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# **Trip Report: Antananarivo**

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## **Trip Report**

### **BAMEX**

**Antananarivo, December 3-8, 2004**

**Lucie C. Phillips**

#### ***Purpose***

The purpose of this trip was to participate in a policy workshop intended to prepare appropriate legal channels for gemstone buying and exporting by both domestic and foreign gem dealers. BAMEX's participation was at the invitation of the Ministry of Energy and Minerals' *Projet de Gestion des Ressources Minières*.

#### ***Workshop***

BAMEX COP JR Estimé, Phillips and Anselme met with PGRM on Tuesday to prepare for the workshop. Together the BAMEX participants prepared a draft resolution that laid out the anticipated outcomes of the workshop, which was scheduled for the next day. The collaborative preparation worked very well, as the next day everyone was able to stay on message, avoid detours and reach consensus.

The workshop, at the Hilton Hotel on Wednesday December 1, 2004, was opened by the Minister of Energy and Minerals and moderated by BAMEX's J.R. Estimé. Participants included key members of his ministry, representatives of the Ministry of Finance and Customs, a delegation of Thai officials of the Thai Gem and Jewelry Association, and provincial and local authorities from mining areas. Many of the participants had recently visited Thailand on a study tour, where they reported being impressed with the organization and security of the industry there.

Two resolutions were discussed in the morning session, in which the Thai delegation participated. In the afternoon, with the Thai delegation absent, the resolutions were adopted by consensus. The persons responsible for drafting the legislation (*Arrêté*) that will implement the reform were present. They indicated that the *Arrêté* would be presented for public discussion on December 10 and could be passed by the cabinet early in 2005. The Permanent Secretary of the Ministry closed the workshop in the afternoon, in a speech with protectionist overtones that sounded the only dissonant note.

*L'Express* announced the next day that the gemstone sector was to be liberalized. A front-page notice and full page article inside covered the issues quite thoroughly. It quoted one of Phillips' remarks in response to a question about practices in other countries that, "Il y a peu de pays qui interdisent aux acheteurs [étrangers] d'acheter. [Few countries forbid {foreign} buyers from buying.]"

Following the workshop, Phillips met with BAMEX COP, USAID, and PGRM to coordinate implications for the mining sector work plan. She revised the draft work plan accordingly.

### ***Content of the Reforms***

The first reform is designed to correct a set of inappropriate provisions in the Mining Law that had provided that only mine claim-holders could issue laissez-passers verifying the origin of gemstones for export. (The reform may also apply to artisanally mined gold, but that point is not yet clear.) Few mine claim-holders were actually mining, as it had proved easier to simply sell the laissez-passers (for 10 percent of the value of the shipment). Claim holders were also failing to pay the 2 percent royalty due government. They were required to have their ledgers verified only once a year and by the end of the year the royalty payment was beyond the means of many of them. To remove this corruption in the system, the resolution provided that exporters could issue laissez-passers themselves at export, at which time they would also pay royalties. It is expected that this will legalize the major part of the gemstones mined and sold by peasant miners, who generally ignore the formal claims system. The participants in the workshop recognized that it will be important in future to move these miners into legal claim-based mining, but at present this exceeds the administrative capacity of the Ministry, the miners and the local authorities. Since Madagascar is an island, it has a low likelihood of wrongly certifying the national origin of gemstones. The rare instances of artificial gemstones infiltrated into the trade are generally caught by the dealers themselves or the national laboratory that verifies stones for export.

The second reform is designed to legalize foreign buyers. To level the playing field with local dealers, foreign buyers who do not maintain a formal corporate presence in country will be required to pay an additional 2 percent duty. Foreign buyers are the main hope for recovery of the sector, which has languished since the civil conflict of 2002. The entire value chain depends on buyers' capital. Miners use it to fund production. When there are few buyers, production cannot grow, and a vicious circle sets in. The protectionist provision that excluded foreign buyers envisaged that local dealers would buy and export. In practice, most of them lack the capital to buy and the market knowledge to export. The President of the Malagasy Gem Dealers and Jewelers Association was present at the workshop and endorsed the proposed means of legalizing foreign buyers.

### ***Next Steps***

For the sector to recover, it is important to get the reform passed before the Tucson Gem Show in early February 2005 and the International Colored Gemstone Association meeting and Thai Gemstone and Jewelry Association show in Bangkok, February 18-25, 2005 and to effectively lobby the trade to get involved in Madagascar—as both buyers



and potential investors. It is proposed that Phillips accompany the Malagasy delegations to these venues to recruit dealers.

Unresolved policy issues that surfaced during the discussion include the following:

- Cash transfers to fund purchases must go through official banking channels, but they are not efficient enough to serve the trade.
- Provincial and local officials have not seen the promised revenue-sharing from royalties
- The channel from mine to domestic market lacks administrative capacity and viable legal documentation procedures. The Ministry plans to create 10 decentralized Bureaux d'Administration Minière in key mining areas. This will help, but there are many additional aspects of decentralized administration to be worked out.

