AGRICULTURAL POLICY ANALYSIS PROJECT, PHASE II

Under contract to the Agency for International Development, Bureau for Research and Development, Office of Agriculture
Project Office Hampden Square, 4800 Montgomery Lane, Suite 600, Bethesda, MD 20814 • Telephone: (301) 913-0500
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IMPROVING THE EFFECTIVENESS OF AGRICULTURAL POLICY REFORM IN AFRICA: RICE MARKET LIBERALIZATION IN MADAGASCAR

September 1993

APAP II
Collaborative Research
Report No. 355

Prepared for

Agricultural Policy Analysis Project, Phase II (APAP II)

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A.I.D. Contract Nos. DAN-4084-Z-11-8034-00 and LAG-4084-C-00-2044

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PREFACE

During the past decade policy reform has become a valuable tool in efforts by the U.S. Agency for International Development (A.I.D.) to improve the contribution of agriculture to the physical and economic well-being of developing nations. The success of reforms requires not only rigorous economic analysis and extensive host country collaboration, but also strategic implementation. To perform effectively in the design and implementation of policy dialogue and adjustment-related programs, A.I.D. field officers as well as their host-country counterparts must be familiar with the repertoire of strategic and political issues that affect the reform process.

The Bureau for Research and Development's Agricultural Policy Analysis Project, Phase II (APAP II) has been a key vehicle through which A.I.D. has developed practical insights for the initiation, implementation and sustainability of agricultural policy reform. In addition to highlighting issues like these, APAP II has developed practical tools and methods for agricultural policy analysis and implementation in developing countries.

The "Improving the Effectiveness of Agricultural Sector Policy Reform in Africa" research project was funded by the Africa Bureau of A.I.D. (AFR/ARTS/FARA) under a buy-in to APAP II, in an effort to improve the quality of policy reform efforts. The specific objectives of this activity have been (1) to gain better understanding of the political and socio-cultural factors that explain the success and failure of agricultural policy reform programs and projects in Africa; and (2) to develop a set of guidelines and training materials that will enhance the ability of A.I.D. staff and host country officials to effectively incorporate political and socio-cultural analysis into the design and implementation of agricultural policy and institutional reform programs and projects.

The role of policy leadership, the political impact of key technical assistance staff, and strategies for institutional change were examined in a range of countries and contexts using a common analytical framework. Field studies were conducted in Côte d'Ivoire, Mali, and Zambia, and desk studies examined Cameroon, Ghana, Madagascar, and Malawi.

This document is but one component of the research reports produced under the "Improving the Effectiveness of Agricultural Sector Policy Reform in Africa" task. The complete corpus of documents include:

Improving the Effectiveness of Policy Reform in Africa: A Synthesis of Lessons Learned, by Nicolas Kulibaba and Catherine Rielly;

Improving the Effectiveness of Policy Reform in Africa: Training Manual for Agricultural Development Practitioners, by Catherine Rielly and John Tilney;

Improving the Effectiveness of Policy Reform in Africa: Training Module by Catherine Rielly and John Tilney;

Improving the Effectiveness of Policy Reform in Africa: Cocoa Marketing Reform in Ghana by Nicolas Kulibaba;

Improving the Effectiveness of Policy Reform in Africa: Marketing Reforms in Malawi by Nicolas Kulibaba;

Improving the Effectiveness of Policy Reform in Africa: Maize Marketing Reform in Zambia by William Levine and Charles Stathacos;

Improving the Effectiveness of Policy Reform in Africa: Cereals Market Policy Reform in Mali by Ismael S. Ouedraogo and Carol M. Adoum;

Improving the Effectiveness of Policy Reform in Africa: Rice Market Liberalization in Madagascar by Catherine Rielly;

Improving the Effectiveness of Policy Reform in Africa: Fertilizer Reforms in Cameroon by Catherine Rielly;

Improving the Effectiveness of Policy Reform in Africa: The Politics of Agricultural Policy Reform in Côte d'Ivoire by Jennifer A. Widner with Atta Brou Noel.

EXECUTIVE SUMMARY

The purpose of this case study is to analyze the political dynamics of rice policy reform in Madagascar between 1982 and the present. The analysis focuses on how the **political process** contributes to the success or failure of reform.

Rice marketing liberalization in Madagascar stands out as an exemplary case of policy reform in Sub-Saharan Africa for a variety of reasons:

1. Rice's importance for urban welfare makes it a "political commodity," and thus the president and the ruling elite who surround him are especially sensitive to liberalization of the rice subsector.

2. A price stabilization strategy to reduce the political risk of reform was included by donors in the reform design.

3. As the first subsector liberalized under structural adjustment, rice set an important precedent of success and caused a "ripple effect" on other parts of the economy.

4. The reforms, particularly in their initial stages, are widely perceived as successful.

5. Donors exhibited a rare degree of coordination in support of the buffer stock program.

The politically important rice subsector suffered significantly from the low priority the regime gave to agriculture. Madagascar's dependence on rice is difficult to exaggerate. Rice is by far the most important crop in Madagascar in terms of area planted and value of production. Five times as much land was planted in rice than in any other crop, and the value of production was ten times greater than any other crop, according to 1984-85 agricultural census data (Dorosh et al. (1990). Well over three-quarters of Madagascar's farmers grow rice (World Bank 1991). Moreover, not only is rice the staple food throughout most of Madagascar, but the country's per capita rice consumption is the highest in the world.[1] As a result, rice's importance for urban welfare makes it a "political commodity."

In 1972, under the rule of Didier Ratsiraka, Madagascar embarked on a new era of socialism. Like other African regimes ideologically committed to socialism, the Ratsiraka government took over rice pricing and marketing, abandoning what had previously been a free-market system. It took only seven years of state management to destroy market-driven rice production and marketing. During Ratsiraka's tenure, rice production leveled off, yields ceased to improve, and rice exports have declined precipitously. By the time the Government sought aid from foreign donors in 1982, state management of the rice subsector had effectively broken down.

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[1] Madagascar's rice consumption ranged from 102 kilograms per capita for the lowest income quartile to 202 kilograms for the highest (World Bank 1991).

Hence, Madagascar was selected for analysis because its economic reform since 1982 has been widely cited as a success and as a model for other countries. This case study offers a more mixed view of reform outcomes.

The study follows a common analytical framework developed for all the field studies of this research effort. Agricultural policy reform is conceptualized as a three-phase process: initiation/adoption, implementation, and sustainability. For each phase of reform, the analysis addresses four levels of political interactions:

- Coalitions and mass political pressure

- Donor-government relations

- Political elite and factions

- Bureaucratic interaction

While the first phase of policy reforms (1981-84) did indeed succeed in liberalizing the rice subsector except in the Lac Alaotra and Marovaoy regions, implementing the second phase (1985-Present) was much slower and more difficult. Political dimensions of the policy process explain why the rice reforms succeeded in Phase 1, and lost their momentum in Phase 2, when liberalization was extended to the Lac Alaotra and Marovaoy regions. The result is partial reform, rather than a sharp move to a market-based system.

Two factors drove policymakers to initiate and implement **Phase 1:** the tandem crises - the breakdown of the state-based rice marketing system and the balance of payments crisis; and the commitment of "policy champions" to reform. Both of these were necessary, but not sufficient, conditions for reform. Policy champions were instrumental in selling the reform to President Ratsiraka and his ruling elite but they would probably not have prevailed had the state-run marketing system not broken down and the government not depleted its scarce foreign exchange on rice imports. Thus political timing was essential to the reform success.

Foreign technical assistance was a third important factor catalyzing reform in the rice sector. A foreign advisory team convinced host country policy champions of the need for reform by providing them with critical assessments of the distorted rice pricing system, and showing them its future implications. These three factors led to the elimination of the state monopoly on rice marketing in all but the two most politically important geographic regions of the country, Lac Alaotra and Marovaoy.

Political constraints blocked efforts to extend liberalization to these areas. Institutional arrangements in these regions and the powerful political actors they support subverted the reform implementation process. Intervention by the president's family and the ruling party disrupted the move to a privatized marketing system. Furthermore, actions taken by senior political leaders suggest that they lacked ideological or intellectual belief in market-oriented reform.

An important general theme that emerges from this case is that politics offers opportunities to *facilitate* reform, a conclusion that departs from the current tendency of foreign donors and academics alike to focus on how politics *constrains* reform. The challenge for the reform-minded, Africans and donors alike, is to think strategically about how to create the factors that lead to successful reform in less attractive political environments. The report's conclusions discuss some examples of how politics worked *for*, or could have worked for, reform in the Madagascar case and offers policy recommendations for donors which emerge from the lessons of the Malagasy rice reform.

1. INTRODUCTION AND BACKGROUND

The purpose of this case study is to analyze the political dynamics of rice policy reform in Madagascar between 1982 and the present. The analysis focuses on how the political process contributes to the success or failure of reform.

Madagascar was selected for analysis because its economic reform since 1982 has been widely cited as a success and as a model for other countries. This study focuses on reform of the rice subsector because rice is a "political commodity," which makes it particularly relevant for other Sub-Saharan African countries. Rice is a political commodity because it is so important for urban welfare and thus very important to the president and the ruling elite.

In 1972, under the rule of Didier Ratsiraka, Madagascar embarked on a new era of socialism. Like other African regimes ideologically committed to socialism, the Ratsiraka government took over rice pricing and marketing, abandoning what had previously been a free-market system. It took only seven years of state management to destroy market-driven rice production and marketing. During Ratsiraka's tenure, rice production leveled off, yields ceased to improve, and rice exports declined precipitously. While Madagascar had exported 26 thousand tons of rice in 1971, by 1981 it was importing over 350 thousand tons. By the time the government sought aid from foreign donors in 1982, state management of the rice subsector had effectively broken down. This aid was contingent on policy reforms by the government, which occurred in two phases: Phase 1 in 1981-84 and Phase 2 in 1985-present.

The former Minister of Agriculture, who initiated the whole reform process, described the difference between the nadir of 1980-82 and the post-reform situation in 1990 as being "between night and day" (Dash and Steedman 1990), while the preeminent foreign expert on rice reform declared of Madagascar's post-reform situation, "rice is a clear triumph" (Berg et al). However, this report's assessment of the reform process and its implementation is that the situation between pre- and post-reform Madagascar is not so clear cut.

While the first phase of policy reforms succeeded in liberalizing most of the rice subsector, implementing the second phase in the Lac Alaotra and Marovaoy regions has been much more difficult. Rather than representing a sharp move to a market-based system, the outcome of the latter reforms has been a "second best" solution of partial reform.[2]

This study analyzes rice pricing and marketing reforms in Madagascar between 1982 and the present. This case study will treat both rice pricing and marketing reforms in the same section, since the political dimensions of these two types of reforms are so closely intertwined. Two phases of rice reform are analyzed: Phase 1, 1982-84, and Phase 2, 1985-present.

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[2] Political economists analyzing African reform in other contexts have identified this tendency as "partial reform syndrome," also called "half-reform," or even "non-reform" (Gordon 1993).

This study identifies the political factors that contributed to these different policy outcomes. Political dimensions of the policy process explain why the rice reforms succeeded in Phase 1 and later lost their momentum when liberalization was extended to the Lac Alaotra and Marovaoy regions. This example challenges the conventional wisdom that in Africa, and in Madagascar, in particular, politics tends to constrain reform efforts. Foreign donors and scholars often emphasize the *negative* impact of politics on economic reform in Madagascar (Berg 1989, Blarel 1992, Goldman and Tomich 1992); and recent analysis of the politics of policymaking in Sub-Saharan Africa gives more attention to political decay than to political dynamism (Gordon 1993). Alternatively, the Madagascar case illustrates how politics can facilitate reform.

Two factors drove policymakers to initiate and implement Phase 1: the tandem crises — the breakdown of the state-based rice marketing system and the balance of payments crisis; and the commitment of "policy champions" to reform. Both of these were necessary, but not sufficient, conditions for reform. Policy champions were instrumental in selling the reform to President Ratsiraka and his ruling elite, but they would probably not have prevailed had the state-run marketing system not broken down and the Government not depleted its scarce foreign exchange on rice imports. Thus political timing was essential to the reform success.

Foreign technical assistance was a third important factor catalyzing reform in the rice subsector. A foreign advisory team convinced host-country policy champions of the need for reform by providing them with critical assessments of the distorted rice pricing system, and showing them its future implications. These three factors led to the elimination of the state monopoly on rice marketing in all but the two most politically important geographic regions of the country, Lac Alaotra and Marovaoy.

Political constraints blocked efforts to extend liberalization to these areas. Institutional arrangements in these regions and the powerful political actors they support subverted the reform implementation process. Intervention by the president's family and the ruling party disrupted the move to a privatized marketing system (Berg 1989). Contrary to its agreement with donors, the government replaced the official marketing network with a quasi-official circuit in 1988 and 1989. Actions by senior political leaders suggest that they lacked ideological or intellectual belief in market-oriented reform. Their acceptance of the need for reform appears to have been based more on reaction to the failed state-run agricultural system than on belief in the efficacy of the private sector or in reform ideology. Consequently, lack of political commitment eroded the reform package: the result was slow and partial reform.

This case study is divided into five parts. Part I desribes the political and economic context of the economic reform initiatives. Part II analyzes the political dimensions of the initiation and implementation of the first phase of rice reform. Parts III and IV assess the politics of initiation and implementation, respectively, of the second phase of reform. These three center sections (Parts II, III, and IV) offer explanations for rice policy outcomes at four political levels: (1) donor-government relations, (2) political elite, (3) bureaucratic interaction, and (4) mass political pressure. Part V provides an assessment of the political factors that either facilitated or constrained the reform process and concludes with policy recommendations for donors.

1.1 Economic Context for Reforms: From Sustained Agricultural Growth to Decline

After independence in 1960, Madagascar enjoyed several years of sustained agricultural growth. During the 1960s, market-oriented macroeconomic policies (exchange rate, relative prices, trade regime), favorable terms of trade, an efficient input supply system, and effective extension services and commodity market channels fueled this positive agricultural growth. At the same time, trade in agricultural commodities and inputs was conducted in a free market setting. However, the growth during the 1960s was highly dependent on external funding and technical guidance by French advisors. Furthermore, the growth process did little to diversify the structure of the economy, nor did it improve income distribution.

Disappointed with the political dependency on the French, Malagasy authorities embarked on an era of socialism in 1972. The new leaders instituted sweeping economic changes as they set out to "Malagasize" the economy. The result was a rigidly controlled, inward-looking, command economy. In a study of reform sustainability, David Gordon noted that in Madagascar, as in other Sub-Saharan countries that were ideologically committed to socialism, "economic development was an unmitigated disaster and led to a process of mutually-reinforcing economic and socio-political decline."[3]

The stated agricultural objectives of the new government included fundamental changes in the structure of production, notably:

- To extend government ownership and control over production, marketing, and processing systems.
- To move from traditional household farming systems to collective production systems.
- To rapidly decentralize the administration of agricultural services through local government reform.

The new government priorities were food self-sufficiency and accelerated industrialization. As a result, a large and disproportionate share of financial resources was devoted to industrialization, "the motor of development," at the expense of agriculture. This led to low levels of public investment in agriculture, with the largest share of agricultural investment spent on large-scale, capital-intensive farms. Consequently, the availability of agricultural inputs for small farmers declined.

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[3] David Gordon (1992) identifies this trend of disastrous economic and sociopolitical conditions in Guinea, Ghana, Tanzania, Ethiopia, Angola, and Mozambique, as well as Madagascar.

After Madagascar's ascent to socialism in the 1970s, agricultural growth was extremely low, and turned negative to minus 0.1 percent per year between 1980 and 1983.

Table 1.1. Madagascar: Macroeconomic Summary, 1961-1987

	1961-72	1973-77	1978-80	1981-82	1983-87
Real GDP[4] (Billion 1984 FMG)	1,189	1,352	1,417	1,349	1,351
Real GDP/Capita[5] (Thousand FMG 1984 FMG Prices)	188.3	177.1	167.2	148.6	143.2
Average Rice Production[6] (Thousand tons of paddy)	1616.7	1931.2	2025.3	1991.0	2126.4
Average Rice Production/Capita[7] (Kgs)	146[8]	142.6	135	124	124
Average Rice Imports[9] (Thousand Metric tons)	22.6	73.2	53.6	273.6	176.7
Average Rice Exports[10] (Thousand Metric tons)	30.4	4.4	1.1	0.9	0.05
Average Rice Import Subsidy[11] (Mn FMG)	0	3515	8426	9488.5	1344
Average Trade Deficit/GDP[12] (Percent)	5.8	2.8	13.2	9.8	6.1
Average Budget Deficit/GDP[13] (Percent)	0.8	4.2	12.8	11.9	4.7

[4]Dorosh, Paul. 1990. Macroeconomic Adjustment and the Poor: the Case of Madagascar, Cornell Food and Nutrition Policy Program, p 37.

[5]Ibid.

[6]Moini-Araghi, Azedeh. 1993. *Unequal Regional Distribution of Economic and Social Opportunities in Madagascar and Policy Efforts Toward Equalization*, Tufts University Thesis for Masters of Arts in Law and Diplomacy, pp. 75-76.

[7]Average Rice Production figures from Moini-Araghi, Azedeh. Capita figures from Dorosh, Paul.

[8]1973-1987 Figures from Dorosh, Paul. 1961-1973 Figures Calculated from Moini-Araghi, Azadeh. Moini-Araghi figures of Rice Production, Thousand Tons of Paddy were multiplied by the average conversion factor between Dorosh's figures and Moini-Araghi figures. This takes into account the discrepency between sources.

[9]Stryker, Dirck. 1993. Regional Specialization and Agriculture Growth in Madagascar, AIRD, p. 14.

[10]Moini-Araghi, Azedeh.

[11]Dorosh, Paul.

[12]Ibid.

[13]Ibid.

What explains Madagascar's poor performance in agriculture during this period? While economic factors explain the decline, its roots lie in the politics of development policy during the Ratsiraka era. Agricultural production was *not* a political priority of the government, in spite of the regime's goal of economic self-sufficiency. Instead, the Ratsiraka government pursued policies that effectively turned the intersectoral terms of trade between agriculture and the rest of the economy squarely against agriculture (Kristjanson et al. 1991). One such policy inaugurated by the regime was the "invest to the hilt" program, a Malagasy version of the Chinese Great Leap Forward. This strategy had catastrophic results: a quintupling of the foreign debt, a dramatic decline in per capita GDP, and a chronic balance-of-payments crisis lasting for a decade (Pryor 1990).

In 1978–79, state agencies took over most of the marketing of food and export crops and selling of goods to farmers. The government set prices and established marketing boards with monopoly power. The state-run agricultural system enabled the government to heavily tax the agricultural sector. Between 1975 and 1983, coffee producers received approximately 40 percent of the world price, on average, whereas vanilla and clove producers received only about 25 percent of the world price. The real exchange rate appreciated during this period, contributing as well to falling real prices of exports. The state-managed system distorted both consumer and producer prices of rice. By controlling rice imports, the government kept producer prices for rice below import parity prices. And the government fixed domestic consumer prices below border prices, as well. Low consumer prices were achieved only by spending significant resources (2.5 percent of GDP by 1981) on rice subsidies.

State procurement levels fell after government intervention abandoned any focus on augmenting production. Specifically, the local government reform of the 1970s reduced the provision of services to the agricultural sector, especially marketing. State agents had no motivation to travel to *"zones enclaves"* (isolated areas) to buy rice because the state price structure did not accommodate differences in transport costs to the farm. Consequently, farmers in isolated villages lost the opportunity to market their rice. While private traders had purchased rice in these areas in the past, the new state-managed system discouraged private sector initiatives and prevented entrepreneurial efforts to close gaps in the marketing chain.

Furthermore, the introduction of collective production systems sharply curtailed the amount of credit available to individual farmers. Provision of other important agricultural services and goods as well (e.g., road maintenance, irrigation, inputs, extension, research, rural infrastructure, and consumer goods) deteriorated as the government shifted its funding priorities away from the rural sector.

1.1.1 Economic Crisis Leading up to Structural Reform

Farmers responded to low prices, a deteriorating infrastructure, and poor services by reducing production of crops for domestic as well as export markets. This, in turn, reduced foreign exchange earnings, and necessitated increasing food imports from 20 thousand tons in 1970 to 350 thousand tons in 1982. Madagascar's rice subsector, in particular, reached a crisis point in the early 1980s as official procurement declined and imports rose substantially (Bernier and Dorosh 1992). The rise in rice imports was a major factor contributing to the ensuing foreign exchange crisis. The scarcity of foreign exchange restricted the availability of consumer goods and production inputs in the rural areas, as well as imports of raw material and energy for the domestic industry.

The oil shocks of the early 1970's hit Madagascar with particular severity, and throughout the decade heavy external borrowing for industrial—mainly import-substituting—investment, combined with an overvalued exchange rate created a balance-of-payments crisis. Concurrent price inflation and basic product shortages led to civil unrest in major cities. By 1981 this time, the agricultural production and foreign exchange crises had reached alarming proportions, while poor business climate had substantially diminished the role of the private sector in the economy.

Despite its ideological underpinnings, the socialist regime could not withstand pressure to liberalize the economy. Desperate for foreign exchange, Malagasy leaders were forced to undertake structural adjustments. In 1982, the government invited the IMF and the World Bank to organize a comprehensive program of stabilization and production-directed reform measures. In 1981, the IMF granted its first standby credit and in 1982 the government undertook a series of controlled devaluations. Reforms in the rice subsector were a major component of the overall reform program.

1.2 Political and Cultural Context for Reform

1.2.1 Regional and Ethnic Inequality

Regional differences have been very important in Madagascar's historical development, particularly the societal division between the people from the highlands, the *Merina* or Highlanders, and the people from the coastal regions, the *Côtiers*. The deep chasm between the two groups stems from the fact that the *Merina* have controlled the political and economic power from the time of the *Merina* empire in the nineteenth century until today. As a result, they have had better access to education and wage employment than the coastal peoples.

During the colonial period, the French government pursued a policy of reducing *Merina* hegemony. All post-independence governments recognized the importance of this issue, and aimed to reduce the regional disparities on the island. (The history of Madagascar's rulers and their regimes is arrayed in Table 1.2) President Tsiranana (1960–1972), a *Côtier*, pursued a policy that allowed increased numbers of people from regions other than the highlands to pursue the socioeconomic advantages that had previously been associated only with *Merina* status. In the Tsiranana government the Merina were under-represented in cabinet posts, but they nevertheless held most of the high civil service posts because of their educational level and because the capital of the country, Antananarivo, is located in the center of *Merina* territory. Antananarivo's role as an educational center increased the advantages of the *Merina* over the *Côtiers*.

Madagascar's second long-term president, Ratsiraka (1975–1992), tackled the problem of regional equity through decentralization by promoting local institutions of self-governance. (See Box 1, Decentralization and Regional Inequity in Madagascar.) Ratsiraka, a *Côtier*, carefully balanced and neutralized competing family, ethnic, and economic interests to maintain his political base (Pryor 1992). Nonetheless, the Ratsiraka government's nationalization program provided additional opportunities for the *Merina* to advance themselves, especially because about half of the nation's industrial production—the government's economic priority—is located in the *Merina* region.

Decentralization and Regional Inequity in Madagascar

With the advent of the Socialist Charter and the adoption of a socialist ideology in 1985, equity became a main objective of Madagascar's socioeconomic policy. The socialist government tackled the regional equity problem through decentralization by promoting local institutions for self-governance. Decentralization policy became a matter of law.

These new laws paved the road for greater democracy at all levels of political, administrative, and economic decision-making. A key policy instrument for extending power to the local level was the *fokonolona* reform, which created different levels of local government based on pre-*Merina* community structures. The fokonolona, perceived as Ratsiraka's creation, are viewed by some Malagasy as mechanisms of exploitation by the national and local elites.

Although all post-independence governments ostensibly pursued the goal of regional equity, more specific actions to achieve the objective were not taken. Local government reform in Madagascar had at best limited success (Moini-Araghi 1993). In theory, local government institutions in Madagascar have been given a great deal of power and autonomy, but in practice, these institutions have neither succeeded in developing an efficient system for delivering public services nor in successfully transmitting market-oriented economic policy from the center.

Political decentralization was not associated with a corresponding reallocation of national financial resources. A recent study found that although government transfers account for more than 60 percent of local government resources, they are fraught with problems, including delays in transfer schedules and reliability and relevance of allocation criteria (Kristjanson et al. 1991).

The failure of decentralization is historically rooted in the ethnic and political frictions between the *Merinas* and Madagascar's other ethnic groups. The central authority in Madagascar has been dominated by the *Merina* ethnic group, who control the allocation of resources. In this respect, they have not only extracted the necessary resources from the decentralized communities and thus limited their ability to be effectively autonomous, but also have used these resources to extend *Merina* power to the local levels.

Figure 1: Political Economy of Rice Reform: Initiation Phase I

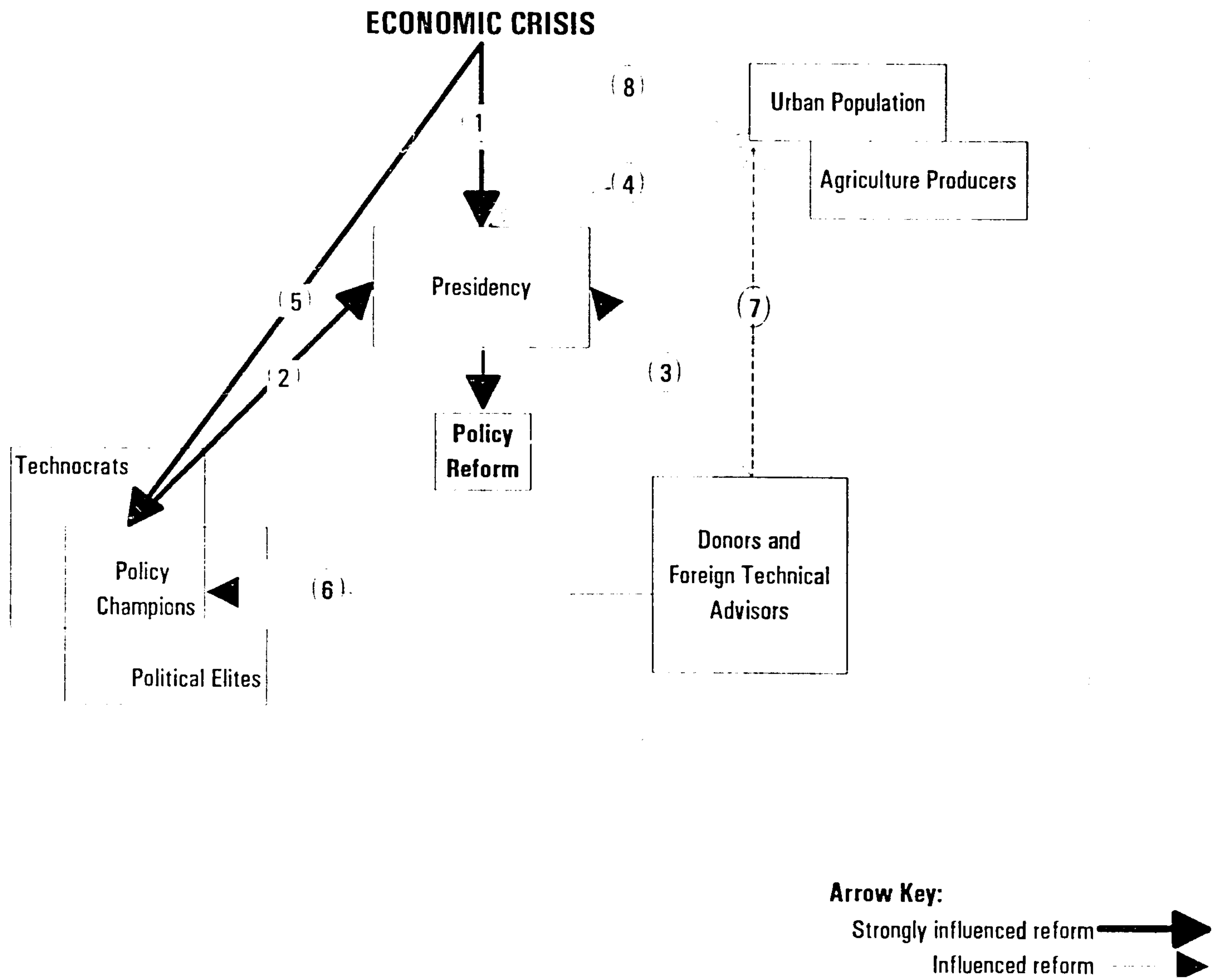


Table 1.2 Madagascar's Rulers and Their Regimes: 1960 - Present

Leader/Party/Rise to Power	Year	Regime type	Political Events / National Policies	Foreign Policies
Phillibert Tsiranana (PSD)[14] *Elected 1958 and 1972.*	1960-1972	Moderate Socialism	Established presidential type of constitution with characteristics of multi-party democracy.[15] Consolidated power and centralized government during tenure.	Relied heavily on France and Western Block. Rejected diplomatic relations with communist countries.
Gabriel Ramanantsoa *Granted mandate to govern through 1972 referendum.*	1972-1975	Hard-line Socialism	Filled key posts with military officers. Nationalized industries and created state marketing boards.	Established diplomatic relations with socialist countries[16] through policy of nonalignment. Withdrew from Franc Zone.[17]
Col. Ratsimandrava	1975		Assassinated after 6 days.	
Lt.-Commdr Ratsiraka (AREMA)[18] *Invested power after assassination.* *Granted mandate to govern under new constitution through 1975 referendum.* *Elected 1980, 1981 (with constitution changes) and 1989.*	1975-	Socialist Military Directorate	Continued nationalizing industries and pursued policy of investment and heavy borrowing (1978). Negotiated loans with IMF (1981) after balance of payments crisis (1980). Launched Austerity Program (1982).[19] Deadlock developed between Ratsiraka and leading opposition party[20] over constitutional changes.[21] (Early '91) General strike and threats from the military forced him to relinquish powers to Zafy but Ratsiraka remains ceremonial head of state.	Strengthened relations with communist and Arab states. Supported all anti-imperialist liberation movements in developing countries. Closed US satellite-tracking station and maintained hostile relations with US. Continued to maintain neutral foreign policy. Opened Navy ports to France in exchange for loans.
Albert Zafy (CFV) *Gained supervisory authority over government (10/90). Elected Feb. 1993.*	1990-1993?	Multi-party Democracy Economy Liberalism	Passed new constitution diluting power of president by referendum (8/92). Changed to parliamentary rule and held elections for National Assembly (6/93). Andriamanjato is favored candidate for prime minister.	Invited donors to finance an emergency economic recovery plan. Initiated relaunching of structural adjustment program with IMF and World Bank.

[14]Parti Social Democrate, predominately a party of the *cotier* (the coastal people).
[15]Including an impartial judiciary and a large measure of press freedom.
[16]China, USSR, Arab nations, and "revolutionary" African states.
[17]Withdrawing from the Franc Zone was part of the renegotiated cooperation agreement with France.
[18]Vanguard of the Malagasy Revolution.
[19]This program led to the resumption of multi-party politics and the abolition of press censorship in 1990.
[20]CFV (Comite des Forces Vives) was the leading opposition party.
[21]The CFV did not accept Ratsiraka's constitutional changes, because they did not reduce the president's dictatorial powers.

1.2.2 Regional Politics and Political Leadership

Resistance to the colonial system developed gradually after the end of World War II with the return of Malagasy soldiers from France. In 1946, young Malagasy intellectuals formed a new party, *Mouvement de la Rénovation Malagache* (MDRM), with the aim of immediate independence from France. The leaders of MDRM were predominantly *Merina* and Protestant. At the same time, the creation of another party, the *Parti des Déshérités de Madagascar* (PADESM), Party of the Deprived of Madagascar, aimed to unite the underprivileged sectors of the population. The PADESM attracted members, mainly the coastal peasants and former slaves of the highlands, by awakening fears that early independence as proposed by MDRM would lead to a reimposition of *Merina* domination. The French soon realized that the coastal people's suspicions of the Merina were their best weapon against the independent demands of MDRM.

The new leader after independence, President Tsiranana, a *Côtier*, rejected the existing Malagasy students' organization as both too nationalist and too Merina. He founded a rival Social Democratic Party (PSD) which essentially became the party of the *Côtiers* despite the fact that it represented inter-regional and inter-ethnic groups. Tsiranana's political strength emerged from his capacity to remain above ethnic tensions and portray himself as a unifying force (Kottack 1980).

His strongest support came from conservative interests, including Malagasy businessmen, elites with ties to France, and minor bureaucrats. Tsiranana and his supporters benefited from maintaining close ties to the former colonial regime. The regime's political hold on the island was not wholly consolidated in 1960 and the administration, in spite of regional recruitment quotas, was still dominated by Merina. Tsiranana used the French as a counterweight to Merina domination.

In the early 1970s, Tsiranana's political base weakened due to falling incomes and production, especially in the south, in response to the following factors: a succession of natural disasters in 1971-72; student strikes in the urban areas (following the student strikes in Paris in 1968); a split in the party between Tsiranana's aspiring successors; and his ill health (Pryor 1992). Tsiranana had to call in the police and army to quell civil disturbances, and since that time, the police and the army have played an important political role, and all succeeding Malagasy presidents have come from the military, where the Merina were disproportionately represented among top army leadership (Pryor 1992). Tsiranana relinquished powers to General Ramanantsoa, chief of staff of the armed forces, after 34 people were killed in a violent clash between security forces and protestors.

It is no coincidence that the next president, Gabriel Ramanantsoa (1972-75) was a *Merina*. He formed a government of soldiers and technocrats and took measures embodying strong nationalist sentiment that would prove to be extremely costly to the economy (Pryor 1992). Ultimately, Ramanantsoa proved a weak leader and was forced to resign by the military leadership. A mutiny by the mobile police, a mainly *Cotier* force, protesting *Merina* domination in the armed forces, led to Ramanantsoa's relinquishing powers to Col. Ratsimandrava, who held office for only six days before being assassinated. In June 1975, Ratsiraka was invested as head of state after Madagascar experienced four months of rule by an 18-man directorate. Didier Ratsiraka used new state enterprises set up by Ramanantsoa to take over certain sectors of the economy previously monopolized by foreigners.

In December 1975, a referendum was held in which Ratsiraka won a seven-year term as president, winning more than 90 percent of votes cast. The referendum was widely interpreted as an endorsement of Ratsiraka's charter of administrative reforms, fokonolana-based agrarian reform, reorganization of the armed forces, and pursuit of a nonaligned foreign policy. He took quite a different approach toward the governance of a patrimonial state than his predecessors, successfully using ideology as an important tool to gain the support of the educated urban elite and to maintain his political legitimacy. However, Madagascar's economic decline in the early 1980s had a political cost for Ratsiraka: erosion of popular support for the revolutionary ideology that had previously unified the nation and strengthened Ratsiraka's personal political position.

Political protest against Ratsiraka's authoritarian rule broke out in street riots in 1991 (see Table 1.3). The leading opposition party, *Comité des Forces Vives* (CFV), organized a general strike calling for his resignation. A deadlock developed between Ratsiraka and CFV. The subsequent arrest of the leader of the opposition, Albert Zafy, fueled more demonstrations. The crisis escalated until October 1991 when generals announced that they would take over the government if the politicians could not reach agreement. Consequently, Ratsiraka relinquished executive powers to Zafy, but remained as ceremonial head of state. In 1992, Malagasy voters passed a referendum that diluted the power of the president and strengthened the hand of the legislature. Madagascar changed to parliamentary rule in June 1993, the year Zafy was elected president. Zafy invited donors to finance an emergency economic recovery plan and relaunched the structural adjustment program that had been suspended in response to political unrest.

1.2.3 Political Protest

The middle-class urban residents on whom the government was most dependent saw Ratsiraka's policies erode their standard of living through inflation, tax increases, import scarcity, and the removal of subsidized rice prices. Economic collapse hit the cities hardest, when the number of salaried jobs declined drastically. Even in population centers, where government presence was strongest and most visible, there were signs of a loss of public confidence in the regime. Members of the urban middle class were increasingly hesitant to support Ratsiraka's policies and did not trust him to make changes that would benefit them (Moini-Araghi 1993). Urban opposition to Ratsiraka's rule took forms including riots and outright attacks on local administrators and elected officials (Table 1.3). Students also played an important role in leading protests against the regime.

Political protest against the Ratsiraka regime disrupted the reform process in 1992. These political events were inspired in part by the fall of the communist regimes in the Soviet Union and Eastern Europe. Madagascar, having been a client state of the Soviet Union, not only lost a valuable source of economic support, but also witnessed the discrediting of the very ideology which had inspired its leaders.

Table 1.3: Political Protests in Madagascar: 1972 - 1991

Event & Date	Participants	Causes	Resolution
Port Riots and Strikes *Late 1972 & April 1973*	Port towns dwellers.	(1) Ramanantsoa fueled *cotier's* (the coastal peoples) fear of Merina domination by introducing a cultural policy which promoted Malagasy as the official language and "Malagasized" the education. (2) Ramanantsoa establishes diplomatic relations with socialist countries.	(1) Ramanantsoa created parallel French and Malagary school systems and arrested many conservative PSD *cotiers*. (2) Ramanantsoa renegotiated Madagascar's cooperation agreements with France which pleased nationalists, especially radicals.
Mutiny near Antananarivo *31 December, 1974*	Mobile police.	Friction between mobile police and armed forces.	Ramanantsoa handed over powers to Col. Ratsimandrava (2/75) who was assassinated 6 days later. Ratsiraka was invested as head of state and later installed as president through a referendum (12/75).
Rural Drought Riots[22] *1978-79 / 1981*	Provincial, rural.	Drought.	Ratsiraka defused tension by releasing Jaona, the leading opposition figure, from detention (3/81).
Outbreaks of Violence Induced by Economic Crisis *Jan. 1982*	Towns and along west coast.	(1) 1981: Economic decline forced Ratsiraka to negotiate IMF loans with conditions conflicting with socialist doctrines. (2) 1982: Ratsiraka announced candidature for second term as president and cyclones exacerbate economic crisis.	(1) Ratsiraka postponed elections and amended the constitution so only parties of FNDR[23] could offer presidential candidates. (2) Ratsiraka reallocated ministerial portfolios and made new appointments.
Riot incited by Jaona's Speech *December 1982*	Urban.	Jaona gave public speech demanding general strike after losing '82 election to Ratsiraka. Jaona refused to accept Ratsiraka's victory, attributing it to electoral fraud, since Ratsiraka had earlier accepted politically unpalatable conditions[24] for a second IMF loan.	Jaona was arrested and removed from CSR (Council of the Revolution).
Student Protest *11/86 - 3/87*	Students.	The Education Minister declared he would require students to prove their status in response to the discovery of a student "mafia" in black market activities.	Troops attacked and occupied campus, arresting students (2/87).
Food Riots *1986-87*	Southern Rural.	Famines and food shortages in the rural south. Jaona announced that 40,000 people had died from starvation.	Not resolved.

[22]Sporadic violence in rural provinces gathered momentum and culminated in rioting in Feb. 1981.
[23]The National Front for the Defense of the Revolution consisted of parties which campaigned for an affirmative vote in the 1975 referendum.

Event & Date	Participants	Causes	Resolution
Attack on Indo-Pakistani traders *Nov. 1986 - 1987*	Southern town.	Fear that only Indo-Pakistani businessmen would benefit from privatization (a condition of the IMF Structural Adjustment Program).	Not resolved.
Post-Election Riots *Mid-April 1989*	Urban.	ADM[25] alleged that serious irregularities took place after Ratsiraka won the '89 election.	Not resolved.
Attempted Coup *13 May 1990*	Armed rebels/ Protestors.	Dissatisfaction with government.	(1) The armed rebels who seized control of the Antananarivo radio station, and the anti-government demonstrations surrounding the station, were suppressed by government forces the same day.
Political Strikes *June 1991 - Oct. 1991*	Urban.	CFV[26] organized a general strike (300,000 people) calling for the resignation of the president. A deadlock developed between Ratsiraka and CFV (Early '91). When Ratsiraka arrested Albert Zafy[27] and demonstrations became more fueled.	Rastiraka releases Albert Zafy but refuses to resign.
Demonstration at the Palace *Aug. 1991*	Urban.	Government fires upon CFV demonstrators at Ratsiraka's palace.	France, Malagasy Military Generals and Churches call for Ratsiraka's resignation. Ratsiraka refuses to resign.
Military Threat of Takeover *Oct. 1991*	Military.	Generals announce they will take over government unless politicans can reach an agreement by Oct. 1991.	Ratsiraka relinquishes executive powers to Zafy but remains as ceremonial head of state.

[25] ADM (Alliance Democratique de Madagascar) was formed when parties within the FNDR began calling for the resignation of the government in 1987.

[26] Comite des Forces Vives was the leading opposition party.

[27] One of the leaders of the CFV.

2. RICE MARKETING REFORMS, PHASE 1: INITIATION AND IMPLEMENTATION

2.1 Initiation/Adoption Stage

In this section, the interactive model presented in Figure 1 will be used to symbolize the dynamic forces that influence reform initiation. The presidency is the hub of the policymaking process because it is the only place where policy reform has been generated. Analyzing the influences on the presidency (arrows 1, 2, 3, and 4) and their strengths can provide us with a better understanding of the processes that occur within the presidency to generate policy reform.

2.1.1 Summary of Results

The two most significant forces that influenced the presidency to initiate reform in 1982 were:

1. Economic crisis: the breakdown of the state-based rice market system and the balance of payments crisis.

2. Commitment of "policy champions" to reform, on the basis of their understanding of the economic consequences of this breakdown.

Foreign technical assistance was another important factor in initiating reform. Foreign advisors informed host country policy champions about the decaying state of the rice subsector and convinced them of its unsustainability under state control.

Description of Schematic Diagram: Initiation Phase 1

Schematic diagrams (Figures 1-3) will be used to map out the dynamic forces that influence the initiation and implementation stages of reform. Figure 1 represents a dynamic model of "The Political Economy of Rice Reform: Initiation Phase 1." The boxes in this diagram represent the key political actors: (A) the presidency (consisting of the president and his top advisors), (B) donors and foreign technical advisors, (C) the policy champions (a subset of both the political elite and the technocrats), and (D) the urban population and the rural interests. The arrows depict the dynamic interactions among the key political actors in a crisis environment, and are numbered for easy reference. The thickness of the arrows illustrates the relative importance of each influence on the outcome of reform.

The schematic diagram illustrates that converging interests (arrows 1, 2, 3, and 4) catalyze reform by influencing the presidency, represented by the box at the center of the diagram.

Key factors driving reform initiation (represented by arrows) are:

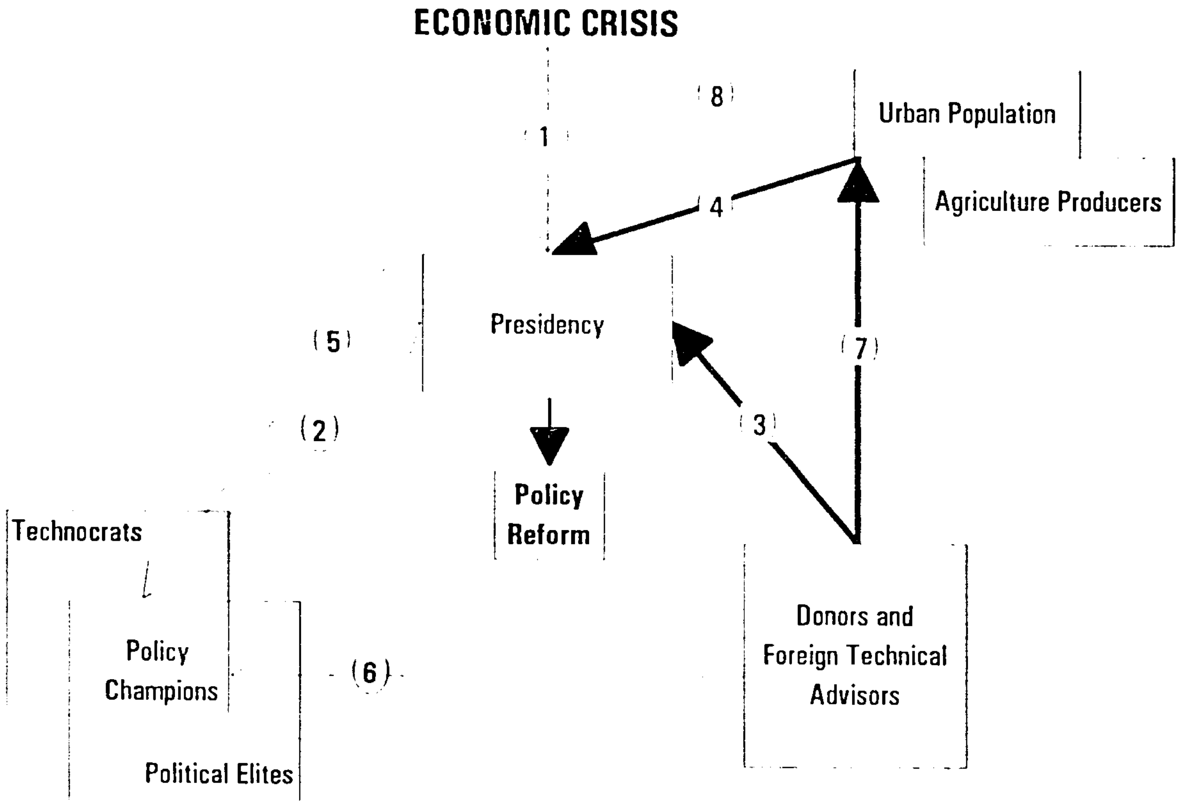
Arrow 1-influence of economic crisis on the presidency

Arrow 2-influence of policy champions on presidency

Arrow 6 (contributing to Arrow 2)-influence of foreign advisors on policy champions.

Donors (Arrow 3) and the impact of the crisis on the urban population - potentially threatening the regime's political survival - (Arrows 8 and 4) played necessary but less significant roles in reform initiation. Dotted Arrow 7, the interaction between donors and urban population/rural interests, does not play a role until the implementation phase (See Figure 3).

Figure 2: Political Economy of Rice Reform: Initiation Phase II



Arrow Key:

Strongly influenced reform

Influenced reform

2.1.2 Role of the Presidency

This section describes the factors that influenced the presidency to reform policy. Why did the government agree to the IMF conditions, which conflicted with its official socialist doctrine? Why did the Leftist regime agree to end state control over its most important market? And more generally, why did Ratsiraka agree to transform the economy from Marxist to free market?

The two forces which most strongly influenced the presidency to initiate reform in 1982 were the economic crisis and the commitment of "policy champions" to reform. Donors, and urban and rural populations/interests played important, if less significant, roles in influencing policy reform.

It is also important to understand the *interaction* of these influences in catalyzing reform. The collapse of the state-run marketing system triggered an economic crisis and, thereby created a political environment that was conducive to reform. Not only did the crisis signal the weakening of state control over the economy, it also made political survival of the regime tenuous. The president's political legitimacy—even his survival—was riding on his ability to turn the economy around.[28] Indeed, Madagascar's economic decline could have had a political cost for Ratsiraka—a loss of popular support for the ideology that had allowed him to consolidate his political position in the 1970s. Indeed, on the eve of reform the president knew he was in trouble, having received only 50 percent of the *Cotier* vote from his native region in the 1982 elections.

The political impact of the economic crisis put pressure on the President to take action immediately. At this moment in Madagascar's history, the political and economic rationales for reform overlapped and created an environment where both policy champions and donors could gain access to the presidency to help resolve the crisis through policy reform.

2.1.3 Role of Donors and Foreign Technical Advisors

IMF/World Bank Loans. The crisis atmosphere of Madagascar in the early 1980s made the nation politically ripe for reform. By 1982, when the government could no longer afford its rice import bill, it was obliged to consider breaking up the state monopoly on rice marketing. Madagascar's communist allies could no longer provide financial aid on the scale necessary to support the economy. Desperate for foreign exchange and donor funding, the government sought recourse to the Western donors.

In 1983, the government met with the Paris Club of official creditors to negotiate the terms of structural adjustment. The international financial institutions set two conditions for

[28]Mass political pressure, especially from rural interests, was not an influencing factor in itself, as dotted arrow 4 indicates. 'ever, the presidency may still have viewed the resolution of this crisis as crucial for political survival based upon *expectations* rotest.

reform of the rice subsector, and the government agreed in order to receive the IMF stamp of approval and World Bank loans. The government was obliged to: (1) raise consumer rice prices from 65-75 Malagasy Francs (MF)/kilo to MF 140/kilo (still a highly subsidized price); and (2) submit a plan for liberalizing the rice subsector.

Thus, the reforms were more a product of necessity than a forced response to donor demands, according to one member of Madagascar's Supreme Revolutionary Council, the country's highest decision-making body. He asked:

> Were we forced to implement the measures prescribed by these two financial institutions [the World Bank and IMF]? The new economic program designed to bring about a real recovery calls for a fundamental change . . . Had the World Bank and the IMF not imposed these reforms, we would have implemented them anyway (*Madagascar Matin*, May 9, 1988).

It is clear that economic—and political—necessity arising out of the past seven years of state management was one factor behind the adoption of the reform program. This factor was not, however, sufficient to bring about reform. The influence of foreign technical advisors on policy champions also played a critical role.

Influence of Foreign Technical Advisors on Policy Champions. Foreign technical advisors played an important role in reform initiation by convincing "policy champions" of the need for liberalization. In 1981, the Government invited a World Bank-sponsored technical assistance team[29] to improve the management of the rice subsector. With a focus on policy and management,[30] the team set out to develop a clear sector development program through studies and diagnoses.

The consultants' diagnostic study of the rice subsector had a major impact on the Government's decision to undertake reform. In retrospect, policy actors at the Ministry of Agriculture agreed that the foreign advisors' report was critical to launching the reform. According to an evaluation of the technical assistance project, agricultural policymakers believed the report was: "catalytic in bringing to open discussion issues and problems of major concern to everyone in the [Agricultural] Ministry" (World Bank 1989).

The team's technical analysis focused on the distorted rice price system and its implications for the future. The foreign advisors used diagnostic studies such as this to build host-country capacity to analyze market-driven reforms. Documenting the calamitous state of

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[29]An American consulting firm with experience in rice marketing in West Africa, Associates for International Resources Development (AIRD), was chosen to provide the technical assistance.

[30] World Bank staff decided that the technical assistance should be oriented toward policy, rather than toward traditi agricultural services, after the project identification leader sensed that the Government was ready to soften its Marxist, ideolo views and take a more pragmatic approach to the rice subsector.

the rice subsector with visually powerful charts, foreign economists convinced policy champions of the subsector's unsustainability under state control.[31] Indeed, after studying the report, the Minister of Agriculture championed the reforms by calling the attention of top policy elites to the report. Armed with the report's technical ammunition, he convinced the Minister of Finance and the Director-General of Planning of the importance of rice reforms. It is unlikely that the reform could have gotten off the ground if Malagasy technocrats had not been induced to grapple with the state of the rice subsector, as the advisors portrayed it. In other African contexts, as well, access of donor representatives to host-country technical staff has been cited as a key factor contributing to successful reform.[32]

2.1.4 Role of Policy Champions: Bureaucratic Interaction

Access to the Presidency. Key members of the politico-technical elite convinced the top political leadership to make the tough decisions necessary to turn the rice subsector around. The man who led the Malagasy delegation to the Paris Club in 1982, Nirina Andriamanerasoa, was the most important policy champion. Minister of Agriculture at the time, Andriamanerasoa became Special Economic Advisor to the president the following year. His educational experience, technical training, and bureaucratic access empowered him to influence policy change at the level of the presidency. Minister at the age of 33, he was among Madagascar's "best and brightest." When the president needed a high-level technical advisor to oversee the reforms, he turned to Andiramanerasoa.

To become a policy champion in a close-knit regime such as Ratsiraka's, it was essential to belong to the political, as well as the technocratic, elite. Andriamanerasoa's political connections and technical acumen and his position as Ratsiraka's Special Economic Advisor enabled him to obtain the president's commitment to reform. The proximity of such a progressive reformer to the president enhanced the probability that the reforms would be adopted. Furthermore, with a policy champion in a key political post, foreign technical advisors had special access to the presidency.

He surrounded himself with other capable technocrats such as Yves Leon Ramelison, who had served in his Cabinet and succeeded him as Minister of Agriculture. Other progressive political leaders who championed reform were Finance Minister (1983-87) Pascal Rakotomavo, and Leon Rajaboliani, who was Governor of the Central Bank in the 1970s and 1980s.

Developing Committed Policy Champions. The two most significant forces that caused the policy champions to push for reform were the provision of foreign technical assistance and their perception of the severity of the economic crisis. The policy champions' rigorous

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[31]One such chart prepared by the technical team was especially powerful tool for converting policymakers to support the reform ort. Entitled, L'Hemorraghie de Devises ("The Foreign Exchange Hemorrhage," in English), it depicted in red the amount of eign exchange necessary to finance Madagascar's rice imports-in bill. Such an image conveyed the extent to which subsidized nsumer rice prices had truly "bled" the Malagasy economy.

[32]Parti Social Democrate, predominately a party of the *cotier* (the costal people).

educational training abroad e.g., Andriamanerasoa at *Ecole Polytechnique* and Ramelison at *Ecole Supérieure d'Agronomie Tropicale* in Paris enabled them to understand the technical implications of the rice crisis (Rajoelina 1988). When foreign advisors presented them with economic data and analysis, the disastrous state of the rice subsector—built up over seven years of state management of marketing—made a strong impression on the host country technocrats. While the members of this technocratic team had *not* been liberals in the past, they learned about economic liberalization from foreign technical advisors.

The policy champions illustrated that they were progressive pragmatists when they agreed to rice liberalization at the Paris Club in 1983. Before the Paris meeting, the technocrats reviewed a diagnostic study of the rice subsector prepared by foreign technical advisors who proposed three different scenarios for rice reform. Led by the Agriculture Minister Andriamanerasoa, the delegation chose the most extensive reform package as the basis for the rice reform plan, which was a condition for donor assistance. This bold endorsement of the most dramatic structural reform package surprised the foreign advisors who had created the plan. The local technocrats had "internalized" and begun to "own" the reform program themselves.

The momentum generated by these progressive technocrats behind reform suggests that donors interested in liberalization should cultivate the development of policy champions. The important role of policy champions illustrates how politics can be used to facilitate reform. These progressive leaders used their technical skills and access to provide feasible, politically sensitive solutions to the president at the right time. They took advantage of the crisis atmosphere, a conducive political environment in which to champion reform.

Policy Champions: Insufficient Condition for Reform. While these policy champions were greatly influential in the reform process, it is unlikely that their pro-reform view would have prevailed if Madagascar were not suffering from tandem crises: the collapse of rice marketing and production and the balance-of-payments crisis. Had the state-run marketing system not broken down and the government not depleted its scarce foreign exchange on rice imports, the policy champions would probably have lost the reform battle. While these technocrats swayed the president toward reform, the dire state of the economy, as well, drove the president to act on reform. The crisis influenced the president directly, through the policy champions interpretation of its impact, and through his perception of possible urban unrest. The regime feared it would crumble unless it could revive its economy with foreign exchange and loans from the West. The fact that his previous style of economic management—state control—had been discredited both compelled him to reform and enhanced the chances that reform would be accepted.

2.1.5 Role of Urban Population/Rural Interests: Importance of Consumer Rice Prices and Perceptions of Political Vulnerability

Madagascar's socialist regimes indoctrinated intellectuals and the general population alike in the ideology of total equality. This socialist belief translated into cheap rice for everyone, and over the years, consumers had become more and more accustomed to subsidized rice, which increased the challenge to reform of the subsector. The political elite believed that maintaining low consumer prices was critical to the sustainability of the Ratsiraka regime. It was the President's perception that consumers might revolt in response to higher rice prices, rather than grassroots lobbying from below, that influenced his decision to reform. Consumers did not actually put their own interests on the political agenda—through collective representation, for example—at the reform-initiation stage.

Despite Ratsiraka's fear that urban consumers might riot, he heeded the advice of policy champions and foreign technical advisors to "get the rice prices right." The President made a political gamble when he lowered consumer rice subsidies. Ratsiraka won the bet, at least in this first stage of reform. In the second stage of reform, however, Ratsiraka's preoccupation with winning the 1985 and 1988 elections motivated him to return to his previous policy of low consumer prices.

2.2 Implementation Phase 1, 1982-84

By 1983, the monopoly on rice marketing had been eliminated in all but the two most politically important geographic areas, Lac Alaotra and Marovaoy. Donors often cite this first phase of rice marketing as one area of significant progress in terms of domestic structural adjustment. In contrast to the Phase 2 reforms discussed below, Phase 1 liberalization was accomplished relatively swiftly. By 1985, the legal ceiling price for rice had been abolished. The difference between consumer and producer prices for rice (except those discussed below) shrunk significantly in almost all regions of the country, largely as a result of the reforms.

2.2.1 "Winners" from Reform

Donor teams reported from the field that political actors involved at all stages of rice production—farmers, traders, and millers, alike—have benefited from the reforms (Berg et al. 1989; Kristjanson et al. 1991). Production incentives (higher prices and freer markets) since 1983 have shifted in favor of rice cultivation. Increases in paddy output reflect this supply response.[33]

Higher rice prices after the liberalization were the major factor underlying rising producer incomes between 1982 and 1986. Gross revenues increased by 45 percent between 1982 and 1985 and by 56 percent by 1986 among small farmers in Antananarivo (Dorosh et al.

Favorable weather conditions contributed to this positive supply response. The rehabilitation of irrigation infrastructure in Lac Alaotra may have stimulated iction increases, which began in 1987, as well as record-breaking prices and freer marketing (Berg 1989).

1990). Experts from the field report that farmers exercise much greater control over their crop marketing than they did under the monopoly. Berg reports that, "they [farmers] now decide for themselves when to sell, whether to mill their paddy themselves, and whether to take it to local markets" (Berg et al. 1990).

A recent study by Abt Associates found that since the implementation of liberalization policies, "most markets have steadily grown more dynamic" (Kristjanson 1991). Other reports from the field claim that the rice market has opened up to many new participants, as institutional barriers break down (Berg 1990). In particular, the intermediary class of collectors, traders, and transporters has grown. The number of authorized rice mills increased from 999 in 1983 to 1,577 in 1985 and more than 2,000 in mid-1987. The number of unauthorized millers grew even more rapidly. Registered traders doubled in number but were only one-tenth as numerous as unregistered traders (Berg et al. 1990). These active new agents, along with the farmers, have transformed rice marketing. They have responded energetially to the lowering of entry barriers and transport costs and have broken frequent attempts by parastatals and established traders to "impose order" on the market, that is, to fix prices. The net impact for both farmers and intermediaries is that price signals now get through more clearly and have been the major factors stimulating farmers to increase their production.

Increased competition among collectors is providing new outlets for producers in remote areas. Before liberalization producers living in enclaved areas failed to sell all their harvest because the parastatal monopoly did not choose to purchase the commodity in these regions. Since liberalization, collectors are willing to purchase crops and transport them by headload 30 to 40 kilometers to the nearest road, despite the bad conditions.

3. INITIATION OF PHASE 2 : LIBERALIZATION OF LAC ALOATRA AND MOROVAOY

By 1983, the government had successfully implemented Phase 1 of the policy reforms by legalizing rice marketing in all areas of the country except Lac Aloatra and Marovaoy. In 1986, however, the government refused to initiate Phase 2 of the rice price reforms, which included liberalizing these two large reserve areas. This section examines those factors that caused the presidency to initially block the adoption of Phase 2, and later agree to its initiation.

The dynamic forces that influenced Phase 2 of the policy reform are shown in Figure 2. Unlike the first phase, the second phase of initiation involves only the following political actors: the presidency, donors, and the urban population.

3.1 Summary of Reform

The donors' inclusion of a buffer stock as a "sweetener" was the most significant force influencing the presidency to initiate the second phase of reform. This political process worked as follows:

1. The presidency expressed a fear to the donors that the implementation of Phase 2 would provoke civil disobedience in the urban areas.

2. The donors set up a buffer stock to reduce the risk of urban unrest and make the initiation more palatable to the presidency.

3. The presidency, feeling more confident that the initiation of Phase 2 would not become a political risk, agreed to initiate the second phase of reforms.

3.2 Presidential Fear of the Negative Impact of Reforms on the Urban Population

Unlike the initiation of Phase 1, the presidency's concerns of possible urban unrest played a much bigger role in initiation of Phase 2. The specific concern was that the comprehensive removal of government monopoly and price controls throughout the country could lead to urban rice shortages and potential political unrest. Furthermore, the government perceived the sharp curtailment of rice imports after 1983 as increasing the potential risk of urban rice shortages. Therefore, the government maintained control of the Lac Aloatra and Marovaoy surpluses to ensure against such urban rice shortages.

3.3 Donor Relations with the Presidency: Breaking the Impasse

Because the government was unwilling to risk dissolving the monopoly on rice in these two regions, it could not reach agreement with the World Bank on the Agricultural Structural Adjustment Credit (ASAC). A high-profile meeting between President Ratsiraka and World

Bank Vice President Jaycox in Madagascar on November 7, 1985, broke the impasse. The government finally agreed to liberalize these two politically "hot" zones, in exchange for a donor-financed buffer stock, created to minimize the political risk to Ratsiraka's government. As Jaycox recounts:

> During my recent visit to Madagascar, I had the opportunity to appreciate the current foreign exchange crisis, and the Government concern for an adequate rice supply. This had already been stressed by President Ratsiraka when he met with Mr. Claussen[34] on October 25, and was further emphasized in the meeting I had with him. As a *quid pro quo* for the opening of the two major rice surplus areas to private traders and the counter-seasonal release of imported rice on the market, I agreed that we would encourage other donors to finance the establishment of a rice buffer stock and participate on a "last resort" basis ourselves, as part of a global "rice compact" between the Government and the donor community. . . .We intend that the buffer stock will be a transitional device to deal with the *Government's political problems* [italics added] and not a permanent scheme, although we cannot require Government to agree to its transitional character now. (World Bank 1991)

Description of Schematic Diagram: Initiation Phase II

Figure 2, " Political Economy of Rice Reform: Initiation Phase 2" illustrates an interactive model representing the forces influencing reform. In contrast to Figure 1, there are only three significant actors in the second phase of reform initiation, the presidency, donors and the urban population, all represented by the feedback loop (Arrows 3, 4, and 7) symbolizing the donors' inclusion of a buffer stock as a reform "sweetener." The feedback process worked as follows:

Arrow 3- Realizing that the president feared civil unrest from higher rice prices, donors proposed the buffer stock strategy to the president.

Arrow 7-Donors set up the buffer stock, ensuring stable rice prices in urban areas;

Arrow 4- Reassured that the urban population poses no political risk, the presidency initiates reform.

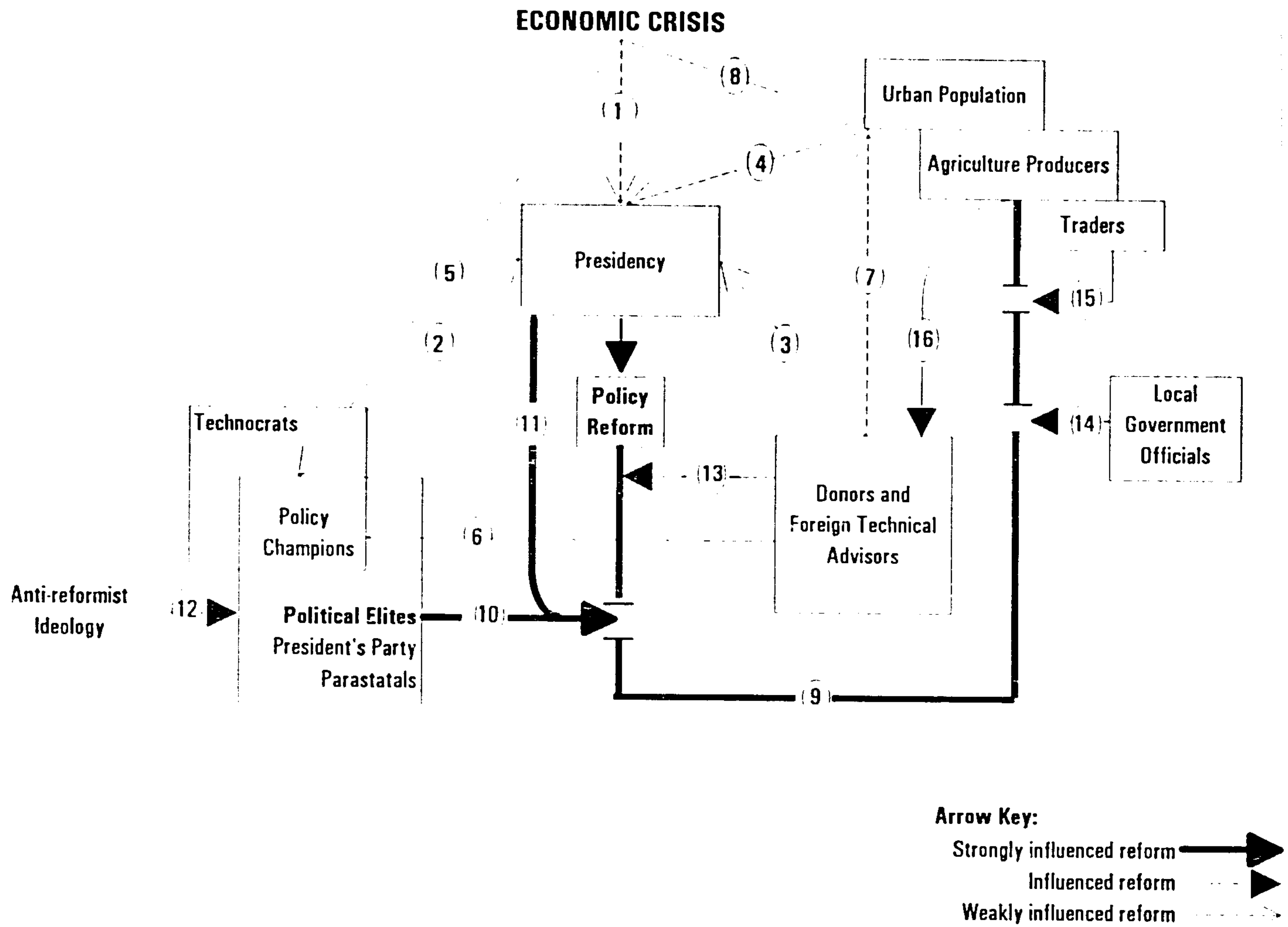
The rationale for the buffer stock was that it would dampen price peaks such as those in 1985 and 1986 and minimize gross speculation. The essential element in the buffer stock was an automatic mechanism for putting imported rice on the markets when the market price exceeded a designated "trigger price."

The buffer stock (or *stock tampon*) strategy implicitly protected mostly urban consumers from price spikes, and thus minimized the reform's threat to the sustainability of the regime. This donor tactic, using price

[34]At this time, Mr. Claussen was President of the World Bank.

stabilization to mitigate potential losses from the reform, was essential to convincing the government to accept the rice price reforms in 1986. From the start, donors were aware that

Figure 3: Political Economy of Rice Reform: Implementation Phase II



overcoming government opposition was an explicit constraint to the initiation of Phase 2 reforms. Therefore, they pursued a price stabilization strategy that defused opposition by including the buffer stock as a "sweetener" in the bitter reform package.[35]

A rare degree of donor coordination facilitated successful initiation of the global "Rice Compact," the set of reforms agreed to by donors and the Government. Multilateral and bilateral donors, including USAID, the World Food Program, and FAO proved receptive to participating in the Rice Compact initiated by the World Bank. These reforms matched the different interests of the donors: USAID in donating surplus rice; the Bank in liberalizing the two "reserve areas" and reducing imports; and the FAO in providing technical assistance in planning and operating the buffer stock.

The Rice Compact offered several attractive benefits to the government:

1. It reduced the political risk of eliminating state control over the rice of the reserve areas.

2. It attracted donors into supplying food aid, some of which substituted for commercial imports.

3. It enhanced donor commitment to respond to Madagascar's food security problems.

4. It provided the government with an opportunity to improve the distribution of publicly imported rice.

5. It permitted an increase in rice imports, rather than the draconian cuts required by the IMF Standby Agreement.

[35]This author believes that it is highly likely that the government would not have agreed to undertake reform in these politically sensitive regions if dono not paid an attractive "reform ransom:" the buffer stock.

4. RICE MARKETING REFORMS: IMPLEMENTATION OF PHASE 2 RICE REFORMS

In 1986, after the politically motivated buffer stock was proposed, the two remaining marketing monopolies in Lac Alaotra and Marovaoy were eliminated de jure. However, the implementation of Phase 2 was only partially carried out, as a result of formidable political obstacles.

4.1 Political Obstacles Responsible for Partial Implementation

The political interests of the presidency, political elites, the ruling party, parastatals, and local government officials impeded reform implementation. Figure 3 maps out these political obstacles and illustrates the dynamic forces influencing implementation.

The implementation of this policy reform was more complex than its initiation. At the initiation stage, the President, his advisors, and donors essentially made rice policy; political interests other than urban consumers were not influential. But by the time of implementation, other political interest groups who reacted to policy changes influenced reform outcomes, as well. The losers from liberalization—parastatals, the President's party, political elites, and local government officials—tried to dismantle the reforms.[36] The result was that the Government retreated on reform. These differences between initiation and implementation of agricultural policy reform are crucial to understanding both the successes and failures of rice policy reform in Madagascar.

4.2.1 Import and Pricing Politics: Presidency, Political Elites, and President's Party

Political motives caused the government to retreat on economic policy reforms by the end of 1987. At this time, donors realized that the government's primary aim was to use imported rice for political objectives rather than for price stabilization purposes.[37] Political motives had eroded the policy package upon which donor funding for the buffer stock was based. By 1988, World Bank officials had realized that Malagasy authorities were not negotiating the rice program in good faith, as the following memorandum suggests:

> . . . the Rice Program is no longer functioning as intended. The government is acting to influence prices by a program of interventions, sustained over the past four months, which effectively undercuts the possible operation of the officially agreed

[36] Grindle and Thoumi (1992) found that initiation and implementation of economic reform in Ecuador displayed a similar pattern. Decisionmaking was conce in the President and his influential advisers at the initiation stage; but by the implementation stage, interest groups who stood to lose from the policy chang to dismantle the reforms

[37] Nevertheless, one of the government's political objectives — maintaining low consumer prices — did overlap with food security goals.

Stock Tampon [Buffer Stock]. The intervention program which the government is following has the effect of holding market prices at or just below a level of MF 400/kg. . . . *it was not possible to have an informed discussion with decision makers about the course of the rice program* [italics added] . . . . the movement of imported rice stocks now appears to be out of control and unmonitorable.

At this point, World Bank officials understood that political objectives were hindering the program's operations.

This section will provide an explanation of how the political elites and the President's party, in conjunction with the presidency, blocked import reforms.

Description of Schematic Diagram: Implementation Phase II

Figure 3, compared to Figures 1 and 2, suggests that the implementation of policy reform was more complex than its initiation. Interest groups that did not play a role in initiation react to reform in the implementation stage and thus appear on the policy map. The focal point of the schematic is the implementation arrow itself (arrow 9) and how it is affected by actors trying to either promote or subvert the reform. Donors encouraged reform implementation (arrow 13). The following actors tried to block reform implementation, as symbolized by arrows breaking the implementation arrow: political elites, the president's party, and parastatals (arrow 10); local government officials (arrow 14); and traders (arrow 15).

Role of the Political Elite. Contrary to the agreed upon move toward liberalization, members of the political elite largely replaced the official marketing channels with a quasi-official market in 1988 and 1989. Thus, in spite of an announcement by the president in 1987 that merchants were free to import rice, no private commercial imports actually took place before 1990. Hence, continued partial intervention with regard to imports held market prices down.

Role of the President's Party. The instrument for implementing this quasi-official policy was PROCOOPS, a private company in law widely believed to be owned by the President's family (Berg 1989). According to Elliot Berg,[38] PROCOOPS "is also believed to be the economic arm of the President's party, AREMA" (Berg 1989). In 1987-88, PROCOOPS sold 10,000 tons of North Korean rice, donated to AREMA by its Asian ally, which shared Madagascar's leftist orientation. (President Ratsiraka was reputed to have had a close relationship with Kim Il Sung until the late 1980s.) PROCOOPS did not operate on a commercial basis, sold imported rice at below market prices, and then used the proceeds to purchase local rice for further rounds of resale below both costs and market values. The cooperatives of the President's party (KOPAREMAs) also were used as outlets for the rice.

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[38] USAID Madagascar invited economist Elliot Berg to assess the rice market in 1982 shortly after he gained notoriety for the "Berg report," published in 1981. report, entitled *Accelerated Development in Sub-Saharan Africa, An Agenda for Action* argued that "getting prices right" was the key to solving Africa's economic lems.

The Ratsiraka government's import and pricing policies during the election years of 1985 and 1988 offer clear examples of how rice was used as a political commodity. In the months preceding the 1985 elections, the Government used up donor rice stocks, even though most of this period was *not* the hungry season, the months preceding the rice harvest. Rice prices dipped in June 1985, just prior to the elections, and began to spike just after the elections, when the import quota ran out. The Government's decision to import during the months after rice was harvested, the "non-hungry season," was purely politically motivated: it essentially used low consumer prices to buy votes at the expense of future price hikes.

Political Imports. During the election campaign of 1988, the government stated openly that substantial gifts of imported rice to the political parties from their supporters abroad were to be considered *"political imports."* Unlike "official imports," this rice was to be exempt from the rules governing the Rice Compact. As in 1985, 1988 rice prices were used as a mechanism to "buy" votes for Ratsiraka and his party. In March 1989 the president was reelected and AREMA retained overwhelming control of political life in Madagascar in the series of parliamentary and local elections that followed.

4.2.2 Distribution Politics: The Presidency and Parastatals

Another example of institutional resistance to liberalization was the government's use of two large parastatals (SINPA and SOMACODIS) for the distribution of rice from the buffer stock. These two parastatals and PROCOOPS were allowed to buy buffer stock rice at below market price. The noncompetitive conditions under which buffer stock rice was sold eliminated opportunities for improving the private wholesale market, one of the reform goals.

These examples "of institutional resistance to liberalization and to true competition illustrate one source of fragility of the reform program: conflict with established organizations and settled ways of doing things" (Berg 1989). Essentially, powerful Malagasy perceived that they had more to gain by maintaining the status quo than by undertaking reform.

4.2.3 Market Politics: Local Government Officials

Liberalization threatened the control of local government officials over rice marketing in their areas. Revenues from local taxation of rice sales had financed the administration of local government. While *fokotany*[19] officials had a wide reputation for rent-seeking behavior, they were also concerned about food security in their villages. Often fearing that rice stocks would run out, they banned exports from their area. While reforms ostensibly ended local government monopolies, a new decree in 1988 granted *fokotany* officials unlimited power to prevent shipment of rice out of their *faritany* during periods of scarcity. This policy shift essentially amounted to backpedaling on reform in the interests of local elites.

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[19] The basic administrative units of Madagascar are the *fokotany* (village), *fivondronona* (region), and the *faritany* (province).

1 ½

Local government officials complained about liberalization because it severely limited their capacity to exact rents. Traditionally, municipalities had received a *ristourne* tax from parastatals on movement of goods out of their area and also extracted rents from traders passing through roadblocks. Local officials complained that traders now traveled at night to avoid roadblocks that had been set up to exact a "local *ristourne*," now that national *ristournes* were illegal.

4.2.4 How Implementation Was Undermined

Three of the examples presented above illustrate how politics subverted the purpose of reform and weakened its prospects for success:

1. The President's party undermined the implementation of rice import strategies for leverage during elections;

2. Institutional resistance within the parastatals undermined implementation of rice distribution systems;

3. Local government officials undermined the implementation of rice transportation to avoid rice scarcity and exact rents in their area.

The question that remains is why, if some members of the policymaking elite were genuinely committed to privatization (see the discussion above of policy champions), did others want to maintain public sector dominance. Two possible explanations are:

- The political elite who were not committed to the reforms *actively* undermined its implementation because they did not want to relinquish control over a system that afforded them personal benefits.

- The political elite who were not committed to the reform *passively* allowed its implementation to be undermined because they had no belief in reform ideology. This is discussed in more detail below.

Antireformist Ideology. Most Malagasy leaders—with the exception of the policy champions—supported reform based on the recognition that the state-run agricultural system had failed, rather than on a belief in reform ideology. Berg (1989) points out the lack of genuine commitment to reform among Malagasy and local observers:

> Related to this [lack of will to change the existing institutional regime], is perhaps a more basic factor: there exists in Madagascar little intellectual support for liberalization outside of the World Bank office and the US embassy. Most observers, local and foreign, have always been skeptical that benefits from market-oriented reforms in general would outweigh costs.

Liberalization took place despite an uncongenial intellectual and ideological reform environment. According to donors who worked in the field, most Malagasy intellectuals in and outside government do not believe that market-oriented policies will lead to faster growth or reduced poverty (Berg 1990). The result is that implementation efforts have been slow and dragged out. It was difficult to transform a Marxist regime allied with the former Soviet Union and North Korea for fifteen years into a capitalist-oriented economy overnight!

Three different strands of thought contributed to this uncongenial intellectual environment for reform: the ideology of Madagascar's leftist allies, French *dirigisme*, and the "adjustment with a human face" critique of market reforms. Outside observers are often wary of market-oriented strategies. The French ideological commitment to *dirigisme* and the ensuing suspicion of private traders reinforced local skepticism about the free market.[40] For example, one of the authors of an evaluation report under the auspices of the French Ministry of Cooperation writes that the rice liberalization measures led to "wild speculation" (Martin 1986, in Berg 1989). Describing the rice reforms further, he continues:

> It thus is not certain that the majority of producers will really benefit from the rise in prices, which only reflect the disorder prevailing on the market where "liberalization" now means law of the jungle. (Martin 1986, in Berg 1989)

In other African countries, as well, the French have argued that the state must protect farmers from the "law of the jungle" and the dangerous creatures that inhabit it: the private traders (See Cameroon Case Study). The French *dirigisme* development strategy and the statist ideology out of which it emerges support a more active role for the state than the reform proposals allow. Other outside critics of market reform in Madagascar include those agencies such as UNICEF, which are (justifiably) concerned with the social costs of adjustment in terms of poverty.[41]

This hostile intellectual or ideological environment within which the reforms unfolded offers one explanation for the weak commitment of most Malagasy elites to reform. Lack of ideological support for reform erodes local tolerance for the costs and risks of liberalization. Without Malagasy "ownership," the reform process dragged out at a slow pace.

4.2.5 Donors and Foreign Technical Advisors

Other important political actors in the implementation of Phase 2 reforms were donors and foreign technical advisors. Donors participated in the implementation of all the regions and concurrently monitored the outcome of the reforms. Certain donors avoided participation in

[40] However, French aid officials did not act as a monolithic body united in their attitude toward reform in Madagascar. Conversely, World Bank offi interviewed pointed out that representatives of the French bilateral aid agency in Paris and Antananarivo took different positions on the reforms.

[41] One UNICEF report on Madagascar (1987) argues that agricultural reform in the 1980s has made peasants worse off than they were under colonial rule. In 1 Madagascar was ranked the twelfth poorest country in the world with a per capita GNP of $190 (World Bank Development Report 1990).

those regions with uncongenial political environments: Lac Alaotra and Marovaoy. Those donors felt that it would be an inefficient use of resources to try to intervene in an area where marketing was dominated by close associates of the Ratsiraka regime.

4.2.6 Results of Inconsistent Implementation: Disincentives to Private Sector Participation

Private sector response to policy reform was a final crucial element to the success of market liberalization. Policies that provoked uncertainty about future rice prices inhibited -and continue to inhibit—private sector participation in distribution, which allows the public sector to play an even stronger role. Thus, lack of private participation helped to undermine the successful implementation of the reforms.

In three instances, the government changed its rice pricing and import policies in mid-season, heightening the risk of entering the market for unprivileged private traders . First, in 1987 the Government lowered the minimum buffer stock release price midway through the hungry season. The Government's political concern about potential urban unrest in response to higher rice prices motivated this policy change. As a result, in the year following this policy change, traders were reluctant to participate in the market, especially with political elections on the horizon (Rassas et al. 1988).

Ethnic Dimensions of Political Protest: Fear of Asians

Privatization is politically particularly sensitive to the Malagasy who fear it will benefit exclusively foreign business people, especially Indians and Chinese. Traditionally, third- or fourth-generation Indian and Chinese merchants dominated commerce and industry in Madagascar. Accordingly, when market opportunities opened up after liberalization, Malagasy business people who lack years of market experience felt more threatened. Public discontent with privatization was often targeted at Asian and other traders, who were blamed for rising consumer rice prices. In 1986, Indo-Pakistani traders were attacked in a southern Malagasy town (see Table 2).

Similarly, the ethnic dimensions of economic reforms have been particularly important in East and Southern Africa where fear of the economic power of Asian residents has contributed to a reluctance on the part of governments to implement reforms likely to benefit Asians. In other parts of Africa, as well, where the ethnic groups likely to benefit from reforms are potentially powerful politically or economically, governments have resisted those reforms (CSIS 1992).

Second, the Government's failure to abide by import restrictions imposed by donors generated further uncertainty among private traders. By importing rice quantities above the quota level from its socialist allies, the Government was able to sell imports at below market prices, which undercut private traders. Policies such as these enhanced the role of parastatals, who often have better access to government information and are less sensitive to risk.

Third, and most recently, in 1991 there was tremendous uncertainty about the price and timing of imports (which determine the seasonal price ceiling). Traders expected the government to import rice in the fourth quarter and managed their stocks accordingly, selling in anticipation of a price ceiling at the cost of imports. When the Government failed to import, stocks were lower than they should have been and resulted in a price spike. Anyone who had stocks earned hefty profits, and "it is possible, if not likely, there was collusion to exploit this situation further," according to a recent Harvard Institute for International Development report (Goldman and Tomich 1992). In other words, anyone who had inside information on the government's plans earned windfall profits.

The failure of the rice import policy clearly caused the 1991 price spike to occur. The aggravation of risks stemming from erratic import policy is a barrier to entry to firms that might be good at storage but who cannot risk capital or who lack the insider influence to enter a market where profits are linked only tenuously to minimizing storage costs (Goldman and Tomich 1992). It is likely that more traders would enter the market if they could have firmer expectations about the seasonal price anchor.

5. CONCLUSIONS

Madagascar's experience with rice reform has been widely hailed as a success story. This case study offers a more mixed view of reform outcomes. While the first phase of policy reforms (1981-84) did indeed succeed in liberalizing the rice subsector, except in the Lac Alaotra and Marovaoy regions, implementing the second phase (1985-present) was much slower and more difficult. The above discussion identifies political factors that were responsible for these different policy outcomes. Political and economic dimensions of the policy process explain why the rice reforms succeeded in Phase 1, and lost their momentum in Phase 2, when liberalization was extended to the Lac Alaotra and Marovaoy regions. The result is partial reform, rather than a sharp move to a market-based system.

An important general theme that emerges from this case is that where economic problems provide the basic opportunity for reform, politics offers the means of *facilitating* reform. This conclusion departs from the current tendency of foreign donors and academics alike to focus on how politics *constrains* reform. The challenge for the reform-minded, Africans and donors alike, is to think strategically about how to create the conditions that lead to successful reform in less attractive political environments. The concluding discussion explores some examples of how politics worked *for*, or could have worked for, reform in the case of Madagascar.

5.1 Summary of Findings: Four Political Levels

The analytical framework used in all the case studies focuses on how politics influences both initiation and implementation of reform on four overlapping political levels: (1) **donor-government relations**, (2) **bureaucratic interaction**, (3) **political elite**, and (4) **mass political pressure**. The discussion below summarizes the findings of the Madagascar case study relating to each of these themes.

5.1.1 Donor-Government Relations in Initiation and Implementation

The balance of payments crisis of the early 1980s fostered a political environment that was ripe for reform. Madagascar sought recourse to the IMF, World Bank, and bilateral donors in 1982 when its communist allies could no longer provide financial aid on the scale necessary to support the economy. The government agreed to two donor conditions for the rice subsector in 1983 at the Paris Club: raising consumer prices and submission of a liberalization plan.

Donor conditionality, however, was not the principal motivating factor behind the **initiation of Phase 1** reforms. Rather, it was the crisis atmosphere that put political pressure on the president to take action immediately; Madagascar's economic decline had resulted in a loss of political and popular support for Ratsiraka. His political survival was riding on his ability to turn the economy around. Consequently, initiation of Phase 1 reforms was more a product of necessity than a forced response to donor demands. Donor demands, such as accepting IMF loans with their conditionality, may have offered Ratsiraka more political maneuverability in

These policy champions, in turn, used their bureaucratic access, technical training, and political skills to champion the reform effort at the level of the presidency. Specifically, they provided feasible, politically sensitive solutions to the president, at the right time. The momentum generated by the policy champions suggests that well-placed technocrats, who have wide access to all the relevant agencies involved in reform, can broker compromises and effectively mobilize the political system behind reform. The lesson that emerges is that policy champions with broad jurisdication are essential actors in forging the convergence of politics and economics behind reform.

5.1.3 Political Elite: President's Party, Parastatals, and Local Government Officials

Lack of opposition to rice reform by the political elite during the **initiation of Phase 1,** was based on the recognition that the state-run agricultural system had failed in the past, rather than on a belief in reform ideology. In the first phase of reform, Malagasy leaders were not committed to the ideology of market-oriented reform. Madagascar's desperate balance of payments situation, rather than a political commitment to reform, forced its political elite to undertake the first phase of reform. Madagascar's leaders calculated that economic reform was necessary for their political survival in the crisis environment of the early 1980s. Thus, the political rationale for reform coincided with the economic rationale in Phase 1. The convergence of economics and politics behind the reforms explains their enormous success in the initial stages.

Conversely, lack of opposition to the **initiation of Phase 2** reforms was most likely due to the political "sweeteners" offered by the donor agencies. The political elite were probably aware of their ability to undermine the purpose of the buffer stock and control it for their own political ends.

Thus, the divergence of economic and political interests weakened the prospects for successful **implementation of Phase 2 reforms.** By this time, the economic crisis was defused, and therefore there was less pressure on the president to reform in the interest of sustaining his regime. The political interests of the president's family, his party, and parastatals to maintain the rice monopoly conflicted with the economic objectives of marketing reform. Essentially, the existing institutional arrangements in Lac Aloatra and Marovaoy, and the powerful political actors they supported, subverted privatization efforts. While some technocratic policy champions were genuinely committed to privatization, other members of the political elite diverted implementation to encourage the reverse: the maintenance of public sector dominance. The result was that the Government essentially replaced the official rice marketing mechanisms with a quasi-official one.

Another group of "losers" from the reform, local government officials and parastatals, tried to impede reform progress at the implementation stage. In retrospect, it is clear that the failure of implementation might have been avoided if policymakers had done more politically sensitive policy analysis **at the initiation stage.** Reformers would probably have been better off if they had used stakeholder analysis to anticipate losers **in advance** of reform implementation pursuing the reform package, but they were not the motivating factor leading to the reforms. Here is an example where politics offered an mechanism to facilite reform initiation.

Although donor conditionality did not have a strong direct influence in initiating reforms, donors did play an important indirect role. A World Bank-funded technical assistance team was crucial in convincing the government to launch reforms in the rice subsector. Specifically, host country technocrats relied heavily on a diagnostic report conducted by the foreign advisors on the subsector to champion the initiation of Phase 1 rice reforms to the country's political leadership. This demonstrates how sound policy analysis, provided to political actors at the appropriate time, can be an effective catalyst for action.

Buffer stock politics, played out in the **initiation of Phase 2** reforms, provide a second example of how politics can work for, rather than against, reform. In 1985, donors could not reach agreement with the government over agricultural sector aid because it was unwilling to dissolve its monopoly on rice marketing in Lac Aloatra and Marovaoy. Liberalization was especially sensitive in these two areas, because the government viewed its access to their surplus rice as its best insurance against urban unrest in response to rice shortages. This impasse was resolved when the World Bank led other donors in creating a buffer stock strategy designed to reduce the political risks of price reform. Consensus on the need for rice reform enabled donors to display a rare degree of coordination in developing the buffer stock strategy. The donor tactic of mitigating losses was instrumental in "selling" the reform to the government.

The important lesson that emerges from the buffer stock experience is that governments may enhance their chances for successful reform initiation by "sweetening" otherwise bitter reform packages with compensatory programs. At the initiation stage, donors could assist reformers in thinking strategically about reforms by anticipating reform losers and designing strategies to accommodate their needs.

5.1.2 Bureaucratic Interaction: Policy Champions

The powerful influence of policy champions on the **initiation of Phase 1** rice liberalization provides a clear example of how policy analysis and politically astute action can facilitate reform. At a critical moment of crisis, key technocrats convinced the president to make the tough decisions necessary to turn the state-managed rice subsector around.

These well-trained technocrats were quick to grasp the reasons for the severity of the crisis, its implications, and the pricing and marketing policies needed to improve the rice subsector. It is significant that these high officials in Ratsiraka's Marxist regime, who were *not* liberals in the past, became motivated to push for progressive pricing and marketing policies when the crisis culminated in the early 1980s. Foreign technical advisors played an important role in building technical capacity among progressive reformers by providing them with a diagnostic of the subsector and policy options.

and tried to redesign policy to accommodate them. This case represents a missed opportunity to harness politics behind the reform effort. The lesson that emerges from this experience is that strategic thinking about ways to compensate losers at the outset of reform is more useful than post hoc political analysis.

Failure to rally intellectual and ideological support behind the implementation of Phase 2 hindered its outcomes. Lack of consensus behind reform represents another "missed opportunity" to use strategic tactics to influence reform outcomes. Reform would have been more likely to succeed if donors and reform-minded Malagasy had anticipated the intellectual hostility that liberalization would arouse and tried to rally public and elite opinion behind the reform. Donors should try to understand the differences between host country attitudes toward reform and their own. By viewing liberalization from the "other side of the street," donors would be in a better position to assist host country reformers in devising strategies to generate reform commitment within the political elite. In other African countries, as well, where the economic rationale for privatization is not always obvious, it would be politically wise for reformers to develop a consensual view of the most appropriate solution to the sector's problems.

5.1.4 Mass Political Pressure: Urban Population and Agricultural Producers

While mass political pressure from consumers can hinder progress on reforming the staple food commodity, such as rice, it did not play a major role in Madagascar. In both Phase 1 and the initiation of Phase 2, the political threat of "IMF riots" by the urban masses in response to higher rice prices did not prevent the Ratsiraka government from moving ahead on pricing reforms. The buffer stock policy, designed by donors who were sensitive to the political importance of stable food prices, helped allay the regime's fear of mass political protest. Sweeteners such as the buffer stock policy are an important means of diffusing opposition from urban consumers.

During the **implementation of Phase 2**, Ratsiraka succumbed to political pressure to keep food prices low. His desire to win the 1985 and 1988 elections motivated him to pursue import policies that conflicted with reform objectives. His primary concern was his popularity among Madagascar's urban middle and working classes, not food security, and certainly not the welfare of farmers in the countryside.

Local rice producers were the losers from this government policy of importing rice to keep consumer prices down. Rice producers, who are among the principal "winners" from reform, did not act as a united, countervailing force against consumers. Unlike farmers in Kenya and Côte d'Ivoire, who represent an important strategic political constituency, Malagasy producers have no voice in the political system. Consequently, farmers lack bargaining power at both the national and local levels. A recent Abt marketing study (1991) identifies **lack of collective negotiating power** as the major marketing constraint facing producers in Madagascar. Farmers remain dispersed and disorganized, and producer associations are weak. The case of unempowered rice producers represents an example of an untapped political opportunity to promote reform. In the future, donors may support participation of farmers in the political system and increase the probability of successful implementation by strengthening producer and trade associations and other grassroots civic organizations.

5.2 Political Factors Facilitating Reform Initiation

The experience of rice reform in Madagascar illustrates that politics creates opportunities for reform. The following political factors facilitated reform efforts:

1. **Political timing** was critical to launching the reform. The atmosphere of economic crisis in the early 1980s fostered a political environment that was conducive to reform. Furthermore, the fact that the previous policy regime (a state-run monopoly on marketing) had been discredited convinced leaders of the need to reform in order to ensure their political survival. Political and economic interests coalesced behind the reform.

2. Several strategically placed technocrats, who acted as policy champions, were instrumental in selling the reform to the president and his ruling elite.

    - Policy champions belonged to both the political and the technical elite.

    - Policy champions, who were not liberals in the past, were progressive advocates of market reform.

    - Policy champions used their political connections as channels for advocating reform.

3. Foreign technical advisors played an important role in convincing policy champions of the necessity for reform. Foreign experts used technical reports diagnosing the state of the sector and presentations of policy options to engender learning by host country technocrats.

4. Donor creation of a strategy designed to reduce the political risk of rice liberalization was a critical factor in the reform success. The buffer stock strategy was intended to protect consumers from price spikes, and thus minimize the reform's threat to the sustainability of the regime.

    - The donor tactic of minimizing losses is an important lesson for reformers of strategically important crops.

    - Donor coordination was a critical element of the buffer stock policy.

5.3 Political Constraints to Reform Implementation

The case study also revealed instances where politics impeded reform progress. Political constraints to reform include the following:

1. Most top Malagasy leaders lacked genuine political commitment to reform ideology or a belief in the efficacy of the public sector.

    - Madagascar's policy history, French *dirigisme* followed by hard-line socialism, did not provide an intellectual basis of support for economic liberalism.

    - While a few policy champions believed in reform, consensus was not reached. The bureaucracy as a whole lacked an intellectually coherent pro-reform policy.

2. The use of rice imports and marketing to serve the personal interests of the president and his party subverted reform objectives.

3. Political elites who benefited from the pre-reform policy regime, such as local government officials and parastatal managers, tried to derail liberalization.

4. Farmers' lack of collective negotiating power (a power that would enable them to influence the prices and marketing channels for their crops) was a major constraint on implementation of marketing reforms.

5. Inconsistent policies provoked uncertainty about future rice prices and thus inhibited private sector participation and strengthened the role of the public sector in rice distribution.

6. Lack of public policies to strengthen rural markets has frustrated the marketing and pricing policy mechanisms for improving market incentives and signals at the farm level.

    - Farmers lack rural infrastructure including transportation, credit and savings opportunities, and market information on prices.

    - The political economy of rationed credit has restricted competition among rice traders.

5.4 Donor Policy Recommendations

By thinking strategically, reformers can better manage the impediments to successful implementation of reform. The following policy recommendations suggest tactics for defusing opposition and minimizing constraints:

- At the initiation phase, donors should identify individuals or organizations who are likely to support reform. Once identified, donors should assist host country reformers (bureaucrats and politicians) to think strategically about how to promote reform. Strategies could include: (1) mobilization of support and consensus building; (2) stakeholder analysis, including anticipation of reform "losers" and crafting of reforms to stem potential opposition; and (3) offering "sweeteners" such as the buffer stock policy to mitigate reform losses.

- Donors should acknowledge the potential for ideological resistance to reform and try to view liberalization from the "other side of the street." Donors should recognize that the economic rationale for privatization is not always obvious, and that they must not push reforms too quickly, before there is a consensus behind them. Donors should work with host country policymakers to develop a consensual view of the most appropriate solution to problems in the agricultural sector.

- Donors can cultivate the development of policy champions by:

    - Sponsoring training in policy and political analysis, as well as strategy formulation

    - Funding activities of reform groups

    - Offering "sweeteners," such as workshops abroad, as incentives to bureaucrats[42]

- Donors should encourage the convergence of economic and political interests by promoting the development of good governance. Such efforts should include:

    - Fostering civil society by strengthening existing non-state institutions and building new civic associations

    - Support for legal and institutional reform

    - Donor technical assistance can promote policy liberalization by building the host-country capacity for policy analysis, thereby convincing host country policy-makers and technocrats of the advantages of reform

- Donor assistance can promote liberalization by providing technical diagnoses of the agricultural subsectors that need reform. Such analyses include:

[42] One World Bank division chief who worked in Madagascar throughout the 1980s emphasized the importance of offering trips to Paris for report writi incentives to policy champions.

- Definitions of different policy options

- Well-researched factual diagnosis of the problem

The World Bank successfully used this mechanism by diagnosing the state of the rice subsector and proposing different policy options in Madagascar in the early 1980s.

- A.I.D. could provide assistance aimed at developing a better environment for rural markets. In addition to strengthening public services such as research and extension, where the government of Madagascar is already making some progress, donors could support the improvement of public services that have either been deserted or ignored, such as information systems and economic monitoring.

- A.I.D. could support the creation of producer organizations and improve their capacity to disseminate market information such as prices, costs, marketing options, and quality requirements.

- A.I.D. could assist regional support centers in providing advisory and technical services to the private sector, including farmers' organizations and local governments. Private agricultural institutions such as professional and inter-professional organizations, farmer groups, savings and loan associations, rural banks, and input and commodity traders could play an important role in providing farmers with currently missing agricultural and marketing services, inputs, and goods.

- Many donors, notably the World Bank and USAID, recognize the importance of addressing these infrastructure problems. The above strategy for improving rural markets would be most effective if coordination among donors and with the government were better than in the past.

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