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Africa Summary

Madagascar's Changing Tides? Political Trends and the Investment Climate

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INTRODUCTION

The following document provides a summary of a meeting held at Chatham House on 18 June 2013. The meeting looked at political trends and the investment climate in Madagascar.

The year 2013 is a critical one for Madagascar. Following the overthrow of constitutional rule in 2009, plans to hold presidential elections in July 2013 hang in the balance as President Andry Rajoelina and the wife of the former president, Marc Ravalomanana, have announced their intentions to run despite promises to the international community to make way for new political voices in the country.

Ambassador Smart discussed why these elections will be vital for reassuring international donors and investors that the country is on the path to political recovery and economic stability.

The meeting consisted of a presentation followed by a discussion, both of which were held on the record. The following summary is intended to serve as an *aide-mémoire* for those who took part and to provide a general summary of discussions for those who did not.

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The ambassador gave an overview of Madagascar's political and economic challenges. He discussed international efforts to support democratic elections and potential consequences of the political situation for British investors.

There are around 22 million Malagasies today, compared to six million in the 1960s. Half of the population are under the age of 15. Over 86 per cent of the population live in poverty (defined by the World Bank as living on less than \$1.25 per day), which has risen by 10 per cent since the beginning of the political crisis in 2009. Around 500,000 children have dropped out of education since 2009 and acute child malnutrition has worsened.

Four years of political crisis have caused economic growth to stagnate and GDP is lower today than it was in the 1960s. The World Bank estimates that GDP could return to previous levels of around five per cent by 2017 if democratic and credible elections are held in 2013. Meanwhile government institutions and the country's infrastructure are increasingly becoming dilapidated.

Corruption among officials and supporters of the President Rajoelina is increasing, with major foreign investment being deterred by perceptions of corruption. Transparency International's corruption perception index rates Madagascar as 118 out of 175 countries. In terms of press freedom, Freedom House ranks the country 31 out of 49 in sub-Saharan Africa.

Madagascar's judiciary does not function independently from the regime. The Supreme Court ruled to allow Rajoelina, Lalao Ravalomanana (wife of the former president Marc Ravalomanana) and former president Didier Ratsiraka to contest presidential elections, despite pressure from the international community and the African Union (AU) calling for all three not to stand.

Tourism, constituting 50 per cent of Madagascar's foreign direct investment (FDI), has been adversely affected by global economic recession and environmental problems. Cyclones regularly hit Madagascar and locusts are spreading across the country. 80 per cent of Madagascar's flora and fauna is unique to the island but this heritage is disappearing as around 200,000 hectares of forest are destroyed each year. About 14 per cent of the land is designated as National Parks, but these are under threat.

Despite these issues, Madagascar continues to attract interest in the mining sector. There are commercially significant reserves of various minerals including chromites, graphite, nickel, cobalt, mica, uranium and ilmenite. Gold and significant quantities of various precious and semi-precious stones,

including ruby, sapphire and emerald, are also found in Madagascar. There is also increasing evidence of rare earth materials.

Madagascar has a well-educated workforce, particularly in the capital Antananarivo. There is a substantial pool of available labour owing to the combined impacts of unemployment and underemployment. In 2011 the minimum wage for the non-agricultural private sector was approximately \$45 per month (91,000 ariary). National labour code prescribes working conditions, wages and standards for worksite safety. Madagascar is a member of the International Labour Organization (ILO) and adheres to the ILO convention protecting workers' rights. Madagascar and the United Kingdom share over 400 years of history, and British companies are seen as good business partners who build long-lasting relationships.

The ambassador discussed the latest political developments in Madagascar. Since the start of the roadmap devised by the Southern African Development Community (SADC) in September 2011, the main goal of the international community has been to work with key Malagasy stakeholders to ensure credible democratic transition. When Ravalomanana and Rajoelina agreed at the start of 2013 not to run in presidential elections, there was a real sense that democratic transition would be achieved soon.

Unfortunately, the decision by the Supreme Electoral Court on 3 May to allow Rajoelina, Lalao Ravalomanana and Ratsiraka to run in contravention of the electoral law was a backward step both for democratic transition and the credibility of the Supreme Electoral Court, which has been further tainted by rumours of corruption.

The British Embassy in Madagascar has been working closely with local members of the African Union's International Contact Group to decide how best to respond to such challenges to the credibility of the electoral process.

SADC and the wider international community welcomed the Malagasy Conclave meeting of key stakeholders at the start of June, seen by many as the last chance to save the electoral calendar. At the same time SADC warned the Malagasy leadership that it would begin preparing sanctions for those who continued to obstruct the democratic transition.

The result of the conclave was a Malagasy initiative to ask the Supreme Electoral Court to revoke its earlier decision to allow the three candidates to stand, however the court refused to back down. As a result, the 24 July election date is now almost certainly likely to be postponed and the international community is looking to the AU International Contact Group meeting in Addis Ababa on 26 June to reach consensus on the next steps.

Malagasy politics remain as unpredictable as ever. Rajoelina and his supporters wish to cling to power come what may, while the military is seriously considering active involvement. Rajoelina and Ravalomanana remain divided and levels of poverty, corruption and deforestation continue to worsen at alarming rates during the political vacuum.

Madagascar's business environment depends on credible democratic transition and economic stability. GDP is predicted to grow by 4.5 per cent in 2013 and democratic elections could increase this growth; at the start of previous periods of stability including 2002 and 2006 there was over seven per cent growth for the country and 11 per cent growth in the capital.

The Malagasy economy is dominated by agriculture and the service sector, with very little manufacturing. Agriculture accounts for some 29 per cent of GDP, employs more than 80 per cent of the population and represents 20 per cent of exports. However the fluctuating nature of agricultural production due to climatic conditions and international commodity prices poses a major challenge to Madagascar's economic performance.

Some of the main investment opportunities are in mining, infrastructure, energy, light manufacturing, tourism, and information and communications technology.

Extensive recoverable reserves offer untapped potential in the hydrocarbon sector in Madagascar onshore and offshore. The oil blocks are being explored with estimates of 1.7 million barrels. Rio Tinto invested around \$950 million in an ilmenite and zircon mine in the south-east of the country and Sherritt Ambatovy has invested over \$5.5 billion.

Madagascar offers diverse attractions for local and international tourists including a unique natural ecosystem and miles of beaches. Opportunities exist for investment in resort hotels, ecotourism hotels, business and tourist hotels and high-end hotels. Prospects to develop beach tourism and take advantage of the nature parks exist as well. There are a variety of ecosystems in Madagascar such as tropical moist forests, dry forests, wetlands and coral reefs with some unique plants and animals.

A weakened economy caused by the political crisis has led to weaker subscriber growth in the telecoms sector, reduced consumer spending and intensified competition between GSM mobile network operators. Positive developments in the internet and broadband sector have begun following the arrival of the first international submarine fibre optic cables in 2009 and 2010 and wireless broadband access networks are also being rolled out. The fixed-line sector has been improving following the privatization of Telma.

Public-sector energy and water institutions in Madagascar are keen to partner with companies that are interested in investing in wind and solar energy. Solar energy is already used as an alternative energy source by whole villages in some parts. Advance solar technology, hardware and expertise would be welcomed in Madagascar. At present, hydro-electric power stations and coal burning thermal stations provide much of Madagascar's electricity. Hydro-electricity potential is estimated at 7,800 MW with 150 MW utilized.

Following credible democratic elections, the new government may well look for partners to develop the country's infrastructure. This would likely include improving roads, railways, dams and hydropower generation facilities, renewable power generation facilities, telecommunications and IT, town planning, housing development and industrial area development.

Madagascar's light manufacturing industry processes products such as textiles, footwear, wood, paper pulp, fertilizer, oils, soap, sugar, cigarettes and tobacco, beer, cement, foods and beverages. Main industrial centres are concentrated around Antananarivo, Antsirabe and Tamatave. There is an untapped banking industry, and opportunities for legal and accounting services particularly with francophone competencies.

The ambassador spoke about the role of the British Embassy in Madagascar. The Embassy was reopened due to Madagascar's potential for prosperity and to reflect British support for SADC's regional role. The Embassy is keen to act as a focal point for all British activity in the country. Prosperity and development are inseparably linked, so the Embassy is working closely with the British Malagasy Chamber of Commerce. Key to this is encouraging business to speak with one voice to encourage stability and an improved business environment.

Development assistance has largely been on hold since 2009, so big infrastructure projects have been on hold. The peace dividend would change this: the EU, World Bank, UN, African Development Bank and United States are all set to increase their engagement following democratic elections. UK government ministers are on standby to lead trade delegations following credible and democratic elections.

Democratic elections would not end all of Madagascar's woes but they are an important start. Businesses are deciding whether to have first mover advantage, and ultimately much comes down to companies' attitudes towards risk. The British Embassy is open and actively looking to see how it can help.

QUESTIONS AND ANSWERS

Questions

Could you speak more about businesses in the private sector threatening to withhold taxes during Madagascar's political crisis?

What is the role of dominant institutions such as the army and the church during elections?

In the event of possible unrest during elections, has the British government taken steps in order to avoid a repeat of the hysterical response shown during the political crisis in 2009, when the Foreign Office advised against all travel to Madagascar?

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The ambassador stated that some companies in the retail sector have not paid the correct amount of tax during the political crisis and some small and medium enterprises want to stay below the radar to avoid paying taxes. A lot of companies have declared that they do not trust the political system enough in Madagascar to contribute taxes, but there is no unified voice on this. There have been talks about establishing a trust fund to pay taxes into until successful democratic transition has occurred. He urged companies to talk to the Embassy as the British government works with the EU and many other international partners who can advise on this issue. The British Embassy is working with the Chamber of Commerce to reduce confusion and promote stability.

The ambassador said that some in the Malagasy army are pro-Ravalomanana; those who are pro-Rajoelina do not want Ravalomanana back as president. There is a division in the army between the top rank and junior and middle ranks. Payments are mixed between those who support the regime and those who do not. The army has met to discuss the implementation of a military directorate. Malagasy elites have indicated support for army rule, whereas the British government is keen for the democratic process to move on.

The churches could play an incredibly helpful role, especially in the field of reconciliation, which is needed in Madagascar before national elections can be held. However, during his presidency Ravalomanana served as vice-president of the Church of Jesus Christ in Madagascar; the second-biggest

church in Madagascar. Politics and religion is heavily intertwined in the country.

The ambassador stated that the British mission is working to increase its consular presence on the ground in Madagascar and will make sure that its travel advice reflects the actual situation in the country. In terms of preparations, Embassy staff met to discuss crisis-management in order to address any potential issues.

Questions

How strong is Rajoelina considering the military's position and SADC and the international community's stance on elections?

What is your opinion on the judiciary in Madagascar on respect of private contracts?

Have there been efforts from the international community to safeguard protection for candidates who step down from running in elections?

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The ambassador stated that he was not certain about how forceful SADC and the international community should be intervening in the political crisis. There has been a frank discussion whether peace should be achieved at any cost; Madagascar has experience of civil war, and the country is doing well in a difficult situation.

However, the ambassador noted that the British government wants to encourage Madagascar to identify with the SADC region more, in order to cooperate with the SADC political roadmap, which is supported by the United Kingdom and France. Many ministers are calling for political reforms, demonstrating healthy democratic processes within government. The military is increasingly talking about establishing a military directorate, which is concerning to the international community.

The ambassador stated that he was concerned about levels of corruption in the judiciary. FDI is essential for Madagascar, and he noted that there are diplomatic representatives on the ground to support British companies.

Amnesty for the protection of political candidates is provided for in the election roadmap, apart from those who have committed crimes against

humanity during the 2009 crisis. Presidents are protected as are former presidents.

Questions

Is there any truth to rumours of threats toward international involvement in Madagascar?

Can you share any insights picked up from companies and business investors in Madagascar?

Will there be further sanctions to force elections to happen?

Madagascar needs to develop its export business. Is there a way of linking investment in Madagascar to corporate governance in a fair way?

Has the increased delay in democratic transition contributed to further splits down the military ranks and changed opinion on actors by the elite?

What is your general advice for potential investors: to wait and see how the political situation turns out?

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The ambassador stated that the situation in the south of the country is of concern to the United Kingdom. The election date of 24 July is most likely to be postponed. The meeting in Addis Ababa will be significant for the international community to formulate a response. Some of Madagascar's international partners have decided they will not print ballot papers unless the three who previously agreed not to run withdraw their candidacies.

There has been rhetoric against the international community; pushing the move towards democratic transition plays into the hands of Rajoelina, blaming Madagascar's woes on the international community. Media debate in the country is quite healthy, although there is self-censorship is prevalent. Freedom of the media is key to what will happen during elections. Malagasies are upset about what is happening in their country politically and there is vibrant political debate in Antananarivo. Yet at the same time, nationalistic rhetoric is being played on by the elite. The role of the United Kingdom is to step back and let Malagasies express how they feel about the situation.

The ambassador stated that governance in Madagascar is linked to investment; some individuals' net worth grows with investment. Development in Madagascar is linked to individuals who care about the country. The carrot

for Malagasy politicians to increase investment in the country is development assistance. However, international partners won't put money into the government if there is not a democratic transfer of power.

Sanctions are targeted towards those who are making money out of continuing the status quo. Rajoelina does not want democratic transfer. Threats towards those in the international community are politically motivated but do not represent the views of ordinary Malagasies. The prime minister and ministers who support democratic transfer do not have protection against the elite so the United Kingdom wants to stand with those against those hindering transition.

The ambassador stated that many companies have worked successfully in Madagascar, although some such as Rio Tinto have been used as a political pawn in regional politics; stirring up the local community against the presence of businesses in their areas although they are also seen as the main source of employment in the region.

The ambassador noted that he wants to see British investment in Madagascar, but companies should watch unfolding events closely as the outcome is hard to call. Whether companies invest or not depends on their appetite for risk.