

AFRICA RISK CONSULTING

Madagascar Monthly Briefing December 2017

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The senate passes an 11.59 trillion ariary (\$3.6 billion) budget. The budget projects Madagascar's gross domestic product to increase by 5.1% in 2018. The International Monetary Fund approves an additional \$44.5m credit facility for Madagascar on top of the \$86m credit facility approved in July. High inflation and speculation have led to an increase in the price of rice, a staple food in Madagascar. The United States (US) grants Madagascar \$1.2m in financial support for the 2018 elections. Lemur, a coal and energy subsidiary of South Africa-based Bushveld Minerals, secures a power purchase agreement (PPA) with Madagascar's state-owned utility company, Jiro sy Rano Malagasy (Jirama). Canada-based Oyster Oil and Gas Ltd announces that it has signed the requisite presidential decrees to secure a 100% working interest in Block 1101 and extend its exploration phase to July 2019.

Senate passes budget; expects 5.1% growth in 2018

Madagascar's senate passed an 11.59 trillion ariary (\$3.6 billion) budget on 29 November.¹ The budget projects that Madagascar's gross domestic product (GDP) growth will rebound to 5.1% in 2018, after the economy contracted slightly in 2017 due to poor rainfall and the effects of Cyclone Enawo.² According to the finance minister, **Vonintsalama Andriambololona**,

*"The [GDP growth] rate is higher than the population growth rate and should help us fight poverty more effectively."*³

The **International Monetary Fund (IMF)** representative in Madagascar, **Patrick Imam**, stated that the 2018 economic forecast was realistic and that the economic rebound is based on agriculture as well as increased public and private investment.⁴ Imam added that,

*"We also assume continued momentum in tourism, manufacturing and mining, driven by the rebound in global growth. But negative shocks, whether it is another cyclone or drought for instance, could potentially derail this growth rebound ... In light of these good performances, with ongoing reform momentum and the significant new revenue enhancement measures that will be implemented starting next year, such as the increases in fuel and diesel taxes, we are confident that the targets set in the 2018 finance law will be met."*⁵

One week after the passing of the budget, the IMF approved an additional \$44.5m credit facility for Madagascar on 6 December.⁶ The ECF is on top of an \$86m credit facility approved in July.⁷ The IMF stated they were pleased with the budget, that the government had met all targets at the end of June, and that,

*"The gradual economic recovery has continued, with solid growth and continued macroeconomic stability despite the drought and cyclone that affected Madagascar in early 2017."*⁸

¹ Reuters, 30 Nov 2017.

² Reuters, 30 Nov 2017.

³ Reuters, 30 Nov 2017.

⁴ Reuters, 30 Nov 2017.

⁵ Reuters, 30 Nov 2017.

⁶ Reuters, 7 Dec 2017.

⁷ Reuters, 7 Dec 2017.

⁸ Reuters, 7 Dec 2017.

The government hopes to increase tax revenue to 4.81 trillion ariary (\$1.5 billion), which is a 17.6% year-on-year increase.⁹ The government will finance the deficit through external loans that will amount to 1.24 trillion ariary (\$384.4m).¹⁰

The positive response to the budget from the IMF, and the additional financing, will help the government to improve Madagascar's economy in 2018. The improved economy may be helpful to the government of President **Hery Rajaonarimampianina** (2014-present) who will be running for a second term in the 2018 presidential elections. Rajaonarimampianina has faced criticism from the population for attempts to change the electoral laws and constitution which may delay the elections (see *ARC Briefing Madagascar October 2017*), so he may try to provide improved infrastructure and jobs in the lead up to the elections to garner additional support and votes.

Inflation and speculation lead to increased rice prices

The 2018 budget forecasts inflation at 7.8% in 2018, down from an expected 8.1% in 2017.¹¹ Continued inflation has led to an increase in the price of rice, a staple food in Madagascar.¹² The price of rice has nearly doubled, to 2,500 ariary (\$.065) per kilogram, in several months.¹³ The government met with rice wholesalers on 26 November to seek consensus in the rice trade and to determine how to control the price of rice and to reassure consumers.¹⁴ The director general of the commerce and consumer affairs department, **Rakotomanga Soloalitia**, wants to regulate the market by excluding speculators:

"[B]asically, the distribution channel is made up of the producer, who sells the rice to the wholesaler, who will supply the retailer to finally get into the homes of each household. However, this channel is full of speculators, who try to find a profit and drive up the price of the product."¹⁵

Henry Lenou, the president of **Groupe d'Action et de Réflexion pour la Défense des Usagers et Consommateurs (Garduc)** (consumer defense action group) agrees that it is time for more regulation in the rice sector as it is a staple food in Madagascar.¹⁶ The government has strongly encouraged the import of rice and flooding the market in an attempt to decrease the price; however, thus far the increased importation has not had this effect.¹⁷

The increase in the price of rice has meant that many people have been unable to afford food, which could cause famine if the situation continues.¹⁸ As noted above, 2018 is an election year and all political parties will be looking to improve their voter base as elections draw nearer. Since government attempts to control the price of rice by increasing the supply have not had much effect, it may be more likely to listen to consumer groups and remove speculators from the process in an attempt to reduce rice prices.

US grants \$1.2m to Madagascar to support 2018 elections

The **United States (US)** granted Madagascar \$1.2m in financial support for the 2018 elections on 7 December.¹⁹ The US funds, made available by the **US Agency for International Development (USAID) Bureau for Democracy, Conflict and Humanitarian Assistance**, are part of a basket agreement established by the **United Nations Development Fund (UNDF)** to assist the financing of

⁹ Reuters, 30 Nov 2017.

¹⁰ Reuters, 30 Nov 2017.

¹¹ Reuters, 30 Nov 2017.

¹² L'Express Madagascar, 27 Nov 2017.

¹³ RFI Africa, 25 Nov 2017.

¹⁴ L'Express Madagascar, 27 Nov 2017.

¹⁵ L'Express Madagascar, 27 Nov 2017.

¹⁶ RFI Africa, www.rfi.fr. 25 Nov 2017.

¹⁷ RFI Africa, www.rfi.fr. 25 Nov 2017.

¹⁸ Source, Madagascar analyst, South Africa

¹⁹ Today Nigeria, 8 Dec 2017.

the 2018 elections.²⁰ The US envoy, **Robert Yamate**, the head of the **Commission Électorale Nationale Indépendante (CENI)** (national independent electoral commission), **Yves Herinirina Rakotomanana**, and the **United Nations (UN)** representative, **Violet Kakyomya**, signed the grant agreement.²¹ Yamate stated that,

“The US government is committed to helping the government of Madagascar and CENI ensure that the 2018 elections are inclusive, impartial and reflect the free will of the Malagasy people. The funds we are announcing today will enhance CENI’s ability to manage all aspects of the electoral process, enabling activities that will bolster transparency and increase citizen confidence in the electoral outcome.”²²

The additional funds will help Madagascar to effectively conduct both the voter registration and the elections themselves, reducing the risk of electoral tensions. CENI has struggled in past elections to effectively complete voter registration as well as run the election, so additional funds will allow CENI to hire more staff to run the election.

Lemur signs power purchase agreement with Jirama

Lemur, a coal and energy subsidiary of **South Africa**-based **Bushveld Minerals**, secured a power purchase agreement (PPA) with Madagascar’s state-owned utility company, **Jiro sy Rano Malagasy (Jirama)**, according to reports on 23 November.²³ The agreement will help to reduce the strain on Jirama and help provide more consistent power supply.²⁴ Lemur’s subsidiary in Madagascar, **Imaloto Power Project SARL**, and Jirama signed the binding agreement.²⁵ Lemur is responsible for developing the Imaloto power project, which is linked to a thermal coal mine in Madagascar.²⁶ The plant will be located next to Lemur’s coal mine, which has a total of approximately 136 million tonnes of coal.²⁷ Lemur is scheduled to complete the power project in 2021 and Jirama will then start with an initial 10 megawatt (MW) offtake of the 60MW capacity and increase as demand rises.²⁸ Lemur has identified other communities and industrial users that will need an additional 30MW of generation capacity and Bushveld Minerals’ chief executive officer (CEO), **Fortune Mojapelo**, stated that

“... negotiations are already in process for offtake agreements with these users.”²⁹

In addition to the \$1 billion in fiscal revenue the project is expected to bring to Madagascar, it will also help reduce Jirama’s exposure to the volatility of imported fuels, according to Jirama CEO, **Olivier Jaomiary**.³⁰

“In the long run, we believe it will help Madagascar increase its generation capacity while providing a source of affordable electricity to end-users. Overall, we expect the project to help bring about economic development and create employment in Madagascar.”³¹

Oyster Oil and Gas extends exploration phase at onshore block in Madagascar

Canada-based **Oyster Oil and Gas Ltd** announced on 30 November that it has signed the requisite presidential decrees to secure a 100% working interest in **Block 1101** and extend its exploration phase to July 2019.³² Although it has not yet passed its revised oil code, the government is looking to

²⁰ Today Nigeria, www.today.ng, 8 Dec 2017.

²¹ Today Nigeria, Dec 2017.

²² Today Nigeria, 8 Dec 2017.

²³ Mining Weekly, 23 Nov 2017.

²⁴ Source, Madagascar analyst, South Africa

²⁵ Digital Look, 23 Nov 2017.

²⁶ Mining Weekly, 23 Nov 2017.

²⁷ Digital Look, 23 Nov 2017.

²⁸ Mining Weekly, 23 Nov 2017.

²⁹ Mining Weekly, 23 Nov 2017.

³⁰ Mining Weekly, 23 Nov 2017.

³¹ Mining Weekly, 23 Nov 2017.

³² Oil and Gas 360, 30 Nov 2017.

further promote its onshore and offshore blocks. Oyster chief executive officer and president, **Michael Wood**, stated on 4 December during the **World Oil & Gas Week** conference in **London** that the Madagascar block has “*huge potential*” and that

“... arguably why I started Oyster was to get back into that block in Madagascar [where] we saw huge potential with map structures that are measuring potentially into tens of billions of barrels.”³³

Oyster holds an onshore block located in northwestern Madagascar covering approximately 2.8 million acres, as well as four onshore and offshore blocks comprising 3.5 million acres in **Djibouti**.³⁴ As part of the government strategy to exploit its natural resources, officials have held meetings with junior oil companies as well as majors, such as **United Kingdom (UK)**-based **British Petroleum (BP)**.

Planner

May 2018 (**Madagascar**) Scheduled presidential and parliamentary elections;

Chronology

13 Dec 2017 **Antananarivo (Madagascar)** *World Stage Group*. Madagascar signs \$53m financing agreement with **International Fund for Agricultural Development (IFAD)**;

12 Dec 2017 **Antananarivo (Madagascar)** *Mining Global*. **Bass Metals** acquires **Millie’s Reward** lithium project in Madagascar;

7 Dec 2017 **Antananarivo (Madagascar)** *EuroNews*. The **International Monetary Fund (IMF)** approves a \$44.5m credit facility for Madagascar;

5 Dec 2017 **Tokyo (Japan)** *CNBC Africa*. Madagascar foreign minister, **Henry Rabary-Njaka**, and **Japanese** foreign minister, **Taro Kono**, sign agreements for food security and safe water projects;

30 Nov 2017 **Antananarivo (Madagascar)** *Oil and Gas 360*. **Oyster Oil and Gas** extends the exploration phase of its block in Madagascar to July 2019;

30 Nov 2017 **Antananarivo (Madagascar)** *ATW Online*. **Air Austral** and **Air Madagascar** close equity joint venture, giving 49% stake to Air Austral;

30 Nov 2017 **Antananarivo (Madagascar)** *Reuters*. Madagascar’s senate passes 2018 budget and expects 5.1% gross domestic product growth in 2018;

23 Nov 2017 **Johannesburg (South Africa)** *Mining Weekly*. **Bushveld Minerals’** subsidiary, **Lemur**, secures power purchase agreement with Madagascar state-owned utility company, **Jiro sy Rano Malagasy (Jirama)**;

23 Nov 2017 **Johannesburg (South Africa)** *Mining Weekly*. Bass Metals nears completion of its optimization programme at **Graphmada** graphite mine in Madagascar;

19 Nov 2017 **Luanda (Angola)** *Angola Press*. Madagascar President **Hery Rajaonarimampianina** (2014-present) and **Angolan** President **João Lourenço** (2017-present) sign bilateral cooperation agreements;

³³ Proactive Investors, 4 Dec 2017.

³⁴ Oil and Gas 360, 30 Nov 2017.

About Africa Risk Consulting:

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