Overview

Madagascar is located in the southwest of the Indian Ocean, separated from Africa by the Mozambique Canal. With an area of 590,000 km², Madagascar is the world’s fourth-largest island and measures 1,570 km from north to south and 565 km from east to west. Madagascar has a high incidence of poverty and inequality, with 75 percent of the population living on less than $1.90 a day. The electric access rate, 15.2 percent, is one of the lowest in Africa.

Importantly, in 2018 Madagascar undertook its first successful general census since 1993, making it the third general census since 1975. Initial high-level results of the census were released in February 2019 by the Institut National de la Statistique de Madagascar (National Institute of Statistics of Madagascar - INSTAT) providing a crucial update of high-confidence population and housing data. The census shows that the total population of Madagascar was 25.68 million in 2018, of which 80.5 percent live in rural areas and the remaining 19.5 percent (five million people) in urban areas.

The main drivers of economic growth in Madagascar are transport, energy, public works, extractive industries, and businesses in the export processing zone. Exports are dominated by products like cloves, vanilla, and mining products. In 2018, growth in aggregate demand for goods and services was driven mainly by public and private investments in infrastructure such as roads, airports, energy, and the port of Toamasina. Real gross domestic product (GDP) growth was estimated at 5.2 percent in 2018 and is forecast to remain stable in the medium term according to the World Bank. The inflation rate has been steadily declining over the past two years with the year-on-year Consumer Price Index (CPI) growth rate dropping from 8.2 percent in March 2017 to 5.9 percent in February 2019.

Madagascar experienced a severe drought in 2017 and the outbreak of a plague epidemic in early 2018. Despite the epidemic, the service sector expanded by 5.4 percent in 2018. The agricultural sector increased by 4.5 percent in 2018, recovering from a 6.6 percent contraction in 2017 due to drought conditions. Madagascar’s unique climate favours the cultivation of certain cash crops like vanilla, cloves and other spices. It is estimated that 80 percent of the population are engaged in agricultural activities, however, as the agriculture sector is still traditional it remains highly vulnerable to climatic shocks in the future. The industrial sector expanded by 6.7 percent in 2018, driven mainly by textiles and essential oil manufacturing.

Presidential elections were held peacefully in the country and in January 2019 President Rajoelina, a previous president under the High Transitional Authority government, was inaugurated. This follows a period of protracted political instability which affected the country’s economic performance. Under the International Monetary Fund’s (IMF’s) 40-month Extended Credit Facility...
Arrangement, worth US$304.7 million, awarded to the country in 2016, Madagascar has implemented several reforms to strengthen macroeconomic stability, improve central bank operations and financial supervision, increase revenue generation and prioritise public spending, strengthen the judicial system and decrease corruption.\textsuperscript{8}

As Madagascar is among the poorest countries in the world with a prevalence of poverty, the supply of adequate housing is extremely low. In addition, approximately 58 percent of Malagasy people lack access to safe drinking water and almost half of all households live without sanitation facilities.\textsuperscript{9} Given the levels of need, it is positive to observe that the rate of inflation for housing and utility costs was lower than CPI in Antananarivo over the 2017–2018 period.

\section*{Access to finance}

The microfinance sector provides financial services to numerous poorer households, but this is relatively small in financial terms. Activity is concentrated in five MFIs, which account for three-fourths of the national credit portfolio and half of the sector’s deposits.\textsuperscript{10} The microfinance sector provides financial services to numerous poorer households, but this is relatively small in financial terms. Activity is concentrated in five MFIs, which account for three-fourths of the national credit portfolio and half of the sector’s deposits. The government remains the dominant operator in the nonbank financial institution (NBI) sector. It controls the two main insurance companies, the savings network provided through the postal service, the National Savings Fund, and, to a large extent, the National Insurance and Social Security Fund, which manages the main pension scheme for private sector retirees and other benefits. The structure of the NBFI sector has been stable except for the establishment of certain investment funds, which are outside the regulatory perimeter.\textsuperscript{13}

Banking penetration remains low in Madagascar with less than 10 percent of adults having an account at a bank or other financial institution. Further, 41 percent of households are completely excluded from the financial sector suggesting that there is still a long way to go before the benefits of digital innovations become more broad-based and inclusive. However, mobile money offers some promise for financial inclusion. Between 2014 and 2017, the released Findex data show that the percentage of adults with an account at a financial institution or mobile money service in Madagascar doubled in recent years (from nine percent in 2014 to 18 percent in 2017) but it is still far below the Sub-Saharan Africa average of 43 percent.\textsuperscript{14}

This expansion in mobile money is offering opportunities to increase financial inclusion. Growth of the sector is being facilitated by a new e-money regulation which allows financial institutions other than banks to issue e-money.\textsuperscript{15} Based on this, the number of mobile money accounts rose from 1 to 54 per 1 000 adults between 2013 and 2016. Similarly, the volume of lending in the microfinance sector increased, with total credit at 1.9 percent of GDP in 2016.\textsuperscript{16}

The maximum loan term for land acquisition or home improvement/renovations is 96 months, while loans to purchase or construct a house range from 240 months. BNI Madagascar charges 15 percent per annum plus a 2.2 percent initiation fee for all types of real estate loans, while BPV-SG charge the same rate for home purchase/construction and home renovation projects (18 percent per annum). Banks primarily target salaried individuals and application criteria includes a monthly contribution of no more than 33 percent of monthly income and at least a 10 percent deposit. A few MFIs offer housing-related loans, namely Baobab (formerly MicroCred), Otiva-Tana and Premiere Agence de Microfinance. The loans are primarily for home improvements and have a maximum loan term of 36 months. Maximum loan amounts vary considerably from Ar150 million to Ar600 million (about US$13 708 to US$16 449) and interest rates are charged monthly on a declining balance.\textsuperscript{17} Overall the benchmark lending rate was unchanged in 2019 at 9.5 percent.\textsuperscript{18}

One of the obstacles for those trying to access credit is that banks find it hard to assess the creditworthiness of prospective clients due to a lack of information on these future borrowers. Credit bureaus play an important role in collecting data on the repayment behaviour of the population, to provide insights on how likely a person is to repay a loan. A newly enacted Credit Bureau Law provides the foundation for private credit bureaus to enter the market in Madagascar. These credit bureaus will be an important source of information for banks looking to expand their client base.\textsuperscript{19}

\section*{Affordability}

Given the high rate of poverty, formal housing is largely unaffordable to most of the population in Madagascar. Madagascar is among the poorest countries in the world with 75 percent of the population living on less than US$1.90 a day.\textsuperscript{20} In 2018, 95 percent of adults had a personal monthly income of Ar400 000 (US$116) or less. Only 15 percent of adults are salaried workers and an estimated 80 percent of the population\textsuperscript{21} are engaged in agricultural activities, commonly in subsistence form. As such the affordability and provision of formal housing in Madagascar is highly dependent on economic performance.

The secondary sector is expected to continue expanding as textiles exports are forecast to remain strong following the reinstatement of eligibility to the African Growth and Opportunities Act (AGOA). The textile industry is among the key urban employment sectors in the country.\textsuperscript{22} The minimum monthly wage was increased in 2018 to Ar168 019 (US$46.05) for non-agricultural workers and Ar170 422 for agricultural workers (about US$49).\textsuperscript{23} Assuming a factory worker earns three times the minimum wage (about Ar500 000 or US$145 p/m), which is in line with the wages of someone falling between a high-skilled and low-skilled worker, they should be able to afford rentals or loan repayments of around Ar166 000 (US$45.5) a month (using the bank’s affordability ratio of 33 percent).\textsuperscript{24} This is far below the income required to rent or purchase a property on the formal market.

A one-bedroom apartment in the city centre of Madagascar rents for between Ar169 827 and Ar1 million (US$101–US$274) a month, while a three-bedroom apartment in the same area rents for Ar1.8 million to Ar5 million (US$493–US$1370) a month.\textsuperscript{25} A one-bedroom apartment outside the city centre of Madagascar rents for between Ar175 000 and Ar474 000 (US$479.7–US$129) a month, while a three-bedroom apartment in the same area rents for Ar1.2 million to Ar5.2 million (US$328–US$1425) a month.\textsuperscript{26} A two-bedroom apartment in the capital city can cost from Ar90 million (US$24 675) and above. With a 15-year loan at 15 percent per annum, monthly repayments on this property would be around Ar1.2 million (US$328), which is within the reach of only a small part of the population.\textsuperscript{27}

Availability of data on housing finance

The main local institutions that collect and share data on housing finance include the Madagascar Ministere De L'Intérieur et de L'Urbanisation; the Central Bank of Madagascar; the national agency of support to housing and habitat – Analoh; and the Minister at the Presidency in charge of presidential projects, the planning of the territory and the equipment (M2PATE). INSTAT provides quarterly economic updates, monthly inflation data and is the custodian of the general census results. In addition to local institutions, some regional and international organisations provide information on housing, including UN-Habitat, Finmark Trust, the African Development Bank, the International Monetary Fund, and the World Bank Group.

It should be noted that most of the public institutions provide information related mainly to the housing supply, housing policies and regulations; however, the private organisations, while also focusing on the housing supply, also present information on economic analysis and housing opportunities.

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Inflation for housing and household utilities in the capital city, Antananarivo, was 4.7 percent over the period September 2017 to September 2018. This was lower than the overall inflation rate of 6.2 percent in Antananarivo over the same period and the national CPI inflation. Therefore, despite nominal cost increases for housing and utilities, in real terms the sector experienced slight deflation.

### Housing supply

According to the provisional census release, in 2018 there were 6.12 million households in Madagascar equating to an average household size of 3.8 people in urban areas and 4.3 in rural areas. The urban population accounts for five million people, 19.5 percent of the population, of which 2.58 million people live in the major urban centres and 2.42 million in secondary urban centres. Slum dwellings are characteristic of urban living conditions in Madagascar. For Antananarivo, informal settlements account for 60 percent to 70 percent of dwellings. In coastal towns like Manakara, 75 percent of homes are traditional. In Moramanga, about 65 percent of households are living in precarious housing and informal settlements. There are three main typologies of houses in Madagascar including hard construction, semi-hard construction and locally constructed dwellings.

Public housing developers in Madagascar include Société d’Équipement Immobilier de Madagascar and Agence Nationale d’Appui au Logement et à l’Habitat (ANALOGH). In 2018, ANALOGH announced a plan to construct 500 social housing units a year starting in 2017, with the aim of building 10,500 units in total. There is a commitment from the state to construct 762 social housing in four regions of the country as follows: 182 housing units in Iarinarivo Ambohidratrimo, 317 in Rajoavy Toliara, 65 percent of households are living in precarious housing and informal settlements. There are three main typologies of houses in Madagascar including hard construction, semi-hard construction and locally constructed dwellings. Public housing developers in Madagascar include Société d’Équipement Immobilier de Madagascar and Agence Nationale d’Appui au Logement et à l’Habitat (ANALOGH). In 2018, ANALOGH announced a plan to construct 500 social housing units a year starting in 2017, with the aim of building 10,500 units in total. There is a commitment from the state to construct 762 social housing in four regions of the country as follows: 182 housing units in Iarinarivo Ambohidratrimo, 317 in Rajoavy Toliara, 124 in Ivoloima Toamasina, 203 in Amparemahatsy Mahajanga and the 253 rest in Vatofoty and Mihohita Antsirabe, payable between five to 10 years. Further, the state will proceed with the construction of social housing on the side of Ivato on a plot of 58ha. The construction of these social housing projects will be done through a public-private partnership model.

Other housing projects include the Slum Upgrading Programme undertaken by UN-Habitat with the aim of strengthening community, city and national key stakeholders’ capacities in participatory slum upgrading.

### Property markets

Given the low levels of affordability, it is not surprising that most residential housing development is focused on high income households and expatriates. Constraints to new development include the time and cost of accessing construction permits and registering a property, and the inefficient but developing land administration system.

In registering property, the country ranks 162 out of 190 countries (down from 161 in 2018). It takes six procedures, 100 days and 9.1 percent of the property value to register a property in the country. Likewise, the process for acquiring a construction permit is equally lengthy and costly. It takes 16 procedures, 185 days and close to 36.3 percent of the property cost to obtain a building permit in Madagascar. The Malagasy construction sector is characterised by a high level of informality and most of the country’s micro-sized and small building firms remain unregistered. Many registered contractors collaborate with their unregistered counterparts, enlisting the services of informal sub-contractors for smaller projects and/or specific tasks. Over the five year period 2013 to 2018, the construction industry’s contribution to the country’s GDP has averaged less than US$400m per annum, representing less than four percent of GDP.

Madagascar also performs poorly on quality of land administration. Out of a possible score of 30, Madagascar scores 8.5, just below the Sub-Saharan Africa average of 8.8. The country falls short on this measure for several reasons, including the lack of an electronic database for checking encumbrances (such as mortgages and restrictions), the lack of registry containing geospatial data on privately held properties, and the lack of a national database to verify the accuracy of identity documents.

### Policy and regulation

Madagascar has inherited the state-ownership land tenure system established by French colonisation and inspired by the Australian Torrens Act. The land is presumed to belong to the state, which grants land titles to those who cultivate it. An overview of major historical land policies is detailed below.

In 1897-1960 the French colonial administration removes customary law and a system of land title proof of ownership is implemented. Subsequently, between 1960-2005, the new independent state maintained the colonial tenure system and land insecurity was widespread. In 2005 a land reform process was launched under the government of Ravalomanana (2002-2009), which set out to secure land rights for as many people as possible, quickly and at an appropriate cost for the economic context. In 2015 a New Letter for Land Policy from the government of Madagascar expressed a resolve to overcome the limitations of the 2005 reform resulting in Law 2017-023, which established Special Economic Zones. Foreign companies are not allowed to own land in Madagascar but may acquire land through leasehold (99-year lease contracts). The country’s policy environment, characterised by the agenda set out in the 2017 Economic Development Document, remains focused on issues related to inclusive economic growth, land tenure problems, underdeveloped sanitation infrastructure, persistent inflation and the erosion of purchasing power, the limited and inefficient financial system, governance problems, and the impact of adverse weather conditions. Based on the available information, housing is not identified directly as a mechanism for social development or as an objective of the policy.
Opportunities

With a high rate of urbanisation, low supply of adequate housing and general lack of access to services, demand for improved housing conditions in urban areas is a dire need and presents opportunities in the housing, construction and infrastructure sectors. Despite this, in the short term, political developments and potential instability may pose the highest risk to Madagascar's continued economic expansion. Potential private and public investors will be closely tracking developments in the political sphere as Madagascar has experienced recurrent periods of political turmoil and instability that have derailed much-needed development initiatives.

There are further opportunities for both the microfinance and banking sector to continue to adapt their products to cater for the housing needs of low income earners and non-salaried workers. Given the country's continued risk of natural disasters, particularly cyclones, opportunities exist for innovative insurance products that can protect households (and their assets) in the event of such risks. The country's rich renewable energy sources also provide opportunities for the financing of energy-efficient products which can improve the living conditions of many in rural and urban areas.

On data accessibility and transparency, the implementation of a new Enhanced Data Dissemination System is a step forward. However, the system must be improved to disseminate timely and high-quality data to the public. The government continues to work towards improving the level of transparency and access to data, with the country's recent performance in the 2019 Ease of Doing Business indicators, particularly in the area of registering property, showing progress in improving the business environment.

On achieving the SDGs, the government has set ambitious targets to address the country's critical development needs. The Millennium Development Goals (MDGs) were replaced by the Sustainable Development Goals (SDGs) in 2015, and the government has made significant progress in achieving many of these goals. However, challenges remain in areas such as education, health, and poverty eradication.

Websites

AIOB Open Data Portal, Madagascar: http://madagascarpopendataforafrica.org/

Central Bank of Madagascar (Banky Foiben'i Madagasikara): https://www.banky-foibe.mg/


World Bank Doing Business: http://www.doingbusiness.org/


