

## AFRICA RISK CONSULTING

### Madagascar Monthly Briefing January 2016

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#### Madagascar Summary 10 January 2016

*President Hery Rajaonarimampianina (2014 – present) wins a majority in senate elections. Parliament adopts 2016 budget and rosewood trafficking laws. The Office des Mines Nationales et des Industries Stratégiques (OMNIS) (national office of mines and strategic resources) formally cancels ExxonMobil’s oil & gas exploration licences. The World Bank approves a \$55m public finance management loan. The government establishes a technical debt management committee.*

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#### Senate elections take place

Madagascar held elections for the upper chamber of parliament, the senate, on 29 December.<sup>1</sup> The successful conclusion of the senate elections is the final stage of Madagascar’s full transition back to democratic rule after the 2009 coup in which immediate past president **Andry Nirina Rajoelina** (2009-2014) ousted former president **Marc Ravalomanana** (2002-2009). President **Hery Rajaonarimampianina** (2014- present) hopes the senate will enhance political stability in Madagascar and act as a counterbalance to the power of the national assembly, the lower house of parliament.

*“For the Rajaonarimampianina camp, the goal is to have a true institution, which can counteract the largely hostile national assembly. Thus, the executive hopes to find a political stability in the country.”<sup>2</sup>*

Madagascar has not had a senate since the 2009 coup. In terms of the constitution, mayors and municipal councilors elect two-thirds of the senate, while the president appoints the remaining third. In December’s senate election, over 12,500 electors voted for 42 of the 63 senators. Rajaonarimampianina will appoint the remaining 21. Rajaonarimampianina and his allied political parties were expected to win a majority of the senate seats, after successful local elections in which Rajaonarimampianina’s political party **Hery Vaovao ho an’i Madagasikara (HVM)** and its allies won a majority of the municipal councils. Official provisional results show that HVM won an “overwhelming” majority (see below).<sup>3</sup>

*“The electors are mayors and municipal councilors. And it does not take into account the many elected without political label. However, with more than half of councils won at the recent local elections, the HVM, the presidential party is logically guaranteed to get a majority of seats in the senate.”<sup>4</sup>*

**Commission Electorale Nationale Independante (CENI)** (independent national electoral commission) chairman **Hery Rakotomanana** released official provisional senate election results on 10 January.<sup>5</sup> The provisional results indicate that members of Rajaonarimampianina’s HVM won a majority of the elected senate positions.<sup>6</sup> A majority in the senate will help create a stable legislative

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<sup>1</sup> Multiple sources: RFI, 27 Dec 2015; RFI, 28 Dec 2015.

<sup>2</sup> RFI, 28 Dec 2015.

<sup>3</sup> AFP, 10 Jan 2016.

<sup>4</sup> RFI, 28 Dec 2015.

<sup>5</sup> AFP, 10 Jan 2016.

<sup>6</sup> Madagascar Tribune, 4 Jan 2016.

environment that will allow the government to implement its reform agenda.<sup>7</sup> The official CENI provisional results are as follows:<sup>8</sup>

Province	Votes counted to date	Voter turnout	Leading party	2 <sup>nd</sup> place party	3 <sup>rd</sup> place party	Other candidates
<b>Toliara</b>	100%	95.0%	HVM (67.81%)	<b>Miaradia</b> (7.79%)	<b>Tiako i Madagasikara</b> (TIM) (6.03%)	18.37%
<b>Toasmasina</b>	100%	95.91%	HVM (64.79%)	TIM (15.87%)	Mifanaosoa (12.27%)	7.07%
<b>Fianarantsoa</b>	100%	95.12%	HVM (68.49%)	<b>Fanorolahy</b> (9.79%)	TIM (9.36%)	12.36%
<b>Mahajanga</b>	100%	94.83%	HVM (61.08%)	<b>Miaraka amin'ny Prezida Rajoelina's (Mapar)</b> (23.47%)	TIM (13.74%)	1.71%
<b>Antsiranana</b>	100%	98.03%	HVM (64.65%)	<b>Fanilo</b> (19.14%)	<b>Mamimad</b> (7.79%)	8.42%
<b>Antananarivo</b>	100%	95.33%	HVM (68.99%)	TIM (17.17%)	<b>Marina</b> (8.35%)	5.49%

The CENI has forwarded the officials' provisional results to the **Haute Cour Constitutionnelle (HCC)** (high constitutional court) for validation.<sup>9</sup> The HCC will also determine the number of senate seats that each party will get.<sup>10</sup>

### Parliament adopts 2016 budget law

Parliament voted overwhelmingly in favour of the 2016 budget law on 15 December.<sup>11</sup> The passage of the 2016 budget will create a degree of financial predictability, which will allow the government to implement its reform and economic development agenda more effectively.<sup>12</sup> The budget law is based on an expected gross domestic product (GDP) growth rate of 4.5% and includes measures to strengthen customs and tax revenue, but also includes spending to boost economic and social development.<sup>13</sup> Opposition members of parliament (MPs) supported the 2016 budget law.<sup>14</sup> MP **Christine Razanamahaso**, a loyal supporter of former president Rajoelina, voted in favour, saying that despite her disagreement with stipulations in the law, she felt she needed to support it for the wider public good. Razanamahaso said, *"We will drink the cup even if we know it is bitter."*<sup>15</sup> A key aspect of the government's ability to gain wide support in parliament to pass the 2016 budget law was the commitment of the government to distribute 200m ariary (\$62,000) to all districts in

<sup>7</sup> Madagascar Tribune, 4 Jan 2016.

<sup>8</sup> Unless otherwise notes: [www.agenceanta.com](http://www.agenceanta.com)

<sup>9</sup> AFP, 10 Jan 2016.

<sup>10</sup> AFP, 10 Jan 2016.

<sup>11</sup> [www.expressmada.com](http://www.expressmada.com)

<sup>12</sup> [www.expressmada.com](http://www.expressmada.com)

<sup>13</sup> [www.expressmada.com](http://www.expressmada.com)

<sup>14</sup> [www.expressmada.com](http://www.expressmada.com)

<sup>15</sup> [www.expressmada.com](http://www.expressmada.com)

Madagascar to support the government's decentralisation plan.<sup>16</sup> MPs will have significant influence on how the funds are disbursed.

### Parliament passes rosewood trafficking laws

Parliament on 17 December passed new laws against rosewood trafficking. The objectives of the new laws are to stem the flow of illegal rosewood exports from Madagascar to key markets in **Asia**, particularly **China**.<sup>17</sup> The new laws provide for prison sentences of up to 20 years for individuals convicted of involvement in the export of rosewood and up to 10 years for individuals convicted of felling rosewood trees.<sup>18</sup> The new laws will also create a new special court of justice with the sole responsibility of trying individuals and companies charged with rosewood related offences.<sup>19</sup> Moreover, the government will establish new joint investigations brigades composed of police officers, gendarmes and forestry officials that will deploy on the ground in areas closely linked with rosewood trafficking.<sup>20</sup>

**Voahary Gasy**, the president of non-governmental organisation (NGO) **I'Alliance Environnementale** (environmental alliance), welcomed the new laws.<sup>21</sup> However, environmentalists are concerned, not about the laws themselves, but about the application of laws, because corruption and influence peddling remain the core reason why rosewood trafficking has persisted in Madagascar.<sup>22</sup>

### OMNIS formally cancels ExxonMobil's oil & gas exploration licences

Malagasy media reported on 29 December that the **Office des Mines Nationales et des Industries Stratégiques (OMNIS)** (national office of mines and strategic resources) formally cancelled and took control of **United States**-based **ExxonMobil Corp's** exploration licences in Madagascar after the company decided to exit Madagascar earlier in 2015 (see previous ARC Madagascar Briefings).<sup>23</sup> Strategic resources minister **Joeli Valerien Lalarisaina**, a long-time and well-respected extractive sector technocrat<sup>24</sup> said,

*"These areas are now officially released and may be awarded to another company when the time arrives where the state will resume the granting of new licences."*<sup>25</sup>

ExxonMobil stopped its oil and gas exploration activity in Madagascar on 4 July.<sup>26</sup> ExxonMobil's decision is a setback for Rajaonarimampianina as his new government tries to attract foreign investment and diversify Madagascar's extractive industry sector, after years of economic and political stagnation under Rajoelina. Lalarisaina said,

*"Exxon has left Madagascar because it was not convinced by the potential of the oilfield ... The potential is not yet defined, but the results of investigations have shown that the oilfield was not interesting for a company of ExxonMobil's scale."*<sup>27</sup>

ExxonMobil entered Madagascar in 2006, but suspended exploration activity after the 2009 coup and only resumed exploration in late 2013. ExxonMobil was operator of three exploration blocks in Madagascar:<sup>28</sup>

<sup>16</sup> [www.expressmada.com](http://www.expressmada.com)

<sup>17</sup> [www.afriquinfos.com](http://www.afriquinfos.com)

<sup>18</sup> [www.afriquinfos.com](http://www.afriquinfos.com)

<sup>19</sup> [www.afriquinfos.com](http://www.afriquinfos.com)

<sup>20</sup> [www.afriquinfos.com](http://www.afriquinfos.com)

<sup>21</sup> [www.afriquinfos.com](http://www.afriquinfos.com)

<sup>22</sup> [www.afriquinfos.com](http://www.afriquinfos.com)

<sup>23</sup> Ecofin, 29 Dec 2015.

<sup>24</sup> Source, business analyst, Madagascar

<sup>25</sup> Ecofin, 29 Dec 2015.

<sup>26</sup> Reuters, 4 Jul 2015.

<sup>27</sup> Reuters, 4 Jul 2015.

<sup>28</sup> [Corporate.exxonmobil.com](http://Corporate.exxonmobil.com)

- **Ampasindava** offshore concession through **ExxonMobil Exploration and Production (Northern Madagascar) Ltd**;
- **Cap St** offshore concession through **ExxonMobil Exploration and Production Madagascar Ltd**;
- **Majunga** offshore concession through **ExxonMobil Exploration and Production Madagascar Majunga Ltd**.

Despite ExxonMobil's exit from Madagascar, Lalarisaina said the company's three concessions could possibly attract interest from junior exploration companies.<sup>29</sup>

### World Bank approves \$55m public finance management loan

The **World Bank** approved a \$55m **International Development Association (IDA)** loan on 10 December for a **Resilience Development Policy Operation** for the finance and budget ministry to improve the efficiency of public finance management.<sup>30</sup> The aim of the loan is to strengthen reporting and increase the availability of information relevant to assessing the effectiveness of public finance, improving payroll management, particularly the elimination of ineligible persons, and upholding the single treasury account principle.<sup>31</sup> In a statement announcing the IDA loan, the World Bank said,

*"The political context in Madagascar remains challenging, delaying urgently needed reforms. Many of them relate to fiscal policies, on both revenue and expenditure fronts, as a prerequisite for financing public investments and social spending necessary for fighting poverty and pursuing sustainable development."*<sup>32</sup>

In response to the World Bank's announcement, finance and budget minister **Gervais Rakotoarimanana** said,

*"We have a strong will to meet the challenges to strengthen the performance of the tax and customs administrations and to improve efficiency in the use of public funds ... Our goal is to optimise the allocation of resources to sectors that have tangible impact on the population such as education, health, and infrastructure."*<sup>33</sup>

The World Bank country manager reiterated the importance of improving public finance management in Madagascar in order to facilitate public investment in achieving the government's social and development goals.

*"The Madagascar **Systematic Country Diagnostic (SCD)** presented to the World Bank Board in August 2015 emphasised the importance of enlarging the fiscal space as a prerequisite, so that the government has the means to make public investments and implement policies such as the national strategies on social protection and on universal health coverage."*<sup>34</sup>

### Government established technical debt management committee

The cabinet met on 21 December and agreed to establish a technical debt management committee (TDMC) in the finance and budget ministry.<sup>35</sup> The establishment of the TDMC is an outcome of the **Debt Technical Committee** law No. 2014-012 passed on 21 August 2014.<sup>36</sup> The role of the TDMC is to:

- Define the government's debt management strategy;

<sup>29</sup> Reuters, 4 Jul 2015.

<sup>30</sup> www.worldbank.org

<sup>31</sup> www.worldbank.org

<sup>32</sup> www.worldbank.org

<sup>33</sup> www.worldbank.org

<sup>34</sup> www.worldbank.org

<sup>35</sup> Conseil du Gouvernement – Palais d'Etat de Mahazoarivo, 21 Dec 2015.

<sup>36</sup> Conseil du Gouvernement – Palais d'Etat de Mahazoarivo, 21 Dec 2015.

- Decide on any new project contracting and external borrowing, warranty claims on the government and any proposed handover of loan funds;
- Rule on all public debt processing operations;
- Validate all technical analyses carried out; and
- Adopt the draft decree laying down the modalities and procedures for granting guarantees on government loans.<sup>37</sup>

The TDMC is a key part of a new debt management strategy based on analysis of Madagascar's entire debt portfolio, not only concessional loans.<sup>38</sup> The strategy will also serve as a tool to help the government make decisions and ensure better coordination between debt management and macroeconomic and fiscal policies.<sup>39</sup>

### Implications

The successful conclusion of the senate elections marks Madagascar's full transition back to democratic rule. HVM's new senate majority will improve Madagascar's political stability and allow Rajaonarimampianina to implement his reform agenda.

The passage of the 2016 budget will create a degree of financial predictability, which will allow the government to more effectively implement its reform and economic development agenda under the new, more stable political environment. The new rosewood trafficking laws are designed to impede the flow of illegal exports to Asia. However, the key factor in the success of the new laws is how they are enforced and the new government does not have enough resources to enforce the new laws in an effective manner. Hence, rosewood trafficking is not expected to decline in the short term.

The exit of ExxonMobil will negatively impact the ability of the government to attract large-scale foreign direct investment in the extractive sector just as the new government is trying to diversify the economy to help address stagnant economic growth.

The World Bank's public finance management loan coupled with the new TDMC will enhance the level of public finance transparency in Madagascar. This will allow the government to show the international donor community that it is committed to reform in the hopes of attracting more aid to help address Madagascar's economic and social challenges.

<sup>37</sup> Conseil du Gouvernement – Palais d'Etat de Mahazoarivo, 21 Dec 2015.

<sup>38</sup> Conseil du Gouvernement – Palais d'Etat de Mahazoarivo, 21 Dec 2015.

<sup>39</sup> Conseil du Gouvernement – Palais d'Etat de Mahazoarivo, 21 Dec 2015.

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