



■ Madagascar's famous baobab trees



■ Tsingy rouge d'Analamera in Diégo

Madagascar

OPEN TO THE WORLD

PRESIDENT MARC RAVALOMANANA HAS A VISION – TO TRANSFORM HIS COUNTRY INTO A GLOBAL PLAYER AND BRING ECONOMIC AND SOCIAL SUCCESS TO HIS PEOPLE.



■ President Marc Ravalomanana

President Ravalomanana has already introduced widespread reforms which have opened up the country to greater international trade and investment. With strict measures in place to tighten fiscal management and increase transparency and good governance, Madagascar has achieved the macroeconomic and political stability necessary to attract investors from all over the world. Growth in 2003 was an unprecedented 9.6%.

No one doubts that there is still a great deal to be done to overcome the country's remaining difficulties, not least the poverty of its people, but progress in the right direction has been recognized at the highest international level. In November 2003, President Ravalomanana's Poverty Reduction Strategy Paper was approved without amendments by the World Bank and the International Monetary Fund (IMF).

The paper sets out the government's priorities to alleviate poverty, which affects 70% of the population of 16 million. It introduces wide-ranging fiscal and structural reforms and proposes measures to stimulate economic growth. It also outlines essential social improvements such as better education, health services, sanitation and drinking water. At the same time, there is an extensive program of infrastructure development in place to stimulate economic activity and allow poor people to access these services.

President Ravalomanana hopes that much of the funding for these projects will come from international investors and through private public partnerships. A former businessman, he recognizes that investors need security and stability, and is quick to reassure that the political crisis of 2001 – when the results of the presidential elections were disputed by the outgoing leader – is well and truly over. He received a fresh mandate in December 2002 and with the full support of the people is showing the leadership and courage to put Madagascar on the world map. He has reduced taxation to 0% for the next two years to stimulate the economy, and has introduced reform allowing the sale of land for the first time since independence from France in 1960.

"I AM VERY CONFIDENT FOR THE FUTURE," says the President. "We have the proof: businessmen and delegations come here and this shows that they increasingly trust us. The private sector trusts us also due to the private public partnership. The role of the government is to be a facilitator."

A top priority is to open up the rural areas to development. Agriculture is the mainstay of the economy, accounting for one third of GDP and 70% of exports. Some 80% of people live in rural areas and already Madagascar produces coconuts, vanilla, salt and sugar, while production of rice, tomatoes and viniculture could be significantly increased. Extensive fisheries of crayfish and shrimp could also be better exploited.

Proof of the reliability of Madagascar as an investment destination lies in the many companies already operating there, such as *Électricité de France*, *Total* and Canadian mining company *Dynatec* which has a partnership with U.S. *Phelps Dodge*. Plenty of others are also interested. In the last few months of 2003, delegations from Germany, Norway, France, Vietnam and the U.S. all visited Madagascar, as well as the EU Commissioner for Development.

U.S. Ambassador Wanda Nesbitt is very upbeat. "Madagascar is at a crossroads in its history... on the brink of having the opportunity to bring about changes that have not been possible for 25 years," she says.

One of the fastest growing sectors is textiles. In March 2001, Madagascar qualified for preferential tariffs under the Africa Growth and Opportunities Act (AGOA). This will lead to the creation of 70,000 new jobs by 2006.

TOURISM IS ALSO AN AREA OF GREAT OPPORTUNITY, and the government has identified three priority investment areas. The world's fourth largest island boasts 5,000 kilometers of sandy coastline, tremendous biodiversity and strong culture and traditions. Madagascar is an ideal tourism destination, especially for eco- and discovery tourism. Minister for Tourism Roger Mahazoasy stresses that reform of land ownership will allow greater security to foreign investors. Some major hotels are already established. For example, the Hilton Hotel is in Antananarivo city center close to the government ministries and major international organizations. It has been established for over 40 years, has 170 rooms and a wide range of leisure and meeting facilities.

simicro

Simicro Internet
Internet Service Provider

16 rue, ratsimilaho, Antananarenina,
Antananarivo 101 - Madagascar

simicro@simicro.mg

Phone : +261(0)20 22 648 83 - Fax : +261(0)20 22 341 71

Madagascar: transport and infrastructure

Getting the country moving

SUSTAINED GROWTH IS WHOLLY DEPENDENT ON THE DEVELOPMENT OF TRANSPORT AND INFRASTRUCTURE – THE HIGHWAY NETWORK, PORTS AND AIRPORTS. AN EXTENSIVE ROAD-BUILDING PROGRAM IS ALREADY UNDERWAY AND PLANS ARE IN PLACE TO INCREASE PRIVATE SECTOR INVESTMENT.

Over the next few years, some 14,000 kilometers of highway will be constructed or repaired, while the operation of ports will be handed over to private concessions with government keeping control of the basic facilities. A study into how best to utilize private sector investment in the ports should be completed in early 2004, leading to a bidding document. Concessions should be in place by the end of the year.

The port of Tamatave, for example, handles 60% of the country's trade but while efficiency has increased from handling approximately five containers an hour to around eight, with private investment the total could increase to 50 an hour. The introduction of free trade zones has already proved popular, encouraging SMEs to set up operations near the ports. The rail network and airports are also in need of modernization, and the government is doing all it can to encourage their development through private public partnerships.

At the same time, the telecommunications sector is opening up to competition, offering significant potential for operators such as Simicro, the largest partner of IBM in the country. Three quarters of

Simicro's business is the sale and installation of computer and computer networks, primarily for companies, while internet provider services make up the remainder. Potential can only grow as fiber optic cable is planned to link Madagascar to the international telecommunications network – communication needs are currently met by satellite.

“For the Malagasy people the internet is an extraordinary window on the world,” says Bertrand Beaujoin, Director General of Simicro. “It is going to develop very quickly in the future. For us, it is growing at between 15% and 20% a year.”

THE GOVERNMENT HAS SET UP A ONE-STOP-SHOP, under the auspices of the Vice Prime Minister, to assist investors from the private sector. It can advise on anything from land issues to visas. It has revised the fiscal incentives to attract investors, offering tax breaks and mutual agreements to avoid double taxation. At the same time, it is working towards establishing a capital market to aid investors, together with an improved financial regulatory system and judicial framework.

Education is a top priority to provide the professional skills required to attract investment. By 2013, every child should attend primary education. Labor is already in abundant supply and relatively low cost.

However, Vice Prime Minister Zaza Manitranga Ramandimbiarison knows how important it is to manage the country's natural and human resources. “In a developing country like Madagascar the money comes from natural resources, such as vanilla, from mining and also from development aid, but we have to be careful we use these resources effectively,” he warns. “We need more accountability and transparency, and this will lead to faster development.”



■ Vice Prime Minister Zaza Manitranga Ramandimbiarison

MADAGASCAR

Open for business

- * Investor friendly environment
- * Sound legislation & transparency
- * World Bank / IMF approved Govt Plan
- * \$1.2bn public investment in infrastructure



Phone: +261 20 22 23215
 Fax: +261 20 22 20890
 email: vpm@mtpat.gov.mg

Madagascar: mining

Rich resources to explore and exploit

MADAGASCAR HAS BARELY BEGUN TO DISCOVER THE WEALTH OF ITS MINERAL RESOURCES. NOW, THE GOVERNMENT IS MAKING IT EASIER FOR FOREIGN COMPANIES TO STUDY AND EXTRACT.

The country has proven resources of nickel, cobalt, graphite, titanium, coal, quartz and diamonds. For example, Dynatec Corporation, in partnership with Phelps Dodge, is pursuing development of a large-scale nickel/cobalt project, while companies such as Rio Tinto are carrying out feasibility studies on other projects.

A new mining industry code is designed to encourage foreign investment and deals with everything from the issuing of exploration licenses to exports. It establishes a stable tax and legal regime, provides tax incentives for value-added investments, fixes royalty and custom duty rates and terms, and offers international dispute arbitration.

The government is also setting up a network of mining license offices to encourage all parties interested in exploration to take out a license. Previously, some exploration work has been carried out informally, but Minister of Energy and Mines, Jacquis H. Rabarison, is keen to work with all companies. "Legally they have no rights if they have not obtained the license," he adds.

"We are about to set up the IGM (Gemology Institute of Madagascar), working with GER, an American Gemology Institute in Houston," he continues. The Institute will be responsible for marketing Malagasy products and precious stones.



■ Jacquis H. Rabarison, Minister of Energy and Mines

Commercial joint ventures are also very much encouraged. For example, the government has supported the setting up of a joint venture between Phelps Dodge, a copper company who came to Madagascar and acquired the Ambatovy nickel/cobalt deposit in 1995, and Dynatec, a recognized world leader in the hydro-metallurgical treatment of nickel, cobalt and many other minerals. The plan is to extract up to 50,000 tonnes of nickel and 4,000 tonnes of cobalt per year at Ambatovy for more than 20 years. A full bankable feasibility study is continuing and is scheduled for completion by the end of June 2004.

DYNATEC IS A RAPIDLY GROWING MINING AND METALLURGICAL COMPANY, with plans to open one mine a year over the next four years in Sudbury, Ontario, alone. In Madagascar, the Company is very enthused about the prospects for the Ambatovy project. "Ambatovy has the potential to become a world-class mine, as well as one of Madagascar's largest employers and an important contributor to the country's economic development strategy," explains President and CEO, W.R. Dengler. "It will also contribute to Madagascar's sustainable development goals, as the hydrometallurgical process is relatively green, producing neutralised dirt at the end of the process," he says.

"The Minister of Mines has been extremely supportive and the President is aware of the project and the potential value it has for the country," adds Vice-Chairman Bruce Walter.

The Ambatovy nickel/cobalt mine, when it comes into production in 2007, will have among the lowest operating costs in the world.

The government is very encouraged by the positive attitude of companies such as Dynatec, but knows it can still improve. "I am very confident for the future," says the Minister. "It is not enough though. You need to have very strict laws and transparency. The problem of Madagascar is that it is not well known. We need to inform potential investors about the opportunities that exist in Madagascar."

■ Business Focus

fax: +44 (0)207 712 1501 www.businessfocus.org.uk

Working with Madagascar to build a world leader

Dynatec Corporation (Toronto Stock Exchange, Symbol: DY) is a growing international mining company. It is bringing its extensive expertise, leading metallurgical capabilities and commitment to safe and responsible work practices to Madagascar to build one of the world's largest and lowest cost producers of nickel and cobalt.

The Ambatovy project has the potential to produce 50,000 tonnes of nickel and 4,000 tonnes of cobalt per year for more than 20 years. Dynatec, on behalf of the Ambatovy Joint Venture, will develop and operate the project, using an approach that stresses cooperation and a commitment to creating value for all stakeholders, especially Madagascar and its people. Initial production is targeted for 2007.



www.dynatec.ca

D Dynatec

Extensive reforms

A COMPLETE OVERHAUL OF THE REGULATORY SYSTEM MEANS INVESTORS CAN RELY ON FISCAL TRANSPARENCY AND GOOD GOVERNANCE.

Among the main aims of the reforms is the stimulation of competition in the financial sector. Currently, there are only four commercial banks operating in the country. The government also hopes to create a capital market to provide the private sector funding so vitally need for development, particularly of small and medium-sized enterprizes (SMEs).



■ *Minister of Finance, Benjamin Radavidson*

Previously, enterprizes had little incentive to be profitable. Now, the government has undertaken an extensive re-education program to spread the message that businesses must stand on their own two feet. "Now we have a new policy that the private sector has to work on its own behalf, and we as the government have to make the environment more competitive and more attractive for business," says Minister of Finance, Benjamin Radavidson.

PART OF THE BATTLE is to bring organizations which previously operated outside the formal environment into the mainstream. The government is providing support with accounting and management that will pave the way for bank loans. "We can manage their taxation activities as well, and that along with improved education can help these people come into the formal economy," says Mr Radavidson.

Interest rates are traditionally high, fuelled by the government need to issue treasury bonds to pay for development, but they are slowly decreasing. Other macroeconomic indicators are also good, with low inflation and significant growth in 2003 at 9.6%, coming mainly from the commercial and industrial sectors. Before the political crisis of 2002, the average rate was around 5% a year, so this achievement marks a dramatic improvement.

The reintroduction of the Ariary, the denomination of pre-colonial days, demonstrates the renewed confidence of the country. The abandoned Malagasy Franc had no relation to the CFA franc and so in many ways the adoption of the ariary reasserts the country's independence.

MADAGASCAR ENJOYS GOOD RELATIONS WITH THE INTERNATIONAL FINANCIAL COMMUNITY. The endorsement by the World Bank and the IMF of the country's Poverty Reduction Strategy Paper in November 2003 underscores its renewed confidence and authority.

Links with regional partners are also good, and Madagascar will host the next African Union summit. "In a global competitive world, development must come through regional cooperation, whether that is COMESA (Common Market of Eastern and Southern Africa) or COI (Commission of the Indian Ocean). Such cooperation implies participation in NEPAD (New Partnership for Africa's Development), which is very important for us," says President Ravalomanana.

"After infrastructure, our top priority is NEPAD, particularly through private public partnership," he adds.

The government is looking to increase the number of private public partnerships, specifically to develop the duty free zones, transport infrastructure, offshore investment, and highway, power, and factory construction. The target for the next four years is for development to grow at 10% each year.

Want to expand your business in Madagascar?

Let us help get your company onto the right track

Ministry of Finance
t: +261 20 22 646 81
f: +261 20 22345 30
www.mefb.gov.mg

