




Investment Series 2007

# Madagascar

 Madagascar is home to one of the world's most unique collections of flora and fauna, from lemurs to forests of otherworldly Baobab trees. Despite this eclectic mix of some of nature's most colorful and quirky creatures, Madagascar rarely raises a blip on the tourist radar, let alone attracts the interest of investors. Unusual, given that the country is the world's fourth largest island—bigger than France and Belgium combined—and sits in a prime strategic location between Africa and Asia.

# Mapping a Path to Prosperity

Though just a few miles off the Mozambique coast, Madagascar feels much closer to Asia than Africa. The faces could be Malaysian, Indian, or Indonesian, and culturally too, people are softly spoken and sanguine in their outlook.



In its peaceful history Madagascar has seen several colonial influences, but by far the strongest remnants belong to the French and their legacy can be appreciated in the classic architecture and fine gastronomy.

The people of Madagascar describe their own approach to life as *'mora mora'*, meaning 'slowly slowly'. But President Marc Ravalomanana has other ideas. Madagascar's vision for socio-economic development is enshrined in the MAP (Madagascar Action Plan). This document is the President's roadmap to a better life for his people, and the brainchild of Australian consultants brought in especially for the task.

"We created the MAP after speaking with our people and establishing what it is that they need," says Ravalomanana. "This will be our roadmap for the next five years; how we will move from the current state of poverty through economic growth to a better life."

The MAP's model begins by taking an honest look at where Madagascar stands on a set of development indicators. It then establishes a mission statement for where it wants to be by the target year of 2012, and lists quantifiable targets for success in each area. Perhaps most strikingly, the responsibility for completion of each target is explicitly assigned to an individual—be it the Governor of the Central Bank, the CEO of EDBM (Economic Development Board of Madagascar), or one of the President's recently rationalized portfolio of Ministers.

President Ravalomanana is keen to emphasize the crucial role that private enterprise will play in the success of this transition: "It is the engine of economic growth, and we are creating the best conditions for promoting growth in the private sector, to allow our exports to succeed and bring down trade barriers."



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President Marc Ravalomanana

Madagascar is a member of COI, Community of the Indian Ocean, which opens up trade access to the EU through French Réunion. It has further benefited from trade with the US through the AGOA (African Growth and Opportunity Act) system. Madagascar has low-cost manpower and its relationship with China, and direct trade route, provides access to cheap materials, leading to it being described as a natural 'bridge between Africa and Asia'.

There are still infrastructural teething problems that need work—electricity and post are expensive—but there have been improvements in transport costs as roads are gradually improved. The most visible change has been in communications where liberalizations have brought competition, wider coverage, and new services, and uptake has been swift.

Prime Minister Charles Rabemananjara is also keen to emphasize the country's peaceful history, and points to last year's elections as further evidence of the political stability and transparent democracy that exists in Madagascar. ■

# Economic Reforms Mean a Brighter Future

Led by pro-business President Marc Ravalomanana, the Republic of Madagascar has embarked on a program of economic and financial reforms meant to speed development and attract foreign investment. At its heart is the Madagascar Action Plan, or MAP, which runs until 2012.

The central goals of the MAP are to create better and more transparent governance, to build the infrastructure required to support industry and boost economic growth, reduce poverty, and promote education. These are much needed in a country that has previously struggled with widespread unemployment and limited foreign investment.

"MAP begins in 2007 with the objective of increasing growth to between 7% and 10% by 2012," explains Harison Randriarimanana, Minister of Economic Planning, Commerce, and Private Sector Development. "This will be done by reinforcing the private sector, especially in the agribusiness and mining sectors."

A series of political and economic reforms over the past few years has led to Western-style democratic politics, a more business-friendly tax system, a new and more stable currency, and a business outreach program directed at U.S., European, and Asian companies. Madagascar is blessed with a tropical coastal climate and more temperate conditions in the inland highlands, allowing for the cultivation of an abundance of agricultural products. Its mountains also yield a variety of valuable minerals. Over 5,000 kilometers of coastline provide excellent sites for both sustainable tourism and aquaculture. The country's population of some 18 million provides a plentiful source of dependable and relatively low-cost labor.

Stable economic conditions are required in order to attract foreign investment. "Our main objective is to fight against inflation; that is a prerequisite for macroeconomic stability and the competitiveness of our currency," stresses Frédéric Rasamoely, Governor of Madagascar's Central Bank. The country's postcolonial currency, the Malagasy franc, first established at independence in 1960, has recently been phased out in favor of the ariary, which has become a symbol of a new, prudent age of monetary restraint.

Key to job creation and poverty reduction is the ability to create a sound banking sector able to extend microfinance to local small enterprises, especially in rural areas. Thus far, a few foreign financial institutions, mainly French and Mauritian, have dominated Madagascar's fledgling banking industry, but the government intends to create local lending banks as well. A raft of legislation—including fresh laws on foreign investment and foreign exchange, as well as a reworking of the country's customs and taxation systems—is already underway. The Central Bank plans to implement international standards for accounting and banking supervision, and it began issuing bonds in May.

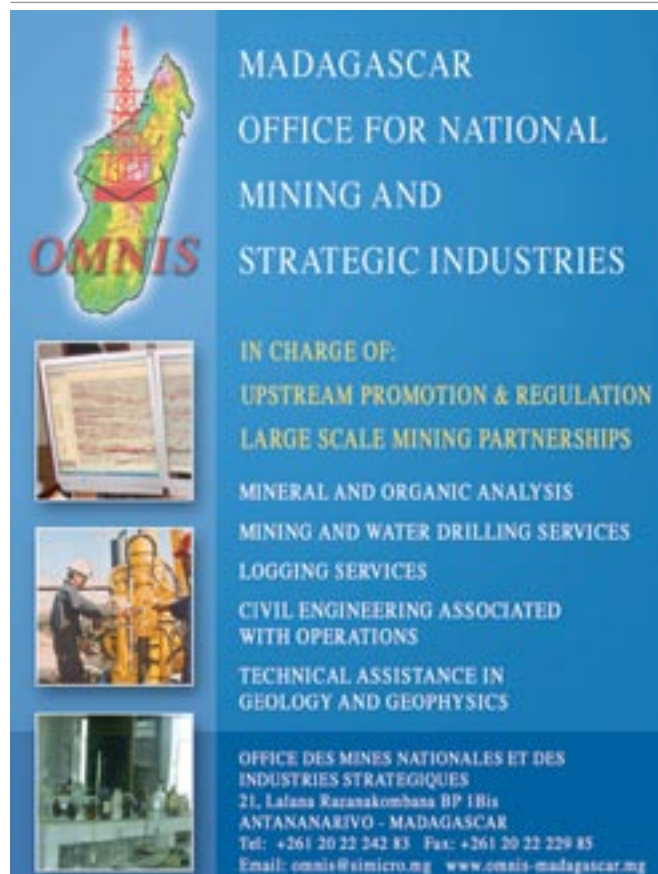
"We have to improve the business environment and support microfinance institutions to promote the access of small and

medium enterprises to credit," says Rasamoely, who stresses the importance of financial independence as a requisite for attracting foreign investment.

A former Senator in the country's national parliament, Rasamoely is an ardent supporter of the recent constitutional reforms that have created 22 regions now economically managed at a local level, bringing development closer to the people. Madagascar now enjoys regular presidential and legislative elections as well as an independent judiciary. General elections, last held in December 2006, returned President Ravalomanana to office with 55% of the vote.

Above all, the government's goal is to win investor confidence and increase investor security. "My role is first to make the environment of this country more compelling for investors," says Minister for Finance and Budget, Benjamin Radavidson, "because primary investors will create jobs and add value to our economy." Given the progress so far, and the ambitious MAP goals set for the coming years, it appears that Madagascar is already on its way. ■

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# Investing in Good Ideas

Madagascar's emerging economy is home to a number of successful growth companies. One such enterprise, Sipromad Group, helps foreign firms invest in the island country while also expanding its operations throughout the Indian Ocean and African regions.

Founded in 1972 in the capital city of Antananarivo, the Sipromad Group has become one of the country's ten largest companies, with over 1,500 employees. By any standard, Sipromad has enjoyed dramatic growth in recent years, with revenues more than tripling to \$63 million since 2003 and pre-tax profits up fivefold to \$6.6 million.

A group of 13 companies active in everything from agriculture and consumer products to technology, trading services, and real estate, Sipromad has thrived under the guidance of Chairman Ylias Akbaraly, the grandson of the company's founder. Educated in both France and the US, Akbaraly is focusing on a strategy for international growth and has surrounded himself with a highly professional management team running operations

according to strict Anglo-Saxon corporate governance and business principles.

"We are now active throughout Madagascar and have started doing business in Mauritius, India, Africa, and the Middle East," says Akbaraly, "and our next destinations will be the Comoros Islands and the Seychelles." Emerging growth businesses include finance, real estate promotion, tourism, and energy. Since 2004, the firm has established a nationwide network of agencies in order to access all of Madagascar's regions and markets. It now also does business in more than 20 foreign countries.

Under Akbaraly's leadership, Sipromad has morphed from a trading company into a diversified investment group, partnering with foreign investors and companies seeking to do business in Madagascar. Strategic partners include leading US security company Brink's, Traveler Group, and South African communications firm TelePassport, now known as Huge Telecom after a recent merger. With Brink's, Sipromad executives played a major role in smoothing its entry

into Madagascar, facilitating talks with both the public and private sectors and offering advice on logistics and operations. For such new entrants, the group can provide an intimate understanding of local market dynamics and regulations as well as language and culture.

"This is where we can help a lot," stresses Elam Lallmahomed, Sipromad's Deputy Chairman and Managing Director. "We know the country and the business environment very well and we are willing to invest in good ideas and assist companies by sitting on the board and advising them."

Sipromad and its chairman play an important role as corporate citizens of the island country through the charitable activities of the Akbaraly Foundation. The foundation provides food and schooling to over 2,000 orphans, and both Akbaraly and his wife are dedicated to providing humanitarian assistance to those in need.

"Madagascar is a poor country and living in a poor country makes you more human," reflects the chairman. "I think that helping people is a real pleasure." ■



[www.sipromad.com](http://www.sipromad.com)

## Frank Sinatra did it his way Now it's our turn

The legend goes that Frank Sinatra's famous Fedora hat originated from Madagascar. Nobody's quite sure where the legend ends and where history starts, but, decades ago, Sinatra was in a way, our ambassador worldwide.

Now it's our turn to take up the challenge. Starting as a small manufacturing company thirty-five years ago, Groupe Sipromad has today emerged as one of Madagascar's leading holding companies with investments and interests in a wide range of business sectors. A flair for business opportunities, rational investments in technology and human resources, modern management, good corporate governance and growth that is in harmony with the environment, are just a few ways how we do business differently in this part of the world. So much so that our success has crossed borders as we grow into a key player, establishing joint ventures and strategic alliances with global partners on all continents.

It's our way to do business.....certainly your way.

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# Riches Beneath Their Feet

Though largely undeveloped so far, Madagascar holds huge potential for developing mineral and petroleum deposits, and for tapping this wealth to aid economic development. With the help of international investors, the country could greatly benefit from the worldwide commodities boom in the coming years.



**Madagascar has an abundance of agricultural and mineral resources. OMNIS is the most prominent of the government's mining agencies.**

While Madagascar does not yet have a well-developed mining industry, there is vast scope to exploit an array of minerals and gemstones. Already the island country is the world's tenth largest producer of chromite, a metal widely used in making steel alloys. It also has the world's largest reserves of sapphires and major untapped deposits of bauxite, coal, copper, iron, lead, mica, nickel, petroleum, quartz, and uranium.

"We have major mining reserves that are only waiting for investors to exploit," declares Madagascar Central Bank Governor Frédéric Rasamoely.

With international mining firms like Rio Tinto already involved in exploration, and a group of Canadian, Japanese,

and Korean companies aiming to begin nickel-mining operations by the end of the year, Madagascar is becoming known as an untapped source of mineral wealth. OMNIS (Office for National Mining and Strategic Industries), the most prominent of the government's mining agencies, is focused on developing production of petroleum and strategic minerals, and with its support, local industry will soon begin producing 1,000 barrels of oil per day.

"A number of international petroleum companies are now interested in us," says Elise Razaka, Director General of OMNIS and a French-educated engineer. Australian, British, Chinese, Indian, and U.S. firms have already been granted block concessions to develop oil exploration and production.

The government has implemented reforms to attract investors, making it easier for foreign companies to do business there. Mining permits are available for operations as small as half a square kilometer up to 6.25 kilometers, large enough to accommodate major production. The government issues permits with little interference from property owners, as the law stipulates that the nation owns all subterranean mineral deposits, regardless of who owns the land above.

Permits are issued quickly by international standards. "In South Africa it can take over two years to get a permit, and in Mongolia it takes about a year, but here we can give you a permit in 35 days," stresses Johary Andriamanantena, Director of BCCM, the agency established in 2000 to provide one-stop support for mining operators.

Landowners are compensated for mining operations and the government plans to reinvest mining revenues in education, jobs, and infrastructure development. Thus it is hoped that the global commodities boom will come to benefit the population at large. ■

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# Planes, Trains, and Automobiles

A huge country roughly the size of Kenya, Madagascar still only has about 850 kilometers of railway and less than 6,000 kilometers of paved road. So enhancement of the country's transportation industry is vital to drive development of industry, tourism, and commerce.

For over 15 years, Madarail, Madagascar's national railway, had been sorely neglected. Thousands of passengers and millions of tons of freight transferred from rail to road have placed huge strains on the country's road network. Following a transportation rethink in 2006, however, the government privatized Madarail and, along with the World Bank and private investors, undertook a \$50 million restructuring and investment project to make the railway the focus of much of the country's shipments of goods, minerals, and materials.

"Rail transport is safer and more reliable than by road," says Patrick Claes, Madarail's Director General, with 28 years' experience managing national railways around Africa. "It also helps the government save on road maintenance."

Given Madagascar's promise as a center for mining, agriculture, and tourism, improved transportation links are vital to economic development. KRAOMA, the country's main chromite producer, needs to transport 2.7 million tons by rail each year alone. Freight traffic is likely to grow rapidly in the years ahead

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as international mining companies set up operations there.

While much freight may travel by rail, passengers will continue to move around the country by road or by air. Air Madagascar, the country's main airline, has tripled passenger traffic since 2002 and is expanding its domestic and international fleets. The local market to purchase and hire automobiles is small by international standards, but it is growing as the multinationals move in.

"There is a lot of investment now in Madagascar minerals and oil," says Fabrice de Creisquer, Director General of SICAM, a leading local car sales, leasing, and service company. "Some customers are buying 50 to 100 cars."

SICAM is actively engaged in boosting the domestic skilled labor force and runs a fully subsidized school, offering secondary education and training for mechanics out of their own offices. Education is the key to Madagascar's future development and will be necessary to create and maintain badly needed national infrastructure improvements. ■

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