

AFRICA RISK CONSULTING

Monthly briefing – Madagascar

23 November 2014

1 Summary

Negotiations over the fate of ousted former president Marc Ravalomanana (2002 – 2009) continue between his supporters and the government. The African Development Bank (AfDB) approves emergency budget support. The International Monetary Fund (IMF) completes article IV consultations and calls on Madagascar to enhance its fight against corruption. The government enacts a new telecommunications law. The government indicates that it may create a state mining and petroleum company in the next two to three years.

1.1 Negotiations over Ravalomanana's fate continue

Negotiations over the fate of ousted former president **Marc Ravalomanana** (2002 – 2009) continue between the government and Ravalomanana's political allies.¹ Ravalomanana voluntarily returned to Madagascar last month and remains in government detention (see *ARC Madagascar October 2014 Briefing*). President **Hery Rajaonarimampianina** (2013 – present) will probably seek to negotiate a deal that will neutralise Ravalomanana politically and ensure he is not a threat to Rajaonarimampianina's re-election in 2018. A senior Ravalomanana adviser claims the government is "dragging its feet".

*"I'm currently trying to get things moving. He is still in 'prison'. There are efforts underway to get Hery to stop talking about reconciliation and to begin doing something about it."*²

The negotiations between the government and Ravalomanana are slow because the international community has distanced itself from Ravalomanana, and this has reduced the pressure on the government to find a solution.

¹ www.lexpressmada.com

² Source, senior Ravalomanana adviser, South Africa

*“The international community is distancing itself from Ravalomanana to a degree as he had effectively undermined their man [Rajaonarimampianina] and their democratic process – the elections – Ravalomanana comes back unilaterally, under article 20 of the political roadmap which allows for the return of all political exiles, and says Rajaonarimampianina’s election was a fraud because, he (Ravalomanana) was not allowed to stand – so they are probably trying to get him out on condition he helps with the democracy which they put in place.... Although I think that this was also orchestrated to a degree as **South Africa** dropped their own investigation into how Ravalomanana managed to leave the country discreetly and travel to Madagascar.”³*

1.2 International donors continue to return but impact is limited

The **African Development Bank (AfDB)** and the **International Monetary Fund (IMF)** have taken steps towards the full resumption of aid and budgetary support. However, the on-the ground impact of new commitments from the international community remains limited. The AfDB approved a \$37m crisis response budget support loan to Madagascar in early November for the financing of the government’s emergency economic recovery programme.⁴ An IMF mission under mission head **George Tsibouris** completed article IV consultations on 11 November.⁵ The objective of the consultation is to initiate discussions on a medium term reform programme so the IMF can provide an extended credit facility to the government. The IMF’s consultations concluded that there are signs of economic recovery,⁶ but

“... tax revenue collections, spending on high-priority areas, such as education and health, continues to be constrained. Budgetary pressures are intensified by the need to finance fuel subsidies, public enterprises ... In the medium term, the key challenge for Madagascar is to secure strong, sustainable, pro-poor growth to help reverse the deterioration in development indicators. The government has an important role to play in this process ... Its reform programme, laid out in the national development plan, will set a framework for robust growth and poverty reduction over the medium term. It is important to translate this framework into specific priorities and actions to enable the achievement of the government’s medium-term objectives.”⁷

Despite recent new aid commitments,

*“[t]he main question is, are people feeling it on the ground? The answer is, no ... as these are promises, although money will eventually arrive – I know that the **European Union (EU)** gave*

³ Source, political analyst, Antananarivo

⁴ Pivotal Sources, 10 Nov 2014.

⁵ www.imf.org

⁶ www.imf.org

⁷ www.imf.org

some money last month which is basically keeping the country afloat and paid salaries for teachers – but very little changed.”⁸

The public remains supportive of the new Rajaonarimampianina government with the hope that the new aid commitments will eventually start to show signs of change in their daily lives. However, there is a risk of increasing public frustration with the slow progress.

*“The situation has not progressed ... The **World Bank** and EU made some announcements, they promise to bring money, to support state budget and improve our balance of payments, but we are still waiting, maybe early in 2015...”⁹*

1.3 New telecommunication law passed

Post and telecommunications minister **Neypatraiky Rakotomamonjy** announced in November that the government has finally enacted law 2005-023 of October 2005, which liberalises Madagascar’s telecommunications sector and is part of Rajaonarimampianina’s wider economic reform programme. The law is expected to improve competition and service delivery, particularly in Madagascar’s mobile market, which has a low 40% penetration rate.¹⁰

The new law will increase the cost of licence acquisition and renewal costs. Mobile operators will now have to pay \$6.35m to renew their licences compared to the previous \$771,000 and new mobile operators will have to pay a minimum of \$50m to obtain a licence. The new law also requires mobile operators to share infrastructure to raise coverage and reduce the number of mobile towers. The law replaces the current market regulator, **Office Malgache des Etudes et de Regulations (OMERT)** with the **Autorité de régulation des telecommunications (ARTEC)**, which the government expects to establish soon.¹¹

The key foundation milestone in the development of Madagascar’s telecommunications sector started after the completion of the **Lower Indian Ocean Network (LION)** and the **Eastern Africa Submarine Cable System (EASSy)** international fibre optic systems in 2009 and 2010 respectively. However, the economic and political crisis that began after Rajoelina’s coup in 2009 delayed

⁸ Source, political analyst, Antananarivo

⁹ Source, senior businessperson, Antananarivo

¹⁰ Multiple sources: CommsUpdate, 29 Oct 2014; Tendersinfo, 29 Oct 2014; www.budde.com

¹¹ Multiple sources: CommsUpdate, 29 Oct 2014; Tendersinfo, 29 Oct 2014; www.budde.com

subscriber growth of the three main mobile operators in Madagascar – **Orange, Bharti Airtel** and **Telma**.¹²

1.4 Government plans new national petroleum and mining company

Presidency minister in charge of strategic resources **Joeli Valerian Lalaharisaina**, who is described as a “*great minister*” in cabinet, said publicly in November that the government should consider creating a national petroleum and mining company.¹³ Lalaharisaina said the objective of such an entity is to ensure the government and local communities receive greater benefit from Madagascar’s extractive sectors. Lalaharisaina said the company would focus on new projects that reach the production stage, particularly in the oil and gas sector. He also noted that if the government creates a new national petroleum and mining company, it will not affect current projects such as **Rio Tinto’s QMM** ilmenite project, **Sherritt International’s Ambatovy** nickel project and **Madagascar Oil’s Tsimiroro** heavy oil sands project. Lalaharisaina said the idea is only at an early stage and if the government decides to go ahead, it will be two to three years before it creates the company.¹⁴ Laliharisaina’s announcement is linked to the development of a new mining and petroleum code the government is working on.

“Yes, [there will be a] new mining and petroleum code but there has been no or limited consultations with chamber of mines or private sector. The proposal effectively forces an option that government takes a stake in future projects through a new state-owned firm...”¹⁵

1.5 IMF calls on Madagascar to reinforce anti-corruption institutions

The IMF noted in its recently concluded article IV consultations (see above) that Madagascar must reinforce its anti-corruption efforts. The fight against corruption is an important component of Rajaonarimampianina’s reform efforts but significant challenges remain after five years of high corruption levels in the previous **Andry Nirina Rajoelina** (2009 – 2013) regime.

Prime minister **Roger Kolo** vowed to step up the fight against corruption after revealing that 40% of Madagascar’s budget is lost to corruption (see *ARC Madagascar July 2014 Briefing*). According to Madagascar’s 2014 Finance Act, the national budget is \$1.3 billion. Kolo promised to restructure the

¹² Multiple sources: CommsUpdate, 29 Oct 2014; Tendersinfo, 29 Oct 2014; www.budde.com

¹³ Madagascar Tribune, 7 Nov 2014.

¹⁴ Madagascar Tribune, 7 Nov 2014.

¹⁵ Source, political analyst, Antananarivo

Bureau Indépendant pour la Lutte Contre la Corruption (Bianco) (anti-corruption commission) in the near future to help the fight against corruption.¹⁶ Bianco director general **Jean Louis Andriamifidy** said at a press conference on 6 November that he will announce a new five year anti-corruption strategy in December,

“... the strategy is expected to get back on track the fight against corruption after five years of neglect.”¹⁷

At the press conference journalists questioned Andriamifidy about allegations of corruption, vote buying and misuse of public funds in parliament, but Andriamifidy said Bianco must assume parliamentarians are innocent until enough evidence is gathered to press charges. He advised

“... journalists to investigate and substantiate the allegations, or for the national assembly to create a commission of inquiry and Bianco may investigate after the findings are released”.¹⁸

Andriamifidy said Bianco is not financially independent and only has 170 employees, hence it does not have enough resources to investigate all allegations of corruption.¹⁹

Madagascar received a low score in **Transparency International’s** latest **Corruption Perception Index**. The index ranks countries and territories based on how corrupt their public sector is perceived, on a scale of 0 - 100, where 0 means that a country is perceived as highly corrupt and 100 means it is perceived as “very clean”. In 2013, Transparency International ranked Madagascar 127 out of 177 countries, with a score of 28 out of 100. In 2012 Madagascar’s score was 32.²⁰

2 Implications

A successful negotiated settlement between the government and Ravalomanana is an important step in the process of political reconciliation in Madagascar. However, Rajaonarimampianina is taking a cautious approach because he fears Ravalomanana’s popular political base, mostly in **Antananarivo**, will hamper his ability to develop his own political support base and therefore negatively affect his re-election in 2018.

¹⁶ AFP, 4 Jul 2014.

¹⁷ Multiple sources: l’Express, 7 Nov 2014; Madagascar Tribune, 7 Nov 2014.

¹⁸ Madagascar Tribune, 7 Nov 2014.

¹⁹ Madagascar Tribune, 7 Nov 2014.

²⁰ www.transparency.org



The public remains broadly supportive of Rajaonarimampianina's reform efforts to help revive Madagascar's economy after five years of stagnation. However, if government efforts and new aid commitments do not start to positively impact the day-to-day lives of the average person, Rajaonarimampianina will quickly lose the goodwill and support of the public which will open space for his political challengers.

The potential creation of a state-owned petroleum and mining company in Madagascar follows the trend in other African countries which are increasingly looking to resource nationalism – not nationalisation – as a way of ensuring more benefits accrue to the government and local communities. Initial indications that the new company will not affect current producing operations is a positive sign and reduces the risk of future unilateral government demands for contract renegotiations.

Madagascar's mobile telephone penetration rate is below the African average. The new telecommunications law will set a competitive foundation for future expansion in the sector and provide current operators and potential new operators significant growth potential.

Corruption remains a key issue in Madagascar. After high levels of corruption under Rajoelina, the new government will have to remain committed to addressing high levels of corruption if it is to attract higher levels of foreign investment.