

AFRICA RISK CONSULTING**Madagascar Monthly Briefing July 2015**

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Election campaigning begins for Madagascar's 31 July local elections. Parliament fails to achieve the two-thirds majority needed to dismiss prime minister Jean Ravelonarivo. ExxonMobil ends oil and gas exploration in Madagascar after poor results. Government plans to pass new mining and petroleum bills in October. Cabinet approves Finance Amendment Bill that sets out framework for 2015 budget.

Campaigning for local elections starts

Election campaigning for Madagascar's 31 July local elections started on 16 July.¹ The free and fair completion of local elections is an important next step in the return to democracy after the successful presidential election in 2013 that brought President **Hery Rajaonarimampianina** (2014- present) to power after five years of non-democratic rule under former president **Andry Nirina Rajoelina** (2009-2014). Moreover, the upcoming local elections are important for Madagascar's political parties because winning local council seats and mayoral races will allow parties to secure and develop a political base in the run-up to the 2018 presidential election and upcoming selection of senate members.² This is particularly important for Rajaonarimampianina as his **Hery Vaovao ho an'i Madagasikara (HVM)** party is new and has a limited support base.³

Over 1,600 communities will take part in the local elections. The most important local election will take place in the capital, **Antananarivo**.⁴ **Lalao Ravalomanana**, the wife of former ousted president **Marc Ravalomanana** (2002 -2009), is the highest profile candidate for mayor of Antananarivo. She is running under the **Tiako i Madagasikara (TIM)** political party banner, with the backing of her husband who still retains a significant political support base in and around Antananarivo. She is seen as the front-runner.⁵

*"As expected ... the party founded by Marc Ravalomanana is the undisputed favorite to grab seats in Antananarivo."*⁶

There are several other candidates for mayor of Antananarivo who have the backing of senior political figures. Rajoelina is reportedly supporting mayoral candidate **Lalotiana Rakotondrazafy**, however he has not received an official endorsement.⁷

*"No, I am not supported by Andry Rajoelina, at least not officially . After almost all members of **Miaraka amin'ny Prezida Andry Rajoelina (Mapar)** have decided to join my **Freedom Association** to support me."*⁸

Antananarivo mayoral candidate **Hery Rafalimanana** has the tentative support of Rajaonarimampianina's HVM party.⁹ **Raniriharnosy Harimanana**,¹⁰ a mayoral candidate for the

¹ RFI, 7 Jul 2015.

² Source, Madagascar analyst, United Kingdom

³ Source, Madagascar analyst, United Kingdom

⁴ RFI, 7 Jul 2015.

⁵ RFI, 7 Jul 2015.

⁶ www.lexpressmada.com

⁷ RFI, 7 Jul 2015.

⁸ RFI, 7 Jul 2015.

Arema Party, has the support of former president **Didier Ratsiraka** (1975-1993 / 1997-2002). Ratsiraka refused to take part in Madagascar's 2013 presidential election.¹¹ There are several independent Antananarivo mayoral candidates. They include:¹²

- **Herinaka Ranaivo**
- **Hasimbola Rakotoaritsifa**
- **Henriette Rakotondrazafy**
- **Hariala Ramanantsoa**
- **Veronique Raterison.**

Parliament fails to achieve two-thirds majority needed to dismiss prime minister

After several postponements, members of parliament (MPs) met with President Rajaonarimampianina on 2 July to discuss their future working relationship after the **Haute Cour Constitutionnelle (HCC)** (high constitutional court) dismissed parliament's presidential impeachment vote¹³ (see previous ARC Madagascar briefings). Rajaonarimampianina's objective is to create a new stable parliamentary majority to support his government's reform efforts and policy priorities. However, MPs have privately and publicly communicated to Rajaonarimampianina that the only way to gain stable support from a majority of MPs is to appoint a new prime minister who represents the majority of parliament.¹⁴

*"Hery's troubles come from the fact that the prime minister and government that he appointed do not have the support of the majority of the national assembly. Still today, he does not draw the lesson from the impeachment vote that he and his government are in a minority position. To avoid a deep political crisis, he should accept [the need to] appoint a prime minister from the opposition installing a cohabitation system, [in accordance with] the constitution. A prime minister from the camps of former president Rajoelina or Ravalomanana side could be part of the solution."*¹⁵

There are three possible outcomes to the current impasse between the presidency and parliament:¹⁶

- Rajaonarimampianina can dismiss current prime minister **Jean Ravelonarivo**, appoint a new prime minister from the ranks of the opposition, and gain support from parliament to push through his reform agenda;
- He can try and "*calm*"¹⁷ parliament and persuade MPs to pass laws and make the government work;
- The final option is to dissolve parliament. This would escalate the political tension at a time when Madagascar needs stability to implement much needed reforms to enhance economic growth.

Rajaonarimampianina has so far not achieved a stable majority, but has enough parliamentary support to avoid further impeachment votes.¹⁸ A parliamentary vote failed to gather enough backing to dismiss prime minister Ravelonarivo on 3 July.¹⁹ The vote, though unsuccessful, signals the pressure on the government to increase the pace of reform and address popular grievances over power cuts and unemployment. The opposition Mapar party, allied to Rajoelina, sponsored the vote.²⁰

⁹ RFI, 7 Jul 2015.

¹⁰ www.madagate.com

¹¹ RFI, 7 Jul 2015.

¹² www.madagate.com

¹³ www.expressmada.com

¹⁴ www.expressmada.com

¹⁵ Source, senior businessperson, Antananarivo

¹⁶ www.expressmada.com

¹⁷ www.expressmada.com

¹⁸ Source, Madagascar analyst, United Kingdom

¹⁹ www.ledaily.mg

²⁰ www.ledaily.mg

While 95 of the 112 lawmakers voted in favour of the dismissal, this was insufficient to meet the two-thirds majority that the constitution requires.²¹ The **Alliance Républicaine de Madagascar** coalition subsequently called on the government to step down, citing the level of support that the vote garnered.²² The opposition blames national assembly president **Jean Max Rakotomamonjy** for the loss, claiming that he held meetings with key legislators in the run up to the vote, but his position as president appears to be secure.²³

ExxonMobil ends exploration after poor results

Strategic resources minister **Joeli Valerien Lalarisaina**, a long time and well respected extractive sector technocrat,²⁴ said on 4 July that **United States**-based **ExxonMobil Corp** had stopped its oil and gas exploration activity in Madagascar.²⁵ 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 Exxon Mobil's scale."*²⁶

ExxonMobil entered Madagascar in 2006, but suspended exploration activity after Rajoelina's 2009 coup and only resumed exploration in late 2013. ExxonMobil is operator of three exploration blocks in Madagascar:²⁷

- **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.²⁸ However, **United Kingdom (UK)**-based junior explorer **Sterling Energy Plc**, which is listed on the **London Stock Exchange (LSE)**'s **Alternative Investment Market**, had already farmed out of its 30% non-operating working interest in the Ampasindava block in May.²⁹

Government to pass mining and petroleum bills in October

Lalarisaina said on 10 July that the national assembly will pass long-overdue mining and petroleum bills when it returns from recess in October³⁰. The new bills are expected to create a more transparent and regulated foundation for the development of Madagascar's extractives sectors, which will attract more foreign investment. Lalarisaina said the government will unveil the new bills at an international mining and petroleum forum in Antananarivo between 23 and 25 September.³¹ He said neither bill will end up radically different from the current legislation. Lalarisaina said that once the national assembly approves the petroleum bill, the government will hold an international bidding round.³²

²¹ www.ledaily.mg

²² www.lexpressmada.com

²³ www.ledaily.mg

²⁴ Source, business analyst, Madagascar

²⁵ Reuters, 4 Jul 2015.

²⁶ Reuters, 4 Jul 2015.

²⁷ Corporate.exxonmobil.com

²⁸ Reuters, 4 Jul 2015.

²⁹ News Bites, 7 May 2015

³⁰ Mining Weekly, 10 Jul 2015.

³¹ Mining Weekly, 10 Jul 2015.

³² Mining Weekly, 10 Jul 2015.

Details of the expected bidding round are not yet known. Lalarisaina also said that the government would begin reissuing mining permits, as well as addressing a backlog of 4,000 applications.

New mining and petroleum bills are an important aspect of the future development of Madagascar's extractive sector, which developed reputation issues with the increase in questionable **Chinese** extractive sector deals during Rajoelina's rule between 2009 and 2014. Rajoelina ousted Ravalomanana in a coup in 2009. The international community refused to recognise Rajoelina, and donors suspended aid and cooperation with the Malagasy government due to the non-democratic transfer of power. The suspension of aid meant that Rajoelina's government – known as the **Haute Autorité de Transition (HAT)** – looked to China to fill the funding gap. China maintained its usual public stance of non-interference in the internal affairs of other countries and did not cut ties with Madagascar. Bilateral economic links accelerated during Rajoelina's tenure.

Overall, local residents do not view Chinese extractives sector companies positively.

“Generally, Chinese mining operations are not held in high esteem either by local inhabitants or civil society. An amendment to the mining code has been proposed to criminalise mining or prospecting operations in advance of (permits) and environmental authorisations (being issued). This amendment seems to directly target behaviour (typical) of Chinese mining firms.”³³

The Chinese do not have a good reputation of employing local Malagasy and have a poor record of local economic development.³⁴

*“... when **Toliara Sands** was negotiating with the **Sichaun Lomon Titanium Industry Company Ltd**, the local population was upset and against the deal.”³⁵*

Chinese companies also have a local reputation in the mining sector for poor employment and operating practices:

“The Malagasy people think Chinese are very bad employers ... Their wages for locals are very low, they do not respect human rights, do not follow labour laws, use substandard machines ... Lots of Chinese coming to Madagascar and working in the mining sector are informal miners, businessmen, going into quarries and buying gemstones from local people ... And as for Chinese companies, most of them are small companies, not working in international markets ... They are seen as second-class companies³⁶”.

There are also allegations that Chinese business people have established illegal mining operations:

“A mysterious Chinese operation in the very rural western part of Madagascar was mining copper ore illicitly without any permits. Local complaints forced the transition government to intervene and the mine was closed and the stock of copper ore seized. The Chinese company had been exporting the ore clandestinely from a minor port on the west coast with no export documentation at all.”³⁷

The increase in Chinese extractives' sector investment in Madagascar has triggered a parallel increase in local activist and the media criticism of the operating practices of Chinese extractive companies. Some of this criticism appears to be knee-jerk in nature. But some groups appear to have substance to back accusations that Chinese companies have been bribing officials, particularly senior government officials of the previous Rajoelina government, to secure access to extractives' sector investment opportunities.³⁸

³³ Source, knowledgeable Madagascar based mining business consultant, Antananarivo

³⁴ Source, mining consultant with in-depth knowledge of Toliara Sands, Antananarivo

³⁵ Source, mining consultant with in-depth knowledge of Toliara Sands, Antananarivo

³⁶ Source, mining consultant with in-depth knowledge of Toliara Sands, Antananarivo

³⁷ Source, knowledgeable Madagascar based mining business consultant, Antananarivo

³⁸ Source, Madagascar analyst, United Kingdom

Several specific, high-profile extractives' transactions entered the public domain under the Rajoelina government that implicated Chinese investors in questionable actions or non-transparent relationships. These cases continue to tarnish the reputation of Chinese extractives' investors. The prominent cases are:

- **Madagascar Development Corporation**
- **Wuhan Iron and Steel Corporation (WISCO)**
- **Madagascar Southern Petroleum Company**
- **Mainland Mining.**

Cabinet approves Finance Amendment Bill

The cabinet has approved the **Finance Amendment Bill**, which sets out the framework for the 2015 budget.³⁹ The bill decreases the 2015 economic growth forecast from 5.0% to 3.4% citing the impact of weather conditions on economic activity and revenue collection.⁴⁰ It projects that year on year inflation will reach 8.1% compared to an earlier forecast of 7.1%.⁴¹ The government said that international oil prices as well as detrimental weather conditions account for the upward revision. The Finance Amendment Bill provides for a 21% increase in government expenditure to 5.17 trillion ariary (A) (\$1.64 billion).⁴² Revenue collection will decrease 8% year on year to A3.64 trillion (\$1.17 billion).⁴³ The government did not provide detailed information as to how it planned to meet the deficit except that it would draw on both domestic and international sources. It is uncertain when the government will submit the Finance Amendment Bill to parliament.

The Finance Amendment Bill's economic growth forecast is in line with **International Monetary Fund (IMF)** forecasts. The IMF on 11 July reduced Madagascar's growth forecast from 5.0% to 3.5%.⁴⁴ The IMF's downwards revision highlights Madagascar's on-going economic vulnerability to external shocks. IMF country representative **Patrick Imam** cited extreme weather conditions including both cyclones and droughts as well as low international commodity prices for the downwards revision.⁴⁵ Imam also warned that further downward revisions are possible.⁴⁶ Imam warned that political uncertainty with regards to the government-owned power and water utility **Jiro sy Rano Malagasy (Jirama)** failure to ensure an adequate power supply will continue to deter investment.⁴⁷ An IMF delegation will head to Madagascar in August to finalise an agreement on reforms that the IMF could support with a lending arrangement.⁴⁸

Implications

The free and fair completion of local elections is an important step in the return to democracy and will send a message to the international community that Rajaonarimampianina is committed to democratic and economic reform process. Parliament's failure to dismiss the prime minister may improve Rajaonarimampianina's chances of establishing the governing parliamentary majority which will allow him to pass the government's reform legislation.

ExxonMobil's exit from Madagascar does not bode well for the new government's attempts to attract extractive sector companies and diversify Madagascar's export base. However, the new mining and petroleum sector legal framework will enhance the reputation of the sector and attract junior companies, to fill the exploration gap.

³⁹ Reuters, 10 Jul 2015.

⁴⁰ Reuters, 10 Jul 2015.

⁴¹ Reuters, 10 Jul 2015.

⁴² Reuters, 10 Jul 2015.

⁴³ Reuters, 10 Jul 2015.

⁴⁴ Reuters, 11 Jul 2015.

⁴⁵ Reuters, 11 Jul 2015.

⁴⁶ Reuters, 11 Jul 2015.

⁴⁷ Reuters, 11 Jul 2015.

⁴⁸ www.imf.org

The Finance Amendment Bill will set the fiscal foundation of Rajaonarimampianina's reform efforts, but with the lack of a parliamentary governing majority and the current focus on the upcoming local elections, the government will struggle to get the bill through parliament quickly.

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