

AFRICA RISK CONSULTING

Madagascar Monthly Briefing November 2020

Madagascar Summary 25 November 2020

The Ministère de l'Economie et des Finances (economics and finance ministry) launches the 2021 budget bill, claiming an expected economic turnaround with 4.5% growth in 2021 compared to 3.8% in 2020. Vanilla, the country's largest cash crop, is experiencing export volumes and prices below normal due to Covid-19. A halt in expected mining reform is impacting the mining industry's potential. Luxembourg-based impact investment platform Bamboo Capital Partners will manage a \$40m World Bank-supported Off-Grid Market Development Fund (OMDF) that aims to improve off-grid solar energy solutions to increase access to electricity in Madagascar, which is currently at approximately 25%. United Nations (UN) humanitarian aid organisation World Food Programme (WFP) warns that Southern Madagascar is "on the brink of a humanitarian disaster" due to the combined impact of Covid-19 and the dry season on access to food.

Government launches budget bill for 2021 amid pressure on exports ...

The **Ministère de l'Economie et des Finances** (economics and finance ministry) launched the 2021 budget bill on 17 November, projecting an expected economic turnaround in 2021 with 4.5% economic growth compared to 3.8% growth in 2020.¹ The budget bill forecasts the budget deficit to decline from 6.3% in 2020 to 5.5% in 2021 with net fiscal revenue expected to rise 38.5% to \$1.6 billion.² The ministry predicts that a rebound in tourism and foreign direct investment, increased exports, and external grants of \$365m will support the ariary currency.³ The **Malagasy** government aims to support job creation:

*"The Malagasy state will continue to support national demand and supply by targeting job generating sectors such as construction, rural economy, handicraft and entrepreneurship."*⁴

The **Covid-19** pandemic has negatively affected Madagascar's most important exports of vanilla, sugar, coffee, shrimp, graphite and chromite, with export revenue decreasing from \$185m in May to \$116m in June.⁵ Vanilla is a key cash crop and the main foreign exchange earner in the country.⁶ Madagascar is the world's largest producer of vanilla with the **Northeastern** region generating nearly 80% of global supply.⁷ Vanilla is globally the second most valuable spice after saffron in commercial value, being a labour intensive crop.⁸ The pandemic has caused global demand for vanilla to drop below average, with the price falling from approximately \$200 to \$150 per kilogramme of dry beans,⁹ and reducing the earnings of local farmers.

... and a slowdown in the mining industry

The government has also seen its revenue from the mining sector drop in 2020. Madagascar's largest mine, the **Ambatovy** nickel and cobalt mine, makes up 32% of the country's foreign exchange

¹ Ministère de l'Economie et des Finances, 17 Nov 2020

² Bloomberg, 21 Nov 2020

³ Bloomberg, 21 Nov 2020

⁴ Bloomberg, 21 Nov 2020

⁵ Tradingeconomics, accessed 25 Nov 2020

⁶ FEWS Network, 3 Nov 2020

⁷ CBS News, 2 Aug 2020

⁸ CBS News, 2 Aug 2020

⁹ Hindu Business Line, 18 Nov 2020

earnings but has been in maintenance since March.¹⁰ **Japan**-based **Sumitomo Corp** suspended operations at the mine shortly after the Covid-19 pandemic caused worldwide shutdowns (see *ARC Briefing Madagascar April 2020*).

Covid-19 has also delayed the review of proposed reform to the mining industry. Since assuming office in January 2019, President **Andry Rajoelina** (2019-present) has made reform of the mining sector one of his top priorities.¹¹ **South Africa**-based **Mining Review** notes that the combination of out-dated tax policies, commodity price fluctuations and governance shortcomings have all contributed to the mining sector's relatively poor performance, which poor public perception of the industry in Madagascar has compounded.¹² A government council approved a new mining code on 20 November 2019, without consulting industry stakeholders. In response to their objections, a cabinet meeting a week later rejected the proposed changes.¹³ Although the government has held consultations with mining industry stakeholders in 2020, it has not presented a revised mining code to parliament in November as planned.

Regulatory uncertainty continues to influence investor confidence,¹⁴ and is affecting the potential of the mining industry to support the necessary boost of the Malagasy economy to provide more benefits for the population living in poverty and in need of food assistance (see below).

Off-grid solar market takes off

The Malagasy government has appointed **Luxembourg**-based impact investment platform **Bamboo Capital Partners** as the international fund manager for the **World Bank**-supported \$40m **Off-Grid Market Development Fund (OMDF)** for renewable energy projects.¹⁵ The OMDf aims to improve off-grid solar energy solutions that can increase access to electricity in Madagascar, and will be hosted by Madagascar-based bank **Société Générale Madagasikara**. The World Bank's most recent figures, from 2018, show that only 25% of Malagasy have access to electricity.¹⁶ Better access to off-grid electricity is likely to have a significant impact in rural areas where electrification rates are as low as 5%.¹⁷

Madagascar-based renewable energy company **Filatex Energie** in November commissioned 44 mobile and portable **Solar GEM** units produced by **France**-based renewable energy producer **Akuo Energy** in the port city of **Tulear**.¹⁸ The Solar GEM units are containerised solutions, each containing 200 photovoltaic panels offering capacity of 74 kWp. The project, implemented by Filatex's energy division, **Enelec**, has been supported with funding from **Germany**-based non-profit organisation **Atmosfair** and required a total of \$6m in investment.¹⁹ The portable solar units are moveable and easily deployed, meaning they can be moved during unstable environmental conditions and are therefore well suited to the Malagasy climate. Filatex CEO **Hasnaine Yavarhousen** said the project will feed into the government's goal of increasing energy access to 70% of the population by 2030 by adding 2.9MW of energy to the national grid.²⁰

Electrification of rural areas is likely to improve communication and sanitation systems. In the southern areas of the country in particular, access to electricity may improve food storage, helping to ease food insecurity in the current humanitarian and food crisis (see below).

¹⁰ Mining Review, 4 Nov 2020

¹¹ Mining Review, 4 Nov 2020

¹² Mining Review, 4 Nov 2020

¹³ Mining Review, 4 Nov 2020

¹⁴ Mining Review, 4 Nov 2020

¹⁵ ESI Africa, 16 Nov 2020

¹⁶ World Bank Data, Accessed 24 Nov 2020

¹⁷ ESI Africa, 16 Nov 2020

¹⁸ PV Magazine, 17 Nov 2020

¹⁹ PV Magazine, 17 Nov 2020

²⁰ PV Magazine, 17 Nov 2020

Covid-19 elevates humanitarian disaster...

The **United Nations (UN)** humanitarian aid organisation, **World Food Programme (WFP)**, says an early onset of the dry season coinciding with the effects of the Covid-19 pandemic have led to **Southern Madagascar** being “*on the brink of a humanitarian disaster*”.²¹ According to the WFP, 1.5 million Malagasy are in need of emergency nutrition and food assistance, and the organisation is calling for funding of \$35m to make sure the catastrophe does not worsen.²²

The **UN Food and Agricultural Organisation’s (FAO)** “*global information and early warning system on food and agriculture*” (*GIEWS*) *Madagascar Country Brief* reports that food insecurity is expected to remain high in Southern Madagascar for the remainder of 2020. The FAO estimates that the number of people in need between November 2020 and March 2021 is expected to be higher than the 728,000 during the same period in 2019/2020:²³

*“The reduction in economic activities has caused a widespread loss of income and livelihoods in the mining, textile and tourism sectors, and a decline in agricultural cash crop sales, particularly vanilla, due to a reduction in global demand. These losses are expected to have sharply reduced the households’ purchasing power and, therefore, limited their ability to buy foods.”*²⁴

The **United States Agency for International Development (USAID)**-funded humanitarian crisis analysis organisation **Famine Early Warning System (FEWS) Network** estimates that the southern regions of **Anosy, Androy** and **Atsimo Andrefana** are facing an “*atypically severe upcoming lean season*” with the three regions entering “*crisis*” phases in food insecurity between February and May 2021.²⁵ Covid-19’s impact on productivity and food supplies have exacerbated the impact of the dry season, with traders remaining wary of the pandemic’s future evolution. As a result, prices of staples have remained above normal even though food supply has returned to near-normal.²⁶

As of 22 November, Madagascar had recorded 17,341 confirmed cases of Covid-19, with 16,657 recoveries and 251 deaths.²⁷ All regions have been affected, with the majority of cases found in the central and northern provinces of **Anamalanga** (11,896), **Antsinanana** (907), **Alaotra Mangoro** (680) and **Diana** (537). Compared to other ‘neighbouring’ countries, confirmed Covid-19 cases as a proportion of the population remain comparatively low at below 0.1%:

Covid-19 update on ‘neighbouring’ Eastern African countries ²⁸				
	Confirmed cases	Deaths	Recovered cases	% of population
Madagascar	17,341	251	16,657	<0.1%
Comoros	607	7	579	<0.1%
Kenya	78,512	1,409	52,709	<0.1%
Mauritius	494	10	433	<0.1%
Mayotte (France)	5,122	49	2,964	1.9%
Mozambique	15,231	127	13,408	<0.1%
Reunion (France)	7,689	35	6,660	0.9%
Seychelles	166	0	159	0.2%
Tanzania	509 ²⁹	21	183	<0.1%

²¹ World Food Programme, 18 Nov 2020

²² World Food Programme, 18 Nov 2020

²³ FAO, 16 Nov 2020

²⁴ FAO, 16 Nov 2020

²⁵ FEWS Network, 3 Nov 2020

²⁶ FEWS Network, 3 Nov 2020

²⁷ John Hopkins Covid-19 Dashboard, 23 Nov 2020

²⁸ John Hopkins Covid-19 Dashboard, 23 Nov 2020

²⁹ The Tanzanian government has not published any nationwide figures since 8 May, News 24, 8 Jul 2020

President Rajoelina lifted the curfew and strict regulations to curb the spread of Covid-19 on 6 October and limited international flights have been allowed since 1 October (see *ARC Briefing Madagascar October 2020*). Although it is unlikely that the country will return to lockdown and restrictions on markets and free movement, FEWS Network warns this would lead to increased food insecurity in urban areas as well as the expected southern rural areas.³⁰ The pandemic has already had significant impact on the Malagasy economy, and continues to affect the poorer population the most.

Planner

11 Dec 2020 (**Madagascar**) Scheduled senatorial elections;
2023 (**Madagascar**) Potential presidential elections.

Chronology

21 Nov 2020 **Antananarivo (Madagascar)** *Bloomberg*. Finance ministry forecasts economic growth of 4.5% in 2021 compared with a 3.8% contraction this year, and the budget deficit is seen declining to 5.5% of GDP next year from 6.3% in 2020;

18 Nov 2020 **Washington D.C (United States)** *Ecofin Agency*. **United States Agency for International Development (USAID)** acting deputy administrator **John Barsa** announces the launch in 2021 of new trade and investment programme “**Prosper Africa**”, which will allocate \$500m over five years towards private sector development;

18 Nov 2020 **Amboasary (Madagascar)** *World Food Programme*. Drought and **Covid-19** push 1.5 million people to the brink in Southern Madagascar;

3 Nov 2020 (**Africa**) *EMPEA*. **United Kingdom**-based development finance institution **CDC Group** invests an additional \$40m in **pan-African** data centre **Liquid Telecom**, after investing \$180m in 2018;

2 Nov 2020 **Antananarivo (Madagascar)** *Mining Review*. Government ramps up mining sector reform effort, following a failed attempt to introduce a new mining code in November 2019;

³⁰ FEWS Network, 3 Nov 2020

About Africa Risk Consulting:

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Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

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