

## AFRICA RISK CONSULTING

### Madagascar Monthly Briefing October 2022

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#### Madagascar Summary 14 October 2022

*Finance minister Rindra Hasimbelo Rabarinirinarison leads a delegation to the annual meetings of the International Monetary Fund (IMF) and the World Bank in Washington (United States). Rabarinirinarison holds key meetings with IMF, World Bank International Finance Corporation (IFC) and International Development Association (IDA) officials, securing commitments of a further \$200m in development funding. The legislature will begin its second ordinary session on 18 October, discussing the passing of the 2023 Finance Bill and the legislation needed to implement the government's anticipated Plan Emergence Madagascar (PEM). The Commission Electorale Nationale Indépendante (CENI) (electoral commission) is awaiting the outcome, hoping to receive the budget necessary to organise the 2023 elections. CENI remains under pressure to ensure that the elections are free, fair and above reproach, but has already drawn criticism from the largest opposition party, Tiako I Madagasikara (TIM), for failing to carry out adequate preparations. The Inspection Générale d'Etat (IGE) (general inspectorate) releases a report on 27 September revealing that at least MGA 51.2 billion (\$12m) has been embezzled from January to August this year, of which the majority occurred at a local government level. The country's high levels of corruption are a major operational concern and contribute to Madagascar's failure to address its risk of money laundering and terrorist financing.*

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#### Finance minister meets with international financing agencies

Finance minister **Rindra Hasimbelo Rabarinirinarison** met with senior officials from the **Africa** department of the **International Monetary Fund (IMF)**, the **World Bank's International Finance Corporation (IFC)**, and the **International Development Association (IDA)** on 12 October, presenting **Madagascar's** progress on its various IMF and World Bank programmes.<sup>1</sup> The meeting took place on the sidelines of the annual World Bank and IMF meetings in **Washington (United States)** held between 10 and 15 October.

Following Rabarinirinarison's meetings on 12 October, it was announced that the IDA would provide \$200m in financing to Madagascar.<sup>2</sup> This would be provided in two payments, \$150m to help fund social security programmes in Madagascar and \$50m to assist the country in addressing the challenges related to high inflation and global fuel prices. Madagascar is in particular need of this IDA funding, as the IMF expects the country's economic growth to stagnate in 2022, potentially only growing by 2.6% of gross domestic product (GDP).<sup>3</sup> This is due to fuel and food price inflation suppressing local demand and consumer expenditure, as well as lower demand from Madagascar's trading partners.<sup>4</sup> This will be exacerbated by the wider economic slowdown anticipated by the IMF, which has forecast global growth to slow from 6% in 2021 to 3.2% in 2022 and 2.7% in 2023.<sup>5</sup>

This is the weakest growth profile published by the IMF since 2001 outside of shock events such as the global financial crisis and the peak of the Covid-19 pandemic. The global economic contraction will hit low-income states such as Madagascar particularly acutely, resulting in declining tourism and commodity exports and making the government even more dependent on external funding from organisations such as the IMF and the IDA. This pessimistic view is shared by US-headquartered

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<sup>1</sup> 2424.mg, 12 Oct 2022

<sup>2</sup> Madagascar Tribune, 13 October

<sup>3</sup> World Bank, 1 June 2022

<sup>4</sup> IMF, 23 Sep 2022

<sup>5</sup> IMF, 11 Oct 2022

global rating firm **Standard & Poor's (S&P)**, which announced on 7 October that it had revised its outlook on Madagascar's credit from positive to stable.<sup>6</sup>

The IMF completed its most recent review of Madagascar under its **Extended Credit Facility (ECF)** arrangement on 12 September. This review was mostly positive; however, the IMF review team noted concerns over delays in Madagascar's structural reform programme and stressed that the government needed to be more proactive in implementing this agenda. IMF **Africa** department director **Abebe Aemro Sélassié** particularly pushed the finance minister on the importance of Madagascar having a well-defined and sustained reform programme.<sup>7</sup> The IMF noted that Madagascar's economy has not yet recovered from the **Covid-19** pandemic and is currently experiencing fuel and food price inflation driven by the global impacts of **Russia's** invasion of **Ukraine**. The IMF review team further commented that Madagascar's economic outlook is uncertain and that the country continues to:

*"...face risks associated with weak implementation capacity, potential fiscal slippages, social fragility in a context of widespread poverty, and vulnerability to exogenous shocks including to terms of trade and natural disasters".<sup>8</sup>*

The IMF ended its review agreeing to release a tranche payment worth \$31.9m, bringing the total disbursements from the IMF to Madagascar under the ECF to \$159.7m.<sup>9</sup>

### Next parliamentary session to commence in October

Officials confirmed on 13 October that Madagascar's parliament would begin its second ordinary session on 18 October, a significant session, as it will address the **2023 Finance Bill** and legislative activity promised in the **Plan Emergence Madagascar (PEM)**.<sup>10</sup> President **Andry Rajoelina** (2019-present) is scheduled to present the PEM on 28 October at the **Ivato International Conference Centre**. The plan will provide a roadmap for government development plans and projects over five years and is built around the framework that guided Rajoelina's 2018 electoral campaign. Rajoelina has failed to provide any substantive details on this plan, despite campaigning on its implementation and now has just over a year to implement its programmes before the 2023 presidential election.

The funding for the PEM will be outlined in the 2023 Finance Bill, which is not expected to be finalised until after the PEM's 28 October launch. The bill will be closely watched, as it will be the final budget of this presidential term and will reveal which aspects of the PEM Rajoelina wants to prioritise and implement ahead of the election. However, Rajoelina will need to contend with Madagascar's stagnating economic growth in the face of global economic headwinds, high inflation, and falling demand among the country's key trade partners, leaving limited room to fund the projects under the PEM.

The combination of Madagascar's limited revenue, the country's urgent need for development expenditure, the high public-sector wage bill, and Rajoelina's desire to be seen to be delivering on major projects ahead of the 2023 election are likely to result in a major budget deficit for 2023. This will force the government to increase its debt levels and be even more dependent on external financing to fund the budget. A major budget deficit will also be viewed unfavourably by global rating agencies and could result in the country's credit being downgraded further into sub-investment grade; a possibility which is more likely given S&P's negative outlook for the country.

<sup>6</sup> S&P Global, 7 Oct 2022

<sup>7</sup> 2424.mg, 12 Oct 2022

<sup>8</sup> IMF, 12 Sep 2022

<sup>9</sup> IMF, 12 Sep 2022

<sup>10</sup> Madagascar Tribune, 13 Oct 2022

## Opposition raises concerns over electoral list ...

The **Commission Electorale Nationale Indépendante (CENI)** (electoral commission) is awaiting the outcome of the 2023 Finance Bill, hoping to receive the necessary budget to organise the 2023 elections. CENI remains under pressure to ensure that the elections are free, fair and above reproach, but has already drawn criticism from the largest opposition party, **Tiako I Madagasikara (TIM)**, which stated on 13 October that CENI has failed to adequately prepare the electoral list and voter register, which CENI began reviewing on 1 October.<sup>11</sup> TIM secretary-general **Rina Randriamasinoro** claimed that anomalies remain on the list and has urged TIM's supporters to contact CENI to ensure that their names are on the voters' roll.

TIM did not provide any tangible evidence for CENI's shortcomings other than to claim it had received "grassroots reports". It is more likely that the party is laying the foundation to dispute the election on procedural grounds if TIM leader **Marc Ravalomanana** loses the presidential election. Ravalomanana adopted a similar tactic during his unsuccessful effort to contest the 2018 election results, during which he alleged that CENI facilitated electoral fraud to benefit Rajoelina.<sup>12</sup> However, this time Ravalomanana's argument that CENI is failing to prepare adequately for the election will be bolstered by the recent report by the **European Union (EU)** electoral monitoring mission published on 2 September, determining that the government has not addressed most of the 27 recommendations it made after the 2018 election (see *ARC Briefing Madagascar Sep 2022*). These include elevating CENI to the level of a state institution and granting it greater independence and control over the election process.

TIM's comments and clear intent to place pressure on CENI will increase political tensions ahead of the election. However, it is difficult to see how CENI will meet the required standard to be beyond reproach given its current inadequate levels of funding.

## ... as government watchdog reports high levels of public sector corruption

The **Inspection Générale d'Etat (IGE)** (general inspectorate) released a report on 27 September revealing that at least MGA 51.2 billion (\$12m) had been embezzled from January to August this year, the majority of which occurred at local government level.<sup>13</sup> However, the IGE noted that the problem was endemic across the state, including state-owned enterprises and national departments. The IGE is understaffed and has only 63 of the 180 inspectors it requires, so the embezzled amount is likely a substantial underestimate. IGE director general **Daniel Randrianarivony** also stressed that Madagascar's overseas embassies and missions have not been properly inspected in over 40 years.

The IGE's report was published a few days after the **Bureau Indépendant Anti-Corruption (BIANCO)** (anti-corruption bureau) released a report on 23 September raising concerns over increasing rates of embezzlement and public sector corruption.<sup>14</sup> BIANCO noted the pervasiveness of public-sector corruption in Madagascar and its intersection with other realms of criminality in the country, including the illegal trafficking of natural resources.

Despite the high levels of identified embezzlement and reported incidents of corruption, few of these cases are ever prosecuted. BIANCO received 3,500 corruption cases in 2021, of which only 420 were referred to prosecutors. BIANCO claims that this is because it is under-resourced and staffed. Corruption is one of the most serious operating challenges for investors and companies in Madagascar. The country is ranked 147<sup>th</sup> out of 180 states on the **Germany**-based civil society organisation **Transparency International's Corruption Perceptions Index (CPI)**.<sup>15</sup>

<sup>11</sup> Midi Madagasikara, 14 Oct 2022

<sup>12</sup> Africa News, 28 Dec 2018

<sup>13</sup> Midi Madagasikara, 28 Sep 2022

<sup>14</sup> RFI, 24 Sep 2022

<sup>15</sup> Transparency International, 13 Oct 2022

**Switzerland-based Basel Institute on Governance** has cited high levels of corruption in the latest edition of its **Basel AML Index**, which ranks countries in terms of money laundering and terrorist financing risk.<sup>16</sup> The organisation ranks Madagascar as the fifth highest-risk country in terms of money laundering and terrorist financing, behind only the **Democratic Republic of the Congo, Haiti, Myanmar** and **Mozambique**.<sup>17</sup> The index is based on multiple factors, the most significant of which is the findings of the **Mutual Evaluation Reports (REM)** of the **Financial Action Task Force (FATF)**. Madagascar's failure to implement necessary reforms to improve its efforts to combat money laundering and terrorist financing has resulted in investors and operators in Madagascar facing increased reputational risk and bureaucratic hurdles when using its financial sector, especially if these operators are headquartered in jurisdictions with strict anti-terrorist financing and money laundering laws.

### Planner

28 Oct 2022 **Antananarivo (Madagascar)** President **Andry Rajoelina** to present the **Plan Emergence Madagascar (PEM)** at the **Ivato International Conference Centre (IICC)**;  
2023 **(Madagascar)** Presidential elections (TBA);

### Chronology

14 Oct 2022 **Antananarivo (Madagascar)** *Madagascar Tribune*. State-owned utility company **Jirama** shuts down the **Andekaleka** hydroelectric plant that serves **Antananarivo**, resulting in load shedding in the capital;

14 Oct 2022 **Antananarivo (Madagascar)** *Midi Madagasikara*. Madagascar's largest opposition party, **Tiako I Madagasikara (TIM)**, criticises the **Commission Electorale Nationale Indépendante (CENI)** (electoral commission) of inadequately preparing electoral lists;

13 Oct 2022 **Antananarivo (Madagascar)** *L'Express*. Three bandits (locally referred to as dahalo) are killed in clashes with security forces in **Amborompotsy**, located in, **Atsimo-Andrefana Region's Ampanihy District**;

12 Oct 2022 **Antananarivo (Madagascar)** *Midi Madagasikara*. Prime minister **Christian Ntsay** hosts the new **French** Ambassador to Madagascar, **Arnaud Guillois**, to discuss potential new areas of Franco-Malagasy cooperation;

12 Oct 2022 **Washington, DC (US)**, *2424.mg*. Finance minister **Rindra Hasimbelo Rabarinirinarison** meets with senior officials from the **International Monetary Fund (IMF)**, **World Bank's International Finance Corporation (IFC)** and the **International Development Association (IDA)**;

11 Oct 2022 **Antananarivo (Madagascar)** *Madagascar Tribune*. **World Food Programme (WFP)** warns that the number of food-insecure people in **Madagascar** could rise to 1.9 million by the end of 2022, the majority of whom reside in the country's southern regions;

10 to 15 Oct 2022 **Washington, DC (US)** *Madagascar Tribune*. **Madagascar** participates in the annual meetings of the **International Monetary Fund** and the **World Bank**;

10 Oct 2022 **Antananarivo (Madagascar)** *Madagascar Tribune*. Environment and sustainable development ministry reveals that 1,194 wildfires have been reported in two days with the **Ankaratra Nature Reserve (Vakinankaratra)** particularly hard hit;

8 Oct 2022 **Toamasina (Madagascar)** *Midi Madagasikara*. Opposition **Tiako I Madagasikara** holds a rally commemorating the anniversary of the party's founding;

<sup>16</sup>Midi Madagasikara, 12 Oct 2022

<sup>17</sup>Basel Institute on Governance, 13 Oct 2022

6 Oct 2022 **Antananarivo (Madagascar)** *L'Express*. Unions representing clerks and administration offices in **Madagascar's** justice department declare an indefinite strike, leading to major disruptions at courtrooms across the country;

1 Oct 2022 **Antananarivo (Madagascar)** *Madagascar Tribune*. **Commission Electorale Nationale Indépendante (CENI)** (electoral commission) officially begins its review of the electoral list and voter register, an essential part of the preparations ahead of the next general election, expected to be held in December 2023;

30 Sep 2022 **Antananarivo (Madagascar)** *Madagascar Tribune*. Tourism ministry hosts 60 tourism operators from 14 countries as part of its drive to bolster tourism figures in the country and help the vital economic sector recover;

29 Sep 2022 **Antananarivo (Madagascar)** *L'Express*. A crowd in **Antanambao Manampotsy (Atsinanana)** lynches three people suspected of graverobbing and trafficking;

27 Sep 2022 **Antananarivo (Madagascar)** *Midi Madagasikara*. **Inspection Générale d'Etat** (general inspectorate) releases a report revealing that MGA 51.2 billion (\$12m) of public funds had been embezzled in the first eight months of 2022;

22 Sep 2022 **Antananarivo (Madagascar)** *Madagascar Tribune*. **European Union (EU)** ambassador to **Madagascar, Isabelle Delattre**, raises the electoral reform recommendations recently proposed by the EU election observation team following the 2018 elections, to which Malagasy officials have largely been resistant;

21 Sep 2022 **New York (US)** *United Nations*. President **Andry Rajoelina** addresses the **United Nations General Assembly** calling for increased investment and assistance to address **Africa's** development and climate change challenges.

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