

AFRICA RISK CONSULTING

Monthly briefing – Madagascar

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1 Summary

Madagascar's anti corruption agency, Bureau Indépendant pour la Lutte Contre la Corruption (Bianco), tries former energy minister Rodolphe Ramamantsoa on charges of corruption. Madagascar Oil and Energizer Resources raise capital to develop oil and graphite projects respectively. Another locust plague hits Antananarivo. Madagascar rises two places on the World Economic Forum's (WEF) annual 2014 – 2015 Global Competitiveness Index (GCI) to 130 out of 144 countries. The WEF is especially critical of Madagascar's political and policy instability, access to finance, corruption and inadequate infrastructure.

1.1 Former energy minister tried on corruption charges

Rodolphe Ramanantsoa, former energy minister in the **Haute Autorité de Transition (HAT)** government of president **Andry Nirina Rajoelina** (2009 – 2013), presented himself before a **Bureau Indépendant pour la Lutte Contre la Corruption (Bianco)**, anti-corruption commission) tribunal on 12 September. Ramanantsoa appeared alongside 11 other former energy ministry officials charged with corruption. He pleaded not guilty and claims the trial is politically motivated. The rumour circulating **Antananarivo** is that a conflict developed between Ramanantsoa and president **Hery Rajaonarimampianina** (2013 – present) when Rajaonarimampianina was finance minister under Rajoelina. Ramanantsoa was rumoured to have called on Rajaonarimampianina to pay **Jirosoy Rano Malagasy (Jirama)**, Madagascar's state-owned electricity company which comes under the purview of the energy minister, the arrears the government owed to the utility. The request allegedly upset Rajaonarimampianina for reasons that are not clear, although they could relate to unconfirmed allegations that Jirama was a conduit for the corrupt enrichment of government officials at the time.¹ The Bianco charges against Ramanantsoa relate to allegations of embezzlement, influence peddling and misappropriation of government property.²

¹ Source, Madagascar analyst, United Kingdom (UK)

² Multiple sources: Midi Madagasikara, 13 Sept 2014; RFI, 4 Sept 2014.

Ramanantsoa could face up to 10 years in prison if the Bianco tribunal finds him guilty.³ The final verdict is expected on 7 October. Bianco's move to charge former Rajoelina regime officials with corruption is a step in the right direction and a signal to the international community that the new Rajaonarimampianina government wants to continue to distance itself from the previous corrupt Rajoelina regime.

*"The government is sending the right message, wanting to address corruption and distancing itself from Rajoelina's cronies, but the political arena in Madagascar is very small and many former and current government officials have strong links... The situation is better than under Rajoelina, but that is not saying much... people in Madagascar like to talk and talk and talk ... I would not expect much immediate progress on corruption or serious political reform in the short term."*⁴

1.2 Madagascar Oil and Energizer Resource raise development capital

In positive news for Madagascar's extractive industry, **Madagascar Oil** and **Energizer Resources** both announced plans in September to raise development capital for their operations in Madagascar. **London Stock Exchange (LSE) Alternative Investment Market (AIM)**-listed Madagascar Oil announced on 25 September that it will raise \$26.4m through a rights offering to finance the development of its **Tsimiroro** concession.⁵ **Iain Patrick**, Madagascar Oil's senior non-executive director said,

*"These funds will be used to de-risk and further evaluate Tsimiroro Block 3104, and will put the company in a strong position for the months ahead."*⁶

In May 2014 Madagascar officially declared the commercial viability of its main Tsimiroro concession (see *ARC Madagascar May 2014 Briefing*). Tsimiroro is an onshore heavy oil concession located 125km from the west coast of Madagascar. The 2011 contingent best estimate is 1.7 billion barrels and the prospective best estimate exceeds 2.1 billion barrels.⁷ However,

"... the oil is of low quality and requires significant processing which can only take place outside Madagascar, unless an expensive refinery is built which will likely not happen ... any significant production would require a 250km pipeline to the coast for shipment overseas... the quality of

³ Multiple sources: Midi Madagasikara, 13 Sept 2014; RFI, 4 Sept 2014.

⁴ Source, expatriate lawyer with extensive experience in Madagascar, South Africa

⁵ www.lse.co.uk

⁶ www.lse.co.uk

⁷ Multiple sources: British Daily Stock Report, 9 May 2014; www.madagascaroil.com

*the oil is so poor, when the government tried to take the concession and give it to the **Chinese**, they declined and gave it back.”⁸*

In the mining sector **Toronto Stock Exchange (TSX)**-listed Energizer Resources brokered a private placement deal in mid-September that raised \$4.8m to fund the development and production of its **Molo** graphite project. Energizer already has a small-scale pilot production scheme in place at Molo and targets the start of commercial production of between 50 000 tonnes per year (t/y) and 150 000 t/y in 2015.⁹

While Madagascar Oil’s moves to finance its Tsimiroro concession and Energizer’s private placement deal are small in comparison to other previous extractive industry deals, such as the multi-billion dollar **Rio Tinto** ilmenite project and **Sherritt International’s Ambatovy** nickel project, they are a positive sign for Madagascar’s extractive sector. There has been no significant activity in the sector since the new government came to power.

“There is not much new mining activity or interest at the moment. Madagascar still needs to do a lot more work to get the word out there that things are starting to change and attract more significant extractive sector investment...”¹⁰

1.3 Locust plague threatens crops

In late August, a locust plague hit Antananarivo as billions of locusts darkened the skies over the capital and caused alarm in the agricultural sector. Locust swarms are common in Madagascar, with the hot and humid climate serving as an ideal breeding ground, and can cause significant damage to agriculture, particularly economically important rice and maize fields.

This is not the first time a locust plague has hit Antananarivo. A plague of locust arrived in Antananarivo on 9 April after causing significant damage in southern and northern Madagascar. Since April 2012, an invasion of Malagasy Migratory Locust has threatened the livelihood of 13 million people, including nine million who derive their income from agriculture. The results of a damage assessment conducted in May 2013 showed that losses due to locust plagues in 2012 and 2013

⁸ Source, lawyer with experience in the extractive sector, Madagascar

⁹ www.miningweekly.com

¹⁰ Source, expatriate mining sector employee, Madagascar



ranged from 10% to 40% of rice crops in 17 of the 22 regions of Madagascar. Rice is Madagascar's staple food.

According to data from the **United Nations Food and Agricultural Organization (FAO)**, which sponsors the fight against locust plague in Madagascar, at least three successive locust campaigns at a cost of over \$49m were required from 2012 to 2014. The funding required for campaigns up to 2016 is approximately \$17m. Despite the campaigns, the locusts still severely affect food security, nutrition and livelihood of the Malagasy population.¹¹

1.4 Madagascar rises two places on the Global Competitive Index

Madagascar rose two places on the **World Economic Forum's (WEF)** annual **2014 - 2015 Global Competitiveness Index (GCI)** to 130 out of 144 countries. The GCI is based on an analysis of 12 pillars of competitiveness.¹² Despite Madagascar's years of political turmoil under former president Rajoelina, Madagascar remains higher in the GCI index than some of its **Southern African** peers including: **Malawi** (132), **Mozambique** (133) and **Angola** (140). Despite Madagascar's slight increase in 2014/2015, its GCI ranking has remained relatively static:

Year	Ranking
2014 - 2015	130 (out of 144)
2013 - 2014	132 (out of 148)
2012 - 2013	130 (out of 144)
2011 - 2012	130 (out of 142)

The top 10 most problematic factors the GCI noted for doing business in Madagascar, in order of significance, were:

- Government instability and coups;
- Policy instability;
- Access to financing;
- Corruption;

¹¹ Xinhua, 9 Apr 2014.

¹² Institutions, infrastructure, macroeconomic environment; health and primary education; higher education and training, goods market efficiency, financial market development, technological readiness, market size, business sophistication and innovation.

- Inadequate supply of infrastructure;
- Crime and theft;
- Tax rates;
- Tax regulations;
- Inadequately educated workers;
- Inefficient government bureaucracy.

Despite the long list of problematic factors the GCI notes, the newly elected Malagasy government under Rajaonarimampianina has started to address many of the negative factors which existed under the previous regime. Rajaonarimampianina is trying to move away from the policies and actions of Rajoelina and is sending a message to the international community that Madagascar is on a new path.

2 Implications

Bianco's move against former corrupt government officials is a sign that Madagascar is moving in the right direction, but to Madagascar's small insular political elite, there remain questions as to whether Rajaonarimampianina has the political will to go after more significant players in the current and previous governments. Madagascar is starting to attract small amounts of capital investment in the extractive sector, but needs to do more to attract more significant foreign direct investment. The agricultural sector remains at high risk due to the locust plague. The GCI did not contain any surprises for foreign investors in Madagascar. While the new government has taken steps to encourage more foreign direct investment, there are few tangible results yet, hence Madagascar's static position in the GCI rankings. The political and policy climate, combined with corruption and a lack of infrastructure will continue to deter risk-averse investors.