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Prime minister Olivier Solonandrasana Mahafaly presents the government's Politique générale de l'état (general state policy) to the senate and national assembly. The World Bank's latest economic update highlights Madagascar's slow economic growth and need for reform. United Kingdom (UK)-based Sterling Energy Plc issues a notice of withdrawal from the offshore Ambilobe block, in favour of its joint venture partner Pura Vida Mauritius (PVM). Mahafaly meets French ambassador Véronique Vouland-Aneini to discuss security for the Organisation Internationale de la Francophonie (OIF) (international organisation of the Francophonie) summit scheduled for Antananarivo in November. The Banque Centrale de Madagascar (BCM) (central bank) lowers its benchmark lending rate.

Prime minister Mahafaly presents the government policy programme

Prime minister **Olivier Solonandrasana Mahafaly** presented the government's **Politique générale de l'état** (general state policy) to the senate and national assembly on 9 May.¹ In his speech to both houses of parliament, Mahafaly said his government will focus on the fight against poverty and on good governance and economic recovery.² He also made commitments to enhance social protection benefits, access to healthcare and education, and environmental protection.³ The response from senators and members of parliament (MPs) was mixed.⁴ Some parliamentarians appreciated the overarching themes and objectives but criticised the lack of detail about how the government will achieve its objectives.⁵ Opposition MPs criticised the policy for its perceived lack of ambition and failure to discuss large-scale development projects.⁶ **Brunelle Razafitsiandraofa**, an MP for the opposition **Miaraka amin'ny Prezida Rajoelina's (Mapar)** party allied to former president **Andry Nirina Rajoelina** (2009-2014), said "...he speaks only little things. We expect large-scale projects..."⁷

World Bank reports highlights slow economic growth & need for tax reform

The **World Bank's** latest economic update on Madagascar, released on 19 April, highlighted Madagascar's slow economic growth and the need for reform.⁸ The economy was expected to grow 3% in 2015, but fell short of the target.⁹ The World Bank cited both domestic and external conditions for slower growth in 2015, which included declines in tourism, rice production, and the failure of the expected strong recovery of export processing sector.¹⁰ **Keiko Kubota**, lead economist at the World Bank country office in Madagascar said,

¹ www.rfi.fr

² www.rfi.fr

³ www.rfi.fr

⁴ www.rfi.fr

⁵ www.rfi.fr

⁶ www.rfi.fr

⁷ www.rfi.fr

⁸ www.worldbank.org

⁹ www.worldbank.org

¹⁰ www.worldbank.org

“The country is increasingly confronted by fierce international competition ... A strong rebound in economic activity in 2016 could be expected if the structural challenges related to governance and the business climate are adequately addressed.”¹¹

The World Bank’s report also indicated that the government’s tax policy was “generally sound” and poor revenue performance results mainly from weak tax administration.¹² The World Bank recommended further reform of the tax system to improve overall revenue performance and suggested the government reduce tax exemptions and tackle corruption within the tax administration structures.¹³

Sterling Energy exits offshore Ambilobe block

United Kingdom (UK)-based **Sterling Energy Plc**, which is listed on the **London Stock Exchange’s (LSE) Alternative Investment Market (AIM)**, announced on 27 April that its wholly owned subsidiary, **Sterling Energy (UK) Ltd**, had issued a notice of withdrawal from the offshore **Ambilobe** block, in favour of its joint venture partner **Pura Vida Mauritius (PVM)**.¹⁴ Sterling’s withdrawal does not bode well for the ability of the current government to attract foreign direct investment (FDI) in the oil and gas sector, as it tries to diversify Madagascar’s extractive sector. Sterling’s decision is mainly based on the challenging low oil price environment rather than a particular response to Madagascar’s oil and gas potential.¹⁵

This is not Sterling’s first withdrawal from Madagascar. Sterling farmed out its 30% non-operating working interest in the **Ampasindava** block in May 2015.¹⁶ At the time, Sterling relinquished its interest to its partner **ExxonMobil Exploration and Production (Northern Madagascar) Ltd**.¹⁷

Sterling expects to finalise its withdrawal in July. Sterling has held an interest in the **Ambilobe** block since 2004 and completed a 1,175 km² discretionary 3D survey in 2015.¹⁸ Sterling originally farmed out a 50% non-operating interest in **Ambilobe** to **PVM** in 2013.¹⁹

Sterling Energy is an upstream oil and gas company, engaged in the exploration, development, and production of oil and gas assets in **Africa** and the **Middle East**.²⁰ The company has interests in a portfolio of projects in **Kurdistan**, **Cameroon** and **Mauritania**.²¹ The company has proven and probable reserves of 340,000 barrels of oil equivalent in **West Africa**.²²

Japan to give Madagascar \$500m for infrastructure development

Japan International Cooperation Agency’s (JICA) representative in Madagascar, **Akira Nashimoto**, announced in May that the Japanese government has set aside \$500m for infrastructure development in Madagascar.²³ Nashimoto made the announcement while meeting Malagasy government officials in **Antananarivo**.²⁴ Most of the money will go towards expanding the **Toamasina Port**. **Toamasina**, in the **Atsinanana Region** on Madagascar’s east coast, is one of Madagascar’s main ports, but does not have the capacity to accommodate modern marine transport traffic.²⁵ The upgrading of the port will

¹¹ www.worldbank.org

¹² www.worldbank.org

¹³ www.worldbank.org

¹⁴ www.rigzone.com

¹⁵ www.rigzone.com

¹⁶ News Bites, 7 May 2015.

¹⁷ News Bites, 7 May 2015.

¹⁸ www.rigzone.com

¹⁹ Gulf Oil & Gas, 4 Dec 2013.

²⁰ News Bites, 7 May 2015.

²¹ News Bites, 7 May 2015.

²² News Bites, 7 May 2015.

²³ www.today.ng

²⁴ www.today.ng

²⁵ www.today.ng

also involve the refurbishment of the 358km **National Road 2 (NR2)**, which connects Toamasina with Antananarivo.²⁶ The NR2 is critical to Madagascar's economy but has degenerated over the years due to neglect and lack of maintenance.²⁷

Mahafaly meets with French ambassador to discuss security

Prime minister Olivier Mahafaly met **French** ambassador to Madagascar **Véronique Vouland-Aneini** on 25 April to discuss security issues.²⁸ The main focus of their discussion was the provision of security for French nationals and other delegates attending the upcoming **Organisation Internationale de la Francophonie (OIF)** (international organisation of the Francophonie) summit scheduled for Antananarivo in November.²⁹ Vouland-Aneini said,

"It is clear that security becomes a phenomenon of growing concern if the Malagasy themselves are the first victims. It is my duty to ensure that the kidnapping of French citizens does not recur, because all citizens are entitled to consular protection."³⁰

Malagasy media recently reported on several kidnapping for ransom incidents in Antananarivo. On 18 April, four gunmen kidnapped a **Karana** owner of a hardware store in **Andravoahangy** and demanded a ransom.³¹ The Karana, the business savvy and wealthy descendants of Madagascar's **Indian** and **Pakistani** immigrants, are a regular targets for kidnap and ransom.³² However, French nationals are targets as well. Unknown assailants kidnapped a French national in **Tulear** in 2015.³³

France has already committed to help Malagasy security forces strengthen their capacity and will also provide security support before and during the OIF summit.³⁴ Mahafaly said France will provide training aspects of protocol officers, security and protection of public figures, but "...obviously all this is done with respect for the sovereignty of the host country".³⁵

In preparation for the OIF Summit, the government is currently working on the expansion of the **Ivato International Airport (IIA)** in Antananarivo, the renovation of the **Ivato International Conference Centre** and the construction of a ring-road that connects IIA with **Soavimasoandro**.³⁶

Central bank lowers benchmark lending rate

The **Banque Centrale de Madagascar (BCM)** (central bank) on 4 May announced that it would lower its benchmark lending rate from 8.7% to 8.3% from 15 May.³⁷ The BCM's objective is to make it cheaper for businesses to borrow from commercial banks to encourage investment to promote economic activity.³⁸ The BCM stated,

"It is expected that the easing of monetary policy measures will result in an easing of credit conditions for the private sector ... The national economy needs a favourable environment for the resumption of activities ... the beginnings of improved economic growth, although the recovery is not yet clearly marked."³⁹

²⁶ www.today.ng

²⁷ www.today.ng

²⁸ Madagascar Tribune, 26 Apr 2016.

²⁹ www.rfi.fr

³⁰ Madagascar Tribune, 26 Apr 2016.

³¹ Madagascar Tribune, 21 Apr 2016.

³² Source, political analyst, Antananarivo

³³ Source, political analyst, Antananarivo

³⁴ Madagascar Tribune, 26 Apr 2016.

³⁵ Madagascar Tribune, 26 Apr 2016.

³⁶ www.expressmada.com

³⁷ Reuters, 4 May 2016.

³⁸ Reuters, 4 May 2016.

³⁹ Reuters, 4 May 2016.

Since President **Hery Rajaonarimampianina** (2014- present) came to power in January 2014, he has struggled to encourage investment and promote economic growth.⁴⁰

Implications

Mahafaly's ability to achieve the broad objectives outlined in the government's policy programme is dependent on implementing economic reforms and attracting larger aid commitment from the international donor community. Sterling's withdrawal does not bode well for the ability of the current government to attract FDI in the oil and gas sector, as it tries to diversify Madagascar's extractive sector. Japan's commitment to the refurbishment of the Toamasina Port will help the government address the infrastructure deficit. However, the BCM's lowering of its benchmark interest rate will not significantly impact Madagascar's slow economic growth rate.

The OIF summit in Antananarivo is an important event for the Malagasy government to highlight its return to the international arena after five years of political isolation under former president Rajoelina. The government lacks the capacity to provide sufficient security; hence France will take on the bulk of the security responsibility for the summit.

⁴⁰ Reuters, 4 May 2016.

About Africa Risk Consulting:

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