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The Southern African Development Community (SADC) approves 20m rand (R)(\$1.56m) in funding to Madagascar to improve its participation in regional and international trade. The approval comes as President Hery Rajaonarimampianina (2014-present) travels around Southern Africa to increase regional trade ties. The World Bank confirms a \$1.3 billion funding package for Madagascar, while the International Monetary Fund (IMF) approves a further \$86m in credit. Madagascar's draft budget bill offers 200 billion ariary (\$62.5) in subsidies to state-owned electric utility and water services company Jiro sy rano Malagasy (Jirama), though it is unclear whether the government could use World Bank or IMF funds for this purpose. Madagascar joins both the China-led Asian Infrastructure Investment Bank (AIIB) and the Africa-focused African Export-Import Bank (Afreximbank). Reunion-based Air Austral states that Air Madagascar must settle its debts before the strategic partnership between the two airlines can commence.

SADC approves \$1.56m in funding for Madagascar to improve regional trade

The **Southern African Development Community (SADC)** approved 20m rand (R) (\$1.56m) in funding to **Madagascar** to improve its participation in regional and international trade, according to reports on 12 June.¹ Madagascar's geographic position has meant that trade with SADC countries, except for **South Africa**, has historically been relatively low. These funds, and the support for Madagascar trade, could help increase intra-**African** trade, which President **Hery Rajaonarimampianina** (2014-present) focused on during his travels around **Southern Africa** in June. The SADC trade related facility (TRF) programme steering committee approved the grants during its seventh meeting in **Gaborone (Botswana)** in May.² The TRF provides support to SADC members to help them implement commitments made under the economic partnership agreement between the **European Union (EU)** and SADC.³

Madagascar will use the funds to strengthen its border agency capacity and improve the 'one-stop-shop' for exporters.⁴ SADC has also requested that Madagascar develop and implement a national trade promotion strategy, which would identify tourism opportunities in the SADC region and undertake trade promotion activities.⁵

Of the SADC members, **Lesotho, Malawi, Mauritius, Swaziland** and **Zambia** have signed financing agreements with the SADC secretariat to release the funds, although Botswana, **Namibia, Mozambique, Tanzania** and **Zimbabwe** have yet to sign.⁶ However, the SADC communications department stated that:

¹ The Southern Times, 12 Jun 2017.

² The Southern Times, 12 Jun 2017.

³ The Southern Times, 12 Jun 2017.

⁴ The Southern Times, 12 Jun 2017.

⁵ The Southern Times, 12 Jun 2017.

⁶ The Southern Times, 12 Jun 2017.

“...these countries are currently reviewing their financing agreements under the [TRF] and are all expected to have their contracts finalised by the end of June 2017 [editor’s note – there has not been an update on whether these contracts have been finalised].”⁷

This announcement was made shortly after Rajaonarimampianina completed a two-day state visit to Zambia on 7-8 June.⁸ Rajaonarimampianina is the current chairperson of the **Common Market for Eastern and Southern Africa (COMESA)** and travelled to Zambia to increase bilateral ties.⁹ Rajaonarimampianina and Zambia’s President **Edgar Lungu** (2015-present) reaffirmed their commitment to the **Paris Agreement** on climate change¹⁰ and to increasing trade between Madagascar and Zambia.¹¹

Rajaonarimampianina opened the **Madagascar Investors Conference** in South Africa on 14-15 June. The conference provided in-depth information on trade and investment opportunities in Madagascar.¹² Rajaonarimampianina urged South African investors to explore opportunities in Madagascar:

“Our ambition is one, and that is to improve the lives of our citizens. We call upon the South African business community to partner with us in this goal. We are here to give you compelling reasons to invest in Madagascar.”¹³

Rajaonarimampianina placed particular emphasis on the energy, infrastructure and mining sectors.¹⁴ South Africa’s department of trade and industry (DTI) and the department of international relations and cooperation (DIRCO) hosted the conference,¹⁵ where Rajaonarimampianina announced that planned changes to the revised mining code – which had alarmed investors – would not go through.¹⁶ The changes to the 27 August 2016 draft code,¹⁷ which included increased royalty fees and a 10% government claim in mining concessions, had concerned mining executives who believed the country was becoming less investor friendly.¹⁸ Investors were most concerned that the changes might also affect ongoing mining operations. Rajaonarimampianina stated that,

“For the moment there is no change. We are applying the existing code [to companies currently operating] and any changes will not happen in the near future.”¹⁹

Madagascar has long relied on **Europe**, the **United States (US)** and **China** as its major trade partners, while seemingly neglecting the rest of Africa, other than South Africa. However, the effects of Cyclone Enawo, which has wiped out much of Madagascar’s vanilla harvest, and the slowing demand for natural resources in China has hurt two important sectors in the economy. Madagascar may look to African nickel importers, such as Botswana, **Nigeria** and **Morocco**, to help make up the shortfall China has left.

World Bank and IMF both confirm funding packages for Madagascar

The **World Bank** has confirmed its \$1.3 billion funding package for Madagascar, according to reports on 21 June.²⁰ World Bank vice-president **Keith Hansen** announced the funding on 20 June after a

⁷ The Southern Times, 12 Jun 2017.

⁸ Lusaka Times, 8 Jun 2017.

⁹ ZNBC, 8 Jun 2017.

¹⁰ Lusaka Times, 8 Jun 2017.

¹¹ ZNBC, 8 Jun 2017.

¹² NewsGhana, 15 Jun 2017.

¹³ NewsGhana, 15 Jun 2017.

¹⁴ NewsGhana, 15 Jun 2017.

¹⁵ EIN Newsdesk, 13 Jun 2017.

¹⁶ SABC, 14 Jun 2017.

¹⁷ Reuters, 14 Jun 2017.

¹⁸ SABC, 14 Jun 2017.

¹⁹ SABC, 14 Jun 2017.

²⁰ RFI Africa, 21 Jun 2017.

three-day visit to southern Madagascar.²¹ Of the \$1.3 billion, \$250m is focused on the development of children under five, and these funds will support children's access to health and schooling, and fight malnutrition.²² However, there are many critics in Madagascar who argue that previous World Bank investments have not proved effective in reaching their goals.²³ Hansen, in response, stated that,

*"...the challenges are enormous, but during our visit to the south we also saw some promising signs. Nutrition, cash transfer and social protection programs have shifted from emergency response status to effective long-term responses. . . To achieve results, Madagascar must now intensify and expand these programs and that is why we do not yet see significant progress. For this, we need strong national investment and commitment from the relevant ministries."*²⁴

It is unclear whether any of these funds will be transferred to Madagascar's state-owned power and water utility, **Jiro sy rano Malagasy (Jirama)**. Jirama, which has struggled to remain economically viable, may receive 200 billion ariary (\$62.5m) in subsidies if the draft budget bill is passed, according to reports on 14 June.²⁵ The amount is 50 billion ariary (\$15.5m) more than was planned in March, when the government stated that financial assistance to Jirama would not exceed 150 billion ariary (\$45m).²⁶ The **International Monetary Fund (IMF)**, which has pushed the government to restructure Jirama, approved additional transfers to Jirama in March due to drought which affected water and electricity supply, and approved a further \$86m in credit on 29 June to help shore up Madagascar's economy.²⁷

The IMF's decision may have been partially influenced as the water, energy and hydrocarbons ministry hopes to send a new regulatory framework on energy to parliament before the end of the year, according to reports on 24 June.²⁸ The ministry has arranged consultations between various actors in the energy sector since 2016 and a team of international experts, under the guidance of a steering and technical committee, prepared the draft text which was completed 23 June.²⁹ The current framework, which dates back to 1998, is out of date and does not take into account the use of renewable energy sources, for example.³⁰ The new framework also aims to provide energy users with better quality of service at an affordable cost.³¹ The framework is expected to be adopted in parliament at the next parliamentary session.³²

Madagascar joins the Asian Infrastructure Investment Bank (AIIB)...

Madagascar, along with **Argentina** and **Tonga**, joined the China-led **Asian Infrastructure Investment Bank (AIIB)** on 16 June.³³ It is unclear what benefits Madagascar, already a key African partner in China's 'One Belt, One Road' project and a recipient of Chinese aid, will receive from AIIB membership, but it is clear that Chinese influence in Madagascar has grown significantly over the past few years and is likely to continue.

Madagascar must still make its first capital deposit with the AIIB and complete any domestic processes before its membership is finalised.³⁴ Madagascar is the third African state to join the bank

²¹ RFI Africa, 21 Jun 2017.

²² RFI Africa, 21 Jun 2017.

²³ RFI Africa, 21 Jun 2017.

²⁴ RFI Africa, 21 Jun 2017.

²⁵ L'Express Mada, 14 Jun 2017.

²⁶ L'Express Mada, 14 Jun 2017.

²⁷ Reuters, 29 Jun 2017.

²⁸ L'Express Mada, 24 Jun 2017.

²⁹ L'Express Mada, 24 Jun 2017.

³⁰ L'Express Mada, 24 Jun 2017.

³¹ L'Express Mada, 24 Jun 2017.

³² L'Express Mada, 24 Jun 2017.

³³ L'Express Mada, 21 Jun 2017.

³⁴ Multiple sources: New York Times, 16 Jun 2017; La Gazette, 21 Jun 2017.

as a non-regional member, joining **Ethiopia** and **Egypt**.³⁵ The AIIB now has 80 members and expects to have 85 members by the end of 2017,³⁶ compared with just 67 members for the **Japan** and US-backed **Asian Development Bank**.³⁷

The AIIB board of governors adopted the resolutions to admit the new members at its second annual meeting of the board of governors, held 16-18 June in **South Korea**.³⁸ The AIIB finances the improvement of infrastructure in **Asia** and developing countries with \$100 billion in subscribed capital.³⁹ The bank, launched by China in 2014, aims to be an alternative to the IMF and the World Bank.⁴⁰

The announcement came shortly before over 4,000 tonnes of emergency food aid from China arrived in Madagascar on 19 June.⁴¹ Rajaonarimampianina, who was at the **Tamatave** port to receive the food aid, lauded China's contributions to Madagascar and called the aid "*a symbolic act because the will was realised in a concrete act in a very short time.*"⁴²

....as well as the African Export-Import Bank

Madagascar's foreign minister **Beatrice Atallah**, on 24 June, signed the **African Export Import Bank (Afreximbank)** instrument of accession on behalf of the Malagasy government.⁴³ The signing of the instrument of accession commits the Malagasy government to take the steps necessary for ratification of Afreximbank's establishment agreement.⁴⁴ Madagascar hopes to access the full range of Afreximbank services to enhance economic growth and development, including trade finance facilities, project finance support, trade information and advisory support, assistance with development of a local content policy and assistance in developing and implementing industrial parks and special economic zones.⁴⁵

Under its terms, countries that did not sign the **1993 Abidjan Agreement**, which established Afreximbank, are required to first issue an instrument of accession and then to formally ratify it in order to fully activate their Afreximbank membership.⁴⁶ Participating states⁴⁷ become shareholders when they acquire shares in Afreximbank.⁴⁸ Afreximbank shareholders are a mix of public and private entities divided into four classes and consist of African governments, central banks, regional and sub-regional institutions, private investors and financial institutions, as well as non-African financial institutions, export credit agencies and private investors.⁴⁹ Class A shareholders are African states, African central banks and African public institutions, including the **African Development Bank (AfDB)**.⁵⁰ Class B shareholders are African financial institutions and African private sector investors.⁵¹ Class C shareholders are non-African investors, mainly international banks and export credit agencies, including **Standard Chartered Bank, HSBC, Citibank, Export-Import Bank of China** and the

³⁵ www.aiib.org

³⁶ CNBC, 14 May 2017.

³⁷ Mainichi, 17 Jun 2017.

³⁸ Mainichi, 17 Jun 2017.

³⁹ L'Express Mada, 21 Jun 2017.

⁴⁰ La Gazette, 21 Jun 2017.

⁴¹ Ecns.cn, 20 Jun 2017.

⁴² Ecns.cn, 20 Jun 2017.

⁴³ www.afreximbank.com

⁴⁴ www.afreximbank.com

⁴⁵ www.afreximbank.com

⁴⁶ www.afreximbank.com

⁴⁷ Current Afreximbank participating states include Angola, Benin, Botswana, Burkina Faso, Cameroon, Cape Verde, Chad, Côte d'Ivoire, Democratic Republic of Congo, Djibouti, Egypt, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea Bissau, Kenya, and Lesotho. Others are Liberia, Malawi, Mali, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, Republic of Congo, Rwanda, Senegal, Seychelles, Sierra Leone, Sao Tome and Principe, Sudan, Tanzania, Togo, Tunisia, Uganda, Zambia and Zimbabwe.

⁴⁸ www.afreximbank.com

⁴⁹ www.afreximbank.com

⁵⁰ www.afreximbank.com

⁵¹ www.afreximbank.com

Export-Import Bank of India.⁵² Class D shareholders, a tier approved in December 2012, are fully paid par value shares that any investor can hold.⁵³

Since Afreximbank became operational in 1994, it has approved more than \$51 billion in credit facilities for African businesses, including about \$10.3 billion in 2016 alone.⁵⁴ Madagascar may look for funding to help improve its infrastructure, which is underdeveloped and poorly maintained. The lack of infrastructure results in increased costs for companies, particularly those involved in mining, a sector Madagascar is looking to grow in the near future. Afreximbank president, **Benedict Oramah**, has noted that the bank will support labour-intensive industries and improving logistics and transports in African countries,⁵⁵ which could be beneficial for Madagascar's labour-intensive economy.

Madagascar must pay Air Madagascar's debt before Air Austral partnership begins

Reunion-based Air Austral has demanded that Madagascar state-owned airline **Air Madagascar** pay its total debts before its partnership with Air Austral can commence, according to reports on 6 June.⁵⁶ Air Madagascar is in need of financing and management, and the partnership with Air Austral could potentially help in both regards. However, the government is likely to have to look to international financial institutions to allow it to pay the airline's total debt as well as continue its subsidies for other state-owned entities. Air Madagascar's board of directors chose Air Austral as the winning bid in March to become a strategic partner for Air Madagascar, which has failed to become profitable.⁵⁷

The draft finance budget indicates that Air Madagascar's debt is 303 billion ariary (\$97m).⁵⁸ The state will have to transfer this amount to the struggling airline, which should lead to the final signing of the strategic partnership contract with Air Austral.⁵⁹ The Air Madagascar subsidy will consume over 60% of the draft finance budget's 508 billion ariary (\$163m) provided for subsidies.

International donors such as the IMF and World Bank are confident that the government will find a solution which would be favourable to both the state and Air Madagascar, and sources have stated that the government is considering approaching the AfDB for a loan to cover these payments.⁶⁰

Two of the airports that Air Madagascar uses will be upgraded. The **Emerging Africa Infrastructure Fund (EAIF)** announced on 30 June that it will provide a €25m (\$28.4m) loan to upgrade and expand two airports in Madagascar.⁶¹ The improvements and expansion will help to improve Madagascar's tourist industry, as well as potentially increase exports as larger cargo plans could make use of the larger runway. **Antananarivo Ivato International Airport** and **Nosy Be Fascene Airport** will have their runways, passenger terminal facilities and associated infrastructure upgraded and expanded at a total cost of €215m (\$244m).⁶² It is unclear whether the EAIF will provide complete funding for the project. The EAIF is managed by **Investec Asset Managers**, one of Africa's largest third-party investors.⁶³ EAIF head **Nazmeera Moola** stated that this is the first airport infrastructure project which the EAIF has supported and is,

⁵² www.afreximbank.com

⁵³ www.afreximbank.com

⁵⁴ www.afreximbank.com

⁵⁵ www.afreximbank.com

⁵⁶ L'Express Mada, 6 Jun 2017.

⁵⁷ L'Express Mada, 6 Jun 2017.

⁵⁸ L'Express Mada, 6 Jun 2017.

⁵⁹ L'Express Mada, 6 Jun 2017.

⁶⁰ L'Express Mada, 6 Jun 2017.

⁶¹ Centre for Aviation, 4 Jul 2017.

⁶² Centre for Aviation, 4 Jul 2017.

⁶³ African Business Review, 2 July 2017.

“...one of the most significant in terms of macro and micro economic development. Madagascar’s ability to compete globally, particularly in tourism and trade markets, will be boosted, as will its internal trade potential.”⁶⁴

Madagascar’s major airport, Ivato, will be able to double its passenger handling capacity and its runway will be reinforced to allow the airport to handle wide-bodied aircraft, while Nosy Be’s airport will be able to accommodate 500,000 passengers per year⁶⁵ and is expected to bring in €61m (\$69m) in taxes for the government.⁶⁶ **David White**, EAIF chairman, stated that,

“...efficient and modern airports are one of the foundation elements of progress. They are significant employers in their own right and catalysts for growth in almost every sector of an economy... This is very good news for Madagascar. The Madagascar airports project represents a step change for the country’s economic development drive.”⁶⁷

The management of the airports was privatised in 2015, with **Ravinala Airports Consortium** managing and marketing the airports to carriers and tourism operators.⁶⁸ Ravinala Airports Consortium comprises investment firm **Meridiam**; France-based airport operators **ADP Management**; and construction and infrastructure firm **Bouygues Batiment International** and **Colas Madagascar**.⁶⁹ Ravinala took control of the airports on a 28-year management concession at the end of 2016.⁷⁰

⁶⁴ African Business Review, 2 July 2017.

⁶⁵ Centre for Aviation, 4 Jul 2017.

⁶⁶ African Business Review, 2 July 2017.

⁶⁷ African Business Review, 2 July 2017.

⁶⁸ Centre for Aviation, 4 Jul 2017.

⁶⁹ Passenger Terminal Today, 3 Jul 2017.

⁷⁰ L’Express Mada, 27 Dec 2016.

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