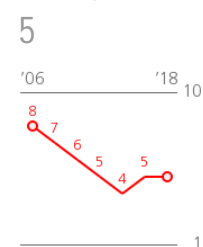
Members of the LGBTI community face social stigma and discrimination even with their own families, particularly in rural areas. They also faced discrimination in hiring practices.

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

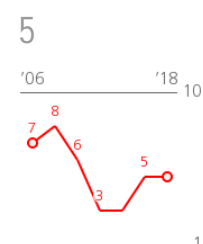
4 | Stability of Democratic Institutions

After the 2013 presidential and legislative elections, local and senate elections were organized in 2015. But before the organization of these elections, the regime faced an institutional crisis in June 2015 caused by parliamentarians voting to impeach President Hery Rajaonarimampianina (121 out of the 125 MPs who were present). The impeachment was rejected by the High Court. Another sign of institutional and political instability was the motion of censure against the government in July 2015 that was also rejected (95 MPs voted in favor of the motion when 101 votes were needed for the motion to pass).

Civil rights



Performance of democratic institutions



The local elections of July 31, 2015, were the last elections organized by the CENI-T, whose president, Béatrice Atallah, was subsequently nominated to the role of minister of foreign affairs. This nomination affected the credibility of the institution. Moreover, the 2015 election had been postponed twice. The official explanation was that the CENI-T was technically not ready, but the genuine reason was that the HVM, the presidential political party, had no political base yet as it was created in 2014, after the President's election. Without representatives in the National Assembly, and facing institutional instability, these elections became crucial to creating a political base in order to have a majority in the country.

The main political parties (HVM, TIM, and MAPAR) presented candidates in most constituencies. HVM won more than half of the constituencies. The TIM came second, with its candidate, Lalao Ravalomanana, elected in the capital, Antananarivo. The MAPAR came third and won the major cities of Antsiranana, Mahajanga and Toamasina. In the electoral history of Madagascar, the ruling party has always secured a majority in the local elections. However this does not mean that the state party has a real majority: the rural constituencies vote for the state's candidate as a "forced choice" through a "manipulated" electoral process.

The results of the local elections allowed the HVM party to establish its political base nationwide. With its majority the HVM was in a comfortable position to win most of the seats in the Senate elections on the December 29, 2015. Elections to the senate were indirect, meaning that the electors were mayors and local councilors, who elected 42 out of the 63 senators (7 per provinces). The president elects the remaining 21. HVM won 34 seats, TIM three seats, MAPAR two, Leader Fanilo one, Fanorolahy (independent party) one and Mifanasoia one. On February 1, 2016, the president nominated 21 senators, resulting in the HVM enjoying a majority of 55 seats out of 63.

The Senate Elections were the first elections organized by the new permanent election management body, the National Independent Electoral Commission (CENI), inaugurated on October 29, 2015. The electoral process was criticized both by national and international observers. The latter did not organize formal observer missions but published press releases that drew attention to the lack of secrecy of the vote, intimidation and vote-buying by the party in power. Technical problems due to the short preparation period given to the newly established CENI were also highlighted. Indeed, it has been stated that during the senate elections, the ruling party flagrantly exploited the advantages of incumbency, abused state resources, and used physical intimidation against voters in the pursuit of victory. Defeated candidates and parties denied the legitimacy of the vote. These elections can be seen to demonstrate a resurgence of authoritarianism and although they ensured a political base for the ruling party, they are not a guarantee of sustained stability. Prime Minister Jean Ravelonarivo was forced to resign on April 9, 2016, by the president of the republic

and was replaced by then-Minister of Interior Olivier Mahafaly on April 10, 2016. The latter's appointment can be seen as a gift in light of the result of senate elections.

In May 2016, a dozen political parties, under the coalition Mitsangana Ry Malagasy (MRM), called for an early election. The coalition called for the resignation of the president. Their motivations were based on the issue of poverty in the country, widespread corruption and the ineffectiveness of the government in finding solutions.

The government's view was that the coalition should wait until the next elections scheduled for 2018. The president and the majority of the National Assembly are political allies, so the likelihood of any such resignation is minimal. Since the local and senatorial elections, the government has a majority in all institutions: the National Assembly and Senate, in the 22 Regions, 119 Districts, 1 693 Communes.

Despite the existence of a certain will to destabilize the institutions, the majority of actors – especially the military and the economic interest groups – accept the elected institutions for the time being.

Moreover, a donor conference was organized in December 2016 to mobilize resources to finance Madagascar's national development plan. Pledges were made and potential investments were announced which enabled the regime to benefit from wider support. However, in practice, a lot of effort is still needed from the government to effectively obtain investment.

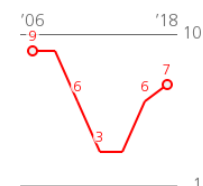
5 | Political and Social Integration

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, 42 members of parliament, or 29% of all members, were registered either as their own party or as independents. While President Rajaonarimampianina's HVM has no sitting parliamentarians, most of the political parties in the National Assembly support him. This situation confirms the winner-takes-all aspect of Malagasy politics, and illustrates the prevailing reluctance to play an opposition role. The 2015 local and senatorial elections saw a reiteration of this winner-takes-all system.

The absence of public funding continues to make political parties dependent on wealthy individuals who use political parties as a vehicle to advance their own political ambitions.

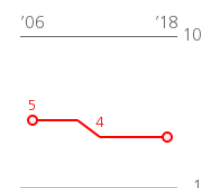
Commitment to democratic institutions

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Party system

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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.

A report by the central bank of Madagascar in 2013 recorded around 800 associations and NGOs and this number is increasing as more organizations are created. More than 60% are in the province of Antananarivo, with the provinces of Toamasina and Fianarantsoa also host to healthy numbers. 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.

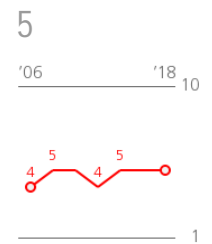
There are a few notable exceptions to this general picture. Some faith-based development organizations, such as Sehatra Fanaraha-maso ny Fiainam-pirenena (SeFaFi), have created significant vertical integration and can thus communicate effectively both up and down organizational levels. Other recent initiatives include the creation of the Rohy movement, a platform of more than 100 organizations that aim to improve the impact of civil society organization's recommendations at the political level.

In terms of 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 has not been further developed and no concrete results have been achieved in this area.

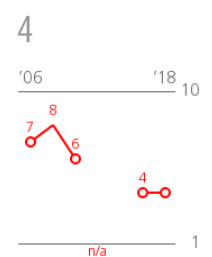
According to the most recent Afrobarometer survey, published in January 2015 and taking into account data from 2014, the population's trust in existing institutions is relatively weak, a phenomenon explained by the high level of corruption. This mistrust has increased since the previous Afrobarometer surveys (2005 and 2008), as corruption (perceived and real) has also increased, especially during the political crisis beginning in 2009.

In the most recent survey, about 50% of respondents declared either that the country is not a democracy or was one with major shortcomings. 75% were not satisfied with the functioning of democracy.

Interest groups

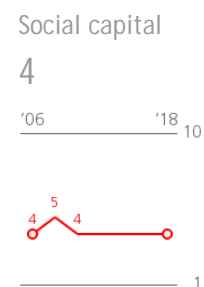


Approval of democracy



Approval of a democratic system increased between 2005 and 2014 from 43% to 50%. While a majority still supported democratic principles, 83% of the respondents said they were against a one-party system that monopolizes all power, while 78% disagreed with military rule. A majority of Malagasy (82%) suggest that free, fair and regular elections should be held to select leaders. 56% support a multiparty system, although 44% think this system is causing problems.

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 almost five years of political crisis, deepening social and economic rifts. There was no substantial change as a result of the 2013 and 2015 elections. On the other hand, 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.

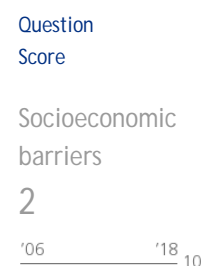


II. Economic Transformation

6 | Level of Socioeconomic Development

The United Nations Development Program (UNDP) ranks Madagascar 154th out of 188 (in 2013 Madagascar ranked 155th out of 187) in its Human Development Index (24 out of 53 in Africa). This is despite a very slight increase in Madagascar’s HDI which rose from 0.498 to 0.510 between 2013 and 2014.

Madagascar falls into the category of low human development, and the country did not achieve any of the U.N. Millennium Development Goals (MDGs). Poverty has increased sharply; indeed, the World Bank estimates that 90.2% of Malagasy live on less than \$3.10 a day. Moreover, 80% live below the \$1.25-per-day extreme-poverty line. Poverty is highest in rural areas, where 80% of the population lives. Two-thirds of the rural population can be classified as living in extreme poverty. The poverty ratio in rural areas exceeded 75%, increasing to 90% in the south of the island, compared with 31% in the capital and 55% in the secondary cities. The poorest regions are Androy and Atsimo-Atsinanana, both rural areas.



Farmers (between 79% and 86% of households) are among the poorest individuals, followed by the self-employed (43%). The Gini Index was last measured at 42.7 in 2012, indicating an increase in income inequality since 2005 (Gini index was 38.88).

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

If Madagascar does not take appropriate measures it will find it 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 (2016) which means an improvement compared to previous available data (3.5 out of 6). However, traditional, cultural, social and economic constraints still prevent women from having overall equal opportunities. The difficulties women face 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, religious and political preference is a less well-documented topic, and indeed is a rather hidden and subtle 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.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	10601.7	10673.5	9738.7	9990.7
GDP growth	%	2.3	3.3	3.1	4.2
Inflation (CPI)	%	5.8	6.1	7.4	-
Unemployment	%	1.3	1.4	1.8	2.1
Foreign direct investment	% of GDP	5.3	3.3	5.3	5.4
Export growth	%	30.0	8.6	12.2	5.3
Import growth	%	10.7	-2.5	3.1	4.6
Current account balance	\$ M	-622.1	-	-	-

Economic indicators		2013	2014	2015	2016
Public debt	% of GDP	33.9	34.7	35.5	38.7
External debt	\$ M	2891.4	2870.9	2958.8	2934.5
Total debt service	\$ M	79.9	95.8	139.1	123.7
Net lending/borrowing	% of GDP	-1.7	-2.1	-	-
Tax revenue	% of GDP	10.3	9.9	-	-
Government consumption	% of GDP	9.7	10.9	7.7	9.9
Public education spending	% of GDP	2.1	-	-	-
Public health spending	% of GDP	2.6	1.5	-	-
R&D expenditure	% of GDP	-	0.0	-	-
Military expenditure	% of GDP	0.7	0.7	0.6	0.6

Sources (as of October 2017): 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 middleman 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. The World Bank's Doing Business 2017 index ranked Madagascar 167th (38 out of 53 in Africa), down from 164th place in 2016. In this regard, it is very close to the sub-Saharan Africa average. 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: in the Doing Business 2017 report Madagascar was ranked 113rd in the world in terms of the ease of starting a business

Market-based competition

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(up from 126th in Doing Business 2016), typically taking eleven days. The average in Africa is 27.3 days. The Economic Development Board of Madagascar (EDBM) takes care of all the formalities 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. Madagascar has been eligible for the Africa Growth and Opportunity Act (AGOA) since June 27, 2014, and this represents a good opportunity for the textile industry.

There is a law on competition, Law 2005-020, which requires the Ministry of Commerce and Consumption, to ensure fair competition. The National Council of Competition created by the law was established in September 2015.

Nonetheless, structural barriers such as high-level corruption, state monopoly, restricted access to domestic markets for certain groups of society and a large informal sector still exist and have even worsened. Insolvency has reached crisis proportions, and addressing that problem has become increasingly 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.

During the 1990s and particularly the 2000s, Madagascar saw a large sell-off of state-owned enterprises. For example, the state companies producing sugar (SIRAMA) and cotton (HASYMA) were privatized. However, the state remains a shareholder in hotel operations (Carlton), fishing (Nosy Be fishery), textiles (Cotona, FITIM), wood (Fanalamanga), the production and distribution of beverages (Star), air travel (Air Madagascar), telephony (Telma) and the exploitation of granite and marble resources (MAGRAMA). 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 (JIRAMA), which provides irregular power supply in many regions, particularly in remote coastal provinces. The JIRAMA still operates under two different laws (75-024 which established the monopoly, and 98-032 which put an end to it).

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.

Anti-monopoly
policy

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There are few antitrust laws within the private sector (with the exception of Law No. 2005-020). The competition council was only set up on September 17, 2015. However, in 2016, a draft law on the development of industry was discussed with the private sector who argued for a revision to the competition law. The private sector denounced unfair competition in a press release on September 27, 2016.

Madagascar belongs to the World Trade Organization (WTO). It is also member of several regional groupings, including the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC) and the Indian Ocean Commission (IOC), but has little trade with them.

In 2015, the European Union remained the country's largest trading partner, accounting for 41% of exports. China is the primary point of origin for imports (24.8%). France is the second (10.3%).

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 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 country's central bank, foreign direct investment inflows amounted to \$567 million in 2013, \$351 million in 2014 and \$517 million in 2015. This increase is partially attributable to the financial, telecommunications and manufacturing sectors.

From January 2016 to October 2016, the trade deficit remained virtually unchanged due to lower imports of energy, capital goods and raw materials. Exports also fell slightly, mainly due to the fall in the price of nickel and chromium ore on the market. However, the impact of the latter was limited, on the one hand by the increase in the price of vanilla, and on the other hand by the resumption of exports by free enterprises.

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

Liberalization of
foreign trade

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Banking system

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the country's banking assets are concentrated within three banks, reflecting the lack of competition. Bank deposits account for 18.9% of GDP in 2015. The Total assets of the banking sector as a whole were approximately \$2.2 billion in 2015, and the top four banks accounted for approximately 87% of the overall assets.

A leasing company, Equipbail-Madagascar, two mutualist financial institutions, Adefi and CECAM, and a non-mutualist financial institution, SIPEM, round out the Malagasy banking system.

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).

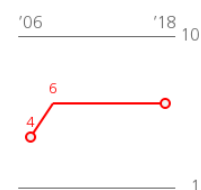
Within the banking system, the central bank states that bad loans represented 11.5% of gross credit in 2015 (12% in 2014), and that the non-performing loans ratio was 10.6% of total loans in 2015, down from 13.8% in 2014. The sector remains profitable, with a return on equity of approximately 30%.

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. Banks argue that many prospective borrowers neither have reliable and transparent balance sheets nor engage in long-term deposits, which complicates long-term financing.

Madagascar has had an autonomous central bank since 1973. The new Central Bank Statute promulgated in July 2016 strengthens the central bank's independence over monetary policy. The main provisions are to (i) gradually reduce central bank statutory advances to the government; (ii) automatically transfer central bank losses and profits to the government; and (iii) establish an Audit Committee of the Board of Directors.

8 | Currency and Price 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 have initiated several actions to strengthen the central bank's capacity and independence in 2015 (through revisions to the Central Bank Act). The bank's interventions in currency markets has kept the Ariary relatively steady against major



Anti-inflation /
forex policy

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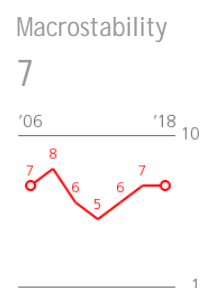
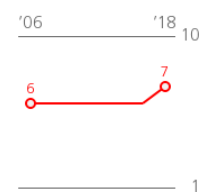
currencies. But this is also due to the stability of major exports which boosted external reserves and thus kept the Ariary stable.

During the first three months of 2016, the Ariary appreciated against the U.S. dollar by 0.6%. It depreciated by 3.2% against the euro. Over the same three-month period in 2015, the Ariary depreciated by 10.9% against the U.S. dollar, but appreciated by 0.7% against the euro.

Inflation was relatively stable in 2016, at an average of 6.6%, compared to 7.4% in 2015. Inflation is strongly linked to changes in local prices, particularly rice, as it is an essential element of household consumption. The good harvest of rice in 2016, complemented by low energy prices, has dampened inflation. In the absence of unforeseen shocks, the inflation target of 7.1 percent should be achievable.

Macroeconomic stability remains fragile but has improved slightly with lower inflation and higher foreign direct investment flows, enabling the accumulation of international reserves. Public finances have benefited from increased tax revenues from customs reforms and a reduction in subsidies to non-priority areas. However, economic growth in 2015 has stagnated at 3.2%, failing to attend the 5% projected in the National Development Plan (2015-2019). Growth is projected to accelerate to 4.0% in 2016 and 4.5% in 2017. However, Madagascar needs to achieve growth of 6.5% to help reduce poverty. Governance problems and the lack of significant investments in the social sector has led to a stagnation of the living conditions of the population, with high rates of poverty and high regional inequalities. Inflation has been kept under 10% and is expected to remain around 7% in 2017 due to the relative stability of oil prices on the international market and fiscal policy consistent with the objective of macroeconomic stability. The budget deficit increased to an estimated 4.6% of GDP in 2015, up from 2.3% in 2014, and the current-account deficit deteriorated from 0.2% to 2.3% of GDP. Macroeconomic stability remains fragile and food insecurity is still a concern. The latest figures available on the country's debt are from 2014: government debt represented 34.9% of the country's GDP.

In 2015, the International Monetary Fund approved a second disbursement to Madagascar under the Rapid Credit Facility, while technical and financial partners provided support for the National Development Plan. In July 2016, the IMF approved a new arrangement under the Rapid Credit Facility, which represents about \$304.7 million under a 40-month Extended Credit Facility (ECF) arrangement. This arrangement aims to reinforce macroeconomic stability and boost sustainable and inclusive growth. It is accompanied by a rigorous reform plan to further efforts to improve tax revenue that were undertaken in 2015 and 2016. According to the World Bank, tax revenue grew by 16.5% between 2014 and 2015. For 2016 the government implemented an expansionary fiscal policy to target a tax to GDP ratio of 10.4%. According to the IMF, progress was also achieved on the structural front, including strengthened audits and controls for revenue collections; an automatic fuel pricing mechanism to avoid any fuel subsidies; the submission to cabinet of a revised Central



Bank Act, advancing a key institutional objective for macroeconomic stability; the cabinet approval of a National Social Protection Policy; greater transparency and functioning of the foreign exchange market; and a new database to enhance debt management capacity and transparency.

Moreover, during the donors and investors conference held in Paris in December 2016, Madagascar mobilized \$6.4 billion for the period 2017-2020; the World Bank Group has pledged \$1.3bn over the next three years to support Madagascar's development.

9 | Private Property

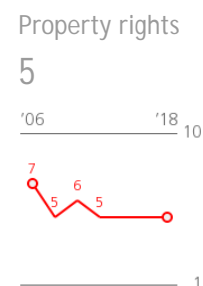
Private-property rights are protected within the Malagasy legal system, which is inspired by French civil law. Malagasy commercial law is mostly formed by the country's Code of Commerce and associated laws, which are reportedly applied in a non-discriminatory manner. A bankruptcy law has been in place 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. However, there have been long delays and few successes so far with regard to actually approving land leases for foreigners. The investment law grants land and property to certain companies registered in Madagascar. 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.

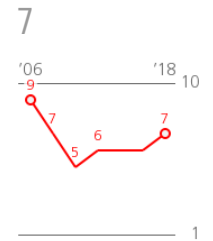
Madagascar is striving to recover from an extended political crisis and international isolation from 2009 to 2013. It remains among the poorest countries in the world, which has consequences for its attractiveness to private companies and investors. These consequences include the low purchasing power of the population, the country's limited infrastructure and a general environment of corruption. 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.

The major laws affecting foreign direct investment include: the Law on Investments (Law 2007-036), the Law on Free Zone Companies (Law 2007-037), the Law on Large-Scale Mining Investments (Law 2001-031, modified by Law 2005-022), the Petroleum Code (Law 96-108), and the Law on Commercial Enterprises (Law 2003-036). A new law on Public Private Partnerships (Law 2015-039) was adopted in December 2015, establishing the first ever legal framework for public private partnerships in Madagascar, including partnerships under the Build, Operate, Transfer (BOT) model and variants thereof.

In addition to these measures and equality of treatment for foreign and Malagasy 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 a 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, and transport and telecommunications. 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 approximately 50 companies, and there is much public resistance to

Private enterprise



privatization of the remaining large state-owned enterprises, particularly the national airline and monopoly water and electric utilities.

The donor and investor conference held in Paris in December 2016 was also an important step in further encouraging investors. Investments up to \$3.3 billion were announced at the conclusion of the conference. Another positive sign is that the ease of starting a business in Madagascar has improved according to the sub-index of Doing Business (up from 126 in 2016 to 113 in 2017).

10 | Welfare Regime

The political crises and economic decline, coupled with the consequences of recurrent natural disasters, have had a serious effect on food security and human development (healthcare, education). There has been no coherent policy framework for the social welfare sector and public expenditures for social protection remain extremely low.

The main social safety-net programs are supported by international organizations.

In May 2014, the new government made the fight against poverty its priority of priorities and a National Social Protection Policy was adopted in September 2015.

The Ministry of Population, Social Protection and Women's Promotion and the Development Intervention Fund (FID) are taking action to improve the social protection sector, with support of development partners. There is also a complementary safety net approach including cash for work initiatives and a conditional cash transfer program: providing the poorest families with short-term income support in return for them enrolling their children in school and ensuring their attendance, and the promotion of nutritious food and eating habits, particularly for children.

The World Bank and other development partners set up a Social Safety Net Project in August 2015 - extended in September 2016 - which focuses on building social protection systems, reducing extreme poverty and promoting shared prosperity.

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

Madagascar scores a 4 (out of 6) on the World Bank's Country Policy and Institutional Assessment (CPIA) gender-equality rating (2016), an improvement on its previous rating (being 3.5).

At the political level, women saw their presence double in the National Assembly between the 2007 and 2013 elections. Women members of parliament number 32 (of 151 members), equating to 21.1%. In the Senate (elections took place in December 2015), women number 13 of 63 senators, equating to 20.6%. However, at the

Social safety nets

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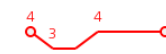


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Equal opportunity

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communal level, women are severely underrepresented at less than 5% of elected maires or councilors.

The government of Prime Minister Mahafaly has six women in ministerial roles out of a total of 32, equating to 18%. However, traditional, cultural, social and economic constraints still prevent women from having overall equal opportunities. The difficulty women face when inheriting 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 146.7 for primary education, 28.4 for secondary and 4.2 for tertiary education. The decline in levels of enrollment from primary to tertiary is substantial and illustrates the very limited access to higher education that a large segment of the population experience. 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 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.

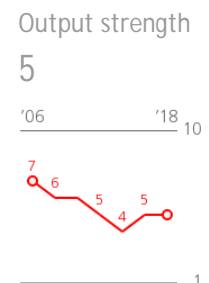
With regard to political preference, membership in or at least association with the party in power seems necessary in order to have access to high-level employment.

11 | Economic Performance

Madagascar is a country with huge potential human and natural resources. Before the 2009 to 2013 crisis, the Malagasy economy grew at an average of 5% a year. During the crisis economic growth decreased drastically and it has only been from 2014 onwards that figures have begun to rise. Economic growth in 2015 is estimated to have stagnated at 3.2%, failing to reach the 5% projected in the National Development Plan (2015-2019). However, it is projected to increase to 4.0% in 2016 and 4.5% in 2017.

A revised budget was adopted in November 2015, adjusting budget allocations and revenue projections. However, its adaptation was delayed and the commitment of non-priority expenditures was suspended for an extended period. The revised target for revenues was met although VAT on petroleum products declined following the fall in their import prices. In 2015, the International Monetary Fund approved a second disbursement under its Rapid Credit Facility, while technical and financial partners provided support for the National Development Plan. In July 2016, the IMF approved a new arrangement under the Rapid Credit Facility. This was approved because under the six-month Staff-Monitored Program (SMP) (September 2015 to the end of March 2016) the country demonstrated a satisfactory track record of sustained reforms with progress in most areas. The new arrangement represents about \$304.7 million under a 40-month Extended Credit Facility (ECF) arrangement. This arrangement aims to reinforce macroeconomic stability and boost sustainable and inclusive growth and is accompanied by a rigorous reform plan to address serious challenges in terms of revenue collections, substantial low-priority spending, and the need to finance fuel subsidies, public enterprises (such as JIRAMA, the national water and electricity company) and the underfunded civil service pension fund, which all have a negative impact on sustainable growth. In general, economic growth is largely driven by the secondary sector (export processing zones, agro-industry, and the metal and wood industries) and the services sector (banking, tourism, insurance and construction). The primary sector recorded poor growth in 2015 (0.7%, down from 3.3% in 2014) due to floods in the north and drought in the south. Inflation was held below 10% (recorded at 6.7% in September 2016). The budget deficit grew to an estimated 4.6% of GDP in 2015, up from 2.3% in 2014, and the current-account deficit grew from 0.2% to 2.3% of GDP. Macroeconomic stability remains fragile and food insecurity is still a concern. The latest figures available on the country's debt are from 2014 (where government debt represented 34.9% of the country's GDP).

2016 has been characterized by an expansionary fiscal policy compared to previous years. Measures were adopted to mobilize domestic resources and a target of tax to GDP ratio of 10.4% was set.



The country organized a donor and investor conference in December 2016 and mobilized \$6.4 billion for the period 2017 to 2020. However, it has been stressed that Madagascar needs to achieve growth of 6.5% to help reduce poverty. Investors announced \$3.3 billion of investment in Madagascar in the coming years.

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 to be \$450- 500 million per year, which is 9% to 10% of GDP.

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

The National Development Plan 2015-19 focuses on establishing an appropriate and well-targeted system and strategies capable of preserving natural capital, reducing the negative effects of climate change and enhancing the resilience of the populations and territories concerned. The integration of natural capital into the economic and social development planning process and the national accounts system (WAVES project) has been made a priority. The main objective of the "Natural Capital Valuation and Strengthening Disaster Risk Resilience" strand of the National Development Plan (NDP) consist of: i) ensuring the link between natural resources and economic development; ii) protecting, conserving and sustainably using natural capital and ecosystems. In August 2016 the government created an Environmental Sustainable Development Program (ESDP) for the next 15 years, to ensure the valorization of natural capital and the strengthening of resilience. This program focuses on five themes: (i) sustainable management of biological capital, (ii) environmental mainstreaming, (iii) pollution management, (iv) climate change and REDD +, and (V) governance and institutional strengthening.

Environmental
policy

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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) teachers) 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 likely to be present in poor and vulnerable areas.

The academic year begins in October and ends in July, and the official primary-school entrance age is six. 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 4,610,722 pupils enrolled in primary and secondary education. Of these pupils, about 3,627,380 are enrolled in primary 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 the 2013 to 2014 period, the number of students in public universities was 85,428, while the figure for private universities was 27,597, making a combined total of 113,025. The enrollment rate is extremely low and heavily concentrated in Antananarivo. The six public universities had a total of 66,727 students; the University of Antananarivo accounted for 44% of these, and the University of Toamasina another 16.2%. The percentage of female students was 45.6%, a decline from the previous report's figure of 48.2%.

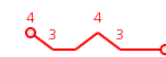
The National Research Strategy (SNR) was published in 2013, and four research master plans (RDPs) were developed: (i) Renewable Energy; (ii) Biodiversity and Human Health; (iii) Agriculture Food Security and Nutrition; (iv) Environment linked to Climate Change.

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 overall 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.

Education policy /
R&D

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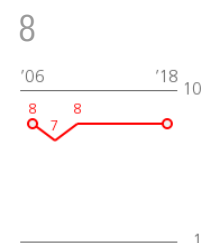
Governance

I. Level of Difficulty

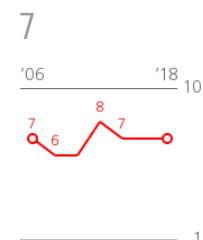
Structural constraints on governance are high. Since the 2013 elections, Madagascar has been trying to recover from the political crisis and international isolation that lasted for almost five years. The return to constitutional order and reintegration within the international community helped Madagascar slowly recover from a situation in which economic and social indicators had deteriorated significantly. However, structural constraints such as weak and fragile institutions, climate constraints, diseases and geographical isolation, and continuing extreme poverty means that the country faces substantial challenges to drastically improving its governance performance. In addition, other intensifying structural constraints include infrastructure deficiencies (roads, electricity and water provision, and 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 (since the elections there have been three prime ministers in three years). Weak political and economic performance, with widespread corruption being a significant obstacle, also explain why the donor conference could only take place at the end of 2016, almost three years after the installment of the elected government in January 2014.

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 most recent Afrobarometer survey indicates that few citizens are active members of an association or community group (only 17%, compared to an 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 a strong civil society and convinced by the necessary role civil society organizations should play in the process toward democratization - supported several initiatives of civil society groups to create platforms and projects

Structural constraints



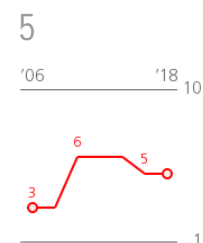
Civil society traditions



to control government performances, especially in the fight against corruption and access to basic services. This contributes to a civil society that has the potential to slowly build 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 (2013), only 10% of respondents said they had participated in violent political protest, with 80% saying 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 its confidence in political movements promoting change. Another reason is that, in general, demonstrations (of political, social, economic nature) are forbidden and are repressed by force. Although the elected government promised to tackle cleavages through national reconciliation processes, after its installment very few initiatives were established, leaving the general situation unchanged and failing to resolve underlying cleavages that could be potential factors in future tensions and conflict, especially with the upcoming general elections in 2018.

Conflict intensity



II. Governance Performance

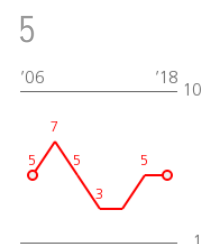
14 | Steering Capability

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, 2015 was dominated by the installation of a new government led by the general Jean Ravelonarivo and by the local and senate elections. These elections were necessary in order for the regime to ensure stability. In June 2015, the Malagasy authorities finalized implementation plans and the Presidential Plan of Urgent Action (PPUA) for the National Development Plan (NDP, 2015-2019). The NDP aims to significantly increase spending on infrastructure and social development to support strong, sustainable, pro-poor growth. It will prioritize reforms that improve governance and strengthen institutions, increase high-return infrastructure investment, and improve the business climate.

Question
Score

Prioritization



In December 2016, a donor conference was organized to finance the National Development Plan in Paris, supported by the main political actors. The partners pledged to support Madagascar with a total of \$6.4 billion over a four-year period.

The government's capacity to effectively prioritize and organize its strategic objectives and policy measures is weak, as policy-making is often not driven by expertise, evidence and strategic planning. Moreover, although development plans exist, in practice their implementation is problematic and often plans remain only theory. The government has still to prove its capacity to effectively implement its plans.

After the 2013 general elections, the government developed the National Development Plan which set strategic priorities for the presidential term. However, since the start of the new presidency in January 2015, there have been three changes of government, including three different prime ministers. These changes affected political stability, which was needed if the strategic priorities to improve the democratization process and market economy were to be met. The last cabinet reshuffle took place in April 2016 and the former minister of Interior and Decentralization, Olivier Mahafaly Solonandrasana, was appointed prime minister in addition to his previous duties at his former ministry. His main task is to implement the National Development Plan, which focuses on three areas: improving governance, fostering economic recovery, and expanding access to basic social services. According to the 2016 IMF country report, in 2015 priority spending was squeezed by underperforming revenue collection, financing difficulties, and unexpected needs for financial transfers to state-owned enterprises and pensions. The fiscal deficit increased to 3.3% of GDP. However, macroeconomic performance under the Staff-Monitored Program (SMP) (September 2015 to end-March 2016) was broadly satisfactory. This led to the IMF in July 2016 approving the equivalent of SDR 220 million (about \$304.7 million) under a 40-month Extended Credit Facility (ECF) arrangement for Madagascar, to help reinforce macroeconomic stability and boost sustainable and inclusive growth.

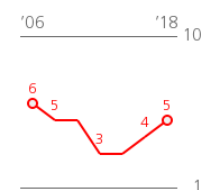
In order to mobilize external support to implement the National Development Plan, Madagascar organized a donors and investors conference in December 2016 and received a commitment of \$6.4 billion towards its development projects (2017-2020). An additional \$3.3 billion in investment was announced by the private sector.

However, there are major challenges to the implementation of the development projects and the National Development Plan, especially with general elections set for 2018.

Since the 2013 elections, Madagascar has undergone three changes in government. The last one occurred in April 2016 with the former Minister of Interior and Decentralization becoming the prime minister. This has been widely seen as a change within continuity, and not as an innovation in terms of policy-making. In terms of

Implementation

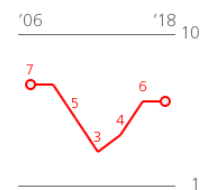
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Policy learning

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flexibility, given the high dependency on external grants, loans and investment, the government is obliged to adapt its policies toward conditions and recommendations made by donors and investors. The country showed willingness to adapt and learn from the past when accepting the recommendations formulated by the IMF to have access to an arrangement under the Extended Credit Facility. A similar willingness was displayed towards other donors and in this context policy-making in terms of macroeconomic growth and democratization seems to be more 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.

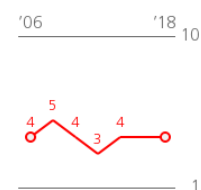


15 | Resource Efficiency

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 of 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.

Efficient use of assets

4



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 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 proposals rather than provide opposition or proposed amendments. Seen this way, the national budget is primarily prepared by the government, with the national assembly approving it with few modifications.

The policy of decentralization has not produced the expected results, despite the communal elections of 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.

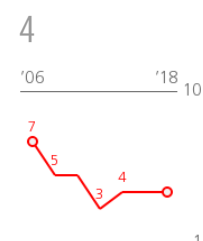
As stated by the World Bank, Madagascar is a country with many advantages, including unmatched biodiversity, great agricultural potential, mineral resources and abundant labor. Madagascar has shown its ability to be efficient when its resources are deployed effectively, but these periods have been punctuated by recurrent political crises. Disturbances have left the majority of the population living in a condition of extreme poverty. Since the 2013 elections, which reestablished constitutional order and brought the country back into the international community after almost five years of isolation, Madagascar is trying to recover, but according to the 2016 IMF country report low revenue collection, low-priority public spending and governance problems are holding back recovery. The Malagasy authorities have requested an arrangement under the ECF in the amount of SDR 220 million in support of their medium-term economic reform program, based on their National Development Plan (NDP). In November 2016, Madagascar held the Donors and Investors Conference and was able to mobilize a record amount of \$6.4bn for the period 2017-2020. This funding will support the implementation of the National Development Plan, a reform strategy and an investment program that will seek to promote inclusive and sustainable growth.

According to the World Bank, 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.

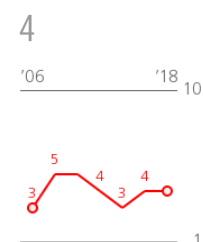
According to an August 2016 IMF country report, Madagascar suffers from systemic corruption, even compared to other fragile states. This has a serious impact on potential economic and political performance. The share of individuals reporting personal experience of corruption increased slightly. In 2015, the government adopted its national strategy for the Fight Against Corruption 2015-2025, which seeks to achieve a 50/100 score. This strategy includes different programs to fight the widespread corruption, including 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 extractives sectors.

The 2015-2025 strategy reinforces the existing and relatively strong legislative framework that complies with international conventions and the different anti-

Policy coordination



Anti-corruption policy



corruption institutions. However, all anti-corruption bodies are under the supervision of the executive in one way or another, which undermines their independence.

Madagascar's legislative framework includes an anti-corruption law passed 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.

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.

16 | Consensus-Building

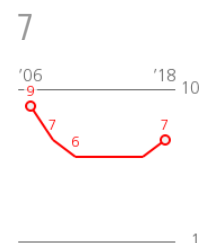
In general, there is a broad consensus on democracy, and there are no serious disagreements between the major political actors with regard to the desirability of a market economy.

The results of the 2013 elections (presidential and legislative) were accepted by the main political actors. But laws and institutions matter less than personal relationships and the prevailing condition of zero-sum politics. The malleability of political alliances rose again to the fore during the nominations of the three prime ministers who have been appointed since the elections.

Local and senate elections were held in 2015, and the HVM won the majority of seats. The President Hery Rajaonarimampianina secured the support of a large majority in the National Assembly (despite not having elected deputies; MPs switched affiliation to belong to the party in power), the Senate and in the countryside (mayors and councilors). Some political parties of the opposition called for a snap election but this did not happen.

There is a broad consensus on the value of a market-oriented economy. A National Development Plan was discussed and endorsed by the National Assembly. This plan prioritizes reforms that raise the level and efficiency of pro-poor and pro-growth government spending, improve governance and strengthen institutions, increase high-return infrastructure investment and improve the business climate.

Consensus on goals



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

Sections of the private sector enjoy close ties with political power, which facilitates consensus but sometimes distorts politics. Indeed, corruption is a non-negligible occurrence that often goes unpunished.

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. However, the current president has initiated a Security Sector Reform.

President Rajaonarimampianina appointed 30 generals in December 2015, 10 more in February 2016 and 52 more in December 2016 in order to guarantee their support. A military coup seems unlikely in the short term, and would represent a step backward for democratization.

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 reconciliation process and the meeting between the current President Rajaonarimampianina and the four ex-presidents under the formal auspices of the Council of Christian Churches in Madagascar (FFKM), organized in 2014 and 2015 has not been followed up. But a law on national reconciliation was passed in December 2016, establishing that the reconciliation organ will not be a government institution but an organ that can be consulted and can provide advice. However, opposition parties fear that their candidates will be unable to participate in the upcoming elections.

The regional cleavage is primarily the result 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 uninterested in developing the other regions. However, during the election campaign, the current president promised to tackle this issue. New mayors were elected in July 2015 and nominations were held for the head of the regions. However, there has been little change, especially since the budget devoted to decentralization is just 2% of the overall budget. Under such conditions an effective distribution of resources is difficult.

Anti-democratic actors

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Cleavage / conflict management

6

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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 does happen, it is often at the request of external donors. Moreover, several studies demonstrate that a strong cleavage between the political elite and the grassroots exist and there is a general lack of trust between the population and the political class. 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, over the last few years, initiatives have been launched to create mechanisms for dialog between political authorities and civil society, and this has been confirmed by a law on decentralization that requests local elected authorities create platforms of consultation with civil society to elaborate on local development plans. Civil society organizations are also increasingly supported by external partners to develop mechanisms to evaluate political performance and formulate policy recommendations.

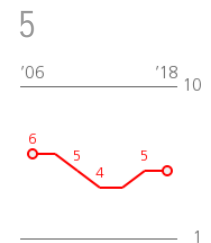
For example, there are several initiatives financed mostly by external donors and implemented by national and international organizations. These initiatives consist of organizing trainings and debates between local authorities and associations in order to develop a common understanding in the functioning of the locality and the priorities to be dealt with. Moreover, civil society organizations are tentatively starting to set up mechanisms themselves 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.

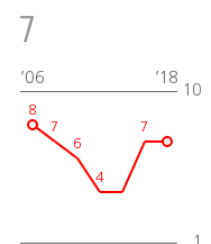
This reconciliation process represented a major step forward in the normalization of the political situation. It had the potential to reduce the effect of the country's prevailing winner-take-all politics, and even end the condition of exclusion and exile that has followed each crisis. However, the process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

A law on national reconciliation was passed in December 2016, but opposition parties fear that their candidates will be unable to participate in the upcoming elections. The reconciliation organ will not be a government institution but an organ that can be consulted and one which can provide advice.

Civil society participation



Reconciliation



17 | International Cooperation

The government clearly aims 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 external expertise and recommendations from international partners and donors. The goal is to address the alarming situation faced by Madagascar after almost five years of political crisis and international isolation. 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 (IMF, World Bank, European Union, U.N. agencies, bilateral donors). The European Union granted Madagascar €518 million under the 11th European Development Fund (EDF). In June 2014, the United States announced the restoration of the country's eligibility for the Africa Growth and Opportunity Act (AGOA) program which grants preferential access for specific African countries to the U.S. market. On July 27, 2016, the IMF approved \$304.7 million under a 40-month Extended Credit Facility (ECF) to help to reinforce macroeconomic stability and boost sustainable and inclusive growth.

During a donor conference held in Paris in December 2016, partners pledged to support Madagascar with a total of \$6.4 billion over a four-year period.

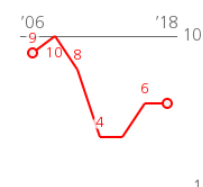
The 2013 elections helped Madagascar regain credibility with the donor community. The multilateral and bilateral donors initiated dialog with Malagasy authorities to support democracy and market-economic development. The local and senate elections in 2015 have brought stability in the country, although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

This degree of stability has led to collaboration with the international donor community (IMF, World Bank, European Union, U.N. agencies, bilateral donors). The European Union has granted Madagascar €18 million under the 11th EDF. In June 2014, the United States announced the restoration of the country's eligibility for the Africa Growth and Opportunity Act (AGOA) program which grants preferential access for specific African countries to the U.S. market. On July 27, 2016, the IMF approved \$304.7 million under a 40-month Extended Credit Facility (ECF) to help to reinforce macroeconomic stability and boost sustainable and inclusive growth.

Madagascar has signed a number of international agreements since the 2013 elections and its return to constitutional order. It is once 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 country's capacity to host

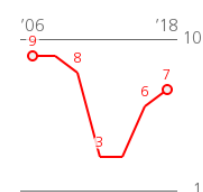
Effective use of support

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Credibility

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these important events, although the country faced a number of challenges in order to meet international expectations.

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

After the 2013 elections, Madagascar was readmitted 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 also has 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 and currently 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. At the same time the need to contribute to the achieve Agenda 2063 objectives in the global economy were reiterated.

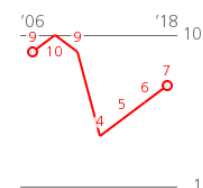
Madagascar has cooperative agreements with neighboring states. The president of the Comoros made a state visit in March 2016. Agreements were signed concerning education, trade cooperation and the fight against illicit trafficking.

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

Madagascar also cooperates with South Africa in the fields of trade, education and defense.

Regional
cooperation

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1

Strategic Outlook

Most institutions have had elected representatives (except at the regional and provincial level) since 2015, and therefore one of the conditions is in place to meet institutional and political stability, a necessary precondition to improving macroeconomic and social indicators. The next few years are crucial to Madagascar's recovery from past political and economic crises and attempts to bring the country out of extreme poverty. The donors and investors conference, held in Paris in December 2016 saw important commitments both from donors and investors to contribute to the implementation of the National Development Plan (2015-2019) and was an important step. These commitments cover the period up to 2019 to 2020, which means extending beyond the potential change in political power that general elections in 2018 may bring. An important challenge will be to guarantee a degree of continuity in political and economic governance throughout these electoral processes and to have a political regime that accepts an inclusive and independent electoral process to avoid major political contestations and tension that could again destabilize the political and economic scene. In order to improve the democratic and economic climate, the following actions – which do not differentiate significantly from the previous period since the major challenges remain the same - are suggested:

- strengthening institutions and governance at all levels;
- implementing the law on the national reconciliation after its approval by the Constitutional Court in order to relaunch 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;
- a legal review has been conducted by the electoral commission of the texts governing the elections and political parties in order to improve coherence and update the texts. Government and parliament should evaluate and accept these reforms in order to create a more coherent electoral process starting with the general elections in 2018. Concerning political parties, implementing the provisions on accounts and spending transparency before and during the elections would help to ensure a level playing field.
- implementing the 2015-2019 strategy on the fight against corruption, developing institutional integrity by implementing the law on anti-corruption and ensuring the independence of the 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 broadening the tax base further, 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.