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An explosion at the luxury A&C Hotel in Antananarivo injures two people. Prime minister Olivier Solonandrasana Mahafaly announces plans for a security operation to address insecurity linked to cattle rustling. The United Nations Food and Agriculture Organisation (FAO) reports cereal production decline and only slight increase in rice production in 2016. OMV indicates a possibility of offshore oil production in Madagascar. World Bank provides funds to improve tax collection. The Banque Centrale de Madagascar (BCM) (central bank) maintains its benchmark lending rate. The BCM indicates that the government's fiscal position is improving.

Explosion at A&C Hotel in Antananarivo

International media reported on 2 November that an explosion the previous day at the luxury **A&C Hotel** in **Antananarivo** injured two people.¹ **Malagasy** security forces have not confirmed if the explosion was a terrorist attack. Investigations are ongoing and have not recovered evidence of an explosive device yet.² However, the incident does raise security concerns, particularly as the government prepares to host heads of state at the upcoming 16th **Organisation Internationale de la Francophonie (OIF)** (international organisation of French speaking countries) summit scheduled for Antananarivo on 26 and 27 November.³ Some OIF delegates were expected to stay at the A&C hotel.⁴

A&C Hotel owner **Claudine Razaimomonjy** was on site at the time of the explosion⁵ and claims it was a "terrorist act".⁶ According to some eyewitnesses, the explosion occurred at 19:00 on 1 November, near a construction site where hotel renovation work was taking place.⁷ Witnesses also claim an explosive device was thrown into the construction site.⁸

Razaimomonjy is reportedly one of president **Hery Rajaonarimampianina's** (2014- present) daughters and acts as an adviser to him, but she maintains a slow profile.⁹ A&C Hotel has allegedly received government contracts through questionable means.¹⁰ However, it is not clear at this point if Razaimomonjy's political links are related to the attack.

Security forces launch operations to address insecurity linked to cattle rustling

Prime minister **Olivier Solonandrasana Mahafaly** announced that Malagasy security forces plan to launch an operation in high risk area known as 'zone rouges'¹¹ in November, to address insecurity linked to armed cattle rustlers, known as **Dahalos**.¹² Malagasy security forces will focus on several regions in southern Madagascar including: **Maevatananana, Andriamena, Andilamena, Bongolava**

¹ www.bbc.com

² www.bbc.com

³ www.rfi.fr

⁴ www.linfo.re

⁵ www.lexpressmada.com

⁶ www.linfo.re

⁷ www.linfo.re

⁸ www.allafrica.com

⁹ Madagate.org

¹⁰ Madagate.org

¹¹ Source, political analyst, Madagascar

¹² www.expressmada.com

Melaky, Matsiatra, Vatovavy, Fitovinany, Ihorombe, Atsimo, Andrefana, Androy and Anosy regions.¹³ This is the government's third effort to address Dahalo-linked insecurity in southern Madagascar.¹⁴ The previous security operation, called **Operation Fahalemana**, took place in 2014.¹⁵ In 2012/2013 under former president **Andry Nirina Rajoelina** (2009-2014) security forces undertook **Operation Tandroka**.¹⁶

Despite previous operations, armed cattle rustling has continued to create insecurity in southern Madagascar. In June 2016, Dahalos attacked a taxi and an army vehicle travelling between **Toliara** and **Beroroha**, killing 31 people.¹⁷ Theft rather than politics motivated the attack. In response to ongoing Dahalo raids, but before the June incident, **Gendarmerie** head of operations **Armandin Ralaiko** said the Gendarmerie had established a 75-member anti-Dahalo unit to address the problem.¹⁸ However, Malagasy security forces remain overstretched and underfunded. Madagascar has only one police officer for every 3,000 people, or one police officer for every 60 square kilometres.¹⁹ The new budget has allocated money for the recruitment and training of 1,200 new police officers,²⁰ but this is unlikely to have a short-term impact on the security situation in southeastern Madagascar.

The June incident was the second major reported cattle-rustling incident in 2016 after a similar incident in February in **Antanamaro** (near **Ilakaka**), in southern Madagascar. There were also several serious cattle rustling incidents in 2015. Clashes between security forces and cattle rustlers in **Ankazoabo** (southwestern Madagascar) in August 2015 killed eight soldiers and 15 cattle rustlers.²¹ Violence related to cattle theft is not new and also plagued the Rajoelina government. In August 2014, 80 armed Dahalos stole 150 head of cattle (known as zebu) from the village of **Tranomaro** (**Amboasary Sud District**). A second attack took place on the same day in the village of **Mahaly** (**Amboasary Sud District**), during which Dahalos stole 300 zebu.²²

FAO reports cereal production decline & only slight increase in rice production

A **United Nations (UN) Food and Agriculture Organization (FAO)** report published on 14 November indicates Madagascar will face a sharp cereal production decline in 2016 and only a marginal increase in the production of rice, Madagascar's staple food.²³ The FAO report indicates that Madagascar will continue to face food insecurity conditions, mainly in southern regions, into 2017.²⁴ The decline in cereal production in 2016 is a result of the ongoing **El Nino** induced drought.²⁵ The drought is particularly impacting the regions of Androy, Anosy, Atsimo and Andrefana. For example, the poor seasonal rains resulted in an 81% decline in maize production in Androy compared to the already reduced level of 2015.²⁶ However, there was good rainfall in Madagascar's major rice-producing areas in the centre and north, and minimal locust attacks as a result of a three-year FAO anti-locust response programme from 2013 to 2016.²⁷ The FAO estimates that Madagascar's rice

¹³ www.expressmada.com

¹⁴ www.expressmada.com

¹⁵ www.expressmada.com

¹⁶ www.expressmada.com

¹⁷ RFI, 23 Jun 2016.

¹⁸ RFI, 23 Jun 2016.

¹⁹ La Gazette, 2 Aug 2014.

²⁰ La Gazette, 2 Aug 2014.

²¹ AFP, 27 Aug 2015.

²² Multiple sources: AFP, 17 Aug 2014; Global Voices, 19 Aug 2014.

²³ FAO, GIEWS Country Brief Madagascar, 14 Nov 2016.

²⁴ FAO, GIEWS Country Brief Madagascar, 14 Nov 2016.

²⁵ FAO, GIEWS Country Brief Madagascar, 14 Nov 2016.

²⁶ FAO, GIEWS Country Brief Madagascar, 14 Nov 2016.

²⁷ FAO, GIEWS Country Brief Madagascar, 14 Nov 2016.

production will increase by approximately 2% but still remain approximately 5% below Madagascar's five-year average.²⁸

OMV optimistic about Madagascar oil sector

Speaking at the 23rd **Africa Oil Week** conference, which took place in **Cape Town (South Africa)**, **John Austin**, the general manager of **sub-Saharan Africa** for **OMV**, said there is a possibility of oil production from the company's **Grand Prix** offshore block in Madagascar in the coming years.²⁹ Austin did not give any specific timeline, but his comments indicate that oil and gas exploration and production companies are increasingly interested in Madagascar's offshore oil and gas potential, despite a lack of investment and recent high profile exits from the sector (see previous *ARC Briefings* for Madagascar).³⁰ OMV has already acquired seismic data and plans to start exploratory drilling at its Grand Prix block in 2018. OMV claims the Grand Prix block contains over 2 billion barrels of oil.³¹ OMV holds a 90% interest in Grand Prix and is reportedly starting to seek farm-out partners for up to 50% interest, to help finance exploration and development costs.³²

OMV entered Madagascar in 2013 after acquiring a 40% stake in the 16,000 km² Grand Prix offshore exploration block from **Canada-based Toronto Stock Exchange-listed Niko Resources Ltd**, in line with OMV's then strategy to develop growth through exploration in the sub-Saharan Africa region.³³ In 2015, OMV purchased an additional 50% equity in the Grand Prix and conducted a 3,000 km² 3D seismic survey.³⁴

World Bank provides funds to improve tax collection

The World Bank, on 28 October, announced \$40m in funding to support Madagascar's public sector performance reform programme.³⁵ One of the main objectives of the World Bank funding is to help the government enhance its tax collection capabilities.³⁶ As part of the funding requirements, the government is expected to implement several key reforms including performance contracts with customs officers and establish a computerised fiscal management system for tax revenue.³⁷ Madagascar has one of the lowest rates of tax collection as a proportion of government expenditure in the developing world.³⁸

Central bank maintains benchmark lending rate, sees fiscal position improvement

The **Banque Centrale de Madagascar (BCM)** (central bank), on 7 November, announced that it will maintain its benchmark lending rate at 8.3%.³⁹ The BCM's objective is to allow more time for BCM's previous benchmark interest rate cut in May (see *ARC Briefing Madagascar May 2016*) to filter through the commercial banking system and promote business investment and economic growth. Since Rajaonarimampianina came to power in January 2014, he has struggled to encourage investment and promote economic growth.⁴⁰

The BCM, in a report published on 7 November, indicated that the government's fiscal position has improved in 2016 compared to 2015.⁴¹ The BCM claims the main reason for was the slower growth in

²⁸ FAO, GIEWS Country Brief Madagascar, 14 Nov 2016.

²⁹ www.oilreviewafrica.com

³⁰ www.oilreviewafrica.com

³¹ www.oilreviewafrica.com

³² www.oilreviewafrica.com

³³ www.omv.com

³⁴ www.omv.com

³⁵ www.expressmada.com

³⁶ www.expressmada.com

³⁷ www.expressmada.com

³⁸ www.expressmada.com

³⁹ www.lexpressmada.com

⁴⁰ Reuters, 4 May 2016.

⁴¹ BCM statement, 7 Nov 2016.

expenditures and increased non-tax revenue such as donor aid. The BCM noted that as of August 2016 the fiscal deficit was estimated at 383 billion ariary (A) (\$120m) compared to A537.2 billion (\$168m) for the same period in 2015. The growth of government spending declined from a rate of 32.9% in the first eight months of 2015 to 10.7% for the same period of 2016.⁴² The government has financed the fiscal deficit through international aid commitments from donors such as the **African Development Bank (AfDB)** and domestic borrowing.⁴³

Implications

The attack on the A&C hotel raises security concerns ahead of the OIF summit in late November. The Malagasy security forces are stretched, but **France** has pledged to provide security support in the run-up to and during the summit.

Mahafaly's security operation will probably not end the ongoing insecurity linked to cattle rustling, but does show that government is committed to improving security in southern Madagascar despite a lack of resources.

The FAO report indicates that Madagascar will continue to face food insecurity into 2017. The government has limited resources and will remain reliant on foreign aid to help address the situation.

OMV's positive announcement with regard to its development of Madagascar's offshore oil and gas sector is an indication that international exploration and production companies have a renewed interest in Madagascar. However, until the government finalises a new petroleum code, foreign investors will remain reluctant to make significant oil and gas sector investments.

The BCM's decision to maintain its key lending rate will not have a significant impact on economic growth. Improving Madagascar's economic growth prospects will remain dependent on the government's ongoing reform efforts and its ability to attract foreign investment and international aid.

The World Bank's support for Madagascar's tax collection will help improve the government's fiscal position, which is already improving. However, Madagascar will remain dependent on foreign aid and international financial institutions, for budget support, even if tax collection improves significantly.

⁴² BCM statement, 7 Nov 2016.

⁴³ BCM statement, 7 Nov 2016.

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

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