

Rio Tinto-QMM  
Report of the Independent International Advisory Panel  
(Visit of November 11-19, 2019)

Introduction

1. The Independent International Advisory Panel (IIAP), consisting of Claude Andreas, former Minister of Agriculture and now Director-General of the Société Soavoanio (the largest coconut producer in the country), Jean-Chrysostome Rakotoary, former Director-General of the National Environment Office (ONE), and Robert Calderisi, former World Bank director, spent a day and a half in Antananarivo (November 11-12) and six and a half days in Fort Dauphin (November 12-18) discussing developments at the RTQMM site with representatives of the (a) national, regional, and local governments, (b) projects and programs underway in the Anosy Region, (c) the private sector, (d) civil society actors, (e) financial partners, and (f) RTQMM personnel. We are grateful to Harinesy Rajeriharindranto and his QMM Corporate and Community Relations team for organizing an efficient and informative program.

Recent Developments

Economy

2. Despite 5.1 percent growth in 2018 and only a slight expected slowdown in 2019 (4.7 percent growth), Madagascar remains one of the poorest countries in Sub-Saharan Africa. About 75 percent of the population lives in absolute poverty (meaning they earn less than US\$1.90 in local purchasing power) compared with about 40 percent in the rest of the continent. Owing to international trade disputes (the US and China account for a quarter of the country's markets), exports as a whole shrank this year; but mineral sales (excluding nickel) jumped by almost 60 percent. Against the backdrop of more than a decade of political disruption, the country is holding onto the gains of recent growth for the first time. However, revenue collection remains weak, with overall receipts at about 12 percent of GDP compared with 16 percent elsewhere in the region. Because of rebates and exemptions and simple evasion and corruption, Madagascar's effective rate of value-added tax is 5.6 percent

instead of the official 20 percent. Mining revenues are also low, compared with other countries in the sub-region.<sup>1</sup>

### Mining Sector

3. On the eve of the Panel’s visit, the government announced that it was suspending the operating licence of a new ilmenite mine at Toliara owned by the Australian firm Base Resources, before construction of the \$560 million facility could even begin. The Cabinet communiqué referred to concerns expressed by the local communities and government uncertainty about the long-term benefits of the project. The suspension, which will could be indefinite, is intended to allow for a fresh look at the terms and conditions of the investment.<sup>2</sup> Three days later, at a seminar devoted to the importance of consulting local communities at the planning stage on new projects, Christian Ihariantsoa of Transparency International-Madagascar described the sudden suspension as a “major” event that was likely to affect the country’s attractiveness to international mining capital.<sup>3</sup> On November 20, the government announced that it would conduct a financial and operational audit of QMM in connection with a proposed recapitalization of the company, which would add \$16 million to the State’s existing debt connected with the mine, bringing the total to \$93 million. Although QMM’s operating licence (*convention d’établissement*) expires only in 2023, the Minister of Mines suggested that it might be looked at again, once the audit was complete.<sup>4</sup>

4. These unexpected decisions have rattled the mining sector and added to uneasiness already caused by the freezing of new operating licences since [2011] and long-postponed changes to the Mining Code. Populist pressures to increase the “social contribution” of the mining sector are also rising, and the larger the “numbers” cited in newspapers about potential mining projects, the more “political” they became. As a result, several people expressed concern that the government was likely to over-compensate for lost time by introducing new rules precipitously without proper public consultation. Mining firms were not even aware of the broad outlines of the reforms under consideration, let alone the fine print, while government communiqués on the subject appeared to them

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<sup>1</sup> World Bank, *Madagascar – Note de conjuncture économique: Un nouveau départ?* October 2019.

<sup>2</sup> *L’Express de Madagascar*, November 8, 2019.

<sup>3</sup> *L’Express de Madagascar*, November 12, 2019.

<sup>4</sup> [www.newsmada.com](http://www.newsmada.com), November 22, 2019.

incoherent and even contradictory. Important decisions have also been made without consultation or explanation. For example, the Chamber of Mines and equivalent body for the oil and gas industry were recently removed from the National Environment Office's oversight board and replaced by representatives of the national business federation and the national police. From a general feeling of suspense (*attentisme*), said one well-placed source, the mood had shifted to one of deep uncertainty and worry (*incertitude et inquietude*).

5. For their part, government sources described past management of the mining sector as too "political" and inefficient and said that the new government wants to "shake things up". In their view, the Mining Code, which is fifteen years old, is not strategic enough to attract "serious investors" from countries like South Africa, Australia, and Canada. The sector's current contribution to GDP – 13 percent – should be raised to at least 20 percent, given the country's resources. The challenge is how to attract international capital and at the same time be fair to the general public.

6. A related development is an apparent deterioration in the participatory budgeting process which was introduced in 2014 and allowed local communities to influence how their shares of mining taxes and royalties were to be used, based on a needs-assessment from the bottom up. Fort Dauphin has always been a leader in this respect, but elsewhere in the region many, if not most, towns are using royalties to fund general operations rather than investments. The link between community involvement and public confidence in mining's contribution is almost too obvious to point out.

7. QMM. Despite a softening of international ilmenite prices, QMM expects to nearly double overall production (from 446,000 tons to 720,000) tons within the next two years. Its cash position is also solid. As for personnel management, the number of expatriates is now down to 6 in a total workforce of about 480. Recent surveys have established that staff morale is the highest in the entire Rio Tinto group. The company's 25-year operating licence expires in 2023 and discussions of a new agreement will begin in 2020.

8. Follow-Up to Previous Reports. The Panel was pleased to hear from people outside the company that QMM had taken full advantage of the tenth anniversary of the start of production in November 2018 to intensify its national and regional communications efforts. This may explain, in part, why there were no roadblocks this year. The "Open Doors" event at the mine site

was broadly attended and included university researchers and botanists, who expressed astonishment at the successful planting of eucalyptus and acacia trees in what they regarded as the unpromising conditions of the rehabilitation areas. The Extractive Industries Transparency Initiative (EITI) organized a large workshop in Fort Dauphin in April 2019 and heard no major complaints about QMM. Instead, compared with previous events of this kind, there was a remarkable degree of understanding of QMM operations, perhaps in part because of systematic outreach by the local mayors and a “friendly” pamphlet detailing the use of royalties and taxes in the local community.

9. QMM has also adopted a more pro-active stance, engaging communications expertise from global headquarters, setting up an in-house regional development team to identify opportunities and possible synergy among new and existing initiatives, turning middle- and lower-level employees into “ambassadors” for the company, and asking staff who make daily visits to local communities to “map” emerging and recurrent issues.

10. Although 35-40 percent of port traffic now originates from other users than QMM, there has been almost no progress in developing the Ehoala Industrial and Commercial Zone. One reason is that the regulations implementing the government’s export-free zone legislation have yet to be written. Another, more important one, is that until recently road development has remained stalled (please see paragraph 17 below). Following the introduction of direct flights from La Réunion and the arrival of a small number of cruise ships at Ehoala Port, there has been a modest increase in tourist numbers. But, here again, road transport remains a bottleneck, as Fort Dauphin is likely to remain a staging-point for inland tourism rather than a destination in its own right.

11. During the visit, a highly useful exchange of views occurred among the Panel, QMM staff, and the two civil society “platforms” now active in the region (the previous group had split into two since the previous visit). Although the Panel usually conducts its fact-finding in private, in this case it asked those attending whether they would be willing to have QMM present so as to straighten out misunderstandings based on fact rather than opinion. The two platforms agreed to this format readily. During a lively exchange, some long-standing misperceptions may have been put to rest. For example, several participants were not aware that QMM’s original land compensation program was based on government-established rates, varying with the location and

degree of development of the property, and that QMM had agreed to advance the compensation itself as a good-will gesture. Under Madagascar law, it is the government that usually compensates landowners affected by new development projects deemed to be in the public interest.

### Issues

12. Financing of the National Environment Office (ONE). On August 28, 2019, drawing on a briefing paper prepared by the Andrew Lees Trust and Publish What You Pay (United Kingdom), four Malagasy civil society organizations wrote to the Minister of Mines and Strategic Resources and the Minister for the Environment and Sustainable Development to express a number of concerns. One was that the current formula for financing monitoring and evaluation of mining projects, with companies funding ONE studies on an annual or *ad hoc* basis, lacks transparency and can lead to doubts about the quality and independence of monitoring.

13. The organizations also suggested that all data and reports prepared by ONE and funded by operating companies should be made fully available for public scrutiny. The Panel shares these views. Indeed, in preparing for the visit, it consulted previous Panel members who explained that while QMM's early offer to support ONE's work was very welcome at the time and allowed it to begin its monitoring work earlier than might have been possible otherwise, "no one would think of proposing such financing arrangements now."

14. Environmental Concerns. The August 28 letter also referred to an apparent infraction of agreements between the Government of Madagascar and QMM on environmental safeguards at the mining site, including the breach of a protective buffer zone between the water basin used by the mine and a small body of water to the northwest of it. Although the government is still preparing a response to the letter, we were told that ONE, in conjunction with other members of the monitoring committee, had granted a temporary exception to QMM ahead of time, subject to eventual repairs of any damage to the buffer. The exception was allowed on the grounds that the risks of damage were slight and that the body of water potentially affected was already formally classified as low-priority from a public safety point of view.

15. A more serious incident occurred during the rainy season two years ago (December 2017) involving spillage from lagoons under rehabilitation near the

mine site into adjacent lagoons connected with the lake near the coast, where the sight of dead fish floating in the water caused alarm. Subsequent analysis by the National Centre for Environmental Research (CNRE) established that the fish were killed by the high level of phenols in the neighbouring lagoons caused by a variety of flowering eucalyptus tree (niaoli) that grows in the waterbed. No subsequent sightings of dead fish were reported. All the same, QMM has raised the boundaries between the rehabilitation lagoons and neighbouring bodies of water to prevent a recurrence of such overflows. It is important to note that the rehabilitation lagoons are separate from the water basin where the effluents of the mine are treated.

16. In a report summarizing its inspection visit of September 16-20, 2019, the Environmental Monitoring Committee (*Comité de suivi environnemental, CSE*) concluded that QMM was respecting its obligations (and in some cases surpassing them) with two notable exceptions. The CSE reported that the company had stocked monazite in bags rather than specially-adapted containers and called for “drastic” measures to be taken “immediately”. There was also concern about the quality of water downstream from the used-water treatment plants (STEP 2), which needed to be corrected before the next inspection visit if the company was to avoid sanctions.

### Regional Development

17. The Panel was pleased to learn that long-awaited improvements to regional infrastructure are now firmly funded. The road along the east coast north of Fort Dauphin (Route Nationale 12A), financed by the World Bank, African Development Bank, and European Union, should be completed by 2023. The road leading west from Fort Dauphin towards Ambovombe (RN13) will now be funded by the European Investment Bank. Only the north-south artery from Ambovombe to Ihosy remains to be developed.

18. These investments will allow the Anosy Region, Fort Dauphin, and the Eholà port to begin marketing a greater volume of regional agricultural products and permit tourists to reach wildlife parks and protected areas more easily. But the roads carry risks as well as opportunities, and an action plan will be needed to manage inward migration and prevent illicit land occupation and overuse of natural resources.

19. As on previous visits, there were widespread calls for reviving the Regional Development Committee and local community liaison bodies that existed at an earlier stage of QMM operations, to ensure accurate information-sharing and reconcile potentially conflicting development initiatives. “It is less an issue of money than political will,” one veteran of civil society told us. But the new Governor of the Anosy Region was sceptical about the need to re-introduce “old solutions”. His preference is to tighten up project monitoring and evaluation within the existing decentralized technical ministries and build up a strong project review and coordination capacity within his own office. The purpose of the unit would be to ensure timely and efficient implementation and at the same time assess continuously the relevance and cost-effectiveness even of externally-financed development ventures. The Panel believes that the Governor’s initiative is sensible and that further institutional changes should be considered only once the Region has had a chance to test and assess the new approach over the next 2-3 years.

20. In the absence of Regional Committee, however, the Panel believes that the Regional Governor’s office and QMM should make information flows between them more systematic (see paragraph 27(a) below).

### Social Impact

21. At the suggestion of the Andrew Lees Trust (see paragraphs 12-13 above), the Panel visited the communities of Ansotso and Iaboakoa, which have expressed dissatisfaction for some time with outside “interference” in their way of life. The main issue has been the management by QMM’s implementation agent (the NGO Asity) of the Ivohibe-Bemangidy forest, which is an environmental “offset” for land being used by QMM at its mine site at Mandena. In July 2017, residents complained to ONE staff that they had expected to use part of the forest gazetted for “renewable development” but were being denied access even to that. The boundaries of the protected areas had also been set too widely in their view and encompassed low-lying areas that had been used for rice production. Teams of experts came regularly to assess the state of the local flora and fauna but not to study the impact of the “offset” on the local communities.<sup>5</sup> Since then, using Asity as a channel, QMM has introduced alternative cash-generation schemes for the communities, including poultry production and high-value crops like pink peppercorns and cloves.

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<sup>5</sup>ONE (Antenne Régionale Anosy), Rapport de Mission – Gestion de Plainte Antsotso, 27 juillet 2017.

22. Although there were calls for more support to rice production through the draining of marshland, the provision of fertilizer, and the planting of vanilla, as well as complaints about the operational budgets of the NGOs administering the compensation programs (“Why don’t they just give us the money directly?”), the general view was that the new schemes were working reasonably well. Indeed, community members felt that the programs should be scaled up. In other words, the NGOs should be given additional resources or they should be asked to be more efficient in managing the resources they already have. However, the recovery rate on interest-free cash advances to the community was so low (five percent) that the Panel wondered how remunerative the small-scale investments really were or whether outright cash grants would not be a better basis for promoting and consolidating further economic adjustment.

23. In contrast to what seems incipient but necessarily tentative progress at Antsotso and Iaboakoa, alternative production schemes have proved an almost complete failure at the fishing village of Andrakaraka, about twenty kilometres to the north of Fort Dauphin. At a civil-society forum in the regional capital earlier in the day, one participant questioned the basic logic of income-generation schemes. Using an urban metaphor, he said: “Look at it this way. You’ve smashed my iPhone, and now you suggest I raise chickens to make up for it.” One woman in the village said that she had once caught 40 kilos of shrimp a day. “I lived better than a civil servant. Now my eighteen-year-old twin sons are in town begging in the streets.”

24. The reason is not pollution, but the closing off of Lake Ambavarano to tidal water, which has turned it into a freshwater lake and led to the disappearance of certain brackish-water fish and crustaceans. QMM introduced new fish species but that experiment failed, in part because local people used mosquito, rather than conventional, nets, hauling in old and younger fish alike. Then, poultry and pork production were tried; but that didn’t work either. With little to eat themselves, the villagers had neither the means nor the patience to feed animals and instead, not surprisingly, ate the chickens and pigs before they had reproduced. It is doubtful that any other community in the area has suffered greater direct damage to its livelihood from the mine’s operations. Accordingly, we recommend urgent steps to remedy their situation (see paragraph 27 (g) below).

## Role of the Panel

25. QMM welcomed the Panel's contacts with international civil society organizations in the run-up to its annual visits, but hoped that these would not discourage direct communication between such groups and QMM itself, which in most cases would be more efficient than using a third party. At the same time, QMM and the Panel re-confirmed the principles underlying the Panel's work.

26. It will never identify its sources to QMM or to those using its reports. It will be open to contacts from any interested party, with a view, not to protecting QMM from criticism, but rather to help QMM react in ways that promote improved results on the ground. The Panel's credibility is key to serving the community, not just QMM, and demonstrate the company's openness to constructive feedback. These principles are also important for ensuring that people use the Panel as a privileged channel to "speak" to QMM discreetly and securely.

## Conclusions and Recommendations

27. Drawing on the above findings, the Panel makes the following recommendations:

- (a) Regional Coordination. The Regional Governor and QMM should meet every three months on a regular basis (say, on the first Monday of January, April, July, and October) to exchange views, information, and concerns. To ensure that the meeting lasts no more than an hour or so, staff of the two offices should meet a week ahead of time to identify priority topics and set an agenda.
- (b) Local Coordination Committees. While the Governor sees little point, for now, in re-establishing a Regional Development Committee, he did appear open to reviving the local coordination committees (*comités locaux de liaison*) as a way of improving information flows and dealing promptly with emerging issues. The Panel recommends that QMM and the Governor address this challenge at one of their first quarterly meetings.
- (c) Mining Sector Round Table. QMM and the Chamber of Mines should urge the government to organize a Round Table as soon as possible to

discuss reforms of mining sector policy, including a new Mining Code. The event should be open to everyone, including civil society organizations active in the sector. The quality of the consultation, including detailed feedback to participants after the event, will be of utmost importance in ensuring orderly implementation of any policy changes that the government eventually decides upon.

- (d) Funding of the National Environment Office (ONE). In the context of the government's review of mining policy, QMM and the Chamber of Mines should recommend that ONE's monitoring of specific mining ventures be funded from general government or sector revenues rather than by the companies under supervision.
- (e) Strengthening of Regional Environmental Monitoring. In addition to ensuring greater public confidence in its work, regularizing the funding formula for ONE's monitoring and evaluation activities should allow for strengthening the work of the *Comité de suivi environnemental* (CSE) and the *Comité de suivi environnemental régional* (CSER) through better training, improved analysis kits, proactive seminars on upcoming issues (like the increased migration the region will face as a result of improved roads), hiring outside expertise as needed, and setting up a documentation and information centre.
- (f) Access to ONE Technical Reports. To the maximum extent possible, ONE should aim at making its evaluations of mining operations readily available to the general public. Any delays in sharing such reports will lead to unnecessary speculation and concern for the public interest.
- (g) Fishing Village of Andrakaraka. QMM is currently exploring the possibility of altering its management of the water system between the mine and the coast and re-opening the nearby lake to seawater, once it can be established that the mine has enough fresh water for its purposes higher up in the system. This would be, by far, the most desirable and effective solution and offer a real opportunity to the village to return to its traditional way of life. (At the same time, the possible advantages of the existing spillway for the local community will need to be evaluated.) Alternative solutions would include the construction of basins for fish-farming or the provision of boats and

piers to enable the villagers to fish in the ocean instead. Pending such change and real evidence that it has restored income levels to adequate levels, QMM should make substantial cash grants to every family over a 3-4 year period to ensure an appropriate transition and support further efforts at economic diversification. In making this recommendation, the Panel is aware that a previous cash program (while the lake was being replenished with fish) is said to have led to a mentality of dependence among some local residents. This may or may not be true, but until QMM has given the community credible prospects of a new livelihood (or a return to the previous one), direct support will be necessary regardless of potential side-effects. The town of Fort Dauphin should also partner with QMM in developing this area.

- (h) Income Generation. To promote the fair treatment of all affected communities, the Panel believes that the overall impact of the various income-generation schemes should now be evaluated, with a view to fine-tuning them, scaling them up (as the residents of Ansotso and laboakoa suggested), or replacing them temporarily with straightforward cash grants. The study should not be elaborate or costly. Opportunities for synergy or cross-fertilization among promising schemes should also be examined.
- (i) Radioactivity. The Panel noted that, despite the recommendation of the Regional Environmental Monitoring Committee (CSER) in its September 2019 report, the stocking of monazite at the mine site still did not conform to the requirements of the Environmental Management Plan. The Panel recommends that the monazite be stocked as soon as possible in the specially-designed containers intended for the purpose and that the National Institute of Nuclear Science and Techniques (INSTN) be asked to conduct a new survey of levels of radioactivity at the mine.
- (j) Rehabilitated Forest at Mining Site (Mandena). The re-planting of trees at the mine site has proceeded at such a pace that it would now be timely to study the stakes and actors involved in future use of the restored areas. Unless a management plan is decided upon ahead of time, almost certainly conflicts will arise between local communities, private investors, the regional authorities, and QMM about how to use

the new resources. One option would be not to exploit them at all but to “sell” the re-forested area on the international carbon credit market.

- (k) Communications. The Panel congratulates QMM on its improved communications at the national, regional, and local levels and evidence that it is trying to “listen” rather than just communicate in one direction. Such efforts must be sustained, drawing on the lessons it has learned recently and mindful that many in the community it has interacted with in the past (as far back as 1998) have now “retired”. Information and listening efforts should now be aimed at younger people, whose futures are still tied to successful and socially responsible management of the mine site. The Panel believes that an “Open Doors” event at the Port, modelled on the event at the mine site in November 2018, would help remedy recurring misunderstandings about its operations and build community pride in the facility. In QMM advertising, information materials, and radio outreach, local dialects should be used more widely.

28. Future Work. The Panel expects to visit the project site once a year and to remain in touch with QMM on specific issues between visits. We will submit our reports in draft to QMM to allow them to correct any facts or alert us to any information that they regard as proprietary, but not to challenge any of the judgments we express. Once the reports are finalized, they will be placed on the Rio Tinto website in English and French. Comments or questions may be addressed in confidence to Robert Calderisi at [calderossi@gmail.com](mailto:calderossi@gmail.com), Claude Andreas at [claudе.andreas@gmail.com](mailto:claudе.andreas@gmail.com), or Jean Chrysostome Rakotoary at [jcrakotoary@gmail.com](mailto:jcrakotoary@gmail.com).

IIAP Visit of November 11-19, 2019

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