

# MADAGASCAR

## Madagascar and Japan strengthen their connections

The countries' close relationship puts Japanese enterprises in pole position to benefit from new opportunities on the rapidly developing, resource-rich Indian Ocean island.

In December 2017, at the Japan-Madagascar Business Forum in Tokyo, Malagasy President Hery Rajaonarimampianina detailed the many opportunities available for Japanese investors on the world's fourth-largest island. The forum was part of the first official visit to Japan by a Malagasy chief of state for over 50 years, during which he also met Prime Minister Shinzo Abe and Emperor Akihito.

The two countries are close partners — Japan is the third-largest investor in Madagascar and the fifth-biggest market for its exports. But the visit marked a strengthening of relationship between Japan and a resource-rich, friendly nation that functions as the gateway to Africa, as Abe described the Indian Ocean island.

"My visit was a milestone. I agree with Prime Minister Abe that we have a true partnership, with mutual advantages and win-win benefits for our private sectors. Japan is a strong partner of choice for us, which Madagascar needs to continue on its path of development," said Rajaonarimampianina.

Madagascar has been on this path since 2014, noted Japan External Trade Organization Chairman and CEO Hirokiyuki Ishige at the forum, with the government enacting numerous reforms that have ushered in a new era of economic growth that shows no sign of slowing down.

Minister of Finances and Budget Vonintsalama Andriambololona is expecting "gross domestic product growth of 5.1 percent in 2018 compared to 4.1 percent in 2017 and foreign exchange reserves

should remain stable, thanks to prudent monetary policies."

The strategically located island has also strengthened its international position, with Rajaonarimampianina serving as chair of both the Common Market for Eastern and Southern Africa, a free trade area of 21 states, and the International Organization of La Francophonie, which represents French-speaking countries worldwide.

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Hery Rajaonarimampianina  
President of Madagascar

"As a result of our achievements and the forecasts for 2018, Madagascar finds itself on the launch pad for its future economic development," stated Rajaonarimampianina. Giving shape to this future is a new strategic plan for inclusive growth and transformation, the name of which translates as emergence and rebirth — Fisan-dratana 2030. Its

goal is a GDP per person in 2030 that is more than double the \$422 that it was in 2017.

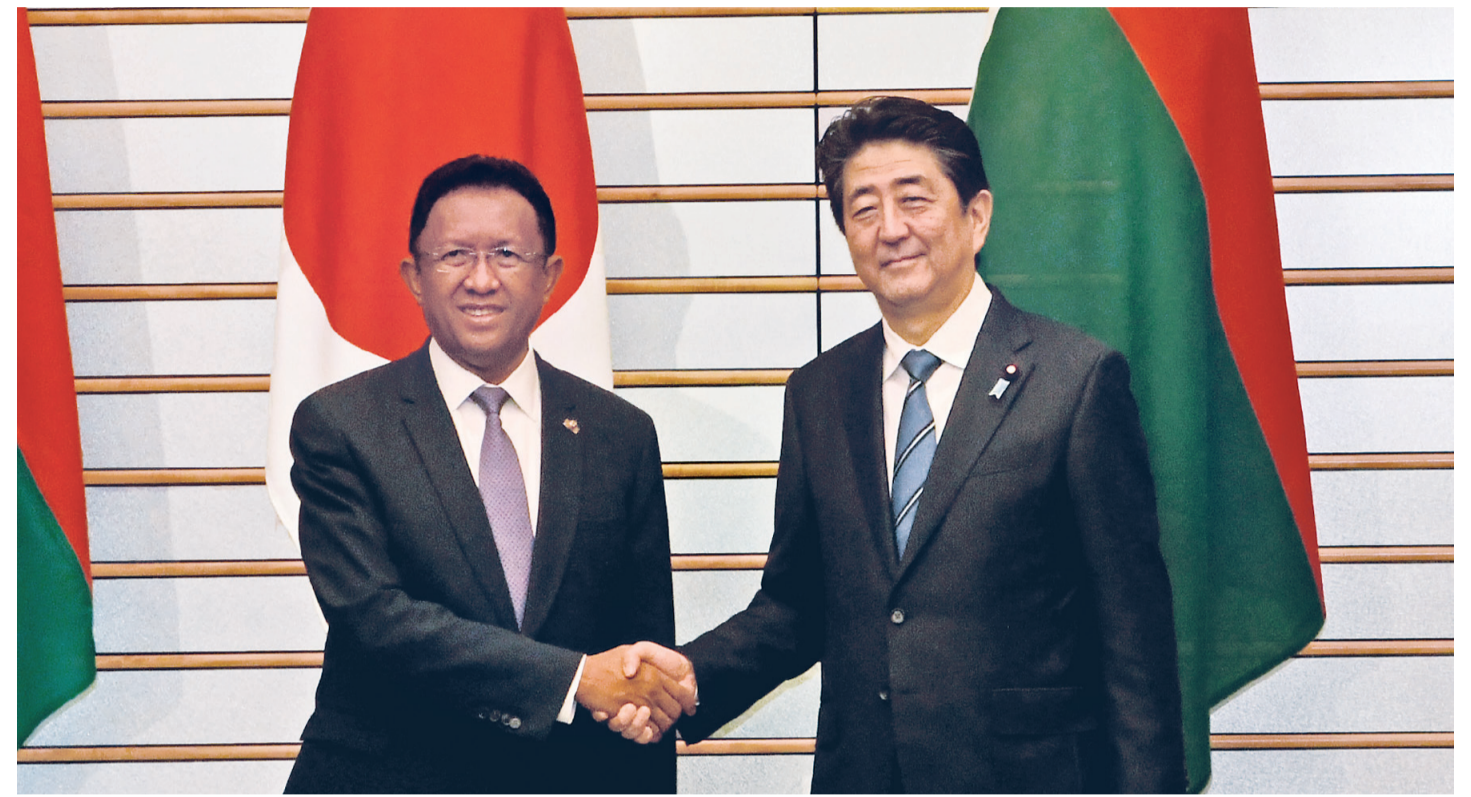
"The private sector must play a crucial role in this and the state is there to create a favorable environment that allows businesses to flourish. Hence, in Tokyo, I again stressed our support for Japanese investors coming to Madagascar," he noted.

This support includes new legislation for public-private partnerships and, said Andriambololona, "Other significant reforms are underway that send a strong signal to partners and investors, while tax incentives are now in place to attract foreign direct investment."

The government hopes to focus this investment on a number of economic growth engines. Agriculture was one of those mentioned by the president in Tokyo. It currently employs 80 percent of the labor force and is the economy's main pillar, but with only 10 percent of arable land utilized, it has huge potential for growth.

He also highlighted other underexploited resources such as oil, gas and minerals, and opportunities in tourism, information and communications technology, textiles and infrastructure, with investment in renewable energy, water and transport being seen as crucial.

Japan is increasingly looking outward for economic growth and its interest in Africa is intensifying. As a result, Japanese public and private sectors have been among the first to take up some of these opportunities. In 2017, the Japan International



President Hery Rajaonarimampianina and Prime Minister Shinzo Abe during the Malagasy state leader's official visit to Japan.

Cooperation Agency, active in the country for many years, gave \$411 million in funding for an expansion of Madagascar's largest port, Toamasina.

"That is the biggest project we are working on with the Japanese government, but we are also running joint projects in agriculture, health, education and many other areas. Additionally, we have strong connections with the Japanese private sector — for example, Sumitomo is heavily invested in our largest mining project, Ambatovy," noted Rajaonarimampianina.

At his meeting with Abe, both leaders confirmed that the countries' relationship is entering a new, stronger phase, with Abe pledging to continue supporting Madagascar technically and economically, and to negotiate a bilateral investment treaty.

The pair seem to be perfect partners, with one offering natural resources, a young and cheap labor force, and a growing market, and the other having the technology, expertise and capital to maximize the potential. Equally importantly, said Andriambololona, "There is a deep trust between us — that is why the biggest investments in Madagascar are made by the Japanese."

## A focus on building infrastructure to accelerate economic growth

Madagascar is looking to the private sector to help it rapidly develop all aspects of its infrastructure, including transport, water and energy.

Developing infrastructure in Madagascar has proved a challenge for an island almost twice the size of Japan. For example, its network of about 31,640 kilometers of roads is insufficient and in poor condition, only around 15 percent of the population has access to electricity and 23 percent to tap water.

But a transformation is underway. In terms of transportation, "We are working on all fronts simultaneously," stated Minister of Transport and Meteorology Beboarimisa Ralava. "We are extending the port of Toamasina, upgrading the railway system, planning major highway projects and renovating our airports, among other things. All these projects have one goal: facilitating the social and economic development of Madagascar."

Ralava's goal is, "to attract Japanese investors and partners to realize high-quality projects in public-private partnerships," and Japan's companies and government are welcoming his approach. In December, Prime Minister Shinzo Abe reiterated his support for the development of quality infrastructure in Madagascar, while many Japanese companies attended a bilateral conference on infra-

structure held in the Malagasy capital, Antananarivo, in July 2017.

"We have many attractive packages to offer, such as concessions to develop and manage our 44 airports. We are also in discussions with the Japanese government about a new highway and economic axis linking Antananarivo and Toamasina."

### A revitalized port links Japan with Africa

At a cost of \$639 million, \$411 million of which is being lent by the Japan International Cooperation Agency, the port of Toamasina (Tamatave in French) is set to become the largest in East Africa by 2026. Located 353 kilometers northeast of Antananarivo, it is the largest port in the country, handling about 75 percent of all domestic and 90 percent of international cargo. However, in its current form, it is too small and shallow to meet rapidly increasing demand. "The extension is vitally important for our economy, it will double our capacity and the world's largest vessels will be able to unload in Madagascar," said Christian Eddy Avellin, managing director of Societe du Port a gestion Autonome de Toamasina



Christian Eddy Avellin  
Managing Director, Societe du Port a gestion Autonome de Toamasina (SPAT)

(SPAT), the government agency that oversees the port and is supervising the works.

These will see the dock extended to 470 meters, an additional 10 hectares for container storage and modernized computer management systems. "The Japanese are not only supporting us with capital investment, they are also sharing their know-how and cutting-edge technologies, which is helping to achieve outstanding results, as they have the experience of developing world-class facilities in extreme climatic conditions," Avellin explained.



Olivier Aimé Jaomiary  
Managing Director  
Jiro sy Rano Malagasy (JIRAMA)

By 2021, Avellin expects that about 320 meters of new deep-water dock will be operational. "This will enable us to be a sustainable growth engine for our economy, as the new Toamasina will be an important link between Asia, the Gulf countries, Africa and Latin America," he said.

### Increasing access to energy and water

Madagascar is also developing its water and energy infrastructure and, here again, Japan is an important partner, said Minister of Energy and Hydrocarbons

Lantoniaina Rasoloelison. "For example, Japan co-financed two water pipelines and is funding water purifiers and sanitation technology."

To encourage businesses to help achieve the goal of providing electricity to at least 70 percent of households by 2030, Madagascar has introduced a new electricity law. "This gives tax reductions for renewable energies and enables new business models. It also lightens the terms of production licenses and concessions," explained Rasoloelison.

With a potential 7,200 MW in hydroelectric power, 2,800 hours a year of sunshine and plenty of wind, the country is looking to renewable sources for 85 percent of its future energy. "Our priority is mini-grids and around 1-MW systems, and we have had proposals for these from Japanese companies. They might also be interested in large hydropower schemes and supplying solar technology to rural homes. In addition, there is a potential 7,900 MW to exploit in urban electrification," Rasoloelison said.

Under the new law, producers can sell excess energy to Jiro sy Rano Malagasy (JIRAMA), the state-owned electricity and water utility that has undergone its own transformation. With a new, dynamic leadership, headed by Managing Director Olivier Aime Jaomiary, it is modernizing to become more efficient, effective and profitable, in order to improve services and attract international investors.

"One of my priorities is optimizing our organizational structure, which had become cumbersome," stated Jaomiary. "So we are scrutinizing all our pro-

cesses with the help of the World Bank. Making JIRAMA more efficient boils down to people management: how we analyze, manage and optimize our workforce's performance. This is something we are focusing on."

JIRAMA is also investing in infrastructure, in partnership with the private sector. "Reducing losses is our key priority. For example, currently, between production and the end customer, we lose about 33 percent of the energy we produce, due to old network infrastructure, human failure or theft. If we could reduce this by just 10 percent, it would make a huge difference to our balance sheet," he explained.

By working toward zero losses, Jaomiary believes JIRAMA can achieve profitability in 2020 and start investing more sustainably in its network, generation and distribution structure. As research and competition in the international industry mounts, Jaomiary is particularly excited by the potential of solar power in Madagascar. "The price of solar technology is dropping so quickly, as are the costs of battery energy storage. The Malagasy state is there, ready to assist investors, and our donors are also really enthusiastic to help," he said.

His positive view for the future of Madagascar's water and energy reflects the position of most of the country's infrastructure specialists: "If I was doing this job four years ago, I would not have had nearly as many opportunities to make a difference as I do now. It is the right time for change and to seize this chance to create things."



## NEW OPPORTUNITIES FOR A NEW MADAGASCAR

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'The Malagasy pride'

Transform with **Jirama**,  
Grow with Madagascar



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# Unlocking the potential in Madagascar's natural resources

Access to the island's underexploited reserves of minerals and hydrocarbons is opening up in 2018, with tenders being issued for promising oil blocks, exciting opportunities on offer in gold and a new central hub for investments in mining.

Madagascar's vast lands are full of untapped reserves of numerous valuable minerals, petroleum and gas. The island's many natural resources include nickel, cobalt, vanadium, chromite, gold, gemstones, ilmenite, zircon, graphite and an estimated 1,500 billion barrels of oil — none of which have been exploited due to a lack of available funds, technology and expertise in the past.

Some major international players have already spotted the potential in the country. Since 2005, Japan's Sumitomo, alongside Canada's Sherritt and South Korea's Kores, has owned Madagascar's largest mining operation — Ambatovy, which is located near Toamasina.

This important project provides 7,000 jobs, currently represents about one-third of Madagascar's exports and has a targeted annual production of around 66,000 tons of nickel, 6,200 tons of cobalt and 230,000 tons of fertilizer.

Rio Tinto is also working in the country, mining ilmenite and zircon in the south-east of the island in partnership with the government. As a result of activities like this, the contribution of extractive industries to gross domestic product has recently risen from around 2 percent to over 4 percent.

But, having identified the sector as a central pillar in its economic growth plans, the government wants to increase it further by attracting more international investors to help take advantage of its latent treasures. It is currently developing a new mining code that will benefit all stakeholders, but improvements to the business environment are already taking place. This change is evidenced by the activities of three organizations in particular, which are at the forefront of the sector's ongoing development: Kraomita Malagasy (KRAOMA), Bureau du Cadastre Minier de Madagascar (BCMM) and the Office of National Mines and Strategic Industries (OMNIS).

## A golden future for minerals

As a state-owned mining company, KRAOMA is responsible for exploiting mineral resources in a sustainable way that advances the country.

Historically, its main interest has been chromite and it operates four mines for this ore in the Brieville region, near the island's center. After treatment, the resultant chromium — up to 330,000 tons a year — is transported to the port at Toamasina where it is exported, mainly to China.

In 2016, KRAOMA reassessed its business plans when its profit levels were impacted by a substantial drop in world prices for chrome. It took advantage of a subsequent rise in prices in 2017 to increase production from 70,000 to 177,000 tons, which has provided the funds for the company to start investing in strategic projects for the future.

As a result, 2018 sees KRAOMA in a phase of growth, diversification and new international partnerships. The company wants to increase its chromite mining, but in light of the recent price volatility for that mineral, it has also started to diversify by investing in the extraction of other minerals, such as gold, beryllium, apatite and columbite.

Gold, especially, offers a tremendous opportunity. Madagascar has significant reserves of the precious metal, which are only just beginning to be realized — in 2017, registered gold production rose from previous levels of under 0.06 tons to 1.9 tons.

Having explored its sites, KRAOMA has identified a number of locations with high potential for gold mining, on which it has been carrying out artisanal-style extractions.

To turn this into full-scale mining operations, it is looking to international investors. In a bid to attract these, the company has created a new partnership model, already proving successful, under which the partner provides capital and KRAOMA supplies everything else, including mining license, technical expertise and personnel.



David A. Ratsimbazafy  
Managing Director, Bureau du Cadastre Minier de Madagascar

The company is also moving vertically along the value chain into processing. It wants to construct Madagascar's first gold refinery and is building a processing plant to turn its chromite into ferrochrome, which is cheaper to transport than treated chromium and fetches higher prices.

This facility, with its own power plant, should be completed in 2019 and KRAOMA is currently obtaining more mining licenses in chromite-rich zones to ensure sufficient reserves for the project.

## A new gateway into mining

More information about the investment possibilities available through KRAOMA, along with all the other opportunities on offer in the country, can be found at Madagascar's recently inaugurated Mining Business Center.

This one-stop gateway to Malagasy mining has been developed by BCMM, a public body set up in 2000 to manage all mining licenses in the country and promote the sector at home and abroad.

Its new Mining Business Center is now playing a key role in stimulating investments and enabling partnerships to be

forged by bringing together the sector's whole value chain in one central hub, including BCMM itself, government ministry departments, mining operators and suppliers.

As a result, it acts as a platform for trade, the need for middlemen is reduced and administrative procedures within the sector take less time.

The extensive high-tech building, located in Antananarivo and just a few miles from Ivato international airport, cost \$6 million to construct and is a showcase for the range and depth of Madagascar's mineral wealth.

It contains separate state-of-the-art information centers for gems, industrial stones, precious metals and other metals, each of which offers real-time data and news matched with cartography.

A focal point of the building is a sunlit hall with 2.97 acres of flexible space that can be utilized for fairs, exhibitions or other events that can also benefit from a 1,000-seat amphitheater, four VIP lounges and two restaurants.

In addition, the highly secure center contains a 32-unit shopping mall for products mined in the country and an area dedicated to banking services. All of which will be used by BCMM to help unlock the full potential of Madagascar's mining industry.

## International tenders for oil

Madagascar does not just want to unlock its mineral resources — it also intends to become an important oil and gas nation.

Facilitating that transformation is OMNIS, the state-owned agency that has been managing, developing and promoting Madagascar's petroleum, gas and strategic mineral resources, such as coal, ilmenite and uranium, since 1976.

Overseen by the Ministry of Mines and Petroleum, OMNIS implements national policy on exploration and exploitation, carries out exploration work and fosters partnerships with international companies, providing them with any information, data, or technical and administrative assistance they need.

It believes the island is on the verge of an oil and gas revolution that will boost economic development and contribute to

its energy independence.

International oil companies are increasingly turning their attention to Madagascar and 14 are currently operating in the country, with the most recent additions being Britain's BP and Brazil's CB World Natural Trade Energy, both of which are exploring offshore.

These enterprises are working in partnership with OMNIS under productions sharing contracts, which specify that the companies pay for all exploration costs over eight-year exploration phases. However, once oil is discovered and marketed, they can recover this expenditure, within a certain threshold.

To further encourage investors, no consumption taxes are levied on operations until discoveries are made and the government intends to reform the industry's legal framework and make it even more advantageous for companies than it already is.

recently carried out extensive exploration of the subsoil of Madagascar, and identified 200 offshore and 100 onshore blocks with significant potential for hydrocarbons.

2018 will see the launch of an international tender for the first 40 offshore blocks, which are located in the Morondava Basin to the west of Madagascar.

"These are the ones for which there is the most data — 2D and 3D seismic surveys have been carried out over about 9,000 square miles — and for which there is a very high probability of finding oil. So these will be the most interesting ones for companies and investors," said former OMNIS General Manager Bonaventure Rasoanaivo.

He notes that the winners will be supplied with all of OMNIS's intelligence and exploration data, in order to help them maximize their exploitation of the blocks.

**"For oil and gas investments, Madagascar is the second best destination in Africa after Mauritania, according to the Africa Oil & Power energy investment platform."**

Vonintsalama Andriambololona, Minister of Finances and Budget

As the Malagasy Minister of Finances and Budget Vonintsalama Andriambololona explained: "For oil and gas investments, Madagascar is the second-best destination in Africa after Mauritania, according to the Africa Oil & Power energy investment platform."

Oil was first discovered in Madagascar over 100 years ago and five highly promising onshore and offshore sedimentary basins have been discovered, three of which have the same geological history as petroleum-rich areas in Angola and Nigeria. In addition, a vast deposit of natural gas has recently been identified in the south of the island.

But Madagascar as a whole remains very underexplored, with only one prospect drilling having been made for about every 4,000 square miles.

To address this issue, OMNIS has

"OMNIS's internal strategy is to go step by step with its tendering of the blocks. It is starting with these 40 and at a later stage it will promote the rest of the 200 offshore blocks, as well as the onshore blocks," stated Rasoanaivo.

He is keen to see Japanese companies bid for some of the new blocks. "Between 2017 and 2020, Japan will have contributed more than \$447 million to the Malagasy mining and oil sector, in addition to the investment of Sumitomo in the Ambatovy project, which highlights what an important partner Japan is for Madagascar," he said.

"Japanese businesses are very reliable and focused on the long term, which is exactly what the island of Madagascar needs to embrace the huge potential our mining and hydrocarbons sector has to offer."

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OMNIS

### A revolution in Madagascar's offshore oil and gas sectors is about to begin

Deposits have been found, investment incentives are on offer and 2018 will see the auction of 40 promising offshore blocks. For more information about any aspect of a transforming industry, contact OMNIS, the state-owned agency responsible for petroleum and mineral resources.

#### ACTIVITIES

- Audit
- Drilling
- Partnership development
- Technical and administrative follow-up
- Mineralogical processing and analyses
- Technical and administrative assistance
- Biostratigraphic, stratigraphic and sedimentological studies
- Geochemical and physicochemical analyses (Coal, Jatropha and Hydrocarbons)
- Provision of pre-requisite data for oil exploration, mines and uranium mines in Madagascar

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Committed to a better future



### The port is growing with Madagascar

With the support of the Japan International Cooperation Agency, construction is starting on a major expansion and improvement of Madagascar's most important commercial seaport — Toamasina Port — that will enable it to continue to meet the needs of the country, its users and investors.



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### Our new Mining Business Center is your gateway to the opportunities available in Madagascar's mineral sector

BCMM welcomes investors, operators and service providers to our hub for mining, where you can meet us, find partners and access all that you need to do business.

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