

## AFRICA RISK CONSULTING

### Madagascar Monthly Briefing August 2018

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#### Madagascar Summary 22 August 2018

*The Haute Cour Constitutionnelle (HCC) (high constitutional court) states that 46 candidates submitted their application for the 7 November presidential election by the deadline of 21 August, including President Hery Rajaonarimampianina (2014-present) and former presidents Andry Rajoelina (2009-2014) and Marc Ravalomanana (2002-2009). Vanilla producers expect prices to remain high during the 2018-2019 season, though still below the record levels of 2017. The World Bank concludes its 8<sup>th</sup> economic update of Madagascar. The World Bank confirms a positive growth trend since 2013 but cites a lack of financial inclusion for this growth, particularly for those involved in agriculture.*

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#### HCC confirms 46 candidates apply to register for November presidential elections

The **Haute Cour Constitutionnelle (HCC)** (high constitutional court) confirmed that 46 candidates submitted their application for the 7 November presidential election by the deadline of 21 August. The list of presidential hopefuls includes President **Hery Rajaonarimampianina** (2014-present) and former presidents **Andry Rajoelina** (2009-2014), **Marc Ravalomanana** (2002-2009) and **Didier Ratsiraka** (1975-1993, 1997-2002).<sup>1</sup> Ratsiraka's nephew, former **Toamasina** mayor **Roland Ratsiraka** has also filed his candidacy, as have **Philippe Tsiranana** and **Eliana Bezaza**, who are the grandchildren of former President **Philibert Tsiranana** (1959-1972).<sup>2</sup> Former prime minister **Olivier Mahafaly Sononandrasana** also announced on 21 August that he will run for president after resigning in June to allow for the creation of a unity government after weeks of protests over new electoral laws.<sup>3</sup> Two other former prime ministers, **Jean Ravelonarivo** and **Jean-Omer Beriziky**, are also contesting the president election.<sup>4</sup>

The HCC must now assess the eligibility of the candidates and will confirm on 26 August which candidates will be allowed to run for president.<sup>5</sup> Several candidates are expected to be disqualified for failing to pay the surety of 50m ariary (\$13,000).<sup>6</sup> There are still questions about whether Ravalomanana will be allowed to run for president due to an in-absentia conviction for murder over the deaths of protesters during the 2009 coup (see *ARC Briefing Madagascar May 2018*). Ravalomanana's daughter, **Sarah**, filed the papers on her father's behalf at the HCC on 18 August.<sup>7</sup> If the HCC takes a decision that bars Ravalomanana from running, further protests and conflicts like those seen in June are likely. These were a response to an electoral law that would have barred Ravalomanana from the electoral race. Rajaonarimampianina removed the provision, allowing Ravalomanana to run. This may give the HCC space to allow Ravalomanana to take part in the election.<sup>8</sup>

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<sup>1</sup> L'Express Madagascar, 21 Aug 2018.

<sup>2</sup> The New Times, 21 Aug 2018.

<sup>3</sup> Bloomberg, 21 Aug 2018.

<sup>4</sup> The East African, 17 Aug 2018.

<sup>5</sup> News24, 21 Aug 2018.

<sup>6</sup> Midi Madagasikara, 21 Aug 2018.

<sup>7</sup> The East African, 19 Aug 2018.

<sup>8</sup> Reuters, 18 Aug 2018.

Election campaigning officially begins on 7 October. In terms of the constitution, Rajaonarimampianina must resign as president before 7 September. Rajaonarimampianina will transfer provisional power to the senate president, **Rivo Rakotovo**.<sup>9</sup>

There is currently no favoured candidate for the November election. The chances of any candidate receiving over 50% of the vote are very small and a second round on 19 December is almost inevitable. The third placed candidate in the November election will play kingmaker in the second round if he or she forms an alliance with one of the first and second placed candidates from the first round. There have been rumours that Rajoelina and Ravalomanana have allied. However, Rajoelina was vague in an interview on 7 August, stating that if elections go to a second round,

*“... circumstances will tell us what to do.”<sup>10</sup>*

Madagascar needs free and fair elections with a legitimate winner which will not plunge the country into conflict or another coup. With a poverty rate of 75%<sup>11</sup> and a loss of crops due to recent drought and floods, the Malagasy people need political stability to turn their economic misfortune around.

### High vanilla prices may lead to conflict in rural vanilla-growing areas

Vanilla producers expect prices to remain high during the 2018-2019 season, though prices are still below the record levels of 2017. High prices will lead to further conflict in rural vanilla-growing areas as thieves steal the crop to sell on the black market.<sup>12</sup> Halfway through the July-September 2018 harvest season, a kilogram of green vanilla beans is selling for \$56, a 20% increase since the season started on 15 July.<sup>13</sup> Once the crop is ready for export, the price jumps roughly ten times to between \$376 and \$560 per kilogram.<sup>14</sup> However, this is still lower than 2017 when the price of vanilla rose to \$635 per kilogram, up from \$100 per kilogram in 2015.<sup>15</sup>



The surge in price has been due to larger demand from a growing luxury market that wants natural vanilla as opposed to synthetic, as well as a decrease in supply due to cyclones in Madagascar's vanilla region (see *ARC Briefing Madagascar March 2017*) and theft of vanilla crops.<sup>16</sup>

<sup>9</sup> The New Times, 21 Aug 2018.

<sup>10</sup> Deutsche Welles, 7 Aug 2018.

<sup>11</sup> World Bank, 31 Jul 2018.

<sup>12</sup> Reuters, 9 Aug 2018.

<sup>13</sup> Reuters, 9 Aug 2018.

<sup>14</sup> Reuters, 9 Aug 2018.

<sup>15</sup> Reuters, 9 Aug 2018.

<sup>16</sup> Reuters, 9 Aug 2018.

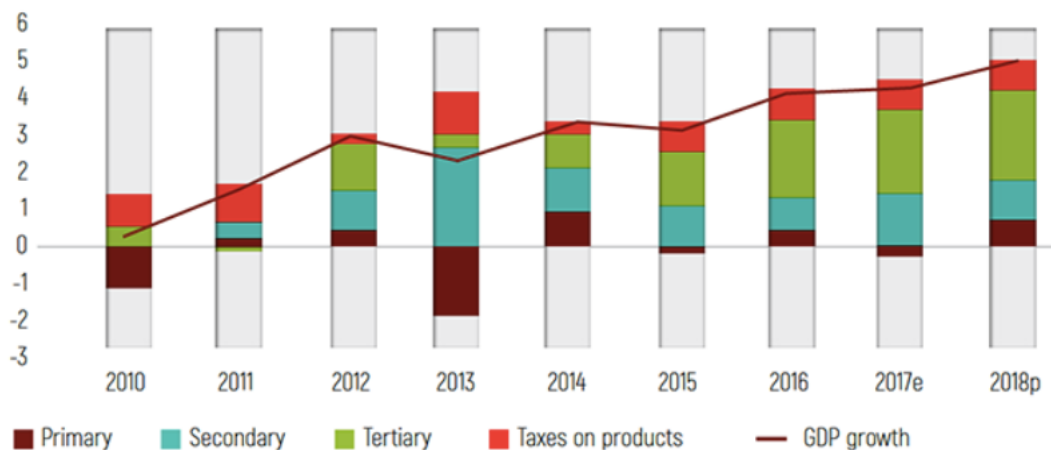
Madagascar's vanilla region, in the northeastern tip, has had increased conflict as vanilla farmers use homemade weapons to guard the crop and prevent vanilla 'rustlers' from stealing their crop. Farmers and villagers have taken to beating vanilla thief suspects to death, despite local police chief, **Sirnot Besoa**, stating that more than one thousand vanilla thieves have been caught and put in jail.<sup>17</sup> Some farmers have harvested earlier to mitigate theft of crops.<sup>18</sup> This has led to a decrease in quality, which inadvertently puts more pressure on farmers as the government destroys pods that are picked early to keep up the quality of Madagascar's vanilla.<sup>19</sup>

Madagascar is the world's largest producer of vanilla, followed by Indonesia.<sup>20</sup> Vanilla is also Madagascar's largest export. Of the average 6,000 tonnes produced, 1,600 tonnes are destined for foreign markets and bring in \$680m in foreign currency.<sup>21</sup> The government needs to counter the growing vanilla theft in the same way it has cracked down on '*dahalo*', the Malagasy word for cattle rustlers who steal zebu, which are Madagascar's distinctive and prized hump-backed cattle. This would not only provide economic security for farmers, but would also ensure that the quality of Madagascar's prized crop does not decrease drastically.

### World Bank economic update shows positive growth trends

The **World Bank** concluded its 8<sup>th</sup> economic update of Madagascar on 31 July.<sup>22</sup> The World Bank confirmed a positive growth trend since 2013 but a lack of financial inclusion for this growth, particularly for those involved in agriculture.<sup>23</sup> Madagascar's gross domestic product (GDP) grew from 2.3% in 2013 to an estimated 4.2% in 2017. The services sector has largely driven this growth, particularly trade.

 **Figure 1: The services sector was the most important contributor to growth in 2017**  
Contribution to growth by sector, 2010-2018



Source: INSTAT, MEP, and WB staff calculations, May 2018

The agriculture sector has struggled in the same period, contracting an average 0.8% per year from 2014 to 2017.<sup>24</sup> This contraction is worrying as 80% of the population is engaged in agricultural

<sup>17</sup> Reuters, 25 Jul 2018.

<sup>18</sup> Reuters, 25 Jul 2018.

<sup>19</sup> BBC, 16 Aug 2018.

<sup>20</sup> World Atlas, *The Leading Countries in Vanilla Production in the World*

<sup>21</sup> Reuters, 25 Jul 2018.

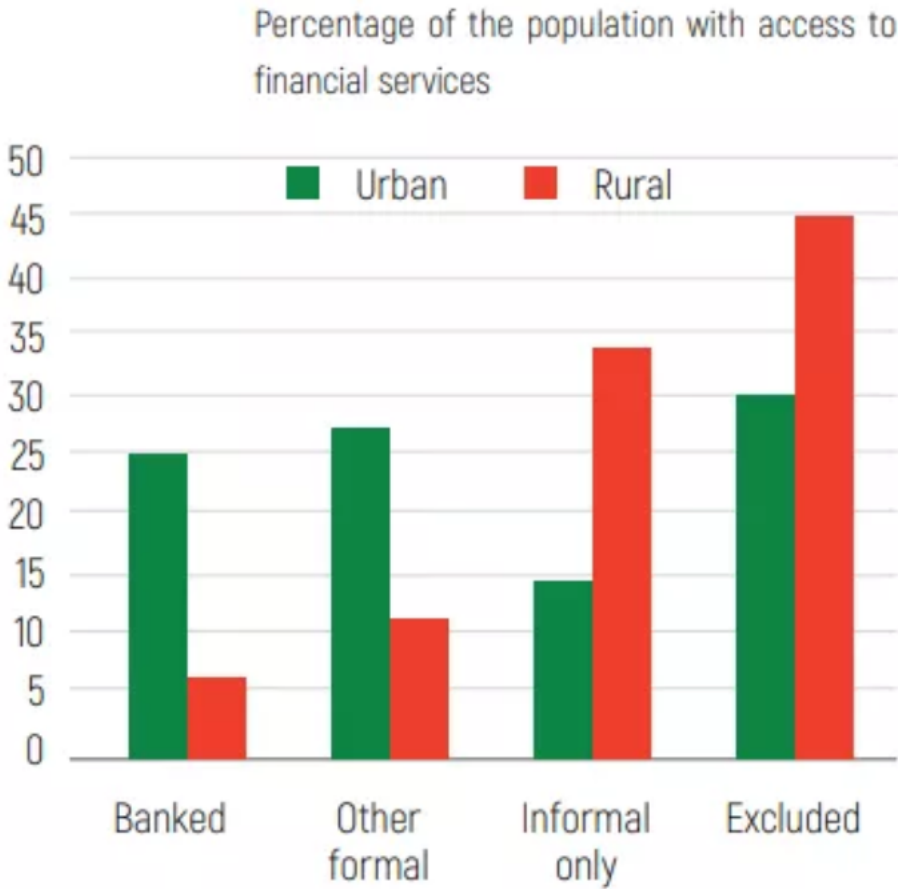
<sup>22</sup> World Bank, 31 Jul 2018.

<sup>23</sup> World Bank, 31 Jul 2018.

<sup>24</sup> World Bank, 31 Jul 2018.

activities and illustrates that the vast majority of the population are not included in Madagascar’s economic growth.<sup>25</sup> Severe weather patterns have resulted in both drought and floods, and led to a 6.6% contraction of the agricultural sector in 2017.<sup>26</sup> Sustained growth in the agricultural sector is hampered by low productivity due to a lack of technology and market connectivity.<sup>27</sup>

The World Bank projects growth to reach 5% in 2018 and 5.4% in 2019.<sup>28</sup> However, the World Bank manager for Madagascar, **Coralie Gevers**, noted that while Madagascar’s economy is projected to continue to expand over the medium term, focusing on inclusive growth is essential for poverty reduction.<sup>29</sup> The World Bank’s report recommended that the government address the lack of economic inclusion by increasing public services in education, health and public infrastructure to rural areas. The government must also address the lack of access to the finance sector as 41% of Malagasy do not have bank accounts that mean there is no access to save or transfer money.<sup>30</sup> The lack of financial inclusion also inhibits the use of credit to start or grow a business.



Source: Finscope 2016

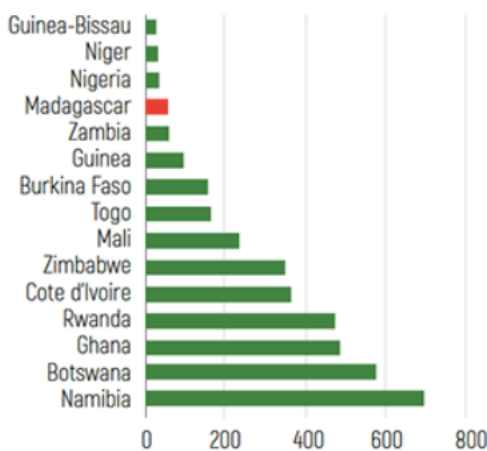
Mobile money opportunities may be a solution to the lack of financial inclusion. The use of mobile money services has doubled to 18% in three years (see *ARC Briefing Madagascar March 2018*). Demand for mobile phones and mobile credit solutions is not yet mature in Madagascar. Despite a

<sup>25</sup> World Bank, 31 Jul 2018.  
<sup>26</sup> World Bank, 31 Jul 2018.  
<sup>27</sup> World Bank, 31 Jul 2018.  
<sup>28</sup> World Bank, 31 Jul 2018.  
<sup>29</sup> Public Finance International, 2 Aug 2018.  
<sup>30</sup> World Bank, 31 Jul 2018.

doubling in the usage of mobile money, it is still far below the **sub-Saharan Africa** average of 43%.<sup>31</sup> The sector could thus experience healthy growth in the next five years, despite Madagascar’s poverty rate of 75% which may make smart phones out of reach for the majority of the population. The tables below illustrate that despite the low number of mobile money accounts, the use of mobile money outlets – which allows people unable to afford a mobile phone access to mobile money – has grown exponentially.

**Figure 27:** While the number of mobile money accounts in Madagascar is still below peer countries...

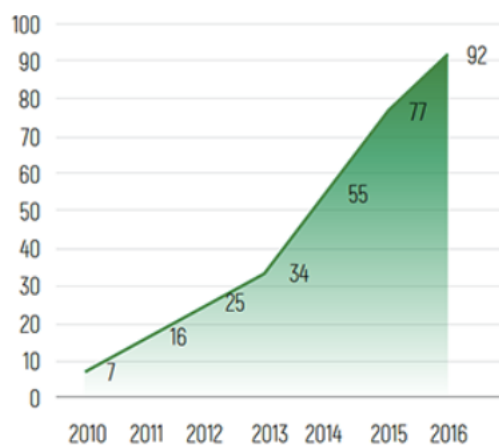
Mobile accounts active per 1,000 adults (2016)



Source: IMF, Financial Access Survey, 2017

**Figure 28:** There has been exponential growth in the number of mobile money outlets over the last few years

Mobile money agent outlets registered in Madagascar per 100,000 adults



With a stable political environment, the growth of mobile money outlets and operators may signal a drastic shift of banking practices in Madagascar from branch-based banking to strictly mobile platforms. For the government, the future will involve how to effectively use these platforms to collect taxes without decreasing their ease of use and effectiveness.

**Planner**

- 7 Sep 2018 **(Madagascar)** Date by which President **Hery Rajaonarimampianina** must resign;
- 7 Oct 2018 **(Madagascar)** Election campaigns officially begin;
- 7 Nov 2018 **(Madagascar)** Scheduled parliamentary and first round presidential elections;
- 19 Dec 2018 **(Madagascar)** Scheduled second round presidential elections;

**Chronology**

- 21 Aug 2018 **Antananarivo (Madagascar)** *Bloomberg*. Former prime minister **Olivier Mahafaly Solonandrasana** announces his candidacy for president in the November elections;
- 20 Aug 2018 **Antananarivo (Madagascar)** *Mining Weekly*. **Australia**-based mining company **Bass Metals** sells its first concentrate from **Graphmada** mine;

<sup>31</sup> World Bank, 31 Jul 2018.

17 Aug 2018 **Antananarivo (Madagascar)** *News24*. President **Hery Rajaonarimampianina** confirms he will seek re-election in the November presidential elections;

10 Aug 2018 **Antananarivo (Madagascar)** *Mining.com*. **Australia**-based mining company, **Bass Metals**, announces that its **Graphmada Large Flake Graphite Mine** is processing 500 tonnes of graphite per month;

9 Aug 2018 **Antananarivo (Madagascar)** *Reuters*. Vanilla producers expect prices to remain high during the 2018-2019 season but not reach the record highs of 2017;

2 Aug 2018 **Antananarivo (Madagascar)** *World Bank*. The **World Bank** forecasts **Madagascar's** economy to grow 5% in 2018 due to strong transport and goods sectors;

1 Aug 2018 **Antananarivo (Madagascar)** *Reuters*. Former President **Andry Rajoelina** formally announces he will run for president in the November elections;

31 Jul 2018 **Antananarivo (Madagascar)** *The Financial*. The **World Bank** forecasts growth of 4.2% in 2017 and 5% in 2018 due to a profitable banking sector and strong performance of economic processing zones;

31 Jul 2018 **Antananarivo (Madagascar)** *The East African*. The state secretary of the national gendarmerie, **Jean Christophe Randriamanarina**, increases security in the wake of abductions of employees from mining firm, **Kraoma**;