

Madagascar and Mauritius: unlocking value through a new strategic partnership

A policy paper which focuses on agriculture,
renewable energy and tourism

The economic cooperation between the two neighboring islands Madagascar and Mauritius still confine on a minimum level. The author of this article, Akilesh Adiratha Roopun, wants to explain, how a closer economic partnership and cooperation between both countries in the scopes of agriculture, renewable energy and tourism could be helpful in the economic development process of both islands.

The following arguments are the opinion of the author. It is important to allude, that his point of view is the perspective of a Mauritian journalist, who has never been in Madagascar before.

While Mauritius exhibits a diversified economy, technical know-how, an excellent infrastructure and a long experience with tourism, Madagascar still suffers from underdeveloped techniques, low quality standards and poor transports and logistics.

On the other hand, Madagascar offers a high capability in the field of farming, fishing and agriculture. Especially the existence of endemic *Jatropha* plants, which may be a credible renewable source of biofuel and energy, makes Madagascar more interesting for exterior investments.

By sharing Mauritian Know-How and Madagascar's resources in all fields of agriculture, renewable energy and tourism, a close collaboration between the neighbors could emerge. Similarly, different trickle-down effects would encourage the economy of both states.

Introduction

Mauritius and Madagascar enjoy strong political and cultural links. Yet their economic ties are yet to show some muscles. Many factors, including a lack of political will from both sides to deepen cross-border trade and investment, have held back the growth of economic cooperation and integration.

Mauritius is the leading economy in the sub-region, whilst Madagascar is endowed with the large pools of a wide range of natural resources and vast areas of cultivable lands. Integration of the two economies will spur a new wave of growth in the entire zone. The two neighbours will have to revisit their economic link agenda. In this policy paper, we look at the untapped opportunities and at the reasons why policy-makers and entrepreneurs from both coun-

tries have not been able so far to take bilateral business relations to a higher plateau. Agriculture and farming are the areas in which cooperation can pick up fast. The two neighbours can build on the existing experience. A number of Mauritian agro-industrial firms, large groups and Small and Medium Enterprises (SME) alike, are already doing business in the Great Island. Many have leased large areas of lands for either cultivation of crops such as potato and cereals like maize. Some are pursuing poultry and other types of farming activities.

Lately, we have sensed a new resolve from the governments of both countries to bring a fresh vitality to this agricultural cooperation. Soaring food prices on the world market are pushing both countries to rethink their strategy. Mauritius is currently diversifying its sources of food imports. A revamped agricultural activity in

Madagascar will definitely prove very handy. But there is more to that. Madagascar is seen as part of a wider vertical integration solution in food supplies. Mauritian entrepreneurs will use the Great Island as a production platform and will establish complete supply chains to move farm produce along the various stages of production and value addition.

The Mauritian private sector is also expected to contribute significantly in developing trade-related infrastructure such as warehousing facilities, transport network and other logistics. As at now, foodstuffs and seafood from Madagascar represents a modest 1% of total food imports of Mauritius. An ambitious bilateral integration agenda will expand trade significantly.

Madagascar has, on the other hand, recently submitted a policy paper on new perspectives in food production at the sub-regional level to the Indian Ocean Commission (IOC). The Great Island has all what it takes to emerge once again the granary in this part of the world.

A strong link in agriculture can have notable collateral effects over other sectors as well. Green energy is one of them. We discuss the potential of a partnership between Mauritius and Madagascar. The Mauritian experience in cane-based ethanol and the Malagasy fast developing skills in producing biofuels from jatropha grains offer a basis for thinking innovatively and strategically about ensuring our energy security in the face of ever rising costs of petroleum products.

The paper also probe into opportunities in tourism. The two neighbours can work together in an industry that has a powerful trickle down effects on the economy at large. The tourism activity has a huge propensity to share its gains more speedily with the population. In Mauritius, the industry is generating jobs in high numbers and is creating new sources of wealth that

are being used to raise the standard of living of the population and to fight poverty. Mauritius has so much to share with the Great Island in this field.

1. COOPERATION IN AGRICULTURE - THE CURRENT STATE OF AFFAIRS

Agriculture: While Mauritius has a high demand on food imports, Madagascar offers many possibilities in farming, fishing and agriculture. The development of cross-border operations in these three cases would help to assure Mauritius' supply with foodstuffs and contemporaneously upgrade the infrastructure, logistics, technical standards and the quality of food-products in Madagascar by additional investment and sharing technical knowledge and know-how for the fabrication of these goods.
--

By its sheer size and thanks to its rich climatic diversity, Madagascar can grow almost all kinds of food crops and fruits. Opportunities are in plenty. Vegetables and fruits can be produced and exported throughout the year. Though blessed with so many natural assets, agri-business in the Great Island is yet to take off and realise its true potential.

By and large, farming is still done in a rudimentary way throughout the whole production and distribution cycle. Agriculture in the vast rural areas is predominantly a subsistence activity and is pursued in small scale. Farmers use underdeveloped techniques and low quality inputs to grow crops. Productivity is low due to poor preparation of the land and inadequate fertilisation and anti-diseases facilities.

The subsequent stages of the supply chain are as informally organised. Poor transports and logistics in most parts of the

country aggravate the problem. Several middle-men are involved. The informal operations carry a lot of hidden costs that make the whole operation uncompetitive at the end of the day. Quality also suffers in the process and the products can hardly meet the phyto-sanitary norms of exports markets.

In spite of all these difficulties, Mauritian entrepreneurs have long spotted the vast opportunities that Malagasy agriculture offers either on a pure trading basis or in a vertical integration scenario. The whole idea of integration is to source products from Madagascar and have them processed in Mauritian factories. The transformed products will then be sold to Europe and the United States among others. The Mauritius Chamber of Agriculture has devised a blueprint to set the scene for this ambitious agro-industry cooperation. However, due to lack of political will from governments of both countries, the plan has not been completely put into practice.

Foodcrop production in Mauritius is dominated by small scale farming with an average holding of 0.25 ha and a few large farms that are greater than 10 ha. A wide range of crops are cultivated including potatoes, onions, tomatoes, chillies, crucifers, garlic, and ginger. Fruits other than banana and pineapple mainly come from backyard production. Crop production continues to be under rainfed conditions resulting in surplus vegetable production during the winter months and a shortage in the summer months. Since some years, foodcrop production for a limited number of commodities namely tomatoes, sweet pepper, cucumbers are undertaken under soilless protected structures. The annual domestic demand for foodcrops ranges from 90 000 to 110 000 t and a large amount of processed food is imported on a regular basis to meet local demands. The

value of processed food imported on an annual basis is over Rs 761M. The main constraints for increasing foodcrop production are availability of suitable land and labour, irrigation facilities, increasing cost of energy and theft, while pest and disease needs to be controlled.

1.1 Mauritian Enterprises in Madagascar

Lack of land resources has encouraged Mauritius to contemplate vertical integration opportunities at regional levels. A few Mauritian entrepreneurs have indeed dared to take up the challenge to venture into the farming business in Madagascar. ERS is one of the few Small and Medium Enterprises (SME) that are pursuing operations on a relatively large scale in the neighbouring island. The company cultivate potatoes in Antsirabe on lands it has leased from the government. The products are treated according to international phyto-sanitary norms before they are shipped to Mauritius. The bulk of the products are sold to the Agricultural Marketing Board (AMB), a public body that act as a wholesale distributor for some specific types of fruits and vegetables in Mauritius. The AMB buys the potato at prices that are more competitive than the locally grown crop and that available from other countries as well. However, since there is a uniform retail price for all potatoes in Mauritius, the consumers do not get the benefit of the cheaper Malagasy potato.

The ERS experience is a clear example of a business model that has moved beyond simple trading operations. It also shows the benefits of controlling the complete value chain in the light of problems discussed earlier. One of the key advantages is the ability to have a hands-on involvement regarding the quality issue. The

strategy has paid off for ERS which has consistently expanded its business over the years.

The company now plans to export potatoes to other neighbouring islands namely Reunion Island and the Seychelles. It is currently exploiting some 200 hectares of land and is producing some 1,000 tons of potatoes. Next year, the area under cultivation will increase two-fold to cater for the growing market.

However, it still faces logistics problems namely in terms of cold storage facilities. ERS is looking forward to build a warehouse which will be equipped with refrigeration. Meanwhile, it has to make sure that there is the shortest possible time lag between harvest and embarkation at the port of Tamatave. This problem is not stopping the company to envisage a bigger operation in the Great Island. "We would like to scale up our operations and move into processing of potatoes. We want to put up a processing plant next to our farms in Antsirabe. We are currently looking for a strategic partner from either South Africa or from Holland. These are the countries whereby expertise in this area is readily available" Satish Ramruttun, the Managing Director of ERS told us.

Other bigger Mauritian companies have put up larger operations in Madagascar. Food and Allied Industries Ltd (FAIL) which is a premier agri-business group in Mauritius has had a pioneering role in the agro-industry links between the two countries. It has established an integrated poultry farming business in Madagascar.

FAIL, through its subsidiary company Avitech, runs four poultry farms in Antananarivo. They have also put up a chicken-feed processing plant to supply its own farms and also other third-party units. This has had positive spill over effects over the maize growing activities in the neighbour-

hood since the company sources its raw materials from a network of small independent planters.

The FAIL experience is however short of a complete integrated enterprise in the sense that the meat processing link is still missing. A lack of large scale cold storage facilities is preventing the company to move a step ahead. There are also quite a few hidden costs like unreliable suppliers and protection against thefts on the farms.

Nevertheless, there has been some technology transfer to the benefit of local farmers. The company has helped local operators to adopt more professional practices to upgrade the productivity of their operations and the quality of their output.

Fishing and seafood is another promising line of business where Malagasy and Mauritian companies can cooperate. Many Mauritian firms are already sourcing seafood products from Madagascar. Sea fruits are high quality products that fetch premium prices on the Mauritian market. These materials are especially in high demand from hotel operators and from the top range restaurants on the island. Dayanand Boholah Seafoods Ltd is a company that specialises in the distribution of seafood. It imports wide varieties of shrimps, oysters and lobsters from Madagascar mainly. The firm has known quite some success over the past years thanks to its flourishing seafood operations in Madagascar.

1.2 Vantages of Mauritian Investment in Madagascar and Cooperation

These experiences show that there is plenty of scope for both SME and large companies to develop cross border operations in farming, fishing and agriculture. There is in fact a strong case for more Mauritian private investment in Madagascar despite the various technical and infra-

structural deficiencies. In fact, Mauritian companies have a role to help upgrade agricultural and farming practices in Madagascar as the benefits far exceed the cost of providing a helping hand. Mauritian businesses and Mauritian agricultural research organisations like the Agricultural and Research and Extension Unit and the Food and Agricultural Research Council must be more aggressive in transferring technologies and skills to the Malagasy farming community.

The prize which is at stake is worth the effort. Madagascar can actually be neighbourhood solution to the ever increasing demand for food and agricultural raw materials in Mauritius. The way forward is to link together production processes across the two countries. Entrepreneurs can tap on the existing institutional set up to forge alliances and partnerships. The two countries have signed an investment protection agreement. Property rights in Madagascar are well defined and legalised through 99 yrs lease. The two States are also signatories to a double taxation avoidance treaty which gives notable fiscal advantages to investors. Business operators may also get the benefit of a bilateral technical cooperation framework between the two countries in the field of farming, fishing and agriculture.

Investors can also access the business support facilities of the Indian Ocean Commission of the Southern African Development Community and of the Common Market of the Eastern and Southern Africa to which both Madagascar and Mauritius are members. In short, agri-businesses can leverage on a regional development space that is expected to grow in both breadth and depth in the years to come.

There is now a range of financing schemes to support cross-border initiatives. The two Mauritian leading banks namely the

Mauritius Commercial Bank and the State Bank of Mauritius have set up branches in Madagascar to accompany Mauritian entrepreneurs who have set a foot there.

1.3 New Perspectives

It takes a new vision to achieve real and lasting change. Madagascar offers a lot of opportunities in terms of large domestic markets, abundant natural resources and cheap labour. Yet, the business climate is not attractive enough due to a number of administrative and technical hurdles. A few measures should be quickly implemented in that respect. Pre-shipment and clearance of goods exported to Mauritius should be improved. Higher phyto-sanitary standards should be implemented. Administrative processes such as export permits and customs procedures must be streamlined and simplified. The Mauritius Standard Bureau, which is the body that sets and ascertain quality standards of products that are traded on the Mauritian territory, is busy looking at the norms that are hampering foodstuffs imports from Madagascar.

However, there is more to promoting integration in agriculture than tackling a few issues of technical standards and of red tape. Business with Madagascar must be approached through an entirely new paradigm. To make it happen, the big companies of the Mauritian agricultural private sector should be ready to play in much bigger role in Madagascar. This would mean going out of their way to invest in infrastructure like warehousing facilities and other trade-related capacity. "Mauritian investors must not expect Madagascar which is a poor country to put all sorts of facilities at their disposal. They should help put up the infrastructure which is needed to improve business. This is the reason why the big shots from the Mauri-

tian private sector should have a bigger involvement in primary agriculture in Madagascar” says Cyril Monty, the head of the Agricultural Diversification Unit at the Mauritius Chamber of Agriculture (MCA). He has studied extensively the issue of developing farming links between the two countries.

Doing profitable business with Malagasy farmers and suppliers is about revamping the whole value chain through promoting new techniques and processes at the various stages of production and through upgrading transport and other logistics. The Mauritian SME, though vital players in the play, do not have the critical mass to make a big change in that respect. Their larger agri-business groups should be in the driving seat of this new adventure.

It makes economic sense to tap the potential that Madagascar offers in food production. Mauritius which is a net food importing country buys 70% of foodstuffs requirements from abroad. This includes end products for consumption and raw materials for the agro-industry. “With the prices of agricultural commodities that are hitting records levels everyday, Mauritius should actively look for pro-active solutions to secure its supply of food instead of just being a spectator. Madagascar, which currently supplies an unassuming 1% of Mauritius total food imports, offers a unique opportunity whereby Mauritian entrepreneurs can take control of the whole supply chain and connect to the markets in Mauritius in much favourable terms” argue Cyril Monty. The geographical closeness of the two islands makes Madagascar an even more attractive source of supply in the face of rising freight costs.

Some observers are suggesting that Mauritius should revisit its whole agricultural policy in the light of soaring food prices on world markets. Farm activities that were considered uneconomical in the

country may become economically viable if conceived within a regional context. We already discussed the possibility of Mauritius to use advantageously the resources and facilities available in neighbouring countries to produce primary products on large scales at competitive prices for its local agro-industry. Such a process would assist Mauritius to emerge as an agro-processing hub in the medium to long term.

1.4 Spill-Over Effects

The model of Singapore, another net importer of food like Mauritius, can be adopted in this regard. This country has managed to successfully emerge as an international agro-processing hub, using the production capacity of its neighbouring countries through proper utilisation of its know-how, innovative technologies and efficient communication and port and airport logistics. Mauritius and Madagascar are ideal partners in this vision. There are strong political and private sector ties between the two States. The new agricultural design can flourish on this strength. Mauritius has sophisticated transport and warehousing logistics compared to its neighbours. The Mauritian Freeport has state-of-the-art infrastructure and can serve a regional distribution platform just like the Singaporean port does in South East Asia. Besides, Mauritius has proven R&D capabilities in agriculture. Research skills in sugar technology have spilled over non-sugar agricultural activities. Mauritius is ready to export know-how to the region. It should now consider building industries in the partner countries through private sector exchanges and through triangular cooperation involving third-country participation. A recent Action Plan produced by the Ministry of Agro-Industry

in Mauritius has highlighted the potential of regional networks in bringing a new dynamism to agri-business. One of its main recommendations is to investigate into the possibility and feasibility of using the region as a production base for raw materials.

The plan refers to opportunities that exist in certain neighbouring countries including Madagascar and Mozambique. Besides advantages already discussed earlier, their climatic cycles are very appealing and many crops can be cultivated year-round. Also crops, such as potatoes, that cannot be grown in Mauritius in specific periods can be cultivated during these same periods in these countries, thus ensuring a regular supply. The possibility of producing within the region a number of other primary products, such as maize, onion and garlic with guaranteed access to the local market needs to be seriously considered, according to the Action Plan.

1.5 New developments in the field of agriculture

The economics of world's agriculture is changing. The search for new sources of biofuels is displacing food production. Cereals like wheat and maize fetch a higher price when they are inputs to renewable energy than when they are used as food commodities. This is prompting farmers in many parts of the world to supply grains to energy companies rather than to the traditional food supply chains.

As the enthusiasm for fossil fuel alternatives increases, agricultural commodities will feel more of the strain. The new uses of cereals are pushing food prices up. Net food importing countries like Mauritius are bearing the full brunt of this new dynamics. Madagascar can be here also part of a wider strategic solution to this prob-

lem. Madagascar has the answer to the growing tension between food security and food security. It has a huge potential to increase lands under agriculture to accommodate both food crops and biofuels. The Great Island is currently exploring the energy potential of jatropha plants, a shrub that grows abundantly over the island. Jatropha grains have proven biodiesel properties. Since the plant is not edible and grows on lands unsuitable for food crop, it does not compete with food produce. Bio-energy business in Madagascar is not a threat to the island re-emergence as a major supplier of food produce to the African continent. Many experts believe that Mauritius should give a new political dimension to its agricultural partnership with its resource-rich neighbour. Some 25 years ago, the Great Island was among the main suppliers of quality rice to Mauritius. The brand *Perle de Madagascar* used to be a household name in the country. Due to bad policies, the Malagasy rice industry collapsed and Mauritius had to turn to Asia for this basic foodstuff. The changing economics of food and energy will sooner rather later force Mauritius and Madagascar to re-open a trading route for strategic commodities like rice and flour. Mauritius must help Madagascar to rebuild these industries and to revive farmers' interest around these activities. Lately, the Government of Mauritius has put on the table the idea to explore wheat farming on a wide-scale commercial basis in Madagascar. Stakeholders, including a flour processing company, are being asked to give a serious thought over this opportunity as part of a response to the challenge of food security. In this context, the culture of rice is also being looked into.

However, Madagascar can be much more than just a major supplier of foodstuff to

Mauritius. The Great Island can also be exploited as a platform by Mauritian entrepreneurs to tap other overseas markets. Madagascar is a beneficiary of the “Everything But Arms” (EBA) initiative. As such, it enjoys duty-free and quota-free access to the European markets. Mauritian companies that are suffering from eroding trade preferences in Europe can shift some of their operations next door in a bid to take benefit from these new opportunities.

2. RENEWABLE ENERGY

Renewable Energy: To reduce their dependence over fossil fuel, both countries are investing in biofuels. In this case, Mauritius could share its knowledge about the production of biofuel made of sugarcane, while Madagascar has a lot of (endemic) *Jatropha* plants, which could be a credible renewable source of energy. The combination of Mauritian’ Knowledge and renewable resources from Madagascar would improve the economic development and cooperation of both islands.

Both Madagascar and Mauritius are actively exploring ways to respond to the global energy security threats. Both countries are investing in biofuels in a bid to reduce their dependence over fossil fuel. In Mauritius, sugar cane which is its main agricultural activity, offers a great potential for renewable energy. Part of the national electricity production is being generated by burning bagasse, the residue of cane. Other by-products of sugarcane namely, molasses and cane juice, are raw materials in the production of ethanol. Madagascar, on the other hand, is eyeing the opportunities to unlock the energy wealth of the *jatropha* plant.

Jatropha is a shrub that grows in vast areas of land in Madagascar. This is mainly an unorganized activity since only recently its use as a substitute for fossil fuel has been formally recognised in the Great Island. *Jatropha* has traditionally been cultivated to serve mainly as hedging plant in vanilla cultivation, which is a major farming activity in the country. Ever since the energy virtues of the plant have reached the ears of the Malagasy government and the farmers, *jatropha* is rapidly shifting purpose.

Jatropha trees originate from Latin America and were introduced in the Indian Ocean island early in the 20th century. It emerged from recent research that the grains of the plant conceal rich biodiesel properties. The economics of *jatropha* in Madagascar is likely to change drastically with this new perspective. Many local companies and foreign energy companies are currently working with the farmers to find ways to make profitable business from the bushes.

Some five percent of the diesel needs in 2008 of the country may be provided by the grains, according to a two year-old plan by D1 Oils, an energy company. The project mentioned that some 15,000 farmers will be involved in the oil extracting activity by this year.

Jatropha grains are rapidly gaining international recognition as a credible renewable source of energy. A recent report from Goldman Sachs pointed out that *jatropha* may be a more economic biofuel than corn-based or sugarcane-based ethanol. Analysis of the bioenergy market suggests that *jatropha*, which can be grown in variable conditions with little water or fertiliser, could be used to produce a barrel of fuel for around 443, less than the costs of sugarcane-based ethanol (\$45 per barrel)

or corn-based ethanol (\$83 per barrel) currently favoured by the United States.

Oil giant British Petroleum and other firms are investing in jatropha in Thailand, the Phillipines, Swaziland, Saudi Arabia and, especially India, according to the Wall Street Journal that was citing the Goldman Sachs report. Madagascar should perhaps do more to catch the attention of oil majors and other refinery companies that have a substantial renewable energy initiative.

Madagascar needs to scale up its existing resource base. The grains can provide a powerful alternative to fossil fuel not only to the country but also to the neighbouring islands. There is scope for trade and investment partnership between Mauritius and Madagascar in the area of energy production.

Meanwhile, there is a lot to be done to move jatropha from shrubs to an economically viable energy crop. Cultivation practices will have to be upgraded and the supply chain will have to be established around the idea of a new refinery industry. The Malagasy government should continue to support technology transfer in order to improve diesel yield potential of the plants and to build the infrastructure in terms of logistics and regulations. Policies must be devised to create the sort of business space that is most appropriate to provide a strategic impetus to this new line of economic activity. Foreign operators with the necessary know-how, markets and network must be encouraged to invest in the Great Island.

As at now, extraction of oil materials from the tree is being done inexpertly. Micro-credit agencies that support farmers are not investing in the cultivation since they lack know-how in the business. Therefore, farmers are still using low-skilled methods of extracting the oil.

Nevertheless, Madagascar has many reasons to look into this new source of bioenergy. Jatropha plant is very hardy, needs very little care, adapts to poor soils and is perfect for reforestation, experts say. Furthermore, because it is not edible and grows on land unsuitable for food crops, its expansion does not compete with traditional food production. The jatropha business will therefore not compromise the vision to transform Madagascar into the region's granary for food produce.

The budding biodiesel Malagasy industry will have keep pace with the bandwagon of clean and renewable energy at the international scene. Leading oil, automobile and research companies are working together to explore the new activity. Lately, Archer Daniels Midland Company, Bayer CropScience AG and Daimler AG have announced plans to explore jointly the potential for a biodiesel industry based on Jatropha. Recent studies show a potential of almost 30 million hectares of land on which it can be grown, according to Bayer. In the new plan, the three companies are seeking to develop production and quality standards for the biofuel. ADM is running several biodiesel refineries, Bayer plans to develop and register fertilizers and insecticides for disease and pest control, and Daimler AG just finished five years of research that demonstrated Jatropha can produce a high-quality biodiesel which has been tested in vehicles. Daimler will continue to study Jatropha fuel in vehicles powered by it and a mixture with other fuels.

2.1 The need of investments in the field of biofuel and its advantages

Madagascar can also draw on technical support from non-profit making organisations. For instance, Agro Energy Development (AGROED), a firm backed

by the French Agency for Development Cooperation, has plan to introduce the cultivation of jatropha as a biodiesel crop to stimulate development of African economies.

AGROED spokesperson says the rationale behind the creation of the company is the ever increasing price of oil, which is bringing poor countries to a standstill. AGROED sees the cultivation of jatropha, a non-food biodiesel feedstock, as a path to energy self-sufficiency in these countries. AGROED will begin its operations in Mali and Burkina Faso, with an eye to extend its footprint within Africa and overseas. Madagascar will have to register its interest more aggressively regarding this kind of initiatives. The company will be engaging the cooperation of village communities as well as provinces in its project. This kind of partnership will help plug the technology deficit at the grass-roots level and also to connect local supply chains to international markets and resource networks.

Mauritius, on the other hand, has a much sounder and a more comprehensive story to tell about its sugarcane-based green energy experience. Bagasse (cane fibre) and molasses have a proven track record as a viable substitute for petroleum products. The optimisation of the sugar by-products serves two crucial purposes in the economic context of the country. First, these will help displace fossil fuels and reduce the country's import bill. Second, energy production is a critical component of a sugar sector reform package. Bagasse-fuelled electricity production and ethanol manufacturing will generate income streams to the sugar producers and planters that will contribute to offset the fall in the guaranteed sugar prices in Europe which is the main export market for Mauritian sugar.

Unless alternative sustainable sources of earnings are explored, the sugar industry will face a bleak future. No wonder, the sugar milling companies are investing heavily in new sugarcane clusters of which energy projects are a key line of business. Small planters are also participating in this bold and ambitious diversification programme by becoming shareholders in the new upcoming electricity generating factories and ethanol distilleries. The Sugar Investment Trust (SIT) which is a collective investment vehicle for planters and workers of the sugar industry already holds sizeable stakes in the electricity production activities.

It is essential to understand the full potential of the cane plant and to assess the economics of the use of its by products compared to oil and oil derived products. In many respects cane is, and can be, a very effective substitute for oil for a vast array of use and products.

At all times, sugar factories have through the combustion of bagasse (cane fibre) been self sufficient in terms of their energy needs for the manufacturing of sugar. The first sales of electricity to the national electricity grid started as early as 1957 in Mauritius, and in this regard, the country has been a pioneer. The thermal plants use a mix of coal and bagasse. Experts have found that the bagasse/coal option is definitely the cheapest in terms of base load electricity generation when compared to the coal and heavy fuel oil options.

Bagasse-derived electricity accounts for around one fifth of total island demand and coal and bagasse-derived units represent slightly more than half of that demand. As a guide, some 60 kWh on an average are exported to the grid for every ton of cane processed in the sugar factories. With the adoption of the most efficient technology currently available a figure of

130 kWh/ton of cane in terms of export to the grid is being achieved. It should also be recalled that of all cultivated crops sugarcane is known as the most efficient sequestrator of atmospheric carbon, and, as such, has global environmental benefits in line with the objectives of the Kyoto Protocol.

Optimisation, using existing state of the art technologies, of the biomass potential of the cane plant without affecting sugar production would for a cane yield of 100 tons per hectare result in the export of 12 000 kWh of electricity (avoiding the use of some seven tons of coal) and the production of some 750 litres of ethanol from molasses for blending with gasoline in a 20% ethanol and 80% gasoline mix.

Government is currently investigating the commercial application of the biofuel using a 10/90 mix configuration. A first series of tests have been pursued on a sample of 25 cars. A second phase of experimentation that shall take place on a larger scale is due to start shortly.

All the energy stakeholders have pledged their commitment to this strategic initiative. The experiments are being carried out with the logistics support of Total Mauritius. All the other oil distributors are supporting the project and are very keen to commercialise the product once the tests are completed.

2.2 Partners in renewable energy: the way forward

Mauritius and Madagascar will have to move beyond the current framework of bilateral cooperation if they want to forge a lasting green energy partnership. The Board of Investment of Mauritius and the Economic Development Board of Madagascar have recently signed a Memorandum of Understanding (MOU). One of the key points of the MOU is to

facilitate exchange of knowledge and investments in the field of renewable sources of energy.

The Malagasy government is inviting proposals from Mauritian investors who may be interested in the jatropha business. Some regions in the southern part of the island have been identified to that effect. The idea is not yet a bankable project. Some more investigations are needed. The Malagasy embassy in Mauritius is following up the initiatives. A more credible scenario for the Mauritian operators will be to team up with Indian firms that have the relevant expertise to take on the new opportunities.

India is among the leaders in the jatropha-based biofuel technology. Mauritius can leverage its close economic and technological ties with India to venture more assertively in this new energy crop.

Similarly, Madagascar can also transfer its acquired expertise to Mauritius which also has plans to grow the jatropha plants. The Indian government is supporting such a project in Mauritius. The former Indian President, Dr Abdul Kalam, launched the idea when he visited Mauritius in March 2006. The Mauritian scientific community has been very receptive to his call. Research is still being carried out to ascertain its technical and economic feasibility.

Regarding ethanol, the Malagasy government is looking forward to source the technology and capital from Mauritius. It is inviting Mauritian firms to undertake cane cultivation for the purpose of producing ethanol. It is thought that this transfer of skills and investment could take place within a triangular co-operation framework with Mauritian investors teaming up with Indians and/or Brazilians energy manufacturers of ethanol.

The Mauritius Sugar Industry Research Institute which is a world's leading research organisation in sugar technology could

bring a meaningful contribution to this endeavor.

3. TOURISM - THE CURRENT STATE OF AFFAIRS

Tourism: Mauritius profits by tourism and its trickle-down effects. Cooperation between the two neighboring islands in the field of tourism, for example by a multi-destination offer for tourists from Europe, could also be helpful for the increase of the (economic) relations of the two countries. With its unique and endemic wildlife and beautiful beaches, Madagascar has in every case the capability to allure tourist from all over the world, while Mauritius could again be helpful by sharing its experiences in the branch of tourism.

Tourism is emerging as a key growth pillar in Madagascar. The economic liberalisation package of the Malagasy government places a high emphasis on this industry to pull in foreign direct investment (FDI) and to generate wealth and jobs in a largely underdeveloped and poorly diversified economy. However, Madagascar has got all what it takes to make it big in the leisure industry. The Great Island has a tremendous potential to develop as a world-class destination for eco-tourism.

Mauritius, on the other hand, is already an established player in the beach resort segment. For the last 20 years or so, tourism has been a driving force in the economic diversification agenda of the Mauritian economy. Besides being a powerful direct contributor to the economic activity, there are also wide positive secondary effects on other economic activities and on jobs creation especially in the coastal regions which have for a very long time relied heavily on agriculture. The hotels and tourism industry has opened up new op-

portunities for local shops, restaurants, vegetables and fruits growers and taxi drivers. Aquatic leisure activities and inland sightseeing have flourished healthily and are creating new business avenues for Small and Medium Enterprises (SME).

This is a success story that can be shared with Madagascar. Co-operation between the two neighbouring islands in the field of tourism can take several forms. Yet, very little has been achieved in that area. There is scope to move FDI and knowledge and skills around. There is also a case to build a common tourism product around the distinctive strengths of the two destinations.

Some Mauritian hotels group have already spotted the potential of the Great Island. At least one large operator, namely the Constance Hotel Group, has already started business in Madagascar. The company is running a resort complex through a management contract in Tsarabanjina in Nose Be (northern coast) in September 2006 and is completing the construction of a 5-star resort in Antananarivo this year.

Many other hotel companies and tour operators are eyeing the opportunities next door. Although Madagascar envisions a predominantly eco-tourism model, the island harbours many places that are suitable for a beach development. This is an area where Mauritian investments and know-how can make a big difference. The Great Island possesses some 5,000 kilometres of coastal line with sandy beaches in many parts. Besides, its waters harbour isles of various sizes that can accommodate hotels and other tourist facilities.

3.1 Requirements on the upcoming tourism in Madagascar

Madagascar must carve a niche of its own in the tourism industry. It is short of a complete safari centre like many countries of the African mainland. Its beaches, on

the other hand, are not to the standard of those of Mauritius, Maldives and the Seychelles. The Great Island must build its unique selling proposition around a segment that lies midway between a beach resort destination and a safari centre.

The Malagasy government has a three-pronged strategy to develop tourism as a vibrant sector: to promote the island as a tourist destination; to attract foreign investment through greater security to investors; and to put up institutions to manage and commercially exploit tourist and land reserves.

The National Tourism Board was set up with other regional boards (Nosy Be, Sainte-Marie, Fort-Dauphin, Ansirabe, Antananarivo and Toliary). Madagascar has invaluable assets to show to the world and is really a place to discover for the eco adventure tourists. It is the world's fourth largest island and offers the traveller a land rich in diversity, from unique people with their rich cultural beliefs, to its natural wonders and endemic plant and wildlife species. Besides the uniqueness of its wildlife, Madagascar contains a variety of climatic and floral zones varying from damp tropical rain forests to semi-arid deserts and some 600,000 hectares of mountainous, deeply ravined countryside. In a bid to transform its natural wealth into profitable businesses, the government of Madagascar is putting tourism land reserves on the market upon international invitations to tender. Investors will have access to land resources to build hotels and related infrastructure. Some big names like ACCOR and Kingdom Hotels have already showed up. New projects, including many top-of-the-range brands, are underway in Antananarivo, and in the provinces (Tamatave and Majunga). Some isles have also been earmarked to accommodate hotel development.

Nevertheless, Madagascar remains largely deficient in terms of accommodation capacity. Hotels on the Great Island are usually relatively small. They have a capacity of 20 rooms on average. This shortcoming does not allow them to handle quite a number of operations like conferencing and incentive tours.

The service quality is also questionable in many areas. The manpower lacks proper training. The government has not so far shown a strong commitment to invest in human resources development. The private sector is however taking steps to address the problem. A hotels and restaurants business group is launching a training school with the participation of the Reunion Island Chamber of Commerce and Industry. Skills need to be upgraded as a matter of urgency if Madagascar really wants to catch the bandwagon.

The Malagasy development is however putting much effort to deliver the physical infrastructure. It is investing heavily to link Antananarivo and the other upcoming tourist centres. Besides land routes, air links are also used by tourists to move from one region of the island to another. The national carrier, Air Madagascar, offers a quite reliable intra-island air service between Ivato (Antananarivo), which is the main airport of Madagascar, and many provinces. Some private operators are also offering a jet service to businessmen who have move rapidly up and down the island. The biggest challenge however remains international connections especially with Europe which is the main source of tourists for the southern part of the Indian Ocean. The Ivato Airport needs to be upgraded to handle more large planes and higher passenger traffic.

Though infrastructure is underprovided, Madagascar has an open sky policy. This

is a positive step in that it can readily tap on emerging opportunities. New international air links are following suit. New connections have been introduced between Milan and Nosy Be, between Bangkok and Antananarivo and between Reunion Island and Fort-Dauphin. These enhance significantly the prospects of a vivacious tourism activity in several parts of the country. Madagascar is also well served by regional airlines such as South African Airways, Air Mauritius and Air Austral.

Air Mauritius has plans to expand its coverage to places with high tourism development potential. The Malagasy air transport authority has already granted the Mauritian carrier with the necessary approvals to connect to Mahajunga, Tamatave and Diego Suarez. However, it has not so far started the service since it believes that the tourism industry is not well developed and that the critical mass is not there yet.

3.2 Bringing the tourist industries closer

Whilst the Great Island exhibits some most appealing features in eco-travel, Mauritius prides itself with its exclusive sea, sun and sand offer. Can these two models be reunited around a common theme? The answer is yes and there is, in fact, a strong business case to pursue a regional strategy in order to make the most of the fast-growing – but also increasingly competitive – international travel and tourism market.

The contrasts between the two models can in fact serve the basis for a lasting cooperation. The Malagasy eco-travel product will complement the beach resort package of Mauritius. Drawing on the Caribbean experience, the idea is to market the entire region (including Seychelles and Reunion Island) as one single holiday package. A multi-destination offer is a line

of business that should be explored independently of on-going country-specific promotion efforts.

The concept had actually attracted policy-makers' interest some time ago. The Indian Ocean Commission (IOC) has been busy advocating a tourism strategy that rests on regional pillars. The IOC and the member States must now walk the talk and test the idea it on commercial grounds.

The fact that France is the largest travelers market to both Mauritius and Madagascar makes it an interesting proposition to market both destinations as part of a single package at least in some niches. The high frequency of flights between the two islands can also help promote an extensive holiday product.

The Mauritian private sector can become a powerful force of change in the Malagasy tourism landscape. The Hotels Constance group has shown the way. The Rogers Group, a premier conglomerate in Mauritius is also contemplating business in Madagascar, more specifically in the region of Fort Dauphin. Many Mauritian groups are expanding to the region in Maldives, Reunion Island and Seychelles. The leading Mauritian brands of the likes of Beachcomber, Naiades Group and Sun Resort should be drawn towards opportunities in Madagascar. They have the skills, the markets and network. They have valuable assets to make a difference in the neighbouring island. "Mauritian companies should look at growth opportunities beyond Antananarivo. There are many regions that are emerging as attractive tourist locations such as Nosy Be. The Malagasy Government is offering entire islets on a lease basis to prospective investors. This is a possibility that Mauritian groups should be contemplating seriously. The islets offer great potential for both eco-tourism and beach tourism" remarks Sanjay Mungur,

Managing Director of EMS Consulting, a consulting firm that work a lot on regional business co-operation.

The Economic Development Board of Madagascar is currently identifying new zones that are likely to accommodate tourism development. The agency will then conceive hotel development initiatives accordingly. The Malagasy authorities shall invite expression of interest from Mauritian hotel groups with regards to these pre-conceived projects. These include 2-star and 3-star resorts.

There is also a lot of scope for transfer of skills between the two countries in the area of travel and tourism. Training is an area in which co-operation can be very handy. The Hotel School of Mauritius can provide training to Malagasy personnel. The Mauritian institution has acquired a very rich experience over the years and is in a position to share its knowledge to a regional clientele.

Tourist exchanges between the two islands are still very low despite their geographical closeness. Some 7,500 Mauritians visit Madagascar every year. About the same number of Malagasy citizens travel to Mauritius every year. The main regional markets for the Mauritian tourism industry is Reunion Island that pulls in around 100,000 visitors yearly and South Africa which generates some 75,000 tourists. Mauritius which has set a two-million tourists target by 2015 is very keen to explore more the markets of the neighbouring islands in a bid to increase and diversify arrivals.

A substantial portion of Mauritians travelling to the Great Island are people who are on business trips. Both islands have yet to promote aggressively their respective attractions to each other. One can expect a vibrant tourist route between the two countries if there are better promotional efforts. Additional air links will follow as

a result of improved business prospects and this will generate even more traffic.

CONCLUSION

Mauritius and Madagascar can and should look at common ways to respond to threats and opportunities of globalisation. Both countries are part of the COMESA, the SADC and of the IOC. Besides, they are party to a sub-regional Economic Partnership Agreement (EPA) with the European Union (EU). All these trading blocs and forums should be fully leveraged to build a robust platform for more dynamic cross-border trade and investments.

Successful regional integration strategies help reshape the dynamics of globalisation. World trade liberalisation is unlikely to cause much harm to countries that have developed strong economic links within their respective regions. South East Asia has emerged as an influential economic powerhouse because many industries have clustered on a regional basis and have moved technology, capital, human resources and management skills freely from one member country to another. This is the model to emulate if Mauritius, Madagascar and the other neighbouring islands really want to make it happen on the regional scene.

THIS POLICY PAPER HAS BEEN

PREPARED BY:

Akilesh Adiratha Roopun
MBA (Business Finance), DMS
Markets Journalist and Economics and Business
Writer

3 antoine Manancourt Rose Hill, Mauritius
(230) 2113048 – Office
(Business Publications Ltd)
(230) 2549234 – Mobile

The views expressed in this policy paper are not necessarily the ones of the Friedrich-Ebert-Stiftung.