

# QIT MADAGASCAR MINERALS SA

Local Procurement &  
Dealing with Inflation in  
Fort-Dauphin  
2007

**RIO  
TINTO**





## CONSUMABLES: INCREASED DEMAND ON LOCAL MARKET at TANAMBAO FOR SUPPLY OF FRESH PRODUCE

### Context:

- The construction of the QMM mine and Port d' EHOALA has attracted an influx of additional people to the city of Ft Dauphin
- These additional people have created an increased demand on the produce market
  - directly - by shopping in the market and
  - indirectly - through increased demand at restaurants, hotels and the purchases made by Sodexo
- The shortage of product in the market is compounded by the roads infrastructure around the market and the poor condition of the market
- Produce reaches the market in poor condition due to current transport methods
- Lack of storage and refrigeration makes it impossible to store produce
- Poor farming methods
- A request was made by previous local government to upgrade the market at BAZARIBE

### Action Plans:

- Assist regional farmers to deliver produce to market in higher quantities, better quality and quicker
- Encourage and assist stall owners to form an association to manage and plan the market better
- Assist local producers to transport produce to market
- Evaluate the storage and refrigeration issue
- Address poor farming methods
- Ensure Sodexo manage their spend and understand the implications
- Follow up with the new C De R on the request to upgrade BAZARIBE market

June 2007



## CONSUMABLES: INCREASED DEMAND ON LOCAL MARKET FOR SUPPLY OF FRESH PRODUCE...contd

### Proposal:

- Purchase a 4 x 4 5ton truck to assist the co-operative farmers at Tsivory and other outlying areas - this will enable them to deliver 4 - 5 tonnes of fresh produce weekly to the market. The vehicle would remain the property of QMM but a suitable operator to operate the vehicle on an owner/driver basis and a small fee can be charged to offset the running costs of the vehicle as well as the salary of the driver
- Purchase a converted refrigeration container and converted office/shop space container to place on site in Ft Dauphin, either at Bazaribe market or Jovenna site
- The Bazaribe market up-grade project: CARE are in the process of doing a full evaluation of need and once presented a decision could be taken to assist or not.
- Up-grade the existing market at Tanambao
- Road improvement/safety
- Pavement
- Running water
- Barrier between market and road
- Assist stall owners to form a management committee
- Construct wooden stalls



## CONSUMABLES: CHRONIC SHORTAGE OF HOTEL ACCOMMODATION & HOUSING

### Context:

- The QMM project has impacted the hotel industry AND Residential Property sector in Ft Dauphin in a variety ways:
  - Increased QMM demand
  - Increased demand by Joint Venture partners
  - Contractors and sub-contractors
  - Investors
  - Government Ministers and employees
  - Tourists
  - Journalists, etc
  
- The problem has been exacerbated as QMM has taken over three of the hotels to house contractors
  - Miramar
  - Petit Bonheur
  - Vinanibe

These hotels have been upgraded by QMM
  
- The direct result of these improvements is that all hotels have started similar programs. Whilst this continued improvement will ultimately benefit the area the immediate result of these improvements is that hotel prices have risen disproportionately to the investment
- House rentals have risen as a direct response to demand
- The lack of accommodation will continue to fuel such increases
- This problem is also related to the lack of clear and free title to property

## CONSUMABLES: CHRONIC SHORTAGE OF HOTEL ACCOMMODATION & HOUSING ...contd



### Management Initiative to offset inflation:

- The 50 x 3 bed roomed rental houses will be completed by September 2007 and a further 250 houses are planned for later in the project
- The temporary camp will house 240 employees as of June and another 200 or so by year end
- The Sunny Hotel has opened with 12 rooms available albeit at a higher than average price eventual number 22 rooms and they are building an additional 22 next door
- The Kaleta hotel is upgrading and the Gallion (Dauphin) is being refurbished (42 rooms) This will be open in December 2007

**NOTE:** Based on Rio Tinto's experience on other projects, this is a natural process which will be fuelled by the project



## CONSUMABLES: EXISTING SHOP OWNERS SELLING GOODS AT INFLATED PRICES, NO COMPETITION AND POOR SERVICE

### Context:

- Most of the traders in Ft Dauphin stock small quantities of the same items from the same suppliers in Antananarivo. They are Indo-Pakistani traders for the most part and have worked together for years. They have limited capital and are trying to maintain a monopolistic position in the area
- The economy of Ft Dauphin in particular is not service-orientated. The attitude is often that the seller is doing the buyer a favour and can result in shortages
- Traders have been known to stockpile commodities like rice, oil and sugar and only release this product into the market when there is a shortage thereby guaranteeing the best possible price
- The price of rice has risen in the FtD area has risen significantly in the past two years. Oil and sugar have been affected in a similar way. The flooding of the rice paddies of Tana and surrounding areas in H1:2007 has exacerbated the problem. This increase not only impacts on all the people of the region but impacts directly QMM and contractor staff



**CONSUMABLES:** EXISTING SHOP OWNERS SELLING GOODS AT INFLATED PRICES, NO COMPETITION AND POOR SERVICE.....cntd..

**Recommendation:**

- QMM assist local rice traders to obtain bank loans to import quantities of rice, oil and sugar directly and source a warehouse facility in the region. This will address immediate shortages, at a controlled margin, and hopefully motivate the local traders to sell at the same or better price
- Supplier education and planning programme be implemented
- Malagasy suppliers are asked to participate in calls for tender for specific items all differing from each other. This may motivate them to focus on different product lines and reduce price fixing
- Major suppliers are attracted to the region to compete with the local suppliers
- Joint Venture programs be explored with major Malagasy companies teaming with local partners promoting sound business coaching and planning in the region
- MCS – Madagascar Connection Service a collective of small enterprises already formed in Ft Dauphin be assisted to grow their representation and diversity and that QMM contract with them for a variety of services



## INFRASTRUCTURE: POOR INFRASTRUCTURE IN PRODUCE MARKET

### Context:

- The market at Tanambao is informal, chaotic and poses a definite safety risk for people moving along the road
- The road is the only access road from the airport to the MJV offices and into the town
- The stalls are part corrugated iron, part tables, part wooden stalls and often just a produce basket lying on the ground
- The stalls are inter-mixed often with clothing, hardware, fresh produce, meat, chicken and fish all intermingled
- The goods sit in direct sunlight during the day and there is no storage of any kind
- There are dogs moving freely through the market often stepping on and over the food products

### Recommendations:

- Up-grade the existing market at Tanambao
- Road improvement
- Sink a borehole
- Running water
- Barrier between market and road
- Pavement
- Construct wooden stalls
- Assist stall owners to form a co-operative committee/ management committee to address issues in market and mentor the committee



# INFRASTRUCTURE: POOR ROAD INFRASTRUCTURE REGION, FROM TAMATAVE & ANTANANARIVO

## Context:

- Ft Dauphin is largely cut-off from the rest of Madagascar due to:
  - The poor road infrastructure in the region
  - Lack of facilities at the existing port
  - Cost of airfreight
  - Poor weather conditions, depending on the time of year
  - Poor planning and lack of financial wealth of merchants
  - Not being on a regular shipping route

## Management Initiatives:

- Whilst QMM cannot change the national roads infrastructure, roads in and around Ft Dauphin are currently being improved on an ongoing basis. QMM should support the government initiative to upgrade the road from Ihosy to Amboasary
- The construction of the new port should have a marked influence on local import practices and
- Ensure that a better road facility linking Ft Dauphin to Sntananarivo becomes a priority

## Recommendations:

- Open a Business Development and support Center in Ft Dauphin as a matter of urgency
- Assist suppliers to better plan their stock replenishment to cater for the rainy season
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- Mentor and train suppliers in basic stock control
- Assist suppliers by awarding then 1 year contracts for specific goods at an agreed price
- Assist the local suppliers to form a collective to negotiate a better road freight supply deal
- Start discussions with suppliers to plan direct imports through the new port

## **GENERAL:** LACK OF CONFIDENCE IN THE LOCAL SUPPLY CHAIN LIMITED KNOWLEDGE OF AVAILABLE SKILLS & SERVICES IN THE REGION



### Context:

- There is a lack of knowledge as regards the local supply potential for goods and services, which has led to a number of items being brought in from outside the FtD area. There is a general, false, perception that the local suppliers are unreliable and unable to meet our needs. This often stems from contractors and sub-contractors not understanding the system in Madagascar and the very real language issues

### Action Plans:

- A list of all imported items is given to RTP to conduct a sourcing project. Once a suitable supplier is identified they will be asked to submit a quote to supply an item, whether imported or not, if they do not already do so. In this way, prices will be compared and inflationary pricing controlled
- All things being equal, the QMM policy favours the local supplier
- Preliminary audits of all companies listed on the data base are conducted as soon as possible and additional suppliers added on an ongoing basis
- A skills assessment of local suppliers is conducted
- Local suppliers are assisted and mentored to meet supply standards



## GENERAL: PLANNING AND COMMUNICATION

- **Crisis management** will always lead to inflation as urgent goods have to be procured from wherever they are available at whatever price
- **Operational planning** should always include procurement, SOCIAL AND ENVIRONMENT to ensure that suitable suppliers are identified and lead times adhered to
- All **services and goods** should be supplied under contracts which have been properly negotiated in line with the principals laid out in the “way we buy”
- The establishment of the QMM’ s Local Procurement Committee will go a long way towards addressing the lack of world class suppliers in the region
- **Warehousing and logistics** can become costly if not planned early and with sufficient knowledge of the market and the shipping region
- The appointment of a good **clearing agent** is essential to cost reductions in logistics
- **Experienced procurement staff** with a comprehensive knowledge of suppliers in Madagascar is essential
- **Good systems** with accurate reporting capability are essential to cost reductions and management



## IMPROVE KNOWLEDGE OF AVAILABLE SKILLS & SERVICES IN THE REGION

- There is a need to survey the region to establish what skills and produce are available. QMM should not go about this alone, so as not to exacerbate its image as an “NGO”
- Procurement practice should ultimately be to assist in developing skills and supply locally and not simply to supply from Antananarivo or import. Products and services need to be listed and matched to local availability. However, pricing must be competitive

## PROPOSAL



1. There is a need for supply improvements to be made across many areas in Ft Dauphin. The perception of local business leaders, local government officials, NGO' s and leaders is that QMM will fund these improvements. This is not and cannot be QMM' s responsibility if the company is to remain objective in its sourcing practices. It will therefore be important to set up an association of major businesses in the region (outside the chamber of commerce) who will seek funding for these improvements

The micro-finance initiative is being funded 30% by Ft Dauphin suppliers and the balance by major companies in Antananarivo. This source of funding is up and running in Ft Dauphin through ICAR/IFRA with a capital base of US\$ 1 million

BCS has been given additional capacity to train SME operators in business and computer skills through a QMM-funded initiative. The CFPT will also help improve the situation, but other initiatives are required

2. Accelerate the construction of the shopping area in FtD to have available space to attract new formal suppliers in a cost controlled environment