

**International Advisory Panel to QMM (a subsidiary of Rio Tinto)**

**Report of the IAP on its 2011 mission**



**Panel members:** Keith Bezanson, Jacques Gérin, Alison Jolly and Léon Rajaobelina

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## **EXECUTIVE SUMMARY**

The Panel convened June 1-13 in Madagascar. In addition to site visits (the mine and several rural development projects in Mandena), the Panel reviewed a wide range of written materials relating to the project and to socio-economic, political and environmental issues. Meetings were held with QMM and with stakeholders including civil society, Anosy political leaders, the private sector, international organizations and members of an Anosy rural citizen's discussion forum.

Madagascar's political crisis remains without solution after well over two years. The country's de facto government continues to be regarded as illegitimate by the international community, including the African Union. Official aid flows remain suspended, except to social sectors where donors have significantly increased disbursements on humanitarian grounds, but on the government side social spending has collapsed. National figures for 2010 show the second highest level of poverty since measurements began in 1993 and a significant rise in infant and child malnutrition throughout the country.

Given this grim situation, the Panel was paradoxically encouraged by many developments in the region of Fort Dauphin. Last year, we found little evidence of collective action to address the effects of the crisis. Indeed, for the most part the general view seemed to be to "wait out the crisis"; proactive measures were largely in suspense pending a "return to normalcy." In contrast, we found this year a more widespread sense that "we need to take action now and not to assume or await a resolution of the national crisis." This should not, however, be exaggerated, as broad-based regional development remains elusive and there is much local frustration, bitterness and anger. Nevertheless, several important initiatives are underway and there is evidence of momentum towards improving consultation processes and rebuilding the institutions and structures for regional development. The continuing crisis and distressing social indicators are all the more reason for all parties to collaborate in taking maximum advantage of these.

### **The Mining Project**

Regarding the mining project itself and in contrast with one year ago, the situation is positive and encouraging. Technical difficulties have been addressed, production targets attained, the overall operation is moving towards full production and financial contributions provided from the project to national, regional and local development in the form of royalties, taxes and *ristournes* are rising steadily.

As the first large-scale mining project in Madagascar, the project is committed to setting the standard of social and environmental stewardship for future industry projects. This is especially important, given rapidly increasing International interest in the country's extensive mineral resources and resulting increases in mining rents. But with this also comes a growing risk of an unlevel playing field, as sound institutions fall victim to short-term rent seeking interests of

elites. Some recent evidence gives reason for concern over serious damage to the institutional framework Madagascar established in the early 1990s to ensure transparent management of mining rights and permit management, full social and environmental impact assessments, transparent revenue collection and independently measured accountability. This institutional framework depends on government regulation and enforcement and not a matter that a private company can itself resolve. Nevertheless, QMM can and should support the building of a broad-based coalition of mining companies, civil society and the public to advocate and increase public awareness of the importance of transparency and a level playing field in mining governance.

### **The Critical Role of the Evaluator/Regulator: The Office National de l'Environnement (ONE)**

The Panel expressed major concerns last year over the situation of the ONE and the relationship between the ONE and QMM. A strong and effective ONE is essential to its role as social and environmental regulator of the QMM project and, more broadly, as the principal institution charged with ensuring the nation's environmental heritage. One year ago, the ONE confronted a perilous and uncertain future. The political crisis and resulting freezing of development assistance had starved it of financial resources and it risked an imminent loss of the technical and professional capacities it had built up over time. This situation had also created problems of confidence and mutual trust in the relationship between ONE and QMM. So serious was the situation that the Panel recommended direct financial support to ONE from QMM as an "exceptional voluntary gesture" but one with legal safeguards to avoid a conflict of interest precedent of continuous financing of its regulator by the company.

The Panel was pleased to learn during this year's visit that this recommendation had been implemented through a two year interim agreement and a protocol that furnishes a comprehensive framework to guide the work of both parties by stipulating governance rules, commitments and the frequency of tasks to be performed. Welcome as they are, the interim two year financial arrangements do not comprise a permanent solution to ONE financing imperatives if it is to meet its obligations and ensure that it has the professional and technical resources equal to the quality of analysis and oversight required of it. Accordingly, this report recommends a number of additional initiatives aimed at achieving sustainable, longer-term solutions.

The interim arrangements, however, have permitted ONE to complete its comprehensive evaluation for the period March 2010-April 2011. That evaluation reported solid and steady performance in almost all areas of the project. It also drew attention to some weaknesses in general communications on the project (specifically in public communications regarding the management and monitoring of radiation) and to a need for further improvements in the provision of information to ONE in order for its technical evaluators to furnish thorough assessments.

In addition, with regard to the ONE:

- a) There is interest in reactivating the *Comité régional de l'environnement* (CRE), a now-moribund stakeholder and participatory forum that used to focus on the conservation potential in the region, including sustainable fisheries and issues such as household fuel. If this is done, it will be important to delineate clearly the CRE role vis-à-vis that of ONE in the environmental monitoring of QMM operations in order to avoid duplication, confusion or conflict.
- b) The ONE continues its role as the technical evaluator on formal local complaints against QMM. Of 40 registered complaints, several were found to be baseless, several more resolved through negotiation, and only two are still outstanding.
- c) While ONE is receiving from QMM and Ambotavy the resources to monitor these two large mining investments, it does not currently have the resources to fulfill its mandate to monitor and assess most other investments. It is therefore not able to ensure a level playing field and the application of the MECIE, the law that defines its mandate.
- d) ONE shares the serious concern raised frequently by the Panel that the severe imbalances in the distribution of the proceeds from the *ristournes* required under Madagascar law risk generating serious social-economic imbalances and political tensions in the region. It also shares the Panel's concern that – at least in many instances – these proceeds are applied by recipients to administrative costs rather than invested in longer-term development.

## **QMM and its stakeholders**

Relative to one year ago, the Panel heard frequent calls that progress should not be held hostage to the political crisis and we were apprised of encouraging efforts being made to rejuvenate some of the key institutional arrangements for the development of the Anosy region. In this regard, we would draw attention to the following:

- a) **Local and Regional Authorities, Regional Foundation:** The mayors of the small communes that currently receive per capita amounts of *ristournes* that are exceptionally large in relative terms naturally defend this, given the poverty of their citizens, the lack of funding from central government and the severe reduction in international development funding as a result of the political crisis. Yet it was clear from our meetings with them, as well as with other regional authorities, that there is widespread awareness that the rapid increase in *ristournes* as the project moves to full production will further exacerbate disparities and give rise to greater tensions and social problems between privileged and non-privileged communes.

This has been a major concern to the Panel for many years and has been raised repeatedly in our reports. Given that the national legal framework may not change quickly or even at all to resolve this problem, the Panel has urged over many years the creation of a regional foundation to manage at least some of the funds arising from the mining revenues and attract additional financing from other sources. While far from a complete solution, this would be a measure that could help achieve greater regional equity. Progress towards establishing such a foundation remains slow and uncertain, although some encouraging indications were reported to us in the form of an earlier draft Ministerial Decree (*Arrêté ministériel*) that is currently being discussed with government officials. To achieve development objectives, it will be essential that the Foundation be structured with transparent, accountable and inclusive governance and as an instrument for longer term regional development and not for short-term consumption. We hope that QMM and its regional stakeholders will lend strong support to these propositions and to making a regional development foundation a reality.

- b) **Comité Régional de Développement (CRD) and Plan de Développement Régional (PDR):** The CRD, composed largely of members of Civil Society, was for many years a major contributor to local unity and long-term planning, but with the onset of the national crisis in 2009 it effectively ceased all operations. Without an effective CRD, the region has been left in effect with no region-based, multi-stakeholder platform for the formulation of regional strategy and planning. It is encouraging that efforts have been underway over the past year to re-establish this platform. Some CRD members have worked together to formulate a plan for a restructured CRD that would avoid the rather heavy structures and transaction costs that previously existed and that would aim to function with greater flexibility and agility. There will also be a need for the kinds of technical support that were previously furnished by USAID and the World Bank. Thus, revitalizing the CRD will require both reconstituting a forum representative of the whole region and involving all sectors of society and some resumed funding for technical work which we urge donors such as the World Bank PIC program and USAID to find ways to provide on as expeditious a basis as possible. As part of a revitalized regional development effort, other substantial World Bank financed projects in Madagascar, the *Programme de gestion des ressources minières (PGRM)*, *Programme de gouvernance et développement institutionnel (PGDI)*, *Projet de soutien au développement rural (PSDR)*, should be examined to see how with greater synergy they might make an important contribution to the region.
- c) **NGOs:** In addition to meeting with the NGOs engaged by QMM as executing agencies in its Programme de Développement Intégré (PDI), the Panel met with four NGOs which currently have no formal association with QMM: WWF, CEL (Centre Écologique de Libanonana), Azafady, and ALT (Andry Lalana Tohana – previously Andrew Lees Trust). In all cases, we found an open and constructive attitude towards QMM and the mining project, recognition of the contribution QMM can make to the development of the region and a willingness to

enter into dialogue with QMM. This is in contrast with earlier oppositional stances of some of the same NGOs.

The Panel was struck by the benefits to the scope and pace of regional development that could accrue from strong partnerships between QMM and Azafady, WWF and possibly other NGOs. Azafady, for example, appears to have gained experience and established credentials that could contribute very significantly to responsible and effective social-environmental stewardship in Ste. Luce. The Panel recommends that the interested parties explore the potential for such a partnership and how it might be organized and structured. Attention to detail is of the highest importance, for while the proposition of civil society-private sector partnerships has become one of the latest mantras in international development, the evidence shows disappointing results in many cases, due principally to insufficient attention to the preconditions for successful partnerships. We suggest in this report some of the lessons learned from this evidence and recommend that these be taken into careful account in developing new partnerships.

## **QMM and Regional Development**

The original Regional Development Plan identified agriculture as the base for long-term sustainable development of the region. This is true both as the most likely economic opportunity and as most people's subsistence and employment. However for agriculture to succeed as a basis of development two essential transformations are needed: increased productivity of local agriculture to produce more food for the region and for export; and access roads to the new port of Eholala. Other potential sources of development for the region are tourism; light labor-intensive industry (especially in the 400 ha zoned at the port) and other future mining developments.

While QMM is an important factor to regional development, it is one factor only. Unfortunately, the national crisis has removed or paralyzed many of the other activities of other actors that were intended and which are essential to the region's development prospects. The dangerous result is that the company has become for the time being "the only game in town". But there is encouraging recognition by authorities, NGOs and others concerned that this situation is unhealthy and ultimately damaging, thus the importance of the efforts mentioned above to re-launch the CRD and to update the regional development plan. QMM is also taking steps towards an exit strategy from its current aid agency role and this may be helped by the possibility of some resumption of international aid flows for social and humanitarian reasons.

This report takes stock of the current situation with regard to some of the key opportunities and risks, including the following:

- a) **The Port of Ehoala:** The port of Ehoala is now an operational reality whose use is expanding gradually. Eholala Port now exports all the region's formal sector products:

frozen fish and lobsters, Madagascar periwinkle, scrap iron, sisal, and ilmenite. This year's litchi harvest could soon be added to the list. In addition, visits by ten cruise ships are projected for 2011, bringing a welcome increase in tourist income to the region. Moreover, a long-term plan (the Schéma Directeur) was adopted in July 2010 and is awaiting formal government endorsement. Its aim is to bring about the full economic and financial benefit potentials of the port, including the development of a Port Franc with enterprises providing employment to local labor. The potential of the port as a catalyst to regional development is no longer a hypothetical proposition.

But this potential, whether for increased agricultural exports, new investments in light industry, trans-shipment on a significant scale or investments in and export of minerals beyond the ilmenite mine, will all depend on major improvements in the ground transportation systems in the region. This report points to several specific improvements in need of urgent attention if progress is to be achieved over the short- and medium-term towards realizing the potential of the port.

- b) **Fort Dauphin:** As the region's largest population center confronting so many needs and a long history of frustration and anger over unmet expectations, Fort Dauphin holds obvious risks of social and political unrest. The suspension of investments by international donor agencies aimed at improving the town's wholly inadequate infrastructure of roads, water, electricity and waste disposal has exacerbated those risks. Although QMM went well beyond its obligations by responding to this situation through provision of water last year and electricity this year, other major infrastructure investments by donors remain suspended. This has dampened the level and pace of economic activity and generated palpable frustration in Fort Dauphin. As an indicator, QMM job advertisements which attracted an average of about 50 applicants a few years ago will now attract several hundred. This won't change unless or until there is much more rapid and sustained growth in the local economy. This underscores again the central importance of revitalizing the CRD, establishing a foundation for longer-term regional socio-economic development, gaining approval of the Schéma Directeur for the port and encouraging the maximum level of emergency and social financing possible by donors while other forms of aid remain suspended.
- c) **QMM Development Projects:** The company is directly engaged in development projects through its sponsorship of the Projets de Développement Intégré (PDI). The projects are implemented through NGOs and are intended to be a time-limited contribution to sustainable development of the region in areas affected directly by the mining project. The Panel visited several of the projects which seemed to us well-focused, grass roots undertakings aimed at improving incomes of rural people by raising rice productivity and increasing sustainable livelihoods. For instance, one of the pilot projects in agriculture has shown a 500% increase in rice production (from one to five tons per hectare) and the aim is to achieve increases to 7 tons.

The PDI projects face two challenges: the first is to expand beyond the pilot/demonstration stage to become ingrained practice. The second is to ensure sustainability once the three year commitment of QMM expires – and that will be by the end of 2013. This latter challenge requires a constructive exit strategy. Establishment of the proposed regional foundation could be part of this, as could the taking on of successful project initiatives by the World Bank supported program, Projet de soutien au développement rural (PSDR). Whatever the details of an exit strategy, exit is an imperative for the company to avoid the trap of becoming the ongoing social and economic development agency for the region.

- d) **Local Suppliers:** The Panel met with opérateurs économiques that currently have contracts with QMM. Some expressed satisfaction, but several grievances were also expressed. These centered on the insecurity generated by short-term contracting and insufficient local procurement. QMM has taken proactive steps to increase the local benefits of its activities, including a procurement policy that supports local purchases, bi-weekly operators' meetings, and English and business management support courses for local entrepreneurs. While these are all positive steps, local suppliers are understandably pressing for a greater share of procurement. This is especially the case given the generally low level of economic activity in the region. This underscores the imperative that QMM maintain and even deepen the dialog with local business and engage them in joint initiatives to promote local procurement and employment. More broadly, it underscores further the need for a viable long-term development strategy for the region and the importance of a revitalized CRD.

## **QMM and the Environment**

Because previous Panel reports gave quite extensive attention to environmental achievements and issues, this year's report adds only a few notes on this important subject, including:

- a) **The industrial environment:** This seems generally under control. The problems of water level and filtering of effluent water seem to have been mastered. Nevertheless, a fatal road accident (not involving QMM) on the new mine-to-port road suggests that more may need to be done to separate pedestrians and carts from vehicular traffic. As the new road was constructed by QMM, it would seem advisable to proceed with construction of a dirt-surfaced pedestrian route parallel to the paved mine-port road to minimize the risk of further accidents on the highway.
- b) **Radioactivity:** People in the communes next to the mine continue to raise concerns about radioactive monazite. Open, participatory communication with concerned communities should be complemented by additional independent scientific reviews if required.
- c) **Restoration and Net Positive Impact on Biodiversity:** Restoration of the mined surface has begun. Rio Tinto's corporate strategy of Net Positive Impact on the Biodiversity is

soon to be published jointly with the International Union for the Conservation of Nature (IUCN) and IUCN will assume responsibility for further evaluation and determination of compliance.

- d) **Rosewood:** The illegal destruction and export of rosewood has become a major national problem with high environmental costs. It also entails a direct threat to QMM's commitments to environmental offsets for the mine's destruction of forest. In this regard, QMM's offset strategy may need to be reconsidered if the looting of rosewood is not resolved via a political and judicial solution in the coming months.
- e) **Ste. Luce:** Tenders have gone out to begin the process of baseline studies leading to the Social and Environmental Impact Assessment (SEIA) required to qualify for a mining permit at Ste. Luce. Although this process should take several years, global demand for ilmenite is projected to increase quickly and significantly and this may exert pressure to accelerate the schedule originally envisaged for Ste. Luce. At the same time, this is a much larger site than Mandena which must be expected to raise the similar considerations and problems but at greater scale. The Panel intends to focus attention on Ste. Luce during its 2012 review. In the meantime, we would encourage conversations between Azafady and QMM on social and environmental issues in Ste. Luce and on possible future partnership arrangements.

## Communications

In its 2010 report, the Panel strongly recommended that QMM rethink fundamentally its approach to external communications, to include more structured community-based dialogue, presentation of setbacks as well as achievements, communications in partnerships with others (including the Chef de Région and ONE), as well as a heightened emphasis on multi-stakeholder community communications arrangements and structures. Much has indeed been done by QMM since last year. Dialogue structures have been developed to meet the needs of different constituencies. These include the Structures de Dialogue (SDD) which bring together 15 members from each of the communities in permanent dialogue with QMM, and the Comités de Pilotage which address 15 priority projects in the Fort Dauphin area by bringing together a QMM staff "champion" with a steering committee of members from interested communities. In addition:

- a) **Conflict Prevention Strategy:** QMM has adopted a Conflict Prevention Strategy which will put in place a three-tier mechanism for bringing together all stakeholders, including those critical of or opposed to the project. This will be led by an independent mediator named by the Médiateur de la République. This independently-designed mechanism is predicated on two premises: First it accepts the necessity of going beyond a legally enforceable and transparent mechanism to address formal complaints. Second, the larger challenges lie in ensuring effective mechanisms for continuous dialogue and open exchange that can air differences, seek common ground, explain and communicate, reduce tensions and build greater mutual understanding.

The three-tier mechanism recognizes that this is especially important in a region in which staggering levels of poverty and years of neglect will almost certainly make grievances and sentiments of injustice unavoidable.

There is, of course, no assurance that the new three-tier mechanism will avoid all conflict or even that it will function as intended. This will require good will on the part of all stakeholders. But it is an approach that the Panel finds truly imaginative, inclusive, transparent and promising. Given the underlying social needs and political rivalries in the region, it merits every chance to demonstrate that it can succeed and must be approached as an ongoing effort. One time constraint is to achieve some visible results before the next September-January period of hardship, the “soudure” between harvests, but no one should expect conflict to simply disappear. The failure of mediation will be apparent if overt social conflict in the region markedly worsens, but its success should only be judged over a period of two-five years. We wish all participants well.

- b) **Communication Strategy:** QMM is also seeking to professionalize its more conventional approaches to communicating its achievements. This could be valuable, but care should be taken that it does not follow common corporate practice of a “publicity or advertising campaign” to trumpet only corporate successes. A communication strategy for the project requires very special approaches that take full account of the long history of marginalization of the region, the massive challenge of managing expectations reasonably and responsibly and the fact that, if sustainable development in Anosy is to be achieved, it will be the result of collective, multi-stakeholder efforts. It also goes without saying that any new QMM communication strategy should not preempt nor interfere with the Conflict Prevention Strategy being put in place.

## Conclusion

This report has noted encouraging progress on many fronts in the past year. Most noteworthy is the general sentiment expressed by most actors in the region of the need to take proactive measures despite (or perhaps even because of) the enduring political stalemate. Especially noteworthy in this regard are measures that may lead to a reactivated CRD, an updating of the PDR, a positive NGO disposition to development partnerships with the project, and the comprehensive framework that has been prepared to realize the very significant potential of the Port Ehoala.

We have also noted the steps taken by QMM to improve its relations with the many actors in the region, from local authorities to local communities. One such initiative that could have most significant impact is the multi-stakeholder Conflict Prevention Strategy led by an independent

and neutral mediator.

But the region's overwhelming poverty remains little changed and much of the hope for rapid, broad-based social and economic development generated by the project, the regional development plan of 2005 and the growth pole project of 2006 (need to check date) remains frustrated.

The main challenge for QMM remains that of effective communication with its many stakeholders: communication is a two-way street where listening is as essential as explaining; it's about creating relationships based on mutual understanding and reciprocal respect.

Therefore, the Panel's main recommendations are to encourage QMM to persist and to continue to adapt the development of its relationships with the community and to urge local and regional leaders to redouble collective efforts, especially towards the revitalization of the CRD so that the region can regain a clear sense of direction.

# REPORT

## Introduction and General Context

The Panel convened June 1-13 in Madagascar. In addition to site visits (the mine and several rural development projects in Mandena), the Panel reviewed a wide range of written materials relating to the project and to socio-economic, political and environmental issues. Meetings were held with QMM and with stakeholders including civil society, Anosy political leaders, the private sector, international organizations and members of an Anosy rural citizen's discussion forum. A detailed chronology is included as Annex A and the names of persons with whom the Panel met as Annex B.

The Panel's previous visit in May, 2010 occurred when Madagascar's political crisis was in its fourteenth month. The resulting report described the negative and debilitating effects of the crisis at national, regional and mining project levels. One year later, little has changed at the macro level, notwithstanding the multiple efforts of the African Union and the Southern Africa Development Community (SADC). Madagascar's de facto government continues to be regarded as illegitimate by the international community, including the African Union. Official aid flows have been cut since the beginning of the political crisis except to social sectors where donors have significantly increased their disbursements between 2008 and 2010. This increase has been justified on humanitarian grounds, to respond to the growing social distress of the population.

On the government side however, social spending has collapsed. For example, Government spending on health declined by 75% between 2008 and 2010 (from \$8 to \$2 per head). The net result is that most social indicators have continued to fall. The World Bank reports a drop in net registration rate in primary schools, as well as in the rate of births attended by medical staff and the use of external medical consultations. Madagascar's National Institute of Statistics calculates that 2010 saw the second highest level of poverty since measurements began in 1993 and UNICEF reports a significant rise in infant and child malnutrition throughout the country. For Southeastern Madagascar, the malnutrition and food insecurity figures are especially alarming. A recent survey by UNICEF concluded that only 13% of households were food secure, with the remainder being either food insecure (43%) or highly vulnerable (44%).

Given this grim situation, the Panel was paradoxically encouraged by many developments in the region of Fort Dauphin. Last year, we found little evidence of collective action to address the effects of the crisis. Indeed, for the most part the general view seemed to be to "wait out the crisis"; proactive measures were largely in suspense pending a "return to normalcy." In contrast, the general view this year, as conveyed to us across the wide range of interviews and discussions we held, was characterized far more by a "we need to take action now and not to assume or await a resolution of the national crisis." With regard to the QMM project, in 2010 the crisis had reversed major gains made in building partnerships and in dialogue between the company and regional and local authorities and there were significant difficulties and tensions in the relationship with the Office National de l'Environnement (ONE). Regional planning, both short- and longer-term, was paralyzed and the members of the main institution of regional

planning, the Comité Régional de Développement (CRD), questioned whether their institution had any future role at all. A generalized sense of disenchantment and frustration was palpable.

It would be erroneous to suggest that all of this has changed. Tangible indicators of broad-based development and improvement of life quality indicators remain disappointingly elusive and frustration over this was evident in many of the conversations and interviews that we held. But we also saw considerable evidence that pointed to the strengthening of essential relationships and a disposition towards establishing new partnerships for development. We encountered many positive indicators of initiatives and of momentum towards improving consultation processes and rebuilding the institutions and structures for regional development. It is important that every effort be made to advance the potentials this new situation offers. The continuing crisis and distressing social indicators are all the more reason for all stakeholders to collaborate to take maximum advantage of the positive factors that are summarized in this report.

## **QMM – the Project**

### **Current Status**

The situation on mining performance is both positive and encouraging. This contrasts with the situation one year ago when technical issues were constraining ilmenite and zirsill output, creating financial challenges for the company and limiting mining proceeds for the economic and social development of the region. Plans are in place to address these technical difficulties and the overall operation is moving towards full production although it may take more time to achieve commercial profitability. As a result, the financial contributions provided from the project to national, regional and local development in the form of royalties, taxes and ristournes have been rising steadily and should continue to do so.

A project of the magnitude of the QMM mining project in an exceedingly poor and isolated area that is also subject to periodic drought and cyclones faces three overarching challenges:

(i) To improve a natural environment, including its endemic biodiversity, which has been under major threat from multiple sources for many decades.

(ii) To contribute to the sustainable social wellbeing of the people of the host region.

(iii) To manage expectations as to what the project can and cannot provide. Since its formation 11 years ago, the Panel has urged that every effort be made to set clear boundaries to QMM's commitments. The history of development over the past half century shows that significant new capital investments in very poor areas have often either overpromised or inadvertently generated entirely unrealizable and ultimately damaging expectations.

In the case of QMM these three requirements are mandatory at the local and regional level and also have major implications at national and international level. This is the first large scale mining project to begin production in Madagascar. Its conduct can set standards of

responsibility and excellence for subsequent mineral extraction projects in the country, which is especially important given the projected rapid increase in national mineral production and possibly also oil production. It is also highly visible internationally, originally because of the world-wide importance of Madagascar's biodiversity and increasingly as an exemplary project for Rio Tinto which must be seen to succeed in both social and environmental terms. This project is under the microscope locally, regionally, nationally and internationally as evidenced by the number of reviews in the first six months of this year: six external reviews, three audits, the IAP Panel and regular ONE reviews.

The President of QMM has overall responsibility for the project, both internally and externally. By all indications he enjoys widespread personal trust. Nonetheless, to meet the three challenges mentioned above QMM will require the continuous generation and sustaining of multi-stakeholder support and cooperation. Vital to this will be the multitude of committees that have been established to link QMM with other stakeholders and with local and regional government. Both challenges and conflicts will increase as the project expands to full scale and as the resulting resources are distributed among competing interested parties.

### **Level Playing Field Issues and Challenges**

A recent World Bank political economy analysis of Madagascar underscored the serious dangers of an unlevel playing field for extractive industries operating in Madagascar. It pointed out that while "mining institutions bear the potential to significantly enhance Madagascar's development, as mining rents grow the risk grows that sound institutions fall victim to short-term rent seeking interests of elites". Moreover, an unlevel playing field creates pernicious incentives for companies that have adhered to the national standards and requirements stipulated in the nation's mining code.

This is especially important given the rapid growth of international interest in mineral exploration and exploitation in Madagascar. Major efforts were made in the early 1990s for transparent management of mining rights and equally transparent permit management by the Office of Mining Cadastre, full social and environmental impact assessments, transparent revenue collection and independently measured accountability. More recent indicators are far less encouraging. For example, the conditions of the bidding process for the Soalala iron ore deposits screened out major international investors and in some cases administrative mining fees are said to have been doubled in violation of the national mining code. Also, in the west of the country another company seems to be bypassing the environmental and social impact assessment legal stipulation of the Bureau du Cadastre Minier de Madagascar (BCMM).

Deep concerns over this situation were raised with the Panel by ONE, QMM and the World Bank. While this is obviously not a matter that QMM or any other private company can resolve on its own, proactive coalition building efforts towards ensuring a level playing field can and should be undertaken, as per the recommendation below.

### Recommendation

**Recommendation #1:** The country confronts immediate risks of serious damage to the regulatory and institutional arrangements essential for the nation's vast mineral wealth to be mobilized and applied to its long-term sustainable environmental and human development. Following the lead of the recent World Bank political economy study, the Panel recommends that QMM champion and support the building of a broad-based coalition of mining companies, civil society and the public to advocate for strengthened independent oversight of mining governance. The recently formed Chamber of Mines (currently chaired by the President of QMM) may serve as an appropriate launching pad for building such a coalition of committed stakeholders. That coalition would work to increase popular understanding that the socio-economic potential of mineral extraction also requires government accountability to the public for transparency, a level playing field and the use of mining revenues.

### The Extractive Industries Transparency Initiative (EITI) and the Chamber of Mines

An action closely related to level playing field concerns is the Extractive Industries Transparency Initiative (EITI). The EITI is a recent international initiative based on a globally developed standard to ensure transparency and accountability in the revenues produced by oil, gas and mining industries. It is a coalition of governments, companies and civil society that provides the methodology to be followed by countries wishing to comply with the EITI and to gain certification under it. The larger aim of the EITI is to make natural resources benefit all.

Madagascar has applied to qualify under the EITI. Accounts were submitted this year by the three largest operational projects in the country, QMM, Ambatovy Nickel Mine and Kraoma. A first report was issued June 8 by the EITI Secretariat in Madagascar which indicated a narrow and acceptable gap of 1.28% between the accounts of the mining companies and those of the Government. Madagascar has until October 2011 to fulfill all of EITI's requirements for acceptance as a "compliant" country.

**Recommendation #2:** In addition to complying fully with the methodology of the EITI, QMM and the broader coalition proposed in the previous recommendation should lend public and active support to Madagascar obtaining and retaining full membership in EITI.

### The Office National de l'Environnement (ONE) – the Regulator

We underscored last year that a strong, independent and adequately-resourced ONE that can fulfill its role of regulator is essential to QMM and to the future of the region. The Panel was concerned with the situation it encountered last year. At that time, ONE's financial situation was perilous; it risked an imminent loss of the technical and professional capacities it had built up over time and key staff had either left or threatened to do so. A detailed independent

assessment of ONE that had just been completed confirmed this situation. In addition, some key interviewees last year had advised that the organization was experiencing a threat to its existence. Finally and in considerable measure due to this situation, issues of confidence and mutual trust had arisen in the relationship between ONE and QMM. The Panel recommended urgent attention to these problems at the chief executive levels of both organizations. In addition, while reiterating its concern that QMM should not directly finance ONE because of conflict of interest considerations, the Panel suggested that the severity of the financial threat to ONE could justify financial support as an “exceptional voluntary gesture...with legal safeguards against precedent.”

We were pleased to learn of the implementation of these recommendations. QMM and ONE signed a two-year “interim” agreement under which the company will contribute to the costs associated with ONE’s evaluation work on the project. More broadly, at CEO level the two organizations addressed the need for clear mutual understandings and mutual accountabilities and formalized these in a signed protocol. That protocol furnishes a comprehensive framework to guide the work of both parties by stipulating governance rules, commitments and the frequency of tasks to be performed. According to ONE, this has permitted it to increase its professional evaluation staff in Fort Dauphin from one to four and to complete its comprehensive evaluation of the project for the period March 2010-April 2011. In addition, the two organizations have established a practice of monthly meetings of the Regional Environmental Committee (CSER -Comité de Suivi Environnemental Régional) in order to ensure continuous and appropriate action and follow through with regard to all formal complaints.

Welcome as they are, the interim two-year financial arrangements do not, of course, comprise a permanent solution to ONE financing imperatives if it is to meet its obligations and ensure that it has the professional and technical resources equal to the quality of analysis and oversight required of it. The Panel also recommended last year that QMM should use its good offices to invite a collective review with key international development partnership organizations such as the World Bank, USAID, large international environmental institutions such as Conservation International and WWF and others as to what will be required for ONE to fulfill its longer-term role of ensuring the national environmental heritage of Madagascar. Irrespective of how long the political crisis may endure, that heritage and the ONE role in protecting and nurturing it are central to the interests and responsibilities of all members of the international community. Indeed, Madagascar’s continuing crisis makes this recommendation all the more important and urgent.

The Panel also heard from ONE that it is interested in taking steps to reactivate the Comité régional de l’environnement (CRE), a stakeholder and participatory forum focused on the identification of conservation potential in the region. In earlier days it addressed issues such as conservation areas and the availability of forestry resources such as fuel wood but it lost momentum some time ago and subsequently ceased functioning completely. Its reactivation could help to facilitate Anosy community focus on medium and longer term strategic issues such as household fuel, species protection and sustainable fisheries. QMM is supportive but insists, rightly, that its role be clearly delineated vis-à-vis that of ONE in the environmental monitoring of QMM operations in order to avoid duplication, confusion or conflict.

The ONE continues its role as the technical evaluator on formal local complaints against QMM. Of 42 registered complaints, several were found to be baseless, several more resolved through negotiation, and only two are still outstanding. In the past year the complaints of the Ambinanibé fishermen about the new landing site were resolved with training of fishermen and provision of outboard pirogues. Outstanding issues were resolved in December 2010 and sealed with the sacrifice of a zebu. The two outstanding complaints are from the fishermen of Libanona concerning impacts on fish catch, and rice field owners of the Lanirano Lagoon.

While ONE is receiving from QMM and Ambatovy the resources to monitor these two large mining investments, it does not currently have adequate resources to fulfill its mandate to monitor and assess most other investments. It is therefore not able to ensure a level playing field and the full application of the MECIE, the law that defines its mandate.

Panel discussions with the ONE drew attention to several additional factors, including the following:

- At the outset of the project, ONE and QMM were not well prepared to ensure the thorough and rigorous oversight (suivi) that had been foreseen in agreements but this is no longer the case. The required arrangements for the overall evaluation framework are now in place and are functioning, as evidenced in the evaluation report covering the period March 2010-April 2011.
- That report, which was communicated by ONE in a public meeting in the region, pointed to solid and steady performance in almost all areas of the project. It also underscored weaknesses in general communications on the project and specifically in public communications regarding the management and monitoring of radiation.
- Although there have been major improvements, more needs to be done to ensure provision of all relevant information to ONE in order for its technical evaluators to furnish thorough assessments.
- ONE was being solicited to assist directly in the resolution of complaints for lack of quick response by QMM and emphasized that “rapid conflict resolution is imperative. Without this, the merits of everything else that touches on the project will be affected negatively.”
- ONE had concluded from its evaluation work that QMM was fully transparent on all matters pertaining to taxes, royalties and payments (ristournes and redevances), but that the distribution of these as stipulated under Madagascar law risked generating serious social tensions in the region. It was also concerned that – at least in many instances – these payments had been applied by the recipients to meet administrative costs rather than invested in longer-term improvements for the region.
- ONE underlined the importance of ensuring a level playing field for all investors. It was one thing to evaluate QMM’s performance and another to provide the appropriate healthy context in which investments can take place. While ONE’s responsibility is to ensure that QMM abides by its commitments, it correctly points to the importance of taking account of the larger context of the commitments and actions of many others, including the national and regional governments and international development agency partners such as the World Bank, the European Union, USAID and others.

**Recommendation #3:** The joint work over the past year of ONE and QMM to avoid irreparable damage to ONE capacity as a result of the national crisis has been impressive and commendable. The interim arrangements by which QMM contributes financially to the operations of ONE entail a time-bound two-year period. Further steps along the lines of those suggested in the “Gagnon Report”<sup>1</sup> will be essential to place the ONE on the longer-term strategic direction required to vouchsafe the nation’s environmental heritage. As these are taken, it will also be important to avoid the obvious conflicts of interest entailed in the company paying ONE for its evaluations. Thus, the Panel recommends that ONE, QMM and other partners convene key international development organizations committed to Madagascar’s environment with a view to developing a shared, long-term strategy and partnership for an ONE able to carry out its role with authority and full professionalism.

**Recommendation #4:** The proposed reactivation of the *Comité régional de l’environnement* (CRE) should take place in the context of a revived regional planning process so that it fulfills its specific role. Care should be taken to ensure that it does not duplicate the role of ONE as regulator and as evaluator of QMM operations.

**Recommendation #5:** QMM should take whatever additional steps are required to ensure the timely availability of data for the technical monitoring of the project.

## QMM and its Stakeholders

As noted above, across the wide range of regional stakeholders with whom the Panel met, a dominant theme was to call for and commit to collective actions to move the region forward in spite of the political crisis. One stakeholder expressed this widespread view succinctly as follows: “We must stop waiting for outside help to arrive and we must put an end to holding our progress hostage to the political crisis.” Others underscored the importance of action to place the region “ahead of the curve” by having fully developed and seriously costed medium and long term development strategies ready to present when the crisis ends and international donors once again become active beyond humanitarian measures. The Panel agrees with these views. Our report of last year drew attention to the institutional foundations for regional collaboration and for strategy development and recommended actions to rejuvenate these. Considerable progress is evident in this regard, much of it at the initiative of QMM. These advances, plus the widespread sense of urgency for collective action in spite of the crisis should present opportunities to strengthen work among key stakeholders and partners and to reinforce the progress made over the past year. In this regard, we would draw attention to the following.

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<sup>1</sup> A review of ONE undertaken in 2010 by Dr. Christiane Gagnon

## **Local and Regional Authorities, Regional Foundation**

Several conclusions emerged from the Panel's frank and productive discussions with the Chef de Région and with the mayors of the communes of Ampasy, Mandromondromotra and Fort Dauphin.

Malagasy law provides for part of the mining payments to the State be returned to local authorities as follows: 10% to the Province (returns to the Province of Tulear are held in abeyance by the Government), 30% to the Region and 60% to the local communities where the project is taking place. In the absence of further guidelines, the communities of Ampasy, Mandromondromotra and the Commune urbaine of Fort Dauphin negotiated an agreement whereby Ampasy receives half of that amount (30% of total) and Mandromondromotra and Fort Dauphin 15% each. Thus the small commune of Ampasy has been able to build marketplaces, schools and small dams for rice paddies. Fort Dauphin, on the other hand has used the money for basic operations —draining puddles, vehicle maintenance and rehabilitating buildings, instead of capital investments. These accounts are posted publicly: for the small communes, in Malagasy, for Fort Dauphin in Malagasy and in French. In addition to the royalties paid to the central government, QMM has paid as ristournes a total of 645,627,024 Ar. for 2009 and 1,174,386,399 Ar 2010, a significant amount for these communes and one which will grow with the expansion of mining activities.

Given the poverty of the region, the lack of funding from central government and the severe reduction in international development funding as a result of the political crisis, all the communes' mayors understandably defended their shares of the ristournes, and the urgent problems which they help to solve. The rapid increase in ristournes as the project moves to full production will further exacerbate disparities. The small communes of Ampasy (population 9000) and Mandromondromotra (population 6000) will become among the richest communes in Madagascar and this will stand in contrast to Fort Dauphin (population 60 000) which will however also receive some of the region's allocation. This will inevitably give rise to greater tensions and social problems between the privileged communes on the one hand and the city and other communes, on the other.

This has been a major concern to the Panel for many years and has been raised repeatedly in our reports. The distribution of proceeds is a matter of national law and cannot be changed other than by legislation. The Panel has therefore urged the creation of a regional foundation to manage at least some of the funds arising from the mining revenues. While far from a complete solution, this would be a measure that could help achieve greater regional equity. Progress towards establishing such a foundation remains slow and uncertain, although some encouraging indications were reported to us in the form of a Ministerial Decree that had been prepared in 2008 and is currently under consideration. To achieve development objectives, it will be essential that the Foundation be structured and applied as an instrument for longer-term regional development and not for short-term consumption.

**Recommendation #6:** A proposed regional foundation could contribute importantly to a more equitable development across the region. The foundation could receive part of its revenues from the increasing amount of *ristournes* that will be paid by QMM while protecting the current level of revenue that is presently transferred to the three communes.

The draft Decree (*Arrêté ministériel*) to create the Foundation that is presently being discussed with government officials should be examined carefully to ensure that the Objectives of the Foundation are clearly stated as the promotion of long-term investment and capital growth (and not immediate consumption) and that the Governance mechanisms are in line with these Objectives. QMM, the Chamber of Mines and other interested parties in the region should take the lead in that review.

QMM Comment: QMM shares the Panel's opinions regarding the need to set up a foundation to balance the distribution of mining royalties and to accumulate some of the capital to provide for long term use of the amounts paid by QMM throughout the project life.

### **Comité Régional de Développement (CRD) and Plan de Développement Régional (PDR)**

The CRD, composed largely of members of Civil Society, was a major contributor to local unity and long-term planning in the period before QMM construction began. Its work was instrumental to the selection of the Fort Dauphin region as a major focus of the World Bank's integrated growth pole project (Pôles intégrés de croissance – PIC) and it was a vital institutional resource for the region during much of the period leading up to and including the construction phase of the project. Unfortunately, it had been lapsing somewhat before the onset of the national crisis and has since effectively ceased all operations. The Panel was alarmed by this when it met in 2010 but noted in our report that there seemed to be a shared desire to move ahead on the part of key members of the CRD, the Chef de Région and QMM. The report urged that every effort be made to take advantage of this.

It is encouraging that efforts have been made in this regard. Some CRD members have worked together to formulate a plan for a restructured CRD that would avoid the rather heavy structures and transaction costs that previously existed and that would aim to function with greater flexibility and agility. It would also require an infusion of some support in the form of technical resources. Previously, the CRD received financial support for technical expertise from both USAID and the World Bank (under the PIC). That support ended with the onset of the national crisis and it will be important to seek ways to achieve a revival of at least a minimum of such support. The PDR which was commissioned by the CRD and published in 2005 should now be reviewed to examine whether the perspectives identified at the time are still pertinent and what new or different perspectives might now arise. The updated PDR could take the more formal shape of a Schéma Régional d'Aménagement du Territoire (SRAT) which would then give it a "force of law" status.

**Recommendation #7:** The CRD has the potential to be a long-term force for regional stability and improvement. A revitalized CRD will need to reconstitute a forum representative of the whole region and to lead a much needed regional planning process involving all sectors of society. The World Bank PIC program should resume funding the CRD as soon as possible.

## **The World Bank**

The World Bank has made a major contribution to the development of the region, primarily through the PIC (Pôles Intégrés de Croissance) which has allocated at least \$70 million to the region, including a \$35 million contribution to the port. Other substantial World Bank financed projects in Madagascar, the Programme de gestion des ressources minières (PGRM), Programme de gouvernance et développement institutionnel (PGDI), Projet de soutien au développement rural (PSDR), should be examined to see how with greater synergy they might make an important contribution to the region – whenever the World Bank is free to resume activities in the country. The revival of the CRD and of the regional planning process should be a priority for the PIC.

## **NGOs**

In addition to meeting with the NGOs engaged directly in QMM's PDI (AGEX NGOs – see later section), the Panel met with four NGOs which currently have no formal association with QMM: WWF, CEL (Centre Écologique de Libanona), Azafady, and ALT (Andry Lalana Tohana) previously Andrew Lees Trust. In all cases, we found an open and constructive attitude towards QMM and the mining project, recognition of the contribution QMM can make to the development of the region and a willingness to enter into dialogue with QMM. This is in contrast with earlier oppositional stances of some of the same NGOs.

The NGO Azafady, which has greatly expanded its operations in the Anosy, advised that it would be interested in a formal partnership with QMM as the company begins assessing the state of social and environmental conditions in Ste. Luce, where Azafady is actively engaged. WWF expressed the desire to work in collaboration with QMM on forest protection and reforestation. ALT now focuses in Androy, promoting sorghum culture and fuel-efficient stoves as well as radio broadcasting; therefore its current efforts intersect less directly with the immediate implications of the QMM project.

There would seem to be excellent potential for new partnerships between the company, Azafady, WWF and possibly other NGOs and such partnerships should augment the scope and pace of development in the region. The Panel recommends that the interested parties enter into discussions and a careful and detailed exploration of the potential and how it might be organized and structured. Attention to detail is of the highest importance, for while the proposition of civil society-private sector partnerships has become one of the latest mantras in international development, the evidence shows disappointing results in many cases, due principally to insufficient attention to the preconditions for successful partnerships. Some of

the lessons learned from prior efforts and factors to be taken into account in forging new civil society-private sector partnerships would include the following:

- There has been too much emphasis on partnerships as ends in themselves and too little recognition that partnerships can create burdensome transactions costs. Partnerships can be cost-ineffective just as they can be cost-effective.
- Many partnerships in international development demonstrate a tendency to be driven by relatively non-specific notions such as 'inclusiveness', 'participation', and 'voice'. Important as these notions are, they have tended to divert attention away from the painstaking details required for successful partnerships which include clear objectives and agreement on the respective comparative advantage of the parties, clear understanding of their roles and the division of tasks within the cooperation system and agreed mechanisms for dispute resolution.
- Evaluation criteria, standards, time lines and the conditions for exit should be integral to partnership agreements. While these factors are components of agreed 'best practice' standards for development effectiveness, they are very often ignored.

**Recommendation #8:** QMM should open or continue systematic dialogue with the environmental NGOs (as it has with others) to maintain a reciprocal exchange of information and develop partnerships and joint action where that is of mutual interest. Where genuine development partnerships are deemed possible and of mutual interest, careful and thorough attention should be accorded to a detailed agreement in order to increase their effectiveness and to minimize the pitfalls of future misunderstandings.

## QMM and Regional Development

The original Regional Development Plan identified agriculture as the base for long-term sustainable development of the region. This is true both as the most likely economic opportunity and as most people's subsistence and employment. However for agriculture to succeed as a basis of development two essential transformations are needed: increased productivity of local agriculture to produce more food for the region and for export; and access roads to the port. One road from the Ranomafana area has just been rehabilitated. The next priority is the road West to Ambovombe.

Other potential sources of development for the region include tourism, light labor-intensive industry (especially in the 400 ha zoned at the port), other mining developments both northward on the coast in the Manantenina region (bauxite), and in the Mandrare basin (apatite, mica, uranium).

QMM is an important motor of development for the region, through the direct economic activity of the mine and port and through its actions as responsible corporate citizen. In our

previous report, we mentioned the risk of QMM being “the only game in town” given the political paralysis and the interruption of international aid flows. QMM is indeed, at the moment, the only game in town. But there are encouraging stirrings:

- There is general recognition, from authorities, NGOs and others concerned, that QMM cannot remain the “development agency for the Anosy”;
- There is willingness to breathe new life into the CRD and to update the regional development plan for the Anosy;
- Some aid flows may be resumed for social investments and humanitarian assistance;
- A willingness to explore exit strategies for QMM from its current role.

The report examines these avenues and some of the key tools for regional development.

### **The Port of Ehoala and Road Transport**

Construction of the Ehoala port was always envisaged by the Madagascar government, the World Bank and QMM as the single factor that could most contribute to sustainable development in the region by lowering the cost of imports, opening the interior of the region to exports on an expanding scale and facilitating major expansion in the tourism industry. Its location, determined after much debate, was set explicitly to favour the development of the region and an industrial zone adjacent to the port was secured with that in mind.

The port is now an operational reality whose use is expanding gradually. Since the first ilmenite shipment in 2009, it is demonstrating a comparative advantage based on deep water access, modern turn-around times and equipment and lower costs than other regional ports (especially Durban, the largest port in the region). In addition, the 400 ha of adjacent land available for development holds numerous further potentials for the region. Following extensive consultations, a long-term plan (Schéma Directeur) was adopted in July 2010 and is awaiting formal government endorsement. Its aim is to bring about the full economic and financial benefit potentials of the facility. Included in the plan are proposals for the development of a Port Franc.

Ehoala Port now exports all the region’s formal sector products: frozen fish and lobsters, Madagascar periwinkle, scrap iron, sisal, and ilmenite. This year’s litchi harvest could soon be added to the list. In addition, visits by ten cruise ships are projected for 2011, bringing a welcome increase in tourist income to the region.

Thus, the past year has included concrete supporting evidence of the port’s potential as a critical asset for the region’s development. There are still major barriers to overcome if the full potential is to be realized. Any increase in regional exports will need to come either from new industries or new agricultural opportunities. This means a move from agricultural production by the basket-full to production by the container-full, a challenge.

In order to stimulate investment in the 400 ha area designated for commercial use, such as light industry and transshipment facilities, the Port Authority is seeking Free Port status. The Schéma Directeur stipulates that a proportion of the enterprises must offer high employment to local

labor to avoid a common failing of many free port zones which become enclaves adding limited value to products, with few backward linkages to local materials and little local employment.

The major current obstacle to the full use of Ehoala Port is the near-impassable state of RN 13, the road out of Fort Dauphin. It is estimated that if this were improved, Ehoala could provide 25% of national imports and exports. Since the EU has suspended its support for road development because of the political crisis, the Anosy area remains an enclave. The World Bank's PIC program did restore the 50 km road to Ranomafana-Sud, which will reduce the isolation of that sub-region and stimulate increased exports of its rice, oranges, and litchis. Rehabilitation is now urgently needed to RN 13 which traverses the famine-prone area of Androy and where especially high rates of poverty and malnutrition are endemic but where there is known to be major potential for exports of beef and minerals and for eco-tourism. The priority should be to rehabilitate the first 10 km link with the road to Ranomafana and then the further 90 km to Ambovombe: that would have major impact on poverty and malnutrition reduction. Given rates of malnutrition, this could be justified on humanitarian as well as more general regional development grounds.

There are two minor downsides to the port:

- Substandard boats do not have access—either unsafe boats or those without insurance. This is a crimp in the cheapest maritime transport as the old port is now unusable. This underscores the need to move to container shipment or for entrepreneurs to upgrade small transport capacity.
- There are limitations to use of the port side of the bay when a ship docks. The ongoing development programs with the fishermen are intended to improve their productivity and make them less dependent on a daily catch. Another opportunity would be for a local private opérateur to invest in a small-scale freezer facility for local consumption. This would relieve local fishermen from having to go out when the port is in use or cyclone warnings in effect, smoothing income from a good day to cover bad days.

**Recommendation # 9:** QMM should continue its efforts to obtain formal adoption of the port *Schéma Directeur* as soon as the political situation permits. The institution of a *Zone Franche* would also be useful as long as norms and standards are in place to ensure that investments in that zone are clearly directed at maximum local employment and value added.

**Recommendation # 10:** The World Bank and other development agencies that have committed to improving the road network as a means of creating access to the port from the hinterland should consider both humanitarian and regional development criteria in order to give priority to the urgent rehabilitation of RN 13 out of Fort Dauphin.

## **Fort Dauphin**

Fort Dauphin continues to have obvious unmet needs. The main road from airport to market to Town Hall was supposed to be rehabilitated by the World Bank's PIC program, but this was suspended after the 2009 political crisis. Other PIC projects included garbage disposal, and water and electricity distribution. QMM has responded to this situation through provision of water last year and electricity this year.

After much negotiation with JIRAMA, the national electricity and water company, QMM will be providing power from its generator on the mine site using heavy fuel paid for by JIRAMA. There has been a temporary setback as the QMM-installed transformers broke down. Until the transformers are repaired, expected in August 2011, QMM has accepted that it must support temporary generators for the town. This has huge value to the morale of Fort Dauphin. It is recognized that QMM obligations did not and do not include provision of electricity for Fort Dauphin; that the company adopted a flexible and understanding position and is providing and subsidizing electricity provision to the town.

Fort Dauphin, however, continues to be the obvious flashpoint for conflict. QMM reports that when they originally advertised a job opportunity they would get about 50 applicants, whereas now it may be several hundred. This will not change unless or until there is widespread improvement in the local economy. QMM recruitment is now handled through a "Guichet Unique", administered by the Ministry of Employment, with preference for locally resident candidates who fulfill the conditions of the post. Low level posts are advertised only in Fort Dauphin, high-level posts are advertised in both Fort Dauphin and Antananarivo.

## **PDI, PAP & AGEX**

QMM also supports rural regional development through its Projets de Développement Intégré (PDI). This program serves the communes of Ampasy and Mandromondromotra adjacent to the Mandena mine site, some communities in the Fort Dauphin area (Andrakaraka) and communities around the port/quarry area.. It is intended to be a time-limited contribution to sustainable development of the region beyond QMM's specified contractual obligations.

The Panel visited several of the PDI projects which seemed to us to be well focused, grass roots undertakings aimed at improving incomes of rural people by raising rice productivity and increasing sustainable livelihoods. For instance, one of the pilot projects in agriculture has shown that rice production can be raised through a combination of better inputs and improved management techniques from an average of one ton per hectare to five tons. The objective is to raise this further to seven tons. If this is achieved and the improved practices become widespread and sustainable, the impact on poverty reduction in the region will be significant. Other projects include blacksmithing, pig raising, laying hen raising, and honey production.

The Panel met with members of three NGOs that are the Agents d'exécution (AGEX) for the PDI: FAFAFI, ASOS, and Association Cieloterra. FAFAFI is a church-based agricultural Malagasy NGO,

ASOS is a Malagasy NGO originally concerned with health that has branched out to rural development, and Cieloterra is concerned with livelihoods including craft and education.

The AGEX effort is focused on People Affected by the Project (PAPs). These are the 70 families moved from the quarry site and the fishermen who gave up landing near the port during the three years of port construction. One of the projects for the PAPs under the stewardship of the Cieloterra involves craft training for women which has shown steady quality improvement over the past four years and now represents some of the finest craft work in Madagascar. A second initiative offers elementary school instruction for adolescents with no or almost no formal education. Under this program, volunteer adolescents finish the normal five year primary school subjects in just 11 months and most pass the leaving exam.

The PDI projects face two challenges: the first is to expand beyond the pilot/demonstration stage to become ingrained practice. The second is to ensure sustainability once the three-year commitment of QMM expires by the end of 2013.

This latter challenge requires a constructive exit strategy. The prime candidate for such is the much touted Foundation, but as noted earlier in this report, its formal establishment may be some time away. Moreover, there can be no certainty that, even if established, the foundation would attend to the challenges of sustainability in all the projects under the aegis of the PDI. Thus, to avoid the trap of becoming the ongoing social and economic development agency for the region, a QMM exit strategy from the PDI cannot rest exclusively or even principally on the establishing of a foundation and must examine other options. One such option might be support –also temporary—from one of the World Bank supported projects, the PSDR.

**Recommendation #11:** QMM should continue to enlist the support of interested parties for the establishment of a regional development foundation and help ensure that the focus of the foundation be squarely on high impact long-term development projects such as the PDI. At the same time, it should work to establish future partnerships for these projects with existing World Bank programs and/or investments by other donors.

## **Local Suppliers**

The Panel met with opérateurs économiques that currently have contracts with QMM. Some expressed satisfaction, but several grievances were also expressed. These centered on the insecurity generated by short-term contracting and insufficient local procurement.

QMM has a procurement policy that supports local purchases, including pre-qualification of suppliers, timely and open announcement of appels d’offres for contracts, occasional large-scale meetings, bi-weekly operator’s meetings and access each Wednesday morning for entrepreneurs seeking further information. There are also English courses and business management support courses for local entrepreneurs. In 2010, 34% of QMM purchases were imported, 30% were purchased from Antananarivo, and 36% purchased locally. These wholly local suppliers are understandably pressing for a greater share of procurement, in particular targeting the firms importing goods from Antananarivo.

The Steering Committee on local procurement has held two recent meetings with the community of local suppliers and has obtained support from the World Bank's International Finance Corporation (IFC) to provide capacity development services to the community. (One slight caveat is that the company supported by the IFC is the international trainer, Business Edge. This, like Sodexo, is about as far from being a locally-owned company as is possible to find. Arguably, it may use Madagascar-based educators to the extent possible, but it hardly sends the message that local procurement is a priority.)

**Recommendation #12:** For the benefit of the region and to avoid misunderstandings and potential conflict, it is imperative that QMM maintain and even deepen the dialog with local business and engage them in joint initiatives to promote local procurement and employment.

**Recommendation #13:** At the same time, the expectations of local *opérateurs économiques* point once again to the high risks associated with the perception of QMM as the only game in town. This underscores further the need for a viable long-term development strategy for the region and the importance of a revitalized CRD. A critical component of a regional strategy should include actions and instruments for the development of commercial activities not directly related to QMM procurement. Examples of such activities would be the marketing of produce and crafts from the PDI interventions, possible freezer facilities at local scale for fishermen and at a larger scale for export, the development of ships for coastal service that would qualify to use Ehoala port. Private enterprise could and should take over many actions now supported by QMM and NGOs if the region is to develop a working economy.

## QMM and the Environment.

Previous reports have included reports of environmental achievements and issues. In 2011, we concentrated on social and governance aspects of QMM and the region. We add here only a few notes on the environment.

### The Industrial Environment

This seems well under control, with no accidents or major concerns during either construction or the early phases of operation. The problem of water level has been mastered, with the mining pond now at the required level of 6 meters below sea level, and issues of surface water drainage addressed. The effluent water from the separation process is adequately filtered by the sand and does not seem to be a problem. Radioactive contamination from dust is controlled for all materials sent outside the mine area.

As a subsidiary of Rio Tinto, QMM puts a high priority on industrial safety. It has achieved 1.9 million hours injury-free, the lowest lost time ratio from injury in the Rio Tinto Diamonds and Minerals division. This is reinforced by safety briefings, by a plethora of rules to follow, by draconian breathalyzer tests, and by speed limits of 50km/hour on all vehicles, reduced to 30km/hour in built-up areas.

Nonetheless, a traffic accident by a drunken driver (not QMM) in May killed three teenagers outright who were pushing a handcart loaded with scrap iron down the large mine-to-port road, and wounded three others. The QMM ambulance evacuated the wounded to hospital as the hospital ambulance was not functional and there was no other in the area. This accident has driven home the point of safety on the “QMM highway” and the need to separate pedestrians and carts from vehicular traffic.

### **Radioactivity**

People in the communes next to the mine continue to raise concerns about radioactive monazite which they claim to be responsible for a number of recent problems such as drying banana leaves. The ONE report mentioned above pointed to solid and steady performance in almost all areas of the project including the management and monitoring of radiation. However this report underscored weaknesses specifically in public communications regarding the management and monitoring of radiation.

The issue of radioactivity from the mining and subsequent burying of monazite should be addressed in open and participatory communication with concerned communities and independent scientific reviews undertaken if and as required.

### **Restoration**

Restoration of the mined surface has begun, with netting wind-fences to hold the sand and plantations of fast growing species such as eucalyptus seedlings. Restoration of a swamp for mahampy reeds for weaving is underway with the help of 190 local women, and with initial efforts to eradicate invasive species including Melaleuca trees.

### **Net Positive Impact on Biodiversity**

Rio Tinto has formally adopted a corporate strategy of Net Positive Impact on the Biodiversity (NPI). The QMM Biodiversity Committee has reviewed the strategy, which will be published as a joint Rio Tinto/IUCN document with IUCN undertaking further evaluation and determination of compliance. The document offers measures for assessing the success of NPI. The main criterion is hectares of forest saved or improved versus hectares destroyed. Given the high local endemism of the Anosy littoral forests, a second criterion is the survival or increased population of a defined list of plant and animal species. The Biodiversity Committee will meet in November to review progress on NPI. This represents an ambitious and laudable commitment by Rio Tinto, including precise metrics and external auditing.

### **Rosewood**

There is a major problem with the theft of about 100 stems of rosewood from the Manantenina region of the Tsitongambarika massif. This entails high environmental costs and is a threat to

QMM's adoption of sections of Tsitongambarika as the major environmental offset for the mine's impact on the forest. Tsitongambarika is quantitatively responsible for most of the identified NPI. QMM's strategy may need to be reconsidered if the looting of rosewood is not resolved via a political and judicial solution in the coming months. Another and ongoing problem with Tsitongambarika is tavy, or local clearing of forest for agricultural use. The lead conservation agency in the area is Asity, the local NGO affiliated to Bird Life International. Asity might issue a six monthly report to the Biodiversity Committee on the status and future hopes of payment to communities for conserving forest.

**Recommendation #14:** QMM should proceed to the construction of a dirt-surfaced pedestrian route parallel to the paved mine-port road to avoid further accidents on the highway.

**Recommendation #15:** The concerns expressed about the impacts of monazite should be addressed in a way that will be intelligible to local people.

**Recommendation #16:** QMM should request Asity to issue a short six monthly report to the Biodiversity Committee on the status of Tsitongambarika, mentioning rosewood, tavy, progress with carbon capture and any other concerns.

## Ste. Luce

Tenders have gone out to begin the process of baseline studies leading to the Social and Environmental Impact Assessment (SEIA) required to qualify for an environmental permit at Ste Luce in the future. This process will take several years. One of the possible development scenarios examined by QMM in response to increasing world demand for ilmenite is to open a second front in Ste. Luce before the end of the Mandena mine. This much larger site will raise the same considerations and problems as Mandena in greater scale. There has already been speculative land purchase and some troubled (and unfounded) rumors that villages will be moved. Such factors are the grounds that could lead to discussions of a possible partnership between Azafady and QMM on social and environmental issues in Ste. Luce.

It will be incumbent upon QMM to take in consideration all the lessons learned from the planning for Mandena in seeking the necessary permits and in preparing for the larger and more sensitive Ste Luce site. The Panel will include a focus on Ste. Luce for its next visit.

**Recommendation #17:** It is important that QMM begin early and systematic planning of the study requirements and other preparatory activities to ensure minimum perturbation of this sensitive site

## Communications

In its 2010 report, the Panel expressed the need for reorientation of QMM's communication strategy to include more structured community-based dialogue, presentation of setbacks as

well as achievements and communications partnerships with others, including the Chef de Région and ONE.

Much has indeed been done by QMM since last year. Dialogue structures have been developed to meet the needs of different constituencies. These include the Structures de Dialogue (SDD) which bring together 15 members from each of the communities in permanent dialogue with QMM and the Comités de Pilotage which address 15 priority projects in the Fort Dauphin area by bringing together a QMM staff “champion” with a steering committee of members from interested communities.

### **Conflict Prevention Strategy**

As described above, formal complaints to QMM are dealt with directly, while appropriate assistance from the ONE. However, many tensions, desires, and demands on QMM are not registered as formal plaintes, but conveyed through local authorities or manifested in other ways. For example, last October the mine road was blockaded by about 100 protestors, with a stated grievance about hiring policies that they believed favored Malagasy from Antananarivo with higher qualifications than most of the candidates from Anosy.

That there will be grievances and sentiments of injustice is almost certainly inevitable, given the levels of poverty, deprivation and decades of neglect in the region. Having a transparent, accountable and independently verified mechanism to address formal complaints is essential and that mechanism is in place. Beyond that lie the larger challenges of ensuring effective mechanisms for open exchange that can air differences, seek common ground, explain and communicate, reduce tensions and build greater mutual understanding. With a view to addressing these larger challenges and based on the recommendation of the national Médiateur de la République, a new integrated strategic approach is currently being established.

To ensure professional and independent leadership, QMM requested appointment of a Mediator identified by the Office of the National Mediator. Concerned parties, local authorities, civil society and the mediator agreed to implement a three-tier mechanism supported by a Pool of Mediators for bringing together all stakeholders, including those critical of or opposed to the project:

- 1) A triptych committee consisting of the Chef de Région as the highest local government authority, the President of the Organization of Civil Societies and the President of QMM. They are the ultimate decision authority of the process.

- 2) A Stakeholders Council (Conseil des Parties Prenantes) with 24 members drawn equally from the branches of government, civil society and QMM, including the whole gamut of viewpoints on regional problems. This group will be the crucible for discussions as the members chosen are both a source of and possible solution to conflicts.

3) The Implementation level through existing structures, in particular the 15 Comités de Pilotage and the Structures de dialogue.

The Comités de Pilotage (Steering Committees) have been created to address 15 specific priority areas related to QMM practices and to the development of the region. They consist of a QMM staff member and representatives of the concerned community, such community participation being essential. They cover QMM practices such as employment and procurement, impact of QMM activities such as waste disposal, and community concerns such as electricity for Fort Dauphin and the building of a slaughterhouse. Once an issue is deemed resolved or the overlap between two priority areas involves the same committee members, the number of committees will be reduced.

The Structures de Dialogue are discussion forums with 15 representatives of each area tied to the implementation of the PDI projects. They are a channel for direct representation to QMM.

The Pool de médiateurs sociaux consists of a National Mediator and three local mediators. Together they will facilitate and support the process working with each of the 3 structural levels.

Unfortunately, the full costs of the mediation process falls on QMM since neither government nor civil society have funds to offer. This should not be allowed to detract from the fairness of the process.

The mediation process being undertaken seems to be on the right lines. Given the underlying social needs and political rivalries in the region, it must be an ongoing effort. One time constraint is to achieve some visible results before the next September-January period of hardship, the “soudure” between harvests, but no-one should expect conflict to simply disappear. The failure of mediation will be apparent if overt social conflict in the region markedly worsens, but its success should only be judged over a period of two to five years. We wish all participants well.

**Recommendation #18:** The Conflict Prevention Strategy represents a major investment on the part of each participant and it has the potential of addressing and resolving issues in a thoughtful, impartial way. The Panel recommends that all parties, beginning with the three leaders of the Region, Civil society and QMM, make a public compact to work together in that spirit over a full two to five year testing period.

### **A Communication Strategy**

In addition to the communications initiatives and mechanisms outlined above, QMM has also sought to professionalize its more conventional approaches to communication. That might also be helpful as long as certain basic principles are not forgotten:

- Communications is a two-way street: it requires as much listening as talking;

- Effective communications should be about challenges as well as successes;
- A communication strategy should recognize partnerships and give due credit to partners; and
- It should build on existing strengths of multiple channels and arrangements for dialogue already established.

The Panel had the opportunity to review a draft of the communication strategy proposed by an external consultant. We thought the context analysis of Strengths and Weaknesses, Opportunities and Threats, which had been developed from interviews with QMM staff reflected an excellent appreciation of realities, challenges and constraints but that the proposed interventions were not in consonance with that analysis<sup>2</sup>.

Quite specifically, any new QMM communication strategy should not preempt nor interfere with the Conflict Prevention Strategy that is being put in place. A “publicity campaign” trumpeting only or even mainly the successes of the project at a time when new strategic mechanisms for intensive dialogue to address tensions and minimize future misunderstandings is being launched could be extremely counter-productive.

The Indian Ocean Economic Forum, planned to take place Oct 17-19th in Fort Dauphin, should give major external visibility to Fort Dauphin and the region. It is in the period of soudure, the trough between harvests when the local population is most vulnerable. It was at this time last year that people were persuaded to barricade the mine. Therefore the mediation process and all forms of communications in the meantime should aim to emphasize the shared interest in the success of this meeting. That may also be an event where a professionally designed communications package presenting the Anosy region and its assets and potentials, including the port and the role of the mine would be appropriate and helpful.

**Recommendation #19:** While a more professional approach to communications might be desirable and helpful, QMM must take great care that such an approach respect the basic principles enunciated above and specifically not preempt the development of the Conflict Prevention Strategy.

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<sup>2</sup> A small point but of symbolic value : the draft communication strategy recommends eliminating the QMM logo and word from the project identification in order to avoid « confusion » as Rio Tinto, Rio Tinto QMM and QMM are used interchangeably. There is no confusion anywhere: all staff, stakeholders and the person in the street have known this for 25 years as the QMM project. While corporate policy may seek uniform logos, it would be inadvisable to eliminate “QMM” from the daily discourse. Every project has a name in addition to its corporate identification.

QMM Comment: QMM agrees with these comments and will finalize its communication strategy in a way that is coherent with the Conflict Prevention Strategy, the established forums for dialogue and the recognition of partnerships with all stakeholders.

## Conclusion

This report has noted encouraging progress on many fronts in the past year. Most noteworthy is the general sentiment expressed by most actors in the region of the need to take proactive measures despite (or perhaps even because of) the enduring political stalemate. Especially noteworthy in this regard are measures that may lead to a reactivated CRD, an updating of the PDR, a positive NGO disposition to development partnerships with the project, and the comprehensive framework that has been prepared to realize the very significant potential of the Port Ehoala.

We have also noted the steps taken by QMM to improve its relations with the many actors in the region, from local authorities to local communities. Undoubtedly spurred by the barricades of October 2010, there has been intensification of dialogue through many different channels. One such initiative that could have most significant impact is the Conflict Prevention Strategy led by an independent and neutral mediator.

But the region's overwhelming poverty remains little changed and much of the hope for rapid, broad-based social and economic development generated by the project, the regional development plan of 2005 and the growth pole project of 2006 remains frustrated.

The main challenge for QMM remains that of effective communication with its many stakeholders: communication is a two-way street where listening is as essential as explaining; it's about creating relationships based on mutual understanding and reciprocal respect.

Therefore, the Panel's main recommendation is to encourage QMM to persist and to continue to adapt the development of its relationships with the community.

The Panel also urges local and regional leaders to redouble collective efforts, especially towards the revitalization of the CRD – in its previous format or in another form, so that the region can regain a clear sense of direction. That remains an essential precondition to encourage priority investments in agriculture, the long-term mainstay of the region, in roads that are essential to the *désenclavement* of the region and to fuller use of the port facilities at Ehoala. In this respect, we hope that despite the current freeze on external assistance, the World Bank will soon be able to concentrate its many development projects in the region to obtain maximum synergy and specifically to provide support to a revived CRD and an updated PDR.

## ANNEX A: Panel Schedule

<b>IAP SCHEDULE – JUNE 2011</b>					
June 3	Arrive Fort Dauphin		Initial meeting with QMM		
4	Site visits – PDI projects in Ampasy				
5	Panel internal briefings				
6	QMM briefing	Office National d'Environnement (Fort Dauphin)	Local authorities of Fort Dauphin, Ampasy, Mandromondromotra	Comité Régional de Développement	
7	Centre écologique Libanona (CEL) and World Wildlife Fund (WWF)	ALT (Andry Lalana Tohana) previously Andrew Lees Trust	Azafady	Saatchi & Saatchi (QMM communications advisors)	<i>Structure de dialogue</i> (SDD) – Ampasy
8	Champions – <i>Comités de pilotage</i>		Chef de Région		<i>Opérateurs économiques</i> (QMM suppliers)
9	QMM preliminary debriefing		Travel Fort Dauphin to Antananarivo		National mediator – Conflict Prevention
10	Office National d'Environnement (Tana)	Pole Intégré de Croissance	World Bank		Debriefing QMM
11	Report preparation and initial drafting				
12	Depart Madagascar				

## ANNEX B: Persons Met/Interviewed

<b>Organization or Category</b>	<b>Name</b>	<b>Position</b>
<b>Regional Authorities</b>	RANDRIATEFIARISON Guillaume Venance	<b>Chef de Région</b>
	ZAFIMANDRO Armand	<b>PDS</b> , Commune urbaine de Fort Dauphin
	RONDROMALALA Sylviane	<b>Maire</b> , Commune Ampasy
	Mosa Maurile	<b>Maire</b> , Commune Mandromondromotra
<b>ONE (Tana)</b>	RAKOTOARY Jean Chrysostome (DirecteurGénéral)  RAVONINJATOVO Andry (Chef d'unité de suivi des PGE et Pollutions)	
<b>ONE (Fort Dauphin)</b>	ANDRIANASOLO LALAO Mamialisoa	Représentant régional ONE – Anosy
<b>Pôles Intégrés de Croissance Fort Dauphin</b>	RAKOTOSAMIMANANA Rollis	Représentant PIC, Fort Dauphin
<b>Non_Governmental Organizations</b>	REBARA Flavien	<b>WWF</b>
	RAOLINANDRASANA Lalaoharisoa	<b>CEL</b>
	RAHARIMANANA Haritra, Directeur	<b>ALT</b>
	SOSTHENE Robson, Directeur Financier	
	Lisa Bass, Director  Emahalala Ellis, Environment Dept.  Samm Short, Head, Project Development Megan Shrum, Conservation Project Coordinator	<b>AZAFADY</b>

	R. Tsaratiana; RANDRIAMORASOA Séraphin Simon and LIVERA BEVAZAHA	<b>FAFAFI</b>
	Harinesy Rajeriharindranto	<b>ASOS</b>
	ANDRIANARISOA Sidy Rija	<b>APS</b>
	Veronica Bevivino	<b>CIELOTERRA</b>
<b>Participants in the Structure de Dialogue (Ampasy)</b>	KOTO Arsène; SAMBO Auguste ; MANOTANY Jacques ; RAVELOSON Maurice ; FANDEHANA Georges ; MIAMBETO Jonès ; ICAZE Venance ; MAHAZOMANA Alain ; MORAJANGA ; RAKOTOMALALA Arthur ; MBOLA Albert ;TEMA Mari Elyse ; MANANJARA Francis ; MAHENY KADAMY	
<b>Opérateurs économiques (Fournisseurs de QMM)</b>	Judine ANDREAS (Nepenthes Services); RAKOTOHERY Zacharel Fridolyn (GOEDRA); Gaby ANDRIANARIVELO (SUNTHESIS); Bruno MAZARALY PIARALY (Hôtel Panorama); ANDRIANARIVO Volasoel; (Harena Business ) ; TEFIMBOLA Alain (Radio LAFA)	
<b>Communications Consultants</b>	Laurent Merly and Marianne Guérin	<b>Facto-Saatchi &amp; Saatchi</b>
<b>Pôles Intégrés de Croissance (Tana)</b>	Eric RAKOTO-ANDRIANTSILAVO (Secrétaire National)  RASOLOMANANA Harizo (Responsable environnemental et social)	
<b>Banque Mondiale</b>	Adolfo Brizzi	<b>Country Director</b>
<b>Médiateur national</b>	Yves RAKOTOMANGA	Animateur de la Stratégie de prévention de conflits
<b>Port d'Ehoala</b>	MURCIA Philippe  William RANAIVOSOLO	

<p><b>QMM</b></p>	<p>Ny Fanja Rakotomalala (President)</p> <p>Daniel Andriamanjaka</p> <p>Manon Vincellette</p> <p>Réal Brière (CFO)</p> <p>Clément SAMBO (Directeur des Affaires Communautaires)</p> <p>Andriamalala Rakotoarisoa (Recrutement local)</p> <p>RANDRIAMBOLOLONA Raymond (Développement local)</p> <p>Rasamoelina Willy, Directeur Relations Autorités locales</p> <p>Hélène Margraff (Achats locaux)</p> <p>Rabeninary Yvette (PDI)</p> <p>Raberahona Solofo (Relations avec l'ONE)</p>	
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