



## **U.S. Department of State FY 2001 Country Commercial Guide: Madagascar**

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The Country Commercial Guide for Madagascar was prepared by U.S. Embassy Antananarivo and released by the Bureau of Economic and Business in July 2000 for Fiscal Year 2001.

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## CHAPTER I. EXECUTIVE SUMMARY

This Country Commercial Guide (CCG) presents a comprehensive look at Madagascar's commercial environment, with economic, political and market analysis. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force of the U.S. Government, to consolidate various reporting documents prepared for the U.S. business community. Country commercial guides are prepared annually at U.S. Embassies through the combined efforts of U.S. Government agencies.

An island nation in the Western Indian Ocean with a population of about 15 million, Madagascar ranks among the poorest countries in the world. Over 70 percent of the population fall below the GOM baseline poverty level. In spite of Madagascar's poverty, the island's unique natural environment, wide variety of resources, competitive labor force, and location on the crossroads between Asia and Africa make it worth a second look for serious, long-term investors.

In November 1996, the IMF approved for Madagascar an Enhanced Structural Adjustment Facility (ESAF), which represented the first agreement between the Malagasy Government and the IMF since 1991. In March 1997, the Bank's Executive board approved a World Bank Structural Adjustment Credit (SAC). Conditionalities of these agreements were substantially completed by spring 1999, with the exception of privatization targets, and both the Fund and the Bank negotiated second structural adjustment programs. In May and June 2000, respectively, the IMF approved release of the second tranche of its three-tranche Poverty Reduction and Growth Facility program and the World Bank approved release of the first tranche of its three-tranche Structural Adjustment Credit.

Partly as a result of these credits, but also as a result of the reforms which preceded them, average GDP growth exceeded the population growth rate of around 3% in 1997 (3.5%), 1998 (3.9%) and 1999 (4.7%).

Madagascar's appeal to investors stems from its competitive, trainable work force.

Over 150 investors, particularly garment manufacturers, have organized under the country's Export Processing Zone (EPZ) system since it was established in 1991. The absence of quota limits on textile imports to the United States and special access to the European market under the Lome Convention has helped stimulate this growth.

In addition, the possible eligibility of Madagascar for benefits under the U.S. African Growth and Opportunity Act (AGOA) could increase Malagasy exports and provide a boost to the economy. Liberalization of the foreign exchange market has further enhanced Madagascar's export competitiveness.

The country's transition to democracy between 1991 and 1993 had the unfortunate side effect of impeding economic decision-making and halting reforms begun in the late 1980s. In the past three and a half years, Madagascar has seen a two-round presidential election, a constitutional referendum granting broader powers to the President, legislative and local elections. The current need is to continue economic reforms, particularly in the area of privatization, to continue to move the country away from the failed socialist experiment of the 1970s and 1980s.

The generally poor state of many of Madagascar's roads is an impediment to doing certain types of business, especially those located outside of the major industrial centers. The local road network is in very poor condition and parts of it are impassable during the rainy season. The rail system also is in poor shape, both in terms of track conditions and rolling stock. The water and energy parastatal, Jirama, is in need of rehabilitation. Infrastructure investments, which go towards the maintenance or improvement of human capital--health, education, and public security--,are somewhat behind schedule. Despite this, water, electricity and telephone service are generally very dependable in the major cities, where most businesses are located.

The legal and regulatory environment in Madagascar can be a source of frustration for foreign investors. Foreigners may not purchase land, although investors can now enter into 99-year transferable lease arrangements. Security of private property and enforcement of contracts are not always assured by the existing legal system, although reform efforts are underway. Potential investors in Madagascar should also be aware of the country's unique, but critically endangered environment. Some investment projects require environmental impact assessments prior to approval.

The Government has passed legislation permitting the free transfer of profits from hard currency investments. The EPZ program offers exemptions from taxes for qualified investors. In order to combat fraudulent production for the local market by some EPZ companies, the Government imposed a VAT on EPZ company imports of raw materials and component parts in 1999, refundable upon proof of export. Outside the EPZ companies, whose focus is primarily on apparel production, the most promising sectors are fishing, mining, tourism, and agriculture.

The best prospects for future U.S. sales and investment are in the infrastructure

development (road construction and maintenance), petroleum, telecommunications and mining sectors. Tourism, especially ecotourism, also has significant potential. There are under-exploited opportunities in consulting and engineering.

The business language is French.

Country commercial guides are available for U.S. exporters from the National Trade Data Bank's CD ROM or via the Internet. Please contact STAT-USA at 1-800-STAT-USA for more information. Country Commercial Guides can be accessed via the World Wide Web at <http://www.stat-usa.gov>; <http://www.state.gov>; and <http://www.mac.doc.gov>. They can also be ordered in hard copy or on diskette from the National Technical Information Service (NTIS) at 1-800-553-NTIS. U.S. exporters seeking general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce, Trade Information Center, by phone at 1-800-USA-TRAD) or by fax at (202) 482 4473.

## CHAPTER II: ECONOMIC TRENDS AND OUTLOOK

### MAJOR TRENDS AND OUTLOOK

Madagascar, the world's fourth-largest island, is located in the Indian Ocean off the coast of Mozambique. Though it is blessed with a unique ecosystem, its estimated population of 15 million people is among the poorest in the world, with GDP per capita income estimated at \$264 in 2000 and 70 percent of the population living below the GOM baseline poverty level.

In spite of the poverty, there are encouraging developments. The country has significant economic potential that stems from an industrious, competitive labor force and a variety of natural resources. In the short and medium terms, considerable economic growth can arise from greater efficiency in the allocation and use of these resources, chiefly through privatization and liberalization of the productive sector.

### PRINCIPAL GROWTH SECTORS

With World Bank, IMF, and other donor advice and support, the Government is seeking to move towards a market economy conducive to private sector development, openness to foreign investment, and withdrawal of the Government from productive activities. The Government's strategy recognizes that, notwithstanding significant inflows of official multilateral and bilateral assistance, the real engine of growth will be the private sector. According to the divestiture calendar fixed by the Government in 1997, 45 state enterprises were to have been privatized by the end of 1998. By July 2000, privatizations of 6 companies had been privatized including the two state banks, BTM and BFV and the petroleum company SOLIMA. As privatization is part of World Bank and IMF conditionalities, the Government intends to respect its commitments. As privatization continues, there will be significant opportunities for foreign investors, in particular Air Madagascar and Telma, the national

telecommunications company.

In recent years, weak export prices and increasing competition from other producing countries have cut sharply into Madagascar's earnings for traditional agriculture exports such as vanilla, coffee and spices. On the other hand, aquaculture, apparel manufacturing, mining, tourism, food processing and non-traditional agriculture are export sectors that have excellent growth prospects.

Some investors are now developing projects to encourage value-added processing of agricultural products before export, and diversifying into new products such as essential oils. Offshore fishing and shrimp farming have developed into the leading foreign exchange earners in recent years, attracting Japanese and European investors. Light manufacturing, especially in the textile and apparel sector, has increased significantly since the establishment of the EPZ program in 1991.

The country has commercially significant reserves of several minerals, including chromite, graphite, nickel, mica, and ilmenite. Gold and significant quantities of various precious and semi-precious stones are also found in Madagascar. The discovery of important deposits of sapphires in the north and the southwest of the country has attracted many foreign investors from the United States, Sri Lanka, Thailand, Indonesia, Israel and Europe, though unfortunately, much of the deposits are inside the boundaries of national treasures-- Ankarana National Park in the north and Isalo Park in the south. Measures are in place to help ensure that these parks are not damaged by the adjacent mining activities.

Madagascar's rich biodiversity and high level of endemism--plants and animals found nowhere else in the world-- is the basis for development of the ecotourism industry in places like Ankarana and Isalo. Major investments in hotels and other tourist facilities will be required for the industry to expand. The Government is in the process of establishing special investment zones to facilitate investment in the ecotourism sector. Liberalization of the Malagasy air transport sector should boost tourism if more frequent flights to European cities and lower fares result.

## GOVERNMENT ROLE IN THE ECONOMY

In 1975 the Government of Madagascar, or GOM, embarked on a socialist economic experiment that focused on the principle of national self-sufficiency, but also included strengthening relations with the Soviet Union, the People's Republic of China and North Korea. The GOM nationalized large foreign enterprises and imposed rigid bureaucratic controls on business. These controls included restrictions on imported goods and control of the foreign exchange market, most prices and profit margins. The policies resulted in a sharp decline in productivity and a dramatic shrinking of the economy, with attendant increases in poverty levels.

Structural reform negotiations with the Bretton Woods institutions began in 1987 and have focused on liberalization and privatization of key economic sectors to improve

efficiency and competitiveness. Substantial progress towards economic recovery was recorded under the programs supported by the IMF and the World Bank between 1987 and 1991; however, social unrest interrupted this trend in mid-1991. While resulting in a peaceful transition to a democratic form of governance, the associated political instability created a climate of great uncertainty and wavering in the conduct of economic policy.

With a view to restoring confidence, the authorities in early 1994 defined, in collaboration with the IMF and the World Bank, a new policy framework paper, a strategy for liberalizing the economy, particularly the petroleum, transport, and telecommunication sectors, and for reforming the public sector, specifically by privatizing state-owned enterprises and banks. In a broad reform of the exchange market and the foreign trade system, the GOM allowed the Malagasy franc to float in an interbank foreign exchange market. It also lifted most import restrictions, increased exchange allocations for foreign travel for businesspersons, and authorized residents and non-residents to open foreign exchange accounts for transfers from abroad.

#### BALANCE OF PAYMENTS AND MACROECONOMIC SITUATION

Madagascar has run sizeable balance of payments deficits since the mid-1980's. The current account deficit as a percentage of GDP averaged in excess of six percent during the last six years and registered nearly four percent in 1999. In the past, current account deficits have been financed by external borrowing, resulting in a heavy external debt burden. By the early 1980's these inflows began to dry up and arrears rose sharply. Notwithstanding the Paris Club's March 1997 approval of a 67 percent debt reduction, Madagascar's external debt now still stands at over USD 3.3 billion. Since many of the arrears were not covered by the Paris Club, the country's overall debt burden remains very high. Madagascar will most likely be considered for further debt reduction under the HIPC Initiative sometime during the next year.

An optimistic high growth scenario is predicated on recovery of private investor interest and a continuing drop in inflation. From more than 60 percent in 1994, the inflation rate dropped to 6.4 per cent in 1998, before rising again to 14.4 percent in 1999 (December to December). The Government hopes to lower this to under 10 percent by the end of 2000. In 1999, real GDP growth reached 4.7 percent and was forecasted to accelerate to 5.3 percent in 2000. However, a series of cyclones that struck the country between February and April 2000 have caused the GDP growth estimate to be revised downward to 4.8 percent for this year. The budget deficit was estimated at 4 percent of GDP in 1999. Tax revenues increased to more than 10% of GDP in 1999 and in 2000, the Government forecasts a rate approaching 12%. The 2000 budget will focus its priorities on education, health, environment and national security.

#### INFRASTRUCTURE

Madagascar's physical infrastructure is currently not up to the task of serving as a platform for development. The generally poor condition of roads, for example, inhibits the transportation of agricultural commodities from farm to market. This lowers farmgate prices, increases post-harvest spoilage and makes the supply of inputs irregular and expensive. Railroads cover only a small portion of the island and also suffer from under-investment and poor maintenance, both in terms of track and rolling stock. The port system has essentially been left untouched since independence in 1960. The recent liberalization of domestic and international air transport services is an improvement, but the sector is still characterized by limited traffic and high costs. Despite these problems, the major national highways between key industrial cities such as Antsirabe, Mahajanga, Antananarivo and the main port at Toamasina (Tamatave) are in good condition. In addition, telephone, electricity, water, and gasoline are all generally reliable.

The modernization of the telecommunications system is the most significant infrastructure project now underway. A private U.S.-based firm, financed by OPIC, has provided cellular phone services since 1994. The GOM has installed a new digital switching system, thanks to a French and World Bank foreign assistance project, as part of a nationwide plan for upgrading the communications network.

In 1997, three GSM mobile telephone service providers were granted authorization by the Government to begin operations, providing competition for American-owned Telecel. Internet service has significantly improved since 1998, thanks to the USAID-funded Leland Initiative, which has helped enable the licensing of 10 Internet Service Providers.

### CHAPTER III: POLITICAL ENVIRONMENT

#### NATURE OF POLITICAL RELATIONSHIP WITH THE UNITED STATES

The Government and the people of Madagascar are favorably disposed towards the United States and relations are friendly. The United States provides significant bilateral assistance, mainly in the environment, health, population, and governance sectors. The United States also contributes resources indirectly, through multilateral development institutions such as the United Nations Development Program, the United Nations Environment Program, the World Bank, the International Monetary Fund and the African Development Bank.

Madagascar is historically linked to its former colonial power, France. Its government, legislature and judicial system emulate the French model in many ways. Madagascar is a member of the Indian Ocean Commission (and currently holds the rotating presidency), COMESA, the Indian Ocean Rim, the Non-Aligned Movement, and the Organization of African Unity. Its non-alignment is reflected in its "all points" diplomatic and commercial relations, which include Israel, North and South Korea, Taiwan, and China, as well as Libya and Iran.

## MAJOR POLITICAL ISSUES AFFECTING BUSINESS CLIMATE

After years of failed socialist economic policies, Madagascar has taken important steps towards economic reform by beginning to reduce the government's presence in the productive sectors of the economy.

Most political groupings do not overtly take issue with the need for structural adjustment. As in other countries, including the United States, vested interests reportedly provide campaign financing to political parties and individual politicians in an effort to influence policy outcomes.

## CIVIL SOCIETY INCLUDING BUSINESS-TO-GOVERNMENT AND BUSINESS-TO-BUSINESS DIALOGUE

The civil society, through many business associations, is very active in the country. A special body called CRC (Competitiveness Committee), supported by the World Bank, was created in 1998 to establish a permanent dialogue between the Government and the private sector.

## BRIEF SYNOPSIS OF POLITICAL SYSTEM, SCHEDULE FOR ELECTIONS AND ORIENTATION OF MAJOR POLITICAL PARTIES

Madagascar's political system was changed by the adoption of a new Constitution, approved by referendum in March 1998. The new Constitution strengthens the role of the President of the Republic and promises more autonomy to the provinces. In May 1998, the Malagasy people elected a new National Assembly. The Constitution provides for a Senate, but this second chamber has yet to be put in place. The President is elected by direct, universal suffrage for a five-year term. The Prime Minister, appointed by the President, and his cabinet are part of the executive branch. They cannot be members of the legislature. Matters of national sovereignty--foreign affairs and national defense --belong to the President. The executive and the legislature share legislative initiative. In addition to the executive (President and Government) and the legislative (National Assembly and Senate), the Constitution provides for an independent judiciary.

With the new Constitution, there are few checks and balances to temper executive authority. Only the National Assembly, with the Senate's agreement, can impeach the President. On the other hand, the President and the Council of Government (the Prime Minister and his Cabinet) can by decree dissolve the National Assembly. The Constitutional Court must approve the constitutionality of every law before it is promulgated.

In a view toward establishing the autonomous provinces, provincial elections are expected between November and December 2000.

## CHAPTER IV: MARKETING U.S. PRODUCTS AND SERVICES

### DISTRIBUTION AND SALES CHANNELS

Imported goods can enter Madagascar via air at Ivato international airport in Antananarivo or via sea to the ports of Toamasina (Tamatave), Mahajanga and Diego-Suarez. Products are then distributed by road or rail throughout the country. Distribution is usually handled by the importing company, or by local retailers and wholesalers.

### USE OF AGENTS AND DISTRIBUTORS; FINDING A PARTNER

The use of agents and distributors, particularly those with prior experience in distributing imported products, is highly recommended. Local agents have contacts to develop a customer base, and can easily communicate in Malagasy and/or French.

Partners can be found by obtaining lists of importers from the Embassy Commercial Section or by contacting business groups and market survey firms. The Embassy recommends that U.S. firms visit Madagascar and negotiate a distribution contract face to face, in order to develop the personal relationships that facilitate doing business here.

### FRANCHISING

A number of Malagasy businesspersons have expressed interest in establishing franchises of U.S. businesses in Madagascar, but insufficient consumer purchasing power makes such ventures questionable. Existing resale operations that appear to be profitable include Avon, Yves Rochard, Benetton, as well as the Score and Champion supermarkets. A number of leading U.S. products or services are sold through distributorships, including American Express, UPS, Caterpillar, General Motors, IBM, Dell, NCR, Sun Microsystems, Packard Bell, COMPAQ, and Apple.

### DIRECT MARKETING

Although there are exceptions, direct marketing for U.S.-made products is difficult. The Malagasy consumer is unaccustomed to Western marketing styles. In addition, French language nuances may not be as evident to an American advertiser. The Embassy encourages U.S. businesspersons to direct market to local distributors and agents, however.

### JOINT VENTURES/LICENSING

Joint ventures are a necessity for many foreign investors, as foreigners are barred from owning land in Madagascar. The bureaucratic process for establishing a new enterprise is time consuming and requires considerable maneuvering. The benefit of joint ventures is that the Malagasy partner has knowledge of and can quickly adapt to

the bureaucratic intricacies, which involve obtaining permits from several different Government ministries. The drawback is that a Malagasy partner will likely be a minority shareholder in capital terms and needs to be carefully screened through independent references and past business history.

There are few licensing ventures in Madagascar, the most prominent being that of Coca Cola with Star Brewery (owned by Henri Fraise & Fils Co.), a relationship of over 40 years. Malagasy investors express an interest in licensing agreements, but it is recommended that contracts be negotiated carefully because of the lack of consistency in the Malagasy Commercial Code.

#### STEPS TO ESTABLISHING AN OFFICE

Office space can be found through a handful of real estate agents, advertisements in local papers, or word of mouth. Landlords will rent to new companies even if they have not obtained all their operating permits. Electricity and water service can be obtained quickly, but obtaining fixed telephone service is still difficult in spite of capital improvements. However, with Telecel and the 3 GSM companies, cellular phones are readily available. Office furniture can be obtained locally at reasonable prices. There are increasing numbers of multilingual, qualified secretaries and administrative assistants interested in working with foreign businesses.

#### SELLING FACTORS/TECHNIQUES

The purchasing power of the average Malagasy citizen is very low. Most Malagasy can only afford immediate necessities. In addition, the Malagasy are culturally reserved, and often shy. As a result, and in part because of the recent socialist past, there is less value put on salesmanship than elsewhere. Retailers and sales clerks respond to customer's need and process sales, but there is only a dawning awareness of service or sales techniques common in the United States or Western Europe.

#### ADVERTISING AND TRADE PROMOTION

Marketing is a relatively new industry to Madagascar. Avenues of advertising include billboards, posters, newspapers, radio and television. Prominent campaigns have European influence and often link the product with leisure activities or personal enjoyment. The quality of advertising campaigns varies and appears to depend heavily on the budget of the advertiser. It is possible to pay a newspaper for a full-page article/advertisement, or the seven television stations to broadcast an info/advertisement program.

Daily newspapers:

L'Express de Madagascar  
P.O. BOX 171  
Antananarivo 101 - Madagascar

Tel: (261 20) 22 203 10  
Fax: (261 20) 22 213 83  
E-Mail address: [lexpress@bow.dts.mg](mailto:lexpress@bow.dts.mg)

Midi Madagasikara  
P.O. BOX 1414  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 300 38  
Fax: (261 20) 22 273 51  
E-Mail address: [midi@dts.mg](mailto:midi@dts.mg)

Madagascar Tribune  
P.O. BOX 659  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 226 35  
Fax: (261 20) 22 222 54  
E-Mail address: [tribune@bow.dts.mg](mailto:tribune@bow.dts.mg)

Business Journals:

DMD(Dans les Media Demain)  
58, rue Tsiombikibo - Ambatovinaky  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 277 88  
Fax: (261 20) 22 359 79

ROI (Revue de l'Océan Indien)  
P.O. BOX 46  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 225 36  
Fax: (261 20) 22 345 34  
E-Mail address: [roi@dts.mg](mailto:roi@dts.mg)

Television:

Television Malagasy (state)  
Immeuble Solima - Antaninarenina  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 268 30  
Fax: (261 20) 22 248 52

MA TV (private)  
P.O. BOX 1414  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 208 97  
Fax: (261 20) 22 344 21

TVF (private)  
41 bis, Rue Andriba - Mahamasina  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 207 30  
Fax: (261 20) 22 203 02

RTA (private)  
P.O. Box 7547  
Antananarivo - Madagascar  
Tel: (261 20) 22 627 76  
Fax: (261 20) 22 628 04

OTV (private)  
P.O. Box 4100  
Antananarivo - Madagascar  
Tel: (261 20) 033 11 00 312  
Fax: (261 20) 22 454 51

TVPLUS  
Lot IPA 239 Per  
Anosimasina, Itaosy 102  
Madagascar  
Tel/Fax: (26120) 22 676 73

TELERECORD  
P.O. Box 7522  
Antananarivo 101 – Madagascar  
Tel: (26120) 22 295 32  
Fax: (26120) 22 664 68

#### PRICING PRODUCTS

Pricing of imported products depends on import duties, which generally range from 0 to 30, percent and on the location of the sale. Profit margins on all products tend to be small, around 7 to 10 percent. As a result of the devaluation of the Malagasy Franc in May 1994, local prices of imported goods have risen dramatically, although imported goods are also much more available now than 5 years ago.

#### SALES SERVICE/CUSTOMER SUPPORT

The concept of sales service and customer support is relatively new to Madagascar and is limited primarily to distributors of computers and automobiles. Retailers of most consumer goods rarely accept returns of defective products. In addition,

companies that offer servicing very often lack spare parts and their technicians have limited training. Objects in need of repair frequently have to be sent to Europe or the company may have to wait months to receive a necessary spare part.

To protect consumers' rights, two private consumer organizations were created in 1992 and 1994, but their action has reportedly so far been limited.

## SELLING TO THE GOVERNMENT

As part of its liberalization strategy, the Government frequently advertises in official and local journals, or via radio and television, requesting bids to supply the Government or Government-funded projects. Some of these are intended for international bidders and some only for local companies. These bids are opened publicly and tend not to be contested. Occasionally international bids are canceled or postponed, or Government contracts are awarded without making a public request for bids.

## PROTECTING YOUR PRODUCT FROM IPR INFRINGEMENT

Officially, Malagasy law protects against Intellectual Property Rights (IPR) infringement. Madagascar is a member of the World Intellectual Property Organization (WIPO) and has created two offices dedicated to IPR protection: OMAPI, Office Malgache de la Propriété Industrielle (Malagasy Office for Industrial Property) and OMDA, Office Malgache des Droits d'Auteurs (Malagasy Office for Copyrights).

Enforcement capability is limited, due to lack of training and resources. Pirated audio and video recordings reportedly are the most flagrant violations of property infringement in Madagascar, and imported "fake" consumer goods can be found in local markets (such as imitation Cartier bags, Rolex watches, Nike and Adidas shoes/sportswear). Local industry is not capable of producing quality imitations.

To fight against counterfeiting, the Government has adopted a decree forbidding the import of counterfeited goods.

## NEED FOR A LOCAL ATTORNEY

Foreign investors or businessmen consider seeking the assistance of a qualified local attorney before finalizing any contract or operating agreement in Madagascar.

## PERFORMING DUE DILIGENCE/CHECKING BONA FIDES OF BANKS/AGENTS/CUSTOMERS

Performing due diligence is common in the country and it is performed by accountants. Securing the bona fides of banks is also common in the country.

## CHAPTER V: LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT

### BEST PROSPECTS FOR NON-AGRICULTURAL GOODS AND SERVICES

Telecommunications, petroleum, mining and transportation sectors will be undergoing major reinvestment programs over the next 5-10 years, using multilateral as well as bilateral assistance. U.S. makers of telecommunications equipment, road-building and repair machinery, automotive spare parts, lubricants, hardware and civil aviation equipment are well-positioned to benefit. The mining sector, including petroleum, offers an attractive market as the new mining code opens the country to greater investment.

Due to its renowned biological diversity and unique plant and animal life, Madagascar holds great potential for eco-tourism and environmentally sensitive technologies. The country still has very poor infrastructure in the hospitality industry however, and its low per capita income puts some new technologies out of reach unless development assistance funding or bilateral export financing options exist.

The following products/services can be classified as best prospects for U.S. exports or investment:

#### 1. ITA CODE: TEL: TELECOMMUNICATION EQUIPMENT

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The Government's objective is to improve service, lower costs, expand user access, increase the economy's competitiveness, and attract private capital. To this end, the Government has amended the legislative and regulatory framework to liberalize the sector and to authorize unrestricted entry of new providers. Following an international call for bids launched for the purpose of identifying several mobile telephone providers with unrestricted access to the international network, three enterprises have been authorized to operate (from Malaysia, Reunion and France). Telecel, an American company, has been providing cellular services for the past five years with financing from OPIC. This liberalization will not take effect in landline service until after completion of the privatization of the state-owned telecommunications company.

#### 2. ITA CODE: OGS: OIL, GAS, MINERAL PRODUCTION/EXPLORATION

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The liberalization of the petroleum sector became effective in 1996, and following an international call for bids, several oil companies came to Madagascar to prospect for petroleum and/or natural gas. Foreign companies are invited to participate on an equal footing in an infrastructure management entity (storage, unloading of vessels). Hunt Oil and a Canadian company, Gulfstream, were granted oil & gas exploration permits by the Malagasy government in 1997. Several American companies are

currently negotiating, or considering entering to negotiations for, petroleum exploration concessions. In the distribution sector, the state oil company, SOLIMA, was privatized in June 2000 and liberalization of this sector should provide increased opportunities for investment.

### 3. ITA CODE: MIN: MINING PRODUCTION/EXPLORATION

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The top priorities of the Government in the mining sector are the liberalization of the sector and the withdrawal of the Government.

This strategy is intended to lead to: (a) the elimination of direct government intervention, rationalization of the licensing system and a reduction in the rate of royalties and taxes on mining products; (b) the implementation of mining legislation designed to promote large mining operations by attracting domestic and foreign investors; (c) the development of a partnership for small- and medium-sized operators; (d) the rehabilitation of the industry at the central and regional government levels; (e) the privatization of gold mines operated directly by the Government; and (f) the provision of national geological data to investors, mine operators, and researchers. The mining products for potential investment are ilmenite sands, nickel, cobalt, sapphires, gold, emeralds, and graphite.

A new mining law was approved by the National Assembly in 1999. In addition, the Government is now preparing another law to regulate mining projects of more than \$200 million investment.

### BEST PROSPECTS FOR AGRICULTURAL PRODUCTS

The food sector is now liberalized. Wheat, flour and edible oils are the best prospects for U.S. agricultural exports and could be significant export opportunities.

#### 1. HEADING: 1001: WHEAT

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	1998	1999	2000
a. Total production	none	none	none
b. Total imports (million USD)	15.0	16.5	18
c. Total exports:	none		
d. Imports from the U.S.:	none		
e. Main exporters:	Australia, Canada, France, and Spain		

## 2. HEADING: 1102: FLOUR

-----	1998	1999	2000
a. Total production (in tons)	42.000	45.000	48.000
b. Total imports (million USD)	2.5	3.5	4
c. Imports from the U.S.: n/a			
d. Total exports: none			
e. Main partners: France, Spain, and Italy			

## 3. HEADING: 1507: SOYA OIL

-----	1998	1999	2000
a. Total production (in tons)	none	none	none
b. Total imports (million USD)	4.5	5.3	6.2
c. Imports from the U.S.:	n/a	n/a	n/a
d. Total exports: none			
e. Main partners: Argentina, Brazil, Malaysia, Singapore, United States, and Germany.			

### SIGNIFICANT INVESTMENT OPPORTUNITIES

As stated above, investment opportunities arise from the telecommunications, petroleum and mining sectors.

One result of President Clinton's signing into law the Africa Growth and Opportunity Act is that U.S. foreign direct investment is increasingly viewed by the Government and private sector as a necessary component of Madagascar's trade regime. Roughly 60 percent of U.S. exports are sold by American firms that have operations abroad. Recognizing the benefits that U.S. outward investment brings to the U.S. economy, the Government of the United States undertakes initiatives, such as Overseas Private Investment Corporation (OPIC) programs, Bilateral Investment Treaty negotiations

and business facilitation programs, that support U.S. investors. In February 2000, an Investment Incentive Agreement between OPIC and the Malagasy Government took effect. This Agreement provides tax and other benefits to U.S. investors who utilize the services of OPIC to finance or guarantee their investment. In addition, in September 1999, Ex-Im Bank announced that short-term programs for projects in which the Malagasy Government has at least a 50 percent interest would be eligible for Ex-Im financing or guarantees.

## CHAPTER VI: TRADE REGULATIONS, CUSTOMS, AND STANDARDS

### TRADE BARRIERS, TARIFFS AND NON-TARIFF BARRIERS

Like many developing nations, Madagascar collects a significant share of government revenue through customs duties, import taxes and value added taxes on imports. Although they have been lowered recently, tax and customs duty rates are relatively high. Madagascar does not have significant non-tariff barriers to trade.

#### IMPORT TAXES

According to the 2000 financial law, there are four kinds of duties:

- Import tax (TI): the range is from exempt to 100% for certain luxury goods, such as alcohol and tobacco (5% for raw materials, spare parts and inputs; 5 to 15% for capital goods and 25 to 30% for consumer goods).
- Custom fees (DD): from exempt to 25%
- Consumption tax (DA): from exempt to 10%
- Value Added Tax (TVA): 20%

#### CUSTOM VALUATION

Imports are valued at C.I.F.

#### IMPORT-LICENSE REQUIREMENTS

Imports into Madagascar are liberalized and no longer need any import license except for a few categories of items which are considered by the Government as "strategic," such as guns, explosives, precious stones and radioactive products. Telecommunications items need a preliminary permit before import to ensure compatibility.

Importers are required to submit their "Fiche Statistique d'Importation" (Import Data File), accompanied by a proforma invoice, to their primary commercial bank, with an information copy to the Ministry of Commerce.

#### IMPORT DOCUMENTATION

The following documents are required for commercial shipments to Madagascar:

- Commercial invoice
- Bill of lading or Airway bill
- Insurance certificate
- Packing list
- Import declaration
- Certificate of origin
- Report of VERITAS Bureau inspection for quality and quantity control before shipment of goods.

#### TEMPORARY GOODS ENTRY REQUIREMENTS

Personal effects of diplomatic corps and international organizations and institutions with diplomatic privileges are not subject to import taxes upon entry, but if such personnel sell their effects before leaving the country, they must pay the import duties mentioned above. Imports of raw materials and component parts used within the free trade zones are now subject to a VAT of 20 percent, which is refunded upon proof that finished products have been exported.

#### PROHIBITED IMPORT

Imports of pornographic material are prohibited.

#### SPECIAL IMPORT PROVISIONS

No import duties are levied on the following:

- Non-commercial parcels sent by postal packet, parcel post, or by air, when no import declaration is entered;
- Commercial consignments sent by postal packet, parcel post, or by air;
- Personal effects of tourists.

#### EXPORT CONTROLS

Most exports have been liberalized. However, export authorization is required for certain protected animal and plant species, as specified by the Convention on International Trade in Endangered Species (CITES), of which Madagascar is a member. These include crocodiles and crocodile skin products, live animals, orchids and tropical hardwoods.

#### EXPORT DOCUMENTATION

- Commercial invoice

- Bill of lading or Air waybill
- Insurance certificate
- Certificate of origin
- Phytosanitary certificate, if required
- Commitment to repatriate foreign exchange earnings
- Packing list
- Export declaration
- Customs declaration
- Analysis-of-quality certificate, if required.

### LABELING REQUIREMENTS

Madagascar adheres to international labeling and marking standards, although there is no strong enforcement.

### STANDARDS

The Ministry of Commerce, with the assistance of ISO, is developing national standards for export goods.

### FREE TRADE ZONES/WAREHOUSES

Firms operating as EPZ companies pay a 20 percent VAT on imported raw materials and components, which is refunded upon proof of export of finished products.

### MEMBERSHIP IN FREE TRADE ARRANGEMENTS

Madagascar is a signatory to the following international trade agreements:

- 1964: United Nations Convention on Trade and Development(UNCTAD)
- 1990: Lome IV, between the European Union and ACP countries.
- 1992: Indian Ocean Commission
- 1993: Preferential Exchange Zone (Zone d'échanges Préférentiels), which is the Common Market for East and Southern Africa - COMESA.
- 1995: World Trade Organization (WTO), formerly General Agreement on Tariffs and Trade (GATT).

Madagascar has bilateral commercial agreements with Mauritius and Seychelles, as well as a free trade agreement with Mauritius.

Bilateral commercial agreements are being studied with Comoros, South Africa, Australia and India.

## CUSTOMS CONTACT INFORMATION

Director General of Customs: M. Claude Ramiandrisoa  
Ministry of Budget and Decentralization  
Antananarenina – Antananarivo  
Madagascar  
Tel: (26120) 22 229 16  
Fax: (26120) 22 646 80

## CHAPTER VII: INVESTMENT CLIMATE

### A. 1. OPENESS TO FOREIGN INVESTMENT

Madagascar is very open to foreign investments and has established a system of Export Processing Zones (EPZ), through which qualifying export firms can gain significant tax advantages. Nevertheless, administrative procedures and formalities can be time consuming. Potential foreign investors are compelled to deal with a thicket of bureaucratic obstacles as they seek the necessary permits and approvals. Ministerial overlap and bureaucratic struggles for dominance are serious problems. Often, investors have no idea which ministries to approach, or where to start. While there has been a recent move to simplify, the process is still lacking in transparency and corruption is a persistent problem.

In September 1994, the Government of Madagascar (GOM) introduced a "guichet unique" or "one-stop office" to serve as the coordinating body for new project proposals. This office does not have decision-making authority, but is responsible for transmitting proposals to the relevant technical ministries and following up with them. The "guichet unique" claims a 45-60 day processing time, though delays are frequent. Investors who have used it say that it is helpful in centralizing the application process, but could be quicker and more responsive.

In addition, to promote foreign investments, in 1999 the GOM created an office called "Espace Promotion des Investissements" (Investment Promotion Space) within the Ministry of Industry to assist foreign investors with administrative formalities, information requests, and work permit procedures.

In response to adoption by the U.S. of the "African Growth and Opportunity Act" (AGOA), the GOM plans to create a tripartite entity composed of the administration, the private sector and the donors called "Bureau de Coordination Administrative" (Administrative Coordination Office), to promote Malagasy exports to the U.S. and to attract American investments to Madagascar.

Since 1996, structural adjustment programs with the World Bank and the IMF have been in place. The Government has made an effort to reform the business and investment environment by dismantling some of the regulatory and tax constraints

impeding private sector development, particularly for small and medium-sized local enterprises and foreign investors.

Since 1998, the Government has adopted a series of legal reforms to eliminate public enterprise monopolies in the energy, mining, hydrocarbon, telecommunication, and air transportation sectors. The following measures were taken in 1998-99 to promote foreign investments:

- Long-term leasing of land by foreign investors (operational);
- Relaxation of visa regulations for foreign investors and tourists (operational);
- Abolition of prior approval for equity capital contributions by foreign investors (operational);
- Simplification of procedures for registering corporations (operational);
- Adoption of a legal and institutional framework to combat anti-competitive practices (approval pending);
- Signature of accords eliminating double taxation with countries that are potential sources of private capital (operational. One example is the OPIC Investment Incentive Agreement);
- Adoption of a modern arbitration law and the private-sector led creation of the Malagasy Center for Arbitration and Mediation (not yet operational);
- Adoption of a new mining law (operational) and preparation of a legal framework to promote mining projects with investment of more than 200 million dollars (completion expected before end 2000).

The passage of these laws is a positive development, but it is important to underline that many of these laws are not yet effectively implemented. For example, screening mechanisms, such as refusal to issue licenses, are sometimes used to protect already established local businesses. The telecommunications, mining, tourism and fishing sectors are the major sectors in which foreign investors are sometimes denied national treatment.

During the privatization process, public bids have been transparent, and foreign investors are free to participate.

In some cases, there are discrepancies between stated Government policies and their implementation. As mentioned, foreign companies sometimes encounter discriminatory measures (e.g., non-delivery of licenses) by the Government.

## A. 2. CONVERSION AND TRANSFER POLICIES

In 1998, the Government lifted all restrictions on current payment and transfers and accepted the obligations of Article VIII of the IMF Articles of Agreement, which provides for the complete elimination of exchange controls. There are no restrictions on converting or transferring funds associated with a foreign investment, including remittances of investment capital, earnings, loan repayments, and lease payments into

a freely usable currency at a legal market clearing rate. When delays occur, they are due to temporary shortages of foreign exchange. Foreign investors are allowed to have bank accounts in foreign currencies.

By law, foreign investors must make remittances through banks. There is no limitation on the inflow or outflow of funds for remittance of profits, debt service, capital, capital gains, returns on intellectual property, etc.

#### A. 3. EXPROPRIATION AND COMPENSATION

During the 1970's, the socialist government pursued a policy of national "self-sufficiency" that included the expropriation of foreign-owned companies. The seizure of property owned by foreign oil companies to create SOLIMA, the state oil company, was the most visible expression of expropriation in the country. The Government has settled the expropriation claims of some of the affected companies (including those of two American companies), but others remain outstanding after nearly 25 years. Privatization of SOLIMA is virtually complete.

Since the country is under a structural adjustment program, there is little risk of future expropriation, because State divestiture from public enterprises is now a cornerstone of the government policy. Meanwhile, there are no laws that require local ownership in any sector of activities.

#### A. 4. DISPUTE SETTLEMENT

Investors in Madagascar face a legal environment in which the security of private property and the enforcement of contracts are inadequately protected by the judicial system. Government interference in the court system is not uncommon.

In order to secure the business and investment environments, the private sector, with the assistance of USAID, set up on June 20, 2000 an operational system of arbitration and mediation called CAMM (Centre d'Arbitrage et de Médiation de Madagascar), designed to provide an alternative to litigation for commercial conflicts through implementation of the new arbitration law.

The Government, through the Malagasy Office of Industrial Property (OMAPI) and through the Malagasy Copyright Office (OMDA), supervises all aspects of copyright and trademark protection.

By law, judgments of foreign courts can be accepted and enforced by the Malagasy justice system. The Malagasy law governing corporations is very old, but a revised Code is expected to be adopted soon.

Monetary judgments are usually made both in the investor's and in local currencies.

Under the privatization law, the Government, can agree to binding international

arbitration of investment disputes between foreign investors and the State.

While efforts are being made to improve it, the legal framework in which the private sector operates still suffers from:

- Inadequate content of the law as written;
- Insufficient dissemination and knowledge of laws;
- Inconsistent application and enforcement of the laws.

Madagascar is not a member of the ICSD (International Center for the Settlement of Investment Disputes), nor of the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards.

#### A. 5. PERFORMANCE REQUIREMENTS/INCENTIVES

Investment incentives are available for industries operating in the EPZs. Foreign or local investors can benefit from tax exemptions provided their projects fall into the following categories:

- investment in export-oriented manufacturing industries;
- development or management of industrial free zones; or
- provision of services to EPZ companies.

Beginning in January 1999, the Government introduced a new law requiring that a 20 percent Value Added Tax (VAT) be paid by EPZ companies on imported raw materials and component parts. This tax is refundable on proof of export of finished products and is designed to ensure that EPZ companies do not divert to the local market. The Ministry of Industry is now in the process of drafting a new law for EPZ companies that incorporates this current government policy.

Performance requirements are no longer imposed as a condition for establishing, maintaining or expanding an investment, or for access to tax and investment incentives. There are no requirements that investors purchase from local sources, or export a certain percentage of output (with the exception of EPZ firms), or only have access to foreign exchange in relation to their exports.

There is no requirement that nationals own shares of foreign companies, that the share of foreign equity be reduced over time, or that technology be transferred on certain terms.

There are no Government-imposed conditions on permission to invest, including location in a specific geographical area, specific percentage of local content or local equity, substitution for imports, export requirements or targets, employment of host country nationals, or technology transfer. Investors are not required to disclose proprietary information to the Government as part of the regulatory approval process.

U.S. and other foreign firms are able to participate in government-financed and/or subsidized research and development programs on a national treatment basis. Resident visa fees are applied in a non-discriminatory manner to foreign citizens. Work permits for foreigners are also issued through a non-discriminatory process. There are no restrictions placed on the employment of foreign managers brought in to supervise foreign investment projects. There are no discriminatory or preferential export or import policies which would affect foreign investors, nor discriminatory tariff or non-tariff barriers, or other measures such as import controls.

#### A. 6. RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

Since mid-1996, foreign entities as well as domestic private entities have the right to establish and own business enterprises and engage in all forms of remunerative activity. By law, private entities have the right to freely establish, acquire, and dispose of interests in business enterprises, as well.

By law, competitive equality is the standard applied to private enterprises in competition with public enterprises with respect to access to markets, credit, and other business operations, such as licenses and supplies. However, the reality is somewhat different. For example, foreigners may not own property, although the GOM passed a law in 1996 allowing foreigners easier access to 99-year leases, which can be traded and used as collateral in business deals. In order to promote foreign investments, the Government, in its new policy framework paper, commits to ruling on applications for long-term land leases within 2 months of the date of application.

#### A. 7. PROTECTION OF PROPERTY RIGHTS

Secured interests in property are recognized, but not yet enforced in the country and the concept of mortgage is mainly used by banks and insurance companies while negotiating loans.

Madagascar has a legal system that, de jure, protects property rights. De facto, the legal system works capriciously, and legal recourse for foreign investors does not generally favor them. The Government says it will comply with the Uruguay Round's Trade Related Aspects of Intellectual Property (TRIPS) Agreement. Madagascar is a member of the World Intellectual Property Organization (WIPO) and, since 1994, the Government has relied on two offices for protection of intellectual property: OMAPI (Malagasy Office for Industrial Property) and OMDA, the Malagasy Copyright Office. Compliance with these regulations is highly uneven. Major brand names and franchise rights are respected, but pirated copies of videotaped movies and music cassettes sell openly in the capital. A number of local television stations regularly show pirated copies of first-run U.S. and European movies.

In order to fight against counterfeiting, the Ministry of Industry has adopted a decree

to combat counterfeiting of goods.

#### A. 8. TRANSPARENCY OF THE REGULATORY SYSTEM

Since 1996, the GOM has made an effort to increase transparency in the investment approval process. However, as bureaucratic procedures are not sufficiently streamlined and transparent, red tape is a common problem. In its 1999-2000 program, the Government commits to reforming public administration in order to create a favorable environment for business and investment. The reforms are intended to simplify procedures for registering companies and establishing a legal and institutional framework to fight against anti-competitive practices.

#### A. 9. EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

The banking system consists of six commercial banks. European banking institutions hold controlling interests in two banks: Banque Malgache de l'Océan Indien (BMOI) and BNI-Credit Lyonnais (BNI-CL). UCB (Union Commercial Bank) and SBM (State Bank of Mauritius) are branches of Mauritian parent companies of the same name. In 1999, the former state bank BFV was purchased by the French Bank, Societe Generale, and the BTM by Bank of Africa (BOA) in early 2000. A new private bank, BSM, has been established at the instigation of President Ratsiraka and should be operational by September 2000. The total assets of the country's largest bank, BNI-CL, are around \$200 million.

In spite of the general under-development of the banking system, banks are free to support the flow of resources in the product and factor markets. Credit is usually allocated on market terms and the private sector/ foreign investors are able to get credit on the local market.

There are no "cross-shareholding" and "stable shareholder" arrangements used by private firms to restrict foreign investment through mergers and acquisitions. There are no laws or regulations specifically authorizing private firms to adopt articles of incorporation or association which limit or prohibit foreign investment, participation or control.

There are no visible private sector and/or government efforts to restrict foreign participation in industry standards, setting consortia or organizations, nor practices by private firms to restrict foreign investment, participation, or control of domestic enterprises.

#### A.10. POLITICAL VIOLENCE

Over the past few years, there have been no incidents involving politically motivated damage to projects and/or installations. The political environment of the country is quite safe and there are no nascent insurrections, or belligerent neighbors.

## A. 11. CORRUPTION

Madagascar has laws to combat corruption but they are not efficiently enforced. Corruption is most pervasive in the administrative sector (project approval, government procurements, licenses, judicial matters, etc..)

Tax evasion is widespread in Madagascar, accompanied by bribery of customs or other tax officials. To the extent that businesspersons engage in such tax evasion without being called to account, other firms are placed at a competitive disadvantage if they do not follow suit. A bribe to a local or foreign official is considered a criminal act, but generally goes unpunished, although recently the Ministry of Justice took action against lawyers and court employees who engaged in corrupt activities. The Ministry of Justice is establishing a legal and institutional framework to fight corruption.

A national chapter of Transparency International is being formed.

## B. BILATERAL INVESTMENT AGREEMENTS

According to the Ministry of Industry, the only country with which Madagascar has concluded a bilateral investment protection treaty is France.

## C. OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS.

On March 31, 1998, OPIC and the Malagasy government signed a bilateral Investment Incentive Agreement, which updates the old agreement dating 1963. On April 21, 1999, the Agreement was approved by the National Assembly. OPIC finances the U.S. based cellular telephone company, Telecel, in Madagascar.

Ex-Im Bank assistance is available for short-term Government operations only.

Madagascar is a member of the Multilateral Investment Guarantee Agency (MIGA).

For 1999, the average value of local currency (Malagasy Franc, or FMG) was 6,283 FMG to one U.S. dollar. Between July 1999 and July 2000, the exchange rate fluctuated between approximately 6,250 and 7,200 FMG per dollar. There is a minimum risk of significant appreciation or depreciation of that rate over the next year.

## D. LABOR

With widespread unemployment and underemployment, Madagascar is a labor surplus country. Wage rates in the country are among the lowest in the world. Malagasy workers are relatively easily trained and skill availability is good for the types of manufacturing that dominate Export Processing Zone companies, such as

knitting and clothing assembly. More highly sophisticated skilled workers are limited, however.

Madagascar is a member of the ILO and workers enjoy the right of free association and are free to organize and engage in collective bargaining. Safety standards in the workplace are generally not enforced and do not meet U.S. standards, except among those companies that already export to the U.S. market.

#### E. FOREIGN TRADE ZONES/FREE PORTS

Since 1991, Export Processing Zone regulations in Madagascar allow foreign or Malagasy investors to qualify for tax exemptions. EPZ firms can qualify for tax holidays of varying terms, including reduced personal taxes. In January 1999, the Government began applying a 20 percent VAT to imports by EPZ companies of raw materials and component parts. The tax is reimbursed upon proof of export of finished products and is designed to ensure that illegal diversion onto the local market does not occur. EPZ firms may be set up in special zones, or may establish themselves independently.

#### F. FOREIGN DIRECT INVESTMENT STATISTICS

The EPZ is currently the major focus of direct foreign investment in Madagascar. Of the 150 companies granted status as EPZ companies, about 50% are European (mainly French) investments, 30% are Mauritian, 20% are Asian, and 10% are Malagasy held. EPZ companies generate around 80,000 jobs, directly and indirectly.

According to official sources, the value of foreign direct investment in 1999 was around 57.6 million USD. Data on foreign investment by country of origin and by industry sector are not available.

### CHAPTER VIII: TRADE AND PROJECT FINANCING

#### BRIEF DESCRIPTION OF BANKING SYSTEM

The banking system in Madagascar consists of six commercial banks. European banking institutions hold a controlling interest in two banks: Banque Malgache de l'Océan Indien (BMOI) and BNI-Crédit Lyonnais (BNI-CL). Union Commercial Bank (UCB) and State Bank of Mauritius (SBM) are branches of Mauritian parent companies of the same name. The former state bank BFV was purchased by the French bank Societe Generale in 1998, and the other state-owned bank, BTM, was bought by BOA (Bank of Africa) in 1999. A new private bank created by local operators, called BSM (Solidarity Bank) should be operational by September 2000. For private banks, financial statements are in compliance with international standards and audits are performed both by local and internationally recognized accounting

firms. There are no available data on loans granted to the Government, state-owned enterprises, private sector, or individuals.

#### FOREIGN EXCHANGE CONTROLS AFFECTING TRADING

Since May 1994, an interbank foreign exchange market has set the daily the rate of the FMG (Malagasy Franc).

Free access to foreign exchange for foreign commercial operations was adopted in 1996. To encourage this development, the Central Bank has amended the regulations in force, in particular by significantly lowering the minimum capital required, to spur exchange bureaus.

The Government has lifted all restrictions on current payment and transfers and has accepted the obligations of Article VIII of the IMF Articles of Agreement which plans to abolish exchange controls.

#### GENERAL AVAILABILITY OF FINANCING

The financial sector is not sufficiently developed to provide the services small borrowers need. Numerous initiatives of creditors and donors aim at the granting of micro-credit. The Government supports the establishment of credit unions and other suitable credit facilities and encourages creditors and donors to harmonize their efforts in this field. The availability of local financing has been generally constrained by the Central Bank, in order to control inflation in the wake of large public sector fiscal deficits that have absorbed much of the available pool of local savings. In 1999, increased Government borrowing contributed to a higher than anticipated inflation rate of 14.4 percent (December to December). The Government hopes to reduce this to under 10 percent for the year 2000.

#### FINANCING OF EXPORTS FROM MADAGASCAR

Only well-known and significant exporters can get export credit in Madagascar. The credit granted is mainly for the purchase of traditional agricultural products such as vanilla, coffee, cocoa and cloves. In case of pre-financing by foreign importers, local exporters still have to pay high interest rates to their banks.

On March 31, 1998, an agreement was signed between OPIC and the Malagasy Government in order to facilitate U.S. investment in the country. The World Bank and the African Development Bank have financed a variety of infrastructure and other types of projects. Generally speaking, the financing possibilities that are available to local firms are quite limited both in terms of variety and capacity.

#### LIST OF BANKS WITH CORRESPONDENT U.S. BANKING ARRANGEMENTS

**BTM/BOA:**

Bankers Trust/New York  
Citibank/New York  
Bank of New York  
French American Bank/New York  
Société Générale/New York

**BMOI:**

French American Bank/New York  
Dresdner Bank/New York

**UCB:** Citibank/New York

**SBM:**

Citibank/New York  
Bankers Trust/New York

**BNI:**

Bankers Trust/New York  
Bank of New York  
Citibank/New York  
American Express International Bank/New York  
Chase Manhattan Bank/New York

**BFV/SG:**

Bank of New York  
American Express International Bank/New York  
Bank of America/San Francisco  
Bankers Trust/New York  
Chemical Bank/New York  
French American Bank/New York

**CHAPTER IX: BUSINESS TRAVEL**

**BUSINESS CUSTOMS**

Laws and common business practices are based on the European, particularly French business style.

**TRAVEL ADVISORY AND VISAS**

A visa is required for entry into Madagascar and can be obtained at the airport for stays of less than 30 days. It is no longer worth obtaining a visa from the Malagasy Embassy in Washington D.C., unless a longer stay is contemplated. Since December 1996, the procedures for obtaining tourist visas have been streamlined and simplified.

For further information about visa requirements and travel information, the following Department of State web site is available: <http://travel.state.gov>.

## HOLIDAYS

- New Year's Day, January 1
- Day Commemorating Martyrs, March 29
- Easter and Easter Monday, April 23-24 (movable)
- Labor Day, May 1
- Ascension, June 1 (movable)
- Pentecost, June 11 (movable)
- Pentecost Monday, June 12 (movable)
- African Liberation Day, May 25
- Independence Day, June 26
- Assumption, August 15
- All Saints' Day, November 1
- Christmas, December 25

## BUSINESS INFRASTRUCTURE

- Transportation

Problems with air, train and road transportation are described in Chapter II. Visitors to the capital city of Antananarivo or other cities can easily find taxis. Taxi fares are relatively low, but taxis typically do not meet U.S. safety standards (e.g. no seatbelts).

Rental cars are available, but can be quite expensive depending on the vehicle type and non-residents are usually required to hire a chauffeur. Commercial air service is available to major cities and resorts in the country. Air charters can be arranged to various destinations.

- Language

French is the common language of business, though more and more businesspersons speak English.

- Communications

As noted previously, the telecommunications system is being modernized. There are now 7 television stations that broadcast in French and Malagasy. CNN is available at some hotels, via satellite. There are many radio stations broadcasting in Malagasy and French, with some English language programs.

- Housing

There are 6 hotels in Antananarivo that conform to U.S. standards: Hilton, Colbert, Ibis, Panorama, Mercure and Radama. Hotels in other areas of the country vary greatly in quality.

Short-term lease furnished flats are now offered by some companies in the capital.

- Health

Visitors to Madagascar are advised to obtain vaccinations against Polio, Hepatitis A, Hepatitis B (series of three shots), Tetanus/Diphtheria, Typhoid, and, for those who will be working in rural areas, Rabies. Malaria medication should be taken during the rainy season in Antananarivo (November through April) and at all times when visiting areas below 600 meters in elevation. Visitors are strongly urged to purchase medevac insurance prior to arrival. Local hospitals do not conform to U.S. standards, especially for emergency care, and evacuation to South Africa or to Reunion Island is expensive. Visitors should bring, or plan on purchasing locally, sunscreen and insect repellent. In the event of a medical emergency, visitors should ask to be taken to the Military Hospital and should notify the Embassy Consular Section.

- Food

Local tapwater is not clean, and should be boiled and filtered before being drunk. Bottled water is widely available. Fresh fruits and vegetables should be thoroughly washed, preferably with iodine or chlorine, before being consumed. Meat and poultry should be cooked thoroughly. Restaurants are relatively inexpensive. Chinese and European cuisines are most common.

- Temporary entry of goods

When not imported for sale, goods may be admitted into the country without the payment of duty.

Contact information

U.S. business travelers are encouraged to obtain a copy of the 'Key Officers of Foreign Service Posts: Guide for Business Representatives' available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; tel. (202) 512-1800; fax (202) 512-2250. Business travelers to Madagascar seeking appointments with U.S. Embassy Antananarivo officials should contact the commercial section in advance. The commercial section can be reached by telephone at (261 20) 22 212 57 or by fax at (261 20) 22 345 39.

CHAPTER X: ECONOMIC AND TRADE STATISTICS

APPENDIX A: COUNTRY DATA

Population:	15,017,000
Population Growth rate:	3%
Religions:	70% Christian, 6% Muslim. The remainder adhere to traditional, ancestor-oriented animist beliefs.
Government system:	Democratic, with an elected President and National Assembly.
Language:	Malagasy and French
Work week:	Monday-Friday: 40 hours/week.

The above statistics are official Government of Madagascar estimates.

#### APPENDIX B: DOMESTIC ECONOMY

	1998	1999	2000 (est)
- GDP (USD Million):	3,544	3,688	3,948
- GDP growth rate	3.9%	4.7%	4.8%
- GDP per capita (USD)	257	264	269
- Government spending as a percent of GDP	22.8%	22%	n/a
- Unemployment	25%	23%	n/a
- Foreign exchange reserves (USD Million)	164	221	329
- Average exchange rate for USD 1.00	5,441	6,283	6,654
- Foreign Debt(USD Million)	4,262	3,347	3,071
- Debt Service ratio	29.2	17.8	18.2
- U.S. Economic Assistance (USD million)	24.9	22.3	30.1

Source: - IMF for GDP growth rate and GDP per capita.  
 - U.S. Embassy for U.S. assistance  
 - Central Bank and Structural Adjustment Office for others.

#### APPENDIX C: TRADE (in USD Million)

	1998	1999	2000 (est.)
- Total Country exports:	518	586	615
- Total Country imports	789	742	875
- U.S. Exports:	14.6	106.1	n/a
- U.S. Imports:	71.4	80.2	n/a

Note: The bulk of 1999 U.S. exports are accounted by the purchase by Air Madagascar of a Boeing 767. Non-airplane exports totaled \$9.3 million.

Source: National Data Office & USDOC (for U.S. exports & imports)

## CHAPTER XI: U.S. AND COUNTRY CONTACTS

### APPENDIX E: U.S. AND COUNTRY CONTACTS

#### COUNTRY GOVERNMENT AGENCIES

Ministère des Finances et de l'Economie

P.O. Box 61

Antananarivo - Madagascar

Tel: (261 20) 22 216 32

Fax: (261 20) 22 345 30

Ministère de la Décentralisation et du Budget

P.O. Box 61

Antananarivo - Madagascar

Tel: (261 20) 22 301 73

Fax: (261 20) 22 345 30

Ministère du Commerce et de la Consommation

P.O. BOX 245

Antananarivo 101 - Madagascar

Tel: (261 20) 22 272 92

Fax: (261 20) 22 312 80

Ministère de la Promotion de l'Industrie et de  
l'Artisanat

P.O. BOX: 527

Antananarivo 101 - Madagascar

Tel: (261 20) 22 255 15

Fax: (261 20) 22 277 90

Ministère de l'Energie et des Mines  
P.O. BOX 257  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 255 15  
Fax: (261 20) 22 325 54

Ministère d'Etat à l'Agriculture et au Développement  
Rural  
P.O. BOX 842  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 247 10  
Fax: (261 20) 22 265 61

Ministère des Postes et Télécommunications  
Antaninarenina  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 261 21  
Fax: (261 20) 22 240 08

Ministère des Transports et de la Météorologie  
Anosy  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 227 19  
Fax: (261 20) 22 240 01

Banque Centrale de Madagascar  
Antaninarenina  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 217 51  
Fax: (261 20) 22 345 32

#### COUNTRY BUSINESS ASSOCIATIONS

Chambre de Commerce, d'Industrie et d'Agriculture d'Antananarivo  
P.O. BOX 166  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 202 11  
Fax: (261 20) 22 202 13

- FIVMPAMA (Association of Malagasy Businessmen)  
12, rue Rainizanabololona - Antanimena  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 690 78  
Fax: (261 20) 22 320 56

- GEM (Groupement des Entreprises de Madagascar)

P.O. Box 1695  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 238 41  
Fax: (261 20) 22 219 65

- SIM (Syndicat des Industries de Madagascar)  
c/o PAPMAD  
P.O. Box 1756  
Antananarivo - Madagascar  
Tel: (261 20) 22 206 35  
Fax: (261 20) 22 243 94

- GEFP (Groupement des Entreprises Franches et Partenaires)  
Lot II B 1C  
Amboditsiry – Andranobeava  
Antananarivo 101 – Madagascar  
Tel: (26120) 22 418 07  
Fax: (26120) 22 403 73  
E-Mail: [gefpmg@dts.mg](mailto:gefpmg@dts.mg)

#### COUNTRY MARKET RESEARCH FIRMS

Automated Data Analysis, Processing & Trading (ADAPT)  
P.O. BOX 4212  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 291 92  
Fax: (261 20) 22 291 92

Cabinet MICA  
P.O. BOX 5258  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 243 62  
Fax: (261 20) 22 259 31  
E-Mail: [narondro@dts.mg](mailto:narondro@dts.mg)

Cabinet Fivoarana  
P.O. BOX 3854 - Madagascar  
Antananarivo 101  
Tel: (261 20) 22 219 25  
Fax: (261 20) 22 271 41

Cabinet d'Etudes, de Conseil et d'Assistance à la Réalisation  
Lot IVD 17 Bis, Tsiazotafo  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 347 26

Fax: (261 20) 22 206 44

Cabinet Ravonison, Gast et Associés  
Lot 1B 26-9, Rue de la Réunion  
Isoraka  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 261 71  
Fax: (261 20) 22 446 33

OSIRIS  
P.O. BOX 3476  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 420 44  
Fax: (261 20) 22 420 44

Ocean Consultants  
P.O. Box 3528  
Antananarivo 101 - Madagascar  
Tel: (261 20) 22 428 06  
Fax: (261 20) 22 271 26

#### USEFUL WEBSITES

Tourism: [www.tourisme-madagascar.com](http://www.tourisme-madagascar.com)  
Intestment/Tourism: [madagascar-guide.com](http://madagascar-guide.com)  
Industry: [www.sinergic.mg/madagascar-industrie](http://www.sinergic.mg/madagascar-industrie)  
General Information: [www.embassy.org/madagascar](http://www.embassy.org/madagascar)  
General/Economy: [www.madagascar-contacts.com](http://www.madagascar-contacts.com)  
National Assembly: [www.an.online.mg](http://www.an.online.mg)  
Economy: [www.simicro.mg/sta](http://www.simicro.mg/sta)  
Malagasy Products: [www.zoma.com](http://www.zoma.com)  
Privatization: [www.madaprivat.org](http://www.madaprivat.org)  
Indian Ocean/Madagascar: [www.lk-oi.com](http://www.lk-oi.com)  
Investment: [www.bni.mg](http://www.bni.mg)

#### CHAPTER XII: MARKET RESEARCH

For FY 2000-2001, Post is planning to prepare the following market surveys:

- mining, telecommunications, computers and energy.

#### CHAPTER XIII: TRADE EVENT SCHEDULE :

- October 25-27, 2000: Textile and Apparel trade fair, Antananarivo.

