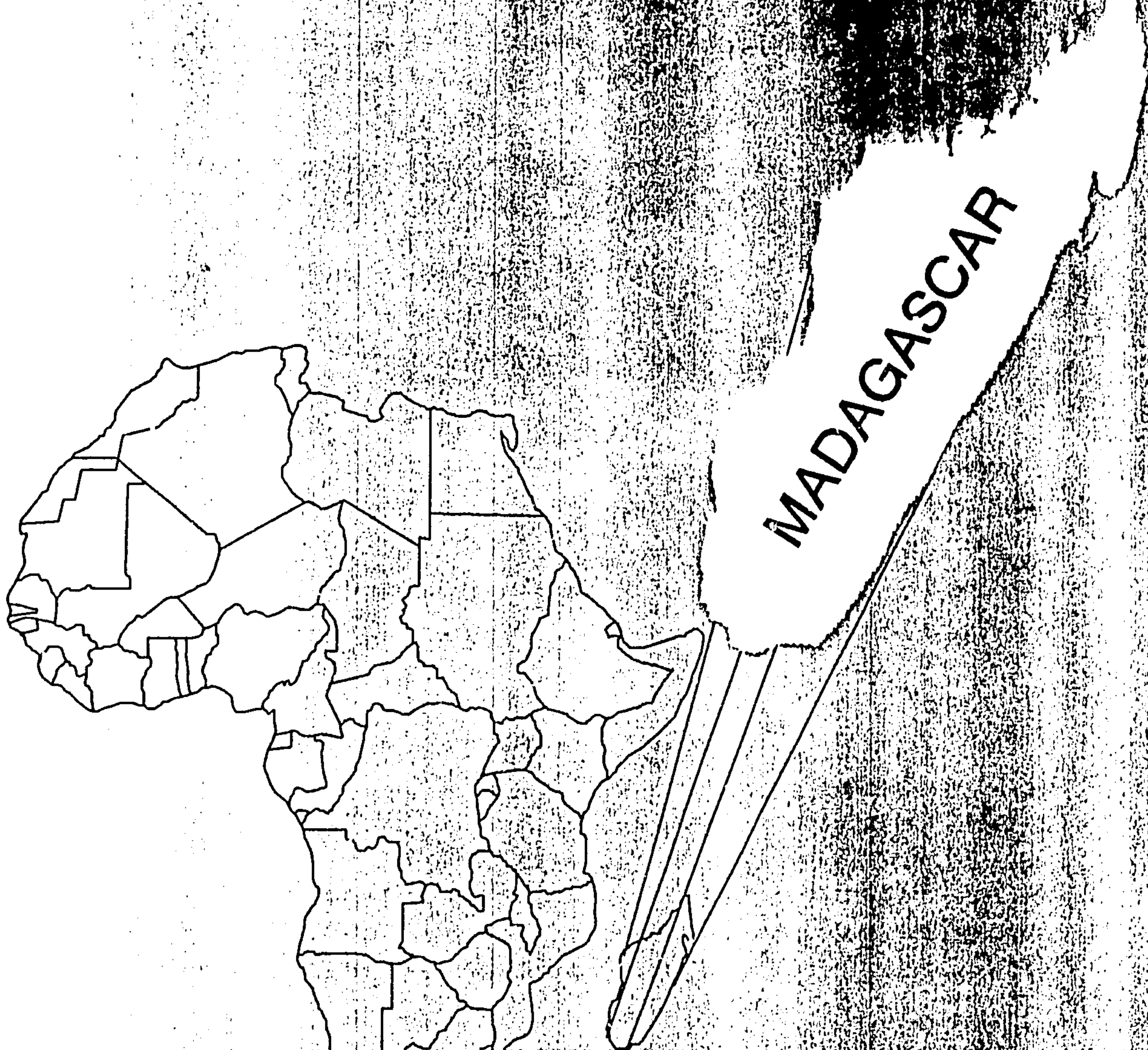
THE AGENCY FOR INTERNATIONAL DEVELOPMENT PRESENTS

CRITICAL ISSUES FOR AMERICAN INVESTORS IN *MADAGASCAR*



THE AGENCY FOR INTERNATIONAL DEVELOPMENT PRESENTS

CRITICAL ISSUES FOR AMERICAN INVESTORS IN

MADAGASCAR

October 1991

Contents

EXECUTIVE SUMMARY

- Madagascar's political situation is in turmoil. President Ratsiraka has lost the support of every major constituency in the country with the exception of the military, but the divided opposition cannot produce a leader able to end the stalemate. Observers agree that Ratsiraka will eventually have to step down. The process of creating a new political system and government will be protracted and difficult, despite almost universal support for a real democracy.

- Madagascar is still a basic agricultural economy. Diversification within sectors and into new industries is present but with mixed results and on a small scale. Growth has been slow generally, with healthy development only in a few sub-sectors.

- Investment policy and regulation in Madagascar are attractive, but operating in the country can sometimes be prohibitively difficult. Investors are cautious about what is actually possible in the near term but remain optimistic about long-term opportunities.

- The public sector is dominant in the Malagasy economy, but efforts are underway to reinvigorate the private sector and establish more balance between public and private enterprises. The public sector generally performs poorly, while the private sector generally is limited to small enterprises and farming.

- Understanding the regulation of foreign investment in Madagascar requires distinguishing between the letter of the law and what is actually the practice. The goodwill of the government toward foreign investors, and its openness to investment in almost any sector, is quite real. But the capacity of the government to execute investment deals and provide necessary support and services will continue to be problematic.

- Madagascar's infrastructure is primitive at best and unworkable at worst. The problems with infrastructure are among the most serious an investor must face in doing business there. Donors are concentrating much of their funds on improving infrastructure, but progress has been slow and will probably remain so.

- Madagascar's enormous external debt burden will bring continuing reschedulings and debt forgiveness, but debt service will remain a drain on hard currency earnings for many years to come. This situation only underscores the country's dependence on donor aid for survival over the next few years.

- Investors report high levels of satisfaction with Malagasy labor, citing low costs and high productivity in particular. Labor is one of the country's main attractions and will remain so for investors seeking low-cost, labor-intensive assembly and manufacturing platforms.

- Madagascar's financial sector is basic and still primarily state controlled. It will for the next several years be controlled and then monitored by the major donors, who will be supplying liquidity and directing restructuring of the sector.

- Moderate inflation will continue to plague Madagascar, but price controls will be gradually reduced under donor guidance. Necessary revaluation of the FMG will make this more difficult.

- Madagascar's fiscal management has been poor. Government revenues are for the time being significantly dependent on donor funds, while expenditures are being restructured under donor guidance.

- Madagascar's tax policies for investors are liberal and attractive but may not be rigorously enforced over the near term.

- Madagascar offers no particular protection of intellectual property, but such issues have not arisen for most investors given the basic types and small levels of investment going into the country.

MAKING THE INVESTMENT DECISION

COUNTRY OVERVIEW

Madagascar is a country with abundant natural and human resources, a place that should offer numerous attractive opportunities for investors. The tragedy of Madagascar--and it is a tragedy--is that a generation of pseudo-socialist economic policies and accompanying "nationalistic" purges of the educational system, commercial class and civil service have left the country in an economic shambles. As one investor put it, the "economic motor of the country has been virtually destroyed." Madagascar is now among the fifteen poorest countries in the world, and its economy remains dependent on small-scale agriculture and the same export crops it has sent abroad for the last 150 years.

The current political transition flows from this recent experience of decay and continuing, unrelieved poverty. While the transition may not produce immediate political stability, it has certainly solidified a change in economic direction: the country is committed to full economic liberalization, to attracting foreign investment, and to cementing relations with Europe and the United States. The last fifteen years have been a dismal failure--there is no question of returning to a centrally directed economy.

This change of direction will, finally, begin to create the opportunities for investors that should have appeared decades ago. Given the country's recent political turmoil and economic crisis, most opportunities will have to be nurtured over time. But some are already available. Moreover, positive progress in turning the economy around should be rapid. People are tired of being poor and unemployed, and they are eager to have an opportunity to start over.

Investors should understand, however, that "eager" must be understood in the local context. One important characteristic of Madagascar is that change does not come quickly. The local people call it *muramu*--"slow" or "it will happen." Madagascar is not a country of dynamic entrepreneurs. Effective use of its resources will require leadership and organization from abroad; for several years to come, investors will have to rely on their own management and technical talent to get things going, to organize projects, and to make things work.

The country's goal for the coming decade is to restructure its political and economic systems to provide a solid foundation for long-term growth and diversification. The country's government and business leaders want foreign investment to play an active role in this process, and they are genuinely eager to help make that possible.

Despite Madagascar's enormous problems, the World Bank, other donors, and private-sector leaders are optimistic about the country's prospects in the long term. Most importantly, the willingness and resources are present. Challenges lie in restoring the proper balance in the economy between public and private sectors and refurbishing the infrastructure and support systems that have been neglected.

For well into the next century, however, Madagascar will remain a very basic economy, dependent on agriculture and labor-intensive manufacturing as well as foreign skills, capital, and technology. Meanwhile, investors should understand that the country will also be dependent for some time on international donors, both the multilateral institutions (World Bank, IMF, African Development Bank) and donor governments, primarily France. In the early 1970s, this dependence would have sparked widespread discontent. Now, it is almost welcomed as a harbinger of better times ahead. Donors will have significant influence on economic and business policies and will seek to dismantle many of the barriers still standing in the way of a more open and viable economy.

A final important characteristic of Madagascar for investors to understand is its lack of internal cohesion. Its geography is unusually rugged and difficult, and its ethnic communities often divided. Regions are isolated from each other, and even today inter-regional communications and transportation are difficult, particularly so for business--only 13 percent of all formal, internal commerce is inter-provincial. This lack of cohesion has contributed in important ways to a similar lack of cohesion in government policies, in strategic thinking, and in the development of the country.

Trends in the Economy and Business

Since independence in 1960, Madagascar's economy has gone through three general periods:

1960-1972, moderate growth
1973-1989, deterioration
1990-1991, beginning of recovery

The recent economic recovery has of course been damaged by the effects of the strikes and unrest accompanying the political transition. But the turnaround seems to be genuine, and both donors and business are encouraged. Last year the growth in GDP exceeded the growth in population for the first time in at least a decade. Reforms of the trade sector have enhanced the efficiency of Malagasy industry, while reforms in the agricultural sector have brought prices of most crops more in line with world prices and thus encouraged production. The government is also in the process of reforming its budget, privatizing parastatals, and generally opening the economy to competition and a greater foreign presence.

Business is also staging a recovery, with thousands of new private enterprises coming into the economy in the past few years. Foreign investment has been slower to come, dissuaded by the continuing difficulties of doing business in the country. But Madagascar continues to offer a number of attractive resources to investors:

✓ *cheap and able labor*

Malagasy labor is now one-third the price of labor in Mauritius and is apparently more productive. Workers are literate, extremely skillful with their hands, loyal, and excellent to train, according to investors now operating in Madagascar.

✓ *abundant natural resources*

Madagascar has a variety of natural resources, from good water supplies to forests to numerous minerals and petroleum. Most of these resources are largely untapped and await exploration and development.

✓ *particularly fertile climate and soil*

It is said of Madagascar that anything will grow there. Both temperate and tropical crops flourish easily, and the agricultural potential of the country is enormous.

✓ *preferential market access to the EC and U.S.*

Madagascar, as an ACP (Associate State) member of the EC, has the same duty-free trading privileges as Mauritius, an enticement for many non-EC firms. Also, Madagascar (unlike Mauritius) has, so far, been allowed largely unrestricted access into the U.S. market; Malagasy exports have not reached a sufficient level to require U.S. textile and sugar quotas.

Private- and public-sector officials stress that there is a "strong urgency" in the country to get the economy moving again and to establish a more transparent government. These are clearly positive signs for investors already interested in the country's underlying advantages.

How Investment Policy and Regulation Work

Both investment policy and regulation remain largely questions of how the government chooses to respond to particular transactions or deals, not of simply abiding by understood regulations and precedents. The reasons for this include corrpution, lack of foreign investment and lack of time to develop policy mechanisms.

> The most recent investment code, whose components date only from late 1990, has not been in effect long enough for any standard procedures to be established. Most recent investments have been in the textile sector, and most of these are from Mauritius, where investors are familiar with Madagascar and have their own personal business contacts there. New firms from outside the region have been rare so far.
>
> Corruption is endemic in Madagascar and will remain a problem in the civil service even with a new government. Corruption has been a major factor undermining the establishment of regular procedures and systems.
>
> Finally, the amounts of foreign investment continue to be so small that most transactions are still treated on an ad hoc basis, with individual deals the norm rather than the exception.

The public sector remains very much a part of the economy, though its unquestioned dominance is now over. Yet the private sector is still underdeveloped and weak and will be unable to provide effective leadership to the economy for some time. Thus, a vacuum must be filled. Direction of economic and business policy will come primarily from donors working with a loose coalition of both public- and private-sector leaders.

KEY ISSUES FOR AMERICAN INVESTORS

Discussion of general issues for business is given in section 5.3, and for the economy in section 2.4. American investors in particular should consider the following:

> Madagascar is a very poor, underdeveloped country. American Investors should understand that opportunities will be basic and

limited for several years to come. On the other hand, many fields will be wide open and could become quite profitable for initial entrants.

- Madagascar is not ready for higher-technology or capital-intensive investments. With the exception of enterprises such as self-contained mining operations, successful investments in Madagascar will focus on labor-intensive, low-tech activities.

- Opportunities for licensing and similar provision of services and equipment will offer particularly interesting options, though local market development will be slow.

- American investors should consider from the outset using Madagascar as part of a chain of production rather than as an end in itself. Thus, an operation that is managed and financed in Mauritius, assembles parts in Madagascar, and sells into the South African market probably makes more sense in some sectors than a single entity designed to sell into the local market.

- Decisions are made slowly in Madagascar. Expect *muramu* to operate and be patient.

MAJOR OPPORTUNITIES AND CONSTRAINTS

A general view of the investment outlook in Madagascar is given in section 5.3. For American firms in particular, however, certain **opportunities** are worth highlighting:

construction

Massive construction projects are already underway and will continue for many years to come. American companies with experience in infrastructure development, equipment, technologies, engineering, and management will find numerous opportunities, particularly if they have worked with the World Bank before, and particularly in conjunction with French partners.

rehabilitation

With construction will come rehabilitation of everything from banana plantations to housing. Projects in this sector will be smaller but nevertheless interesting to American firms.

mining

Sophisticated exploration of Madagascar remains to be done for most minerals, but the country's potential is apparently significant. American mining companies may find interesting possibilities, particularly in working with a local partner.

pharmaceuticals

Madagascar is the home of the tropical plants that provide several exciting new drugs and other pharmaceutical products. This industry is particularly interesting for the U.S., and it remains largely untapped. As long as margins are high enough, transport and collection problems should not be too overwhelming. Also, local distributors are anxious to find sources of both finished generic drugs and inputs for local manufacture.

food processing

Basic food processing will certainly be a growth industry given the country's need to boost local food production. American technologies, even outdated ones, would be helpful, as would more efficient horticultural techniques from appropriate places such as Hawaii.

tourism

Finally, eco-tourism should hold great appeal for Americans. American business could develop an interesting niche market for tours to Madagascar.

Meanwhile, **constraints** on investment center on red tape, corruption, lack of local management, and the influence of France in the country.

- Red tape and corruption will continue to be major problems. American investors should use partners or advisors that are experienced in Madagascar to guide them through the bureaucracy. Also, investors should plan on how to handle corruption before entering business negotiations.

- Investors will have to import management, and expatriate living conditions can be difficult. But training of local management should move swiftly.

- Madagascar is very much in the French orbit. American investors should use negotiators and managers who are fluent in French; should brief themselves on the Napoleonic Code and other aspects of French business law and practices; and should expect discrimination in some sectors in favor of French firms.

- Business in Madagascar is done on a personal basis; investors have to get to know people, establish relationships. In the past, this has sometimes taken inordinate amounts of time--one Mauritian investor reported having to make fifty trips to Madagascar in one year just to establish a small business operation.

1. POLITICAL BACKGROUND

Madagascar's political situation is unstable. President Ratsiraka has lost the support of every major constituency in the country with the exception of the military, but the divided opposition cannot produce a leader able to end the stalemate. Despite the formation of a coalition government late in 1991, observers agree that Ratsiraka will eventually have to step down. The process of creating a new political system will be protracted and difficult, despite almost universal support for a real democracy.

1.1 GOVERNMENT AND POLITICS

Background to the Current Situation

Madagascar was known as one of the jewels of the French empire in the 19th and early 20th centuries, with its impressive agricultural production, beautiful capital of Antananarivo, and world-class educational system. Madagascar achieved full independence from France in 1960, with Philibert Tsiranana becoming president, but the country maintained very close ties with Paris.

The Malagasy experience of French colonialism had not gone entirely smoothly, however. Nationalism and anti-French feelings began to assume growing importance in the country in the 1960s, culminating in a series of student strikes in 1972. Various unions joined the strikes, and finally the government called in the military to suppress the unrest. The movement proved too strong, however, and Tsiranana was forced to resign in May 1972 in favor of Maj.-Gen. Gabriel Ramanantsoa. Over the next three years, a series of military coups and assassinations left the country without real leadership. In June 1975, Didier Ratsiraka took control as head of a military government, the Supreme Revolutionary Council (SRC).

The SRC began the process of sweeping away anything French, from the language to the business presence. Most of the private sector was expropriated and a new socialist consitution was formulated. Ethnic minorities in commerce, such as the Indians and Chinese, were forced to emigrate or had their assets seized. Ratsiraka began to develop relations with the U.S.S.R. and COMECON countries, receiving aid from the East Bloc and basic equipment for the first stages of agricultural mechanization.

But the socialist experiment quickly turned sour. By the early 1980s, the East Bloc equipment had broken down for lack of spare parts, and peasants began leaving their farms and migrating to the cities because they could no longer afford to farm (the government had removed "capitalist" middle-men from the economy but did not provide any substitute way for farmers to get the financing and inputs they needed to plant and harvest). Urbanization created huge squatter communities in the suburbs of the major cities and a large population of unemployed people, who took to robbing local farms and generally causing social unrest. Meanwhile, the local universities gradually broke down, crippled by curriculum restrictions, chronic strikes, and lack of funds. French was no longer taught, leaving a whole generation literate only in Malagasy, the local language.

By the mid-1980s, Madagascar was decimated. No major construction or maintenance had taken place for a decade, shortages were common, living standards had fallen, and per capita income had declined steadily. Once a major rice exporter, Madagascar now had to import rice and many other food needs. The country was broke and the population increasingly unhappy. The government decided to listen to what the World Bank, the IMF, and even France had to say.

The World Bank had begun structural adjustment programs in Madagascar as early as 1984, but no real changes began to occur before 1986-1987. Even then, the government resisted altering many basic tenets of its socialist programs. For example, a proposed free-trade zone between Mauritius and Madagascar collapsed because the Government of Madagascar (GDRM) tried to impose too many restrictions on the system.

Finally, a new World Bank mission in 1989 succeeded in getting the government's full attention, and real economic liberalization began.

Liberalization was supported by the population. In fact, the 1989 elections demonstrated how pervasive that support was. However, the slow pace of liberalization led to political crisis. For example, liberalization of imports filled up the shops once again. The problem was that purchasing power did not keep pace. Duties and taxes, coupled with corruption and government monopolies on trading, priced the goods beyond the reach of most people. Meanwhile, evidence of corruption throughout the Ratsiraka government was growing. People's frustrations--and resentments--grew.

Two other important developments that led to political crisis were the fall of the Iron Curtain in Eastern Europe and the boom in neighboring Mauritius. Events in Eastern Europe were followed with great interest in Madagascar, one further evidence of the bankruptcy of socialism as practiced in Madagascar and by the country's erstwhile allies. Meanwhile, Mauritius had embraced a liberal, pro-investment program that brought it rapid growth and development and was, by 1989, a great success.

Madagascar began to follow suit in 1990 with a new liberal investment code and other related actions, but by then it was too late. Strikes began in early 1991, grew, and culminated late in the year in opposition rallies in the capital of more than 300,000 people. Demonstrations included people from all sectors, both public and private, as well as major infusions from the large, dissatisfied squatters settlements in the suburbs. Pressure on Ratsiraka grew as the strikes shut down first the government and then much of business life. Dozens of people were killed and wounded in the turmoil over the second half of the year.

The deadlock was broken at the end of October when Ratsiraka and the opposition agreed to form an 18-month transition government. Some reports indicate that the military had threatened a coup if the political stalemate was not settled.

The Current Situation

The government now in place in Antananarivo gives significant power to the former opposition, though Ratsiraka retains at least nominal command of the armed forces. A "High State Authority" has been formed, which takes on the functions formerly given to the national assembly and the Supreme Council of the Revolution (both bodies have been dissolved). Albert Zafy, one of the most prominent opposition leaders, is head of the Authority, and his group holds a majority of its seats. Prime Minister Guy Willy Razanamasy, originally named head of government by Ratsiraka, retains executive power but is answerable to the Authority.

Most Madagascar citizens welcome the new government--they are tired of the political turmoil and declining economy. Likewise, France and other donors have expressed strong support. Many observers are skeptical, however, about the longevity of the new system. Opposition demands for significant reform of the legal and judicial systems, separation and balance of powers, open and fair elections, more transparency in government, more rapid liberalization and democratization, and an end to corruption will require some time to attempt, much less accomplish. Also, Ratsiraka remains president "as a symbol of national unity." Though his actual power and duties are still unclear, the opposition has continued to insist on his ouster. Almost all observers, both local and foreign, believe this is inevitable, though the process may take some time without the active support of the armed forces. (The armed forces have so far refused to completely support either Ratsiraka or the opposition, thus leaving their ultimate intentions difficult to ascertain.) The French are working behind the scenes with some vigor to try to get Ratsiraka to step down.

1.2 HUMAN RIGHTS

Madagascar's human rights record has been tarnished by the previous regime, which maintained a secret police, detained political prisoners, and generally ran a system typical of centralized states elsewhere. Investors can expect the new government to maintain a much better human rights record, one which will not pose any problems for business.

1.3 CORRUPTION

Corruption is common in Madagascar. Over the past few years, it reached a level that became unsupportable. In fact, government corruption is a primary cause of the current public outcry against Ratsiraka and his regime--people simply feel it has gone too far. He is known to have interests in most of the major commercial operations in the country, and many of his cabinet and associates formed interlinking directorships or relationships with a variety of business enterprises.

Ratsiraka's removal from office will not remove corruption from the system. Foreign investors and local business stress that *not* participating in corruption almost always damages business operations and opportunities. Payoffs, gifts, favors, and even participation in enterprises are commonplace considerations given to civil service members (in fact, a common form of corruption is for a civil servant to ask for an equity stake in an enterprise in return for needed approvals or administrative clearances).

> In one example, a French company was trying to set up a cooperative to export corn. An official in the Ministry of Industry demanded an equity share in the concern, but the company resisted. They managed to work around the official, but only by arranging a deal giving the local district a share in the operation.
>
> In another example, a large aquaculture interest was delayed for several months in setting up a new project and forced to spend a significant amount of money in its attempts to avoid paying for bureaucratic approvals. In the end, a local government office did acquire a share in the venture, financed by a local bank.

Corruption has become a way of life for many in government and will be difficult to eradicate for any future government. Corruption in Madagascar therefore poses major problems for businesses that prefer to operate without such "conditions."

1.4 FREEDOM OF EXPRESSION

Madagascar has a free press and basic freedoms of expression. These conditions are expected to remain under any new government.

1.5 INTERNATIONAL RELATIONS

Madagascar has over the past few years redirected its principal international relationships away from the Soviet Union and COMECON countries and back toward France and the rest of Western Europe. Madagascar's relationship with France is once again central, both financially and culturally.

Madagascar has ACP status with the EC (the same type of relationship Mauritius has) but so far has made little effective use of the commercial advantages this brings for it in European markets.

1.6 IMPLICATIONS FOR AMERICAN INVESTORS

- Madagascar's political instability is likely to continue for some time, particularly in terms of economic and investment policy: the direction of policy will be attractive, but implementation and consistency may prove lacking.

2. ECONOMIC PERFORMANCE AND OUTLOOK

2.1 SUMMARY TABLE OF MAJOR INDICATORS

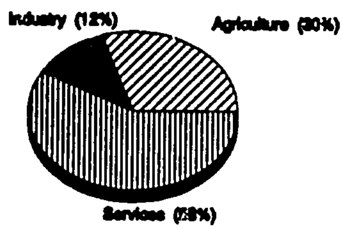
	1980-1990	1989	1990	1991-1996p
GDP growth (%) (constant prices)	1.1	4.1	3.5	4.0
GDP per capita, growth (%)	-2.5	1.3	0.7	1.0
Consumption growth (%)	-0.7	-0.4	4.4	3.0
Savings, growth (%)	n.a.	34.4	-13.4	15.0
Inflation (%)	17.1	9.0	11.8	15.0

Source: World Bank and MNS

2.2 STRUCTURE OF THE ECONOMY

The concept of a national economy is misleading in Madagascar. Not only is there a two-tier economy on a national scale (very small and very large firms), but there are also numerous small domestic markets that are largely independent of each other.

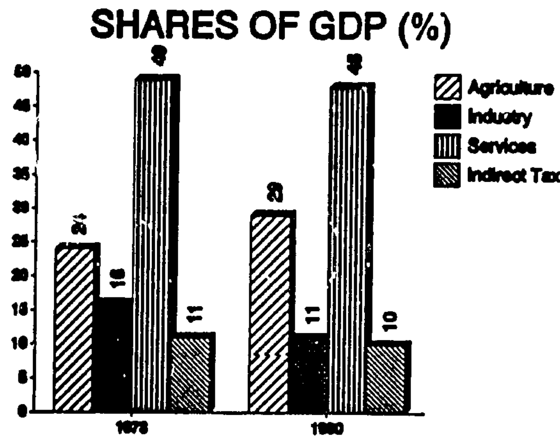
COMPOSITION OF GDP



That said, Madagascar's economy is built on basic agriculture and a large, and largely inefficient, state sector. The graph above showing distribution of GDP is thus somewhat simplistic. What is more revealing of the true state of the Malagasy economy is that between 90 percent and 95 percent of the work force is still engaged in agriculture, and that "services" means primarily the public sector, including heavy indirect taxes.

Another measure of the current state of Madagascar's economy is seen in the change of proportions of GDP since 1973, when the "socialist" revolution began to change the structure of the economy:

In other words, the share of agriculture in the economy actually *rose*, while that of industry *declined* over the past fifteen years, reversing the course of normal economic development elsewhere.



Agriculture

Agriculture means primarily subsistence food crops; cash crop production is limited and relies on the same exports Madagascar was producing 150 years ago--vanilla, coffee and cloves. The agriculture sector has suffered because of the collapse of sources of supply for finance and inputs to small-scale farmers.

Industry

Industry has been limited to labor-intensive manufacturing and assembly, primarily in textiles and food processing. Nationalized in the 1970s, many manufacturing enterprises remain in the public sector and operate at chronic losses. In mining, meanwhile, local firms (primarily small) lead the way in mining of gemstones, while larger foreign investors (only a few) are beginning to develop mineral deposits.

Services

The services sector in the usual meaning of the word is very basic since sources of demand are limited. Trading (wholesale and retail), construction, and transport are the most important activities in the sector. Important aspects of these sectors, particularly retail distribution and air and rail transport, are still controlled by large parastatals.

2.3 STRUCTURAL PERFORMANCE

Sectors

Nominal GDP growth in Madagascar was 3.5 percent in 1990, following a 4.1 percent growth rate in 1989. Over the ten-year period beginning in 1980, however, the average annual growth rate was only 1.1 percent. From 1965 to 1973, by contrast, the rate was 3.6 percent.

More disturbing is the fact that GDP per capita fell at a 2.5 percent annual rate between 1980 and 1990 and at an even faster 2.8 percent annual rate between 1973 and 1980. Again by contrast, the measure grew by 1.7 percent annually between 1965 and 1973.

- Agriculture's share of GDP dropped slightly below 30 percent in 1990 after rising slightly above it in 1989. Overall production grew by 1.5 percent in 1990 after a strong 5.1 percent growth rate in 1989.

- Industry has contributed about 12 percent of GDP since 1988; growth rates have been consistently just above 1.0 percent annually until 1990's anomalous 6.0 percent growth rate.

- The services sector has grown at just over 4.0 percent in 1989 and 1990, but the average growth rate between 1980 and 1990 was only 0.3 percent.

Spending & Savings

Total consumption in the economy declined at an average annual rate of 0.7 percent between 1980 and 1990, though increasing at a 4.4 percent rate in 1990. Gross domestic savings has meanwhile been growing steadily since the mid-1980s, posting increases of 9.1 percent in 1989 and 8.2 percent in 1990. Savings is still inadequate for local needs, but the increase of net savings indicates a positive change in the structure of financial incentives in the economy. Meanwhile, gross domestic investment exploded by more than 25 percent in 1990, reflecting new spending commitments by donors and some increase in local activity. But Madagascar's overall gross investment rate in recent years, 12 percent, has been lower than the average for developing countries (17.5 percent).

2.4 ECONOMIC PROSPECTS 1991-1996

Madagascar has certainly turned an economic corner over the past two years as growth rates in the general economy and in important sectors and sub-sectors show rising activity. This improvement should continue and even accelerate over the next few years. In a recent analysis, the World Bank projected that GDP should grow at a minimum annual rate of 4.0 percent between 1994 and 2000, and possibly at almost 6.0 percent annually. Per capita income would resume positive growth at just over 1.0 percent, and inflation would remain relatively low at just under 6.0 percent.

This improvement is from a very depressed base, however. The problems that have plagued the Malagasy economy and caused the present economic mess are still present and will shape economic prospects over the next five years:

Large and inefficient state sector

The parastatal sector remains a tremendous burden on the local economy, taking the lion's share of domestic capital and strangling many key sectors of the economy. Efforts to reduce the state sector are positive as far as they go, but a major impact from privatization and other efforts is only beginning to be felt. Meanwhile, the government is facing growing pressure in the opposite direction to maintain public-sector employment given the high rate of un- and underemployment in the economy.

Inadequate incentives

The government has removed the major price distortions in the economy, but it has yet to remove fiscal distortions caused by the large amount of spending on the state sector and penalizing tax structure (except under the new investment schemes). It also must simplify the regulatory, judicial and administrative systems that govern the economy. Business still encounters significant disincentives simply trying to operate; managers will begin to invest and expand only when incentives have increased sufficiently.

Inadequate infrastructure

Infrastructure of all types and at all levels--transport, communications, energy, and business services--is inadequate in Madagascar, inadequate for the present level of economic development much less for more sophisticated operations down the road. Massive investment by donors is beginning, but this can only proceed so fast. Major improvements will take years, if not decades.

Poorly mobilized domestic savings

Madagascar's recent average annual investment rate is below the average for developing countries, pointing to a major structural problem that the government must seek to remedy. A more predictable economic and political environment and stable incentives will help raise investment levels. But liberalization and expansion of the domestic financial system is also essential given the inefficiency and corruption of the state-sector banks over the past few years--trust in the system must be established to attract savers. Again, improvement will be slow until adequate baseline conditions are established.

Poor institutional capacity

The gutting of the civil service and educational systems, and the nationalizations that accompanied them in the 1970s, have left the country bereft of capable institutions in both the public and private sectors. Likewise, lack of trained managers in both sectors will remain a problem. People are eager to learn, but the resources for training and restructuring local institutions are limited (though improving).

Environmental degradation

Finally, environmental degradation of Madagascar looms as a catastrophe in the making. Driven to poverty and even starvation by government policies most of the last fifteen years, peasant farmers continue slash-and-burn agriculture practices despite the major damage it is doing to both the topsoil and the country's uniquely rich ecosystem. The level of economic destruction has reached such proportions that concerned experts have called it "national suicide." Enforcing environmental regulations under present conditions in Madagascar is almost impossible, however, and it is difficult to predict when conditions will have improved enough to make such enforcement feasible.

2.5 IMPLICATIONS FOR AMERICAN INVESTORS

- The World Bank--and the local private sector--feel that Madagascar has nowhere to go but up. Thus, growth is likely to be positive and even strong over the next five years, but from a very low base.

- The numerous serious problems in the economy mean that real improvement in the operating environment for investors will be slow.

- American investors should consult closely with both donors (particularly the World Bank) and private-sector investors to monitor the progress of various reform efforts.

3. SECTORAL ANALYSIS OF THE ECONOMY

Madagascar is still a basic agricultural economy. Diversification within sectors and into new industries is present but with mixed results and on a small scale. Growth has been slow generally, with healthy development only in a few sub-sectors.

3.1 AGRICULTURE

Madagascar's economy is overwhelmingly dependent on agriculture, and primarily small-scale food agriculture. Almost 90 percent of the total estimated work force is still engaged in agriculture. Agriculture accounts for 40 percent of GDP and 80 percent of export earnings.

The staple food crop is rice. Madagascar used to be a major exporter of rice, but it now must import supplies to meet demand.

Major agricultural exports include coffee (traditionally accounting for about a third of export earnings), vanilla (18 percent of export earnings), cloves, and sugar. Seafood exports, especially lobster and shrimp, have grown significantly in recent years.

Export crop production is primarily in the hands of small farmers, who produce 95 percent of Madagascar's coffee, almost all of the country's vanilla, and all of the cloves, pepper, and litchis. The problem is that most marketing and distribution are still controlled by the state, as are most producer prices. This bottleneck is slowly improving as individual markets are liberalized to allow private traders and brokers.

The private sector's role in major agroindustry has been increasing, primarily in cotton and sugarcane production. But this role has not been entirely successful.

In cotton production, for example, the private-sector share of value added has actually decreased slightly since the mid-1980s; state-sector cotton producers maintain a productivity advantage of 200 percent to 300 percent over private firms.

Likewise, in the sugar sector, two state companies dominate the industry, and the overall value added in the sector from private farmers has grown by less than two percent annually since the early 1980s.

Most of the growth in the agriculture sector has come from fishing activities, but private-sector share in this industry has actually been declining.

Fishing production grew at an average annual rate of 5.3 percent during the 1984-1989 period, but since 1985 publicly-owned enterprises have grown almost twice as fast as private firms.

How Madagascar's agriculture sector develops is key to the country's future. The traditional development model asserts that until a country can feed itself and begin producing an economic surplus from agriculture to invest in nonagricultural activities, it cannot evolve as an economy. Madagascar, despite the presence of other sectors, is still basically a subsistence agriculture economy. Progress when it comes can be rapid, but at least a decade will be necessary to establish agriculture on a sound footing for both food and export crops.

3.2 Mining

The mining sector has been among the fastest growing sectors over the past few years, but its contribution to value added in the economy remains limited since almost all production is exported without processing.

The mining sector grew at over 9 percent annually between 1984 and 1989 but accounted for only 1.8 percent of industrial value added by 1990.

Most growth has come from the exploitation of non-traditional minerals and semi-precious stones, such as monanzite, zircon and tourmaline.

Only a few major resource-extraction operations exist despite the presence of several minerals, including chromite, graphite, mica, quartz, and titanium. Also present are coal, natural gas, tar sands, and heavy oil. Most companies that have explored Madagascar, including several American firms, indicate that extraction costs are high and the size of recoverable reserves unknown or too small for a major effort.

Nevertheless, the government and many local investors are confident that Madagascar has substantial resource extraction possibilities. One problem hindering further exploration is that initial survey work, done under Soviet support in the 1970s, is of poor quality, and that conditions in the country have hindered proceeding with better work. The government hopes that once the political situation stabilizes, mining companies can be attracted in for further exploration.

3.3 MANUFACTURING

The manufacturing sector is trying to get back on its feet after being nationalized in the 1970s. It has seen few new entrants and not much growth or evolution since re-privatizations began in the late 1980s.

Because the 12 million Malgache live mostly in a demonetized economy with unstable prices, bartering is still common at both the consumer and producer levels, making more sophisticated manufacturing for the local market difficult. Also, the lack of domestic capital has hindered development of all but the smallest manufacturing enterprises, and these are primarily small artisan shops. Thus, manufacturing continues to be focused on producing for export.

> Madagascar's manufacturing firms produce primarily consumer perishables such as food products, paper, cans, candles, packaging materials, footwear, and clothing.
>
> Diversification has been slow; a recent survey indicated that few domestic entrepreneurs are now considering the manufacturing sector other than for textiles and clothing investments.

As evidence of the poor performance and efficiency of the local manufacturing sector, most locally produced products, except for consumer perishables, are more expensive than imports. Also, local manufacturers find distribution difficult since most distribution channels are largely controlled by the import/merchant houses (such as Sice, Darrieux, and SCIM).

The most successful foreign investments in manufacturing have been in textiles, particularly operations moved from Mauritius to take advantage of the cheaper and more productive labor. These operations are based almost exclusively on this "labor advantage," however, since investors have carefully imported only old or outdated capital equipment "in case a quick exit is needed." Thus, the sector has suffered significantly from the instability and hostility of the investment environment in the recent past.

The fastest growth in manufacturing in the near future may be in spare parts and construction materials, supporting the expected large demand for construction and rehabilitation projects. But any major growth will be hindered by the continuing inadequacies of local capital supplies, distribution, and supply of basic raw materials.

3.4 Construction

Because construction has been so moribund for the past decade (some business leaders assert that literally no new major construction has taken place in the capital for a decade), demand and need for construction at all levels is significant. For example, research suggests that only four percent of the total demand for housing in Antananarivo is being satisfied by formal-sector construction, and only some 40 percent of total housing demand is being met by any type of enterprise.

> The Malagasy construction industry is characterized by an historic and now overwhelming presence of largely foreign-owned and operated firms, which control most the sector's business. The major company is Cimelta Jeumont, a French-owned firm present since 1946.
>
> Operating difficulties in the sector include a lack of government funds and the relatively high costs for imported materials (which must be imported in any case).

Local firms have increased their presence in the sector lately; they now account for a majority of employment in the sector, though not a majority of income. They are also significantly less efficient than the Italian and French-owned firms.

The growth potential of the construction sector depends on relieving credit bottlenecks, better allocating scarce key inputs, and improving the overall efficiency and capabilities of local firms. In general, however, the construction sector is among the more capable in the economy and is certainly the sector most influenced by foreign investors.

3.5 TOURISM

Tourism is still nascent in Madagascar. The total number of hotel rooms is now just over 2,000 (compared to almost 100,000 in Mauritius), with 40 percent of these rooms in the Antananarivo area. Tourist arrivals since 1986 have been growing at an average rate of 13 percent annually, totalling 39,000 in 1989. Tourist spending has expanded even more rapidly, reaching $23 million by 1989. The tourist sector has almost shut down because of recent troubles and is unlikely to begin significant recovery before well into 1992.

Future growth depends on solving a number of infrastructure problems--particularly adequate transport--and upgrading facilities available. Also, Madagascar's main tourist attraction, so-called "eco-tours," are as yet poorly provided for given the concentration of hotel rooms in non-tourist areas.

3.6 Implications for American Investors

- Opportunities in agriculture lie primarily in small, niche markets where local conditions can provide an attractive way to supply an already established foreign market. There is some possibility for a major plantation investor, who would want to build for the future, but this presents numerous problems.

- Mining investments are feasible right now assuming the operation can support almost complete self-sufficiency. But exploration to date has been disappointing.

- Manufacturing is weak in Madagascar, and investors have been primarily interested in exploiting cheap and good labor. Such operations are feasible in the short term given the procedures for investment already established by firms in the textiles and food processing sectors.

- Construction offers several opportunities, primarily in joint ventures with established foreign firms. Demand for all types of materials and services will consistently outstrip supply.

- The tourism sector is still in need of basic infrastructure and services, but eco-tourism should be very popular with Americans. New investments in this area could be lucrative in the long term if political stability is achieved.

4. STATE'S ROLE IN THE ECONOMY

The public sector is dominant in the Malagasy economy, but efforts are underway to reinvigorate the private sector and establish more balance between public and private enterprises. The public sector generally performs poorly, while the private sector generally is limited to small enterprises and farming.

4.1 Strength and Role of the Public Sector

Between the revolution in 1972 and the mid-1980s, the Malagasy economy was transformed into a state-run and state-managed system, with parastatals taking on every major responsibility in the economy except at the basic agricultural and shopkeeping level. The results were disastrous, but the legacy of that policy has been difficult to erase.

Madagascar has never had an endemic entrepreneurial class on a par with that of, say, Mauritius. The economy was run by French colonials, and then ex-colonials, and a group of Indian and Chinese traders. Their success produced growing popular resentment, which was one of the well-springs of the revolution. Their expulsion from Madagascar has left the country bereft of similar capabilities, though Chinese and Indian traders are now returning in significant numbers.

Meanwhile, however, a generation of mismanaged public-sector enterprises has tried to take their place in the economy. These institutions' lack of basic competence did not provide the commercial and management training needed for that generation of the civil service, with the result that few really knowledgeable business managers are available in the economy.

The parastatal sector in Madagascar is broadly composed of three groups of enterprises

- those existing at or around independence, primarily public utilities;

- those created through the wave of nationalizations of the mid-1970s, including a number of industries, agricultural entities, banks, and commercial operations;

- new enterprises built through the "all-out investment" program launched in 1978, mainly white-elephant, large industrial projects.

In 1985, 167 public enterprises were formally in existence, of which 60 were in the agricultural sector, 45 in industry, 18 in transport and public utilities, 17 in commerce, and the remainder in various services. There were large and very small companies, some very active enterprises alongside a number of moribund ones. Almost all were alike, however, in that they were running at a loss and survived only through budgetary transfers or credit from the state-owned banks. By the end of 1987, loans to the parastatal sector accounted for more than half of total bank credit.

Beginning in 1987, the government began attempting reform of the parastatal sector. Progress has been uneven and certainly short of the goals established, but some positive changes have been achieved:

- credit to parastatals has fallen from half to less than one-third of total banking system credit;

- dissolution or divestiture actions have been initiated for just over 70 parastatals and fully completed for about 35;

- the important textile industry is receiving priority attention for a return to full privatization;

- encouraging improvements have been made in the financial situation and management of certain important public utilities, particularly the electricity and water company, JIRAMA.

Nevertheless, the reform actions already completed or underway have affected only about one-third of the parastatal sector as a whole, according to estimates by the World Bank, so fundamental reform has really only begun.

4.2 Strength and Role of the Private Sector

Despite the dominance of the public sector, Madagascar does host a varied and important private sector. But it is a very basic sector with a large number of small, unsophisticated firms and only a handful of large companies.

> A vast majority of the private sector consists of very small enterprises--only 6 percent report employing more than ten people. Large companies, meanwhile, can be counted quickly: a brewery, milk company, a few textile and garment firms, a few shoe factories, and the construction firms.
>
> Private-sector enterprises are now prominent, however, in all sectors except sugar processing, beverage production, energy, communications, and banking.
>
> The private sector accounts for more than 75 percent of measurable GDP (though much of this is local food agriculture).
>
> The "modern" private sector employs just over 5 percent of the total work force but some 70 percent of the "modern" sector work force (about 90 percent of the total labor force remains in small-scale local agriculture).
>
> Data show that approximately 5,500 new indigenous firms have been registered each year since liberalizations began in the mid-1980s.

Capacity utilization has been increasing, indicating more confidence by managers and demand for goods and services (capacity utilization is very roughly estimated at about 65 percent).

The private sector is characterized by several particular groups and links because of the economy's recent history. Economic concentration is high, even in the private sector. A small number of large groups continues to control the majority of commercial and industrial activity in the country, as well as practically all distribution channels.

For example, the large transport firms--Kobama, Siramamy, Auximad, SMTM, CMN, and Air Madagascar--are so interconnected with each other and the state that the country in effect has only one giant transport company, which operates as a monopoly and has been protected in practice by the state from effective new competition.

Small firms continue to have problems finding markets and gaining access to potential new buyers. Meanwhile, commercial bank credit continues to be channeled exclusively to established large firms.

4.3 IMPLICATIONS FOR AMERICAN INVESTORS

- Investors will have to work with parastatals in Madagascar one way or the other, both because of their prominent role in the economy and because the private sector is so undeveloped.

- American investors in particular may have difficulty finding local partners with adequate technical competence, technological status, understanding of international business practices, and access to local resources.

- American investors should not count on having access to any local credit (which is restricted in any case).

5. INVESTMENT CLIMATE

Investment policy and regulation in Madagascar are attractive, but operating in the country can sometimes be prohibitively difficult. Investors are cautious about what is actually possible in the near term but remain optimistic about long-term opportunities.

5.1 Recent Investment Performance

There are no figures available on the performance of investments. The tentative state of foreign investment in Madagascar offers a very limited base of experience from which to draw, but one may assume that the potential for profits has not yet outweighed the many concerns of investors about the operating environment and other problems.

5.2 Experience of Private Investors to Date

The primary experience of private investors to date has been that investment policy and regulation in Madagascar are, in principle, attractive to investors, but these good incentives for investment are often thwarted by severe restrictions on operating there.

Madagascar's recent opening to foreign investment has so far accumulated only a very short track record. The World Bank began providing hard currency to finance imports in 1988, which made business operations feasible. The EPZ (*zone franche*) was established in 1989, also an election year, but specific laws and regulations were not forthcoming until mid-1990. Thus, most investors waited until at least the end of 1990 before making any decisions about Madagascar, much less proceeding with investments.

The majority of investors in Madagascar today are French, Mauritian, and South African. The South Africans and now investors from Taiwan and

Hong Kong are examining further options for low-tech agribusiness and textile investments.

A major challenge for active and potential investors has been trying to wade through the Malagasy bureaucracy. Another problem is that existing rules and regulations for business transactions are not applied evenly.

> For example, one French processor and exporter of agricultural products has been able to secure use of radio communications to relay market information from his points of production and his markets quickly and efficiently. Ucofruits, however, a Malagasy fruit growers' cooperative, was denied permission to do the same thing.
>
> Also, limited freight space, particularly maritime and air, is often distributed on the basis of personal contacts rather than through an open market.

Other potential investors have found the combination of problems too daunting and have looked elsewhere. One potential investor said that Madagascar was like "moving sand," making him think he could never be sure where he stood. Adding to the list of problems in the country for business, investors that have looked and left cite:

- lack of a sense of security as an investor--"every move requires the backing of a politician, and you don't know whether you've got the right politician on your side" (this will presumably change for the better soon)
- lack of trustworthiness among both bureaucrats and workers ("they promise a lot but don't deliver")
- presence of a strong military, which leads them to expect continuing political problems
- ethnic conflict between the plateau and coastal peoples, a serious and long-standing tension that can affect investment operations.

5.3 Investment Outlook

Investment in Madagascar is likely to grow rapidly once the political situation and policy environment have stabilized. The basic attractions of the country as an agricultural and manufacturing center remain:

- fertile land and abundant crop choices
- productive labor
- low wage rates
- available natural resources

Finally, the new government will almost certainly be more able and ready to assist foreign investors.

Business Problems

But the country faces several daunting problems for which there are no easy solutions:

poor infrastructure

> Most basic for business, the country's poor and inadequate infrastructure base creates a major problem for basic business operations, much less for beginning a new investment enterprise. In particular, lack of adequate internal transport and reliable telecommunications handicaps any business. Investors are turned away by the realization that they will have to provide at their own cost much of the basic infrastructure for any investment, even in the capital region where infrastructure is most available. This situation will not improve significantly in the near future, though donors are committing major funding efforts toward infrastructure enhancement.

basic economic poverty

Another problem is the basic underlying poverty of the country. Capital is simply unavailable in large quantities, and the economy is still far from being able to support most of the population beyond a subsistence level (this year, the U.S. is even committing humanitarian food aid to help with a starvation problem in the south of the country). Investors now operating in the country report that they must import literally everything they need for their enterprise since they cannot rely on supplies of even basic commodities. The infrastructure situation compounds this poverty because, even when goods may be available in one part of the country, they cannot be easily transported somewhere else.

decimated business class

Another problem is that the anti-business policies of the past fifteen years have served to chase away much of the business and commercial class of the country. The government's socialist rhetoric aggravated existing ethnic animosities between the native Malgache and the Indian and Chinese traders and businesspeople who controlled most of the country's commerce. Through both regulation and sometimes violent popular reaction, most of these people left. As a result, Madagascar today is seriously deficient in people who can set up and manage a business, or who have the strong entrepreneurial instincts necessary to restore economic dynamism.

This situation will change rapidly once the local situation stabilizes enough to allow businesses and traders to operate; even in the past couple of years, traders and shopkeepers have multiplied. But the underlying ethnic animosities remain troubling (this is now more a problem for the Indian traders than for the Chinese; the latter intermarry and are generally becoming more accepted than the Indians). Investors will have to consider these ethnic dimensions and may have difficulty finding business people they can work with in the local economy.

Another aspect of this problem is that the native Malgache, although generally hard-working and quick to learn, have not fully assimilated reliability and honesty in their business dealings into their cultural values. Particularly in the absence of a legal and judicial system that adequately supports contract enforcement, family relationships have generlaly proven to be the most reliable means of securing joint business ventures. Consequently, internal control mechanisms will need to be included in partnership agreements between local and American firms.

lack of managers or trained specialists

The decimation of the educational system over the past generation has meant a sharp drop in the quality of training among the population in general. Though still highly literate, people lack technical and competent managerial experience. Investors will have to import almost all of their needed technicians and local management for several years to come since this situation, too, will improve only slowly.

5.4 INVESTMENT OPPORTUNITIES

Mining

Investment opportunities are available now in mining, both for minerals and petroleum. Oil and mining companies from both the U.S. and Europe have in fact been exploring Madagascar for several years (Amoco and Shell are there, for example). Many petroleum firms feel that available reserves are not large enough to justify major expense at this point. Also, some mining companies report that the geology is particularly difficult in many areas, making extraction costly. Nevertheless, a self-contained mining operation is certainly feasible for companies able to produce profitably, and some companies are already operating. A Canadian firm, for example, is developing a $260 million ilmenite (titanium) mine on the southeast coast, and the U.S. Trade Development Program has recently approved a $500,000 grant for a feasibility study of a ferrochrome project. Finally, there is growing interest in Madagascar's high-quality quartz, a raw material for microchips. The state Omnis company that controls this industry has reportedly been approached recently by Motorola, Electro Dynamics, and Nippon Dempa Kogya.

Agriculture

Opportunities exist across the board in agriculture. Madagascar is reportedly so fertile that both temperate and tropical crops grow easily. Some agricultural infrastructure does exist, as well as some trained agricultural labor. Investors would have to count on providing financing and inputs for small farmers or on beginning a plantation or corporate farm from scratch. Also, the internal transport problems would have to be solved to assure that crops could be moved expeditiously. Because of the transport problems, many businesses are looking with interest at basic food processing ideas, building on the small industry that already exists. Dried vegetables and spices, essential oils, and small specialty markets (Madagascar has a small, excellent arabica coffee capacity, for example) would be feasible in the short term. Also interesting are basic supply services, such as one for seeds.

Forestry and Wood Products

Local law prohibits the export of raw logs (though there are reports of Japanese raw wood exports), but other types of forestry and wood products have significant potential, from paper to furniture. Malagasy craftsmen are excellent, and cheap labor costs make carving and other by-hand working an attractive option. Transport will be a major constraint in this sector, however, particularly if materials have to come from the interior.

Labor-Intensive Manufacturing

Madagascar's particularly attractive labor force and the positive experience of manufacturing investors to date offer interesting possibilities to companies desiring a bottom-wage manufacturing or assembly platform. Mauritian textile investors, who have led the way in this sector, are happy with the high rates of productivity and worker loyalty they have achieved, though they are not as yet ready to commit to more expensive capital-intensive investments. But basic labor-intensive operations will certainly be a major element of Madagascar's economic recovery, particularly given the high rates of un- and underemployment now present. Again, transport and supply problems will have to be solved, but present investors demonstrate that this is compatible with profitable operation. Some attractive non-textile options include furniture-making and assembly and leatherworking.

Infrastructure Repair and Construction

Another major area of opportunity is in repairing existing infrastructure and constructing new facilities. Almost all of these opportunities will stem from donor programs and thus donor tenders. But business will also have strong demand for smaller projects, ranging from building construction or refurbishing to connector-road construction and water supply systems. Some opportunities will be restricted by donor preference (many contracts will go to French firms, for example). Also, the possibility of joint ventures in this area is good since the construction sector is probably the most developed in Madagascar and certainly hosts one of the strongest contingents of foreign investors.

Tourism

Once the political and economic situations stabilize, Madagascar clearly has significant potential for a tourist industry. Major steps have already been taken to get things going, including an Institute of Hostelry that trains hotel and restaurant managers. But the country still needs foreign skills and management and a major expansion of tourist infrastructure. Meanwhile, the major roads project now underway with World Bank financing will open up new opportunities for eco-tourism, which is probably the major strength of Madagascar in the global market.

5.5 IMPLICATIONS FOR AMERICAN INVESTORS

- Investment performance and investor experience are difficult to assess in the aggregate because of the low levels of foreign investment to date.

- But opportunities exist for foreign investment almost across the board, as long as investors keep in mind the basic constraints of the economy and investment environment.

- Some opportunities will be not be available in practice to American firms because of the preference given to French firms by the French government, but joint venture and other cooperative arrangements, including licensing, are possible even in such circumstances.

6. REGULATION OF FOREIGN INVESTMENT

Understanding the regulation of foreign investment in Madagascar requires distinguishing between the letter of the law and what is actually the practice. The goodwill of the government toward foreign investors, and its openness to investment in almost any sector, is quite real. But the capacity of the government to execute investment deals and provide necessary support and services will continue to be problematic.

6.1 GOVERNMENT POLICY

After almost a decade of discouraging and even prohibiting foreign investment in Madagascar, the government began in the early 1980s to explore arrangements with foreign investors. Today, investment policy is liberal, at least on paper, after a series of changes in the investment code. Many of these changes were at the strong urging of the IMF, World Bank, and French government, but the patent failure of the government's previous policies by the beginning of the decade prompted some re-examination by the government itself as well.

6.2 INVESTMENT PRIORITIES OF THE GOVERNMENT

The principal priority of the government is to get the economy moving again. It is looking to foreign investors to provide assistance of any type that will assist this process, whether it is export-related or not. The doors are thus relatively wide open in terms of sectors and types of activities for foreign investment.

Because of the general state of decay and inefficiency in the Malagasy economy, investors can view government priorities at three levels.

First, and most basically, the government is eager to assist economic revitalization by refurbishing existing industry and agriculture. Old factories still exist and operate; derelict plantations await revitalization.

Second, the government would like to have investors help Madagascar reach "critical mass" by adding capacity in sectors already established on the island, such as textile manufacturing, food processing, mining, and niche specialty farming.

Third, the government would like to have investors serve as catalysts for new activities in the economy. The government is particularly interested in import-substitution and export activities, either of which would help ease dependency on foreign sources of hard currency.

6.3 Incentives for Investors

The latest investment regulations offer two packages of incentives for investors, depending on whether the enterprise will produce exclusively for export or not.

For those enterprises producing exclusively for export, the Industrial Free Zone Scheme provides the following principal incentives:

- total exemption from tax on profits for a period ranging from two to ten years, depending on the classification of the business (see section 14.2)
- duty-free and tax-free import and export of goods
- freedom of access to foreign exchange
- freedom to transfer funds abroad

- labor legislation without undue restrictions on personnel management

For enterprises producing at least partially for the local market, the new Investment Code offers the following incentives:

- exemption from corporate income taxes
- exemption from duties on imports
- exemption from sales tax on equipment and initial working capital
- freedom in, and guarantees of, repatriation of dividends, profits, income from licensing fees, royalties, and loans in foreign currency from foreign institutions
- no restrictions on personnel recruitment and management

Many of these incentives have yet to be tested in practice by investors. Also, guarantees on repatriation and remittances mean little if all such transactions must go through the central bank and it does not have the foreign exchange to provide.

Nevertheless, the intent of the government is obviously in a pro-investment direction. It will take some time for the last vestiges of Madagascar's sternly anti-investment program of the 1970s to be totally erased from the economic thinking and management of the government, but the latest investment codes are a major step in the right direction.

6.4 Limitations on Foreign Investment

There are no actual written restrictions on foreign investment. In practice, however, the government and civil service can block or delay planned investments. And procedures, red tape, and corruption can sink investments even if their is no local opposition.

One reported limitation is that foreign investors are required to bring in at least 50 percent of their capital from overseas. Also, investors are restricted from borrowing in local markets beyond a share proportionate to that of local holdings in the project. Given the current state of Malagasy capital markets, this restriction does not place much of a burden on foreign investors, but it is an example of the kind of problem that can crop up with the regulatory environment still somewhat unsettled.

6.5 Acquiring Real Estate

Foreign entities cannot own property in Madagascar; the government offers long-term leases to investors. But the facilities available are usually inadequate. Also, the system by which land and facilities are allocated has been notoriously corrupt and difficult to manage.

6.6 Establishing a Business

Standard forms of business organization under French law are available in Madagascar. Foreign investors can operate 100-percent foreign-owned enterprises as well as limited partnerships and joint ventures with foreign or local partners. In principle, foreign companies are given national treatment.

Administrative procedures for establishing a business (*dossier d'agrément*) are relatively straightforward.

> Applications and guidelines for completing them can be obtained from the appropriate government ministries.
>
> The application must be submitted in six copies to the relevant ministry(ies) to receive a certificate to operate under one of the two incentives schemes.

Once approval is obtained, investors have one year in which to set up their company under the certificate.

In practice, establishing a business in Madagascar will remain a rather ad hoc procedure. Any future new government will take some time to decide just how applications will be processed, a decision that will be complicated by bureaucratic infighting within the new government about control of the business sector. Also, investment coming in over the next couple of years will in effect be green-field investment and thus probably receive some special treatment from the government, including tailored investment deals. Finally, the government is well along in establishing a one-stop-shop for foreign investment, though it remains to be tested in practice (Mauritius has had a one-stope-shop for years, but it has never really worked well). Thus, the published procedures should be considered more as guidelines for the final arrangement than as established mechanisms.

6.7 Local Content Requirements

Madagascar has no local content requirements, nor are any contemplated at this time. As in most countries, high amounts of local content and local value added give an enterprise added influence with the authorities in negotiating business arrangements.

6.8 Regulation of Competition

There is no formal regulation of competition in Madagascar beyond the vestiges of the state-run system created in the 1970s. Monopoly regulation and similar procedures have not been needed yet for the private sector, while the public-sector monopolies will be privatized (slowly) or eventually restructured.

6.9 Investment Protection

Any investment protection the government may provide is largely worthless given the lack of redress and recent history of nationalization in the country. Investors should seek insurance from OPIC and similar agencies. Current investors note that there has been no "heavy" investment yet (i.e., capital-intensive or expensive investment) because business continues to be worried about policy and political stability in the country.

6.10 Implications for American Investors

- Government priorities and policies are generally liberal and attractive to foreign investors in almost any sector of the economy.
- In practice, investors will have to find their own way for the next couple of years; most deals will be ad hoc, and many new procedures will have to be tested.
- American investors should proceed with caution, obtain political-risk and other types of insurance, and consider carefully before making any type of capital-intensive investment.
- American investors should also seek the advice of both local and regional firms that know local procedures well and can advise and help them on creating secure business arrangements.

7. INFRASTRUCTURE

Madagascar's infrastructure is primitive at best and unworkable at worst. The problems with infrastructure are among the most serious an investor must face in doing business there. Donors are concentrating much of their funds on improving infrastructure, but progress has been slow and will probably remain so.

7.1 Transport

The country's geography makes transportation infrastructure projects difficult. Rugged terrain has kept regions of the island isolated from each other for centuries; roads and railroads are difficult to build. The government has tried to introduce the modern age by building a series of local airports, 57 at last count. These help some, but lack of equipment and maintenance means that air transport is often difficult.

> As an example of problems in the transport sector, the Fianarantsoa-Antananarivo-Toamasina-Mahajanga road is the main route for commercial activity. Heavy trucks, however, can use the national highway route between Toamasina and Fianarantsoa only with partial loads and are unable to penetrate the rich Lac d'Alaotra region or the coffee- and vanilla-producing region north of Toamasina. A key bridge ten kilometers north of the port has been rendered impassible by a recent cyclone, effectively shutting down the limited access once available. The route between Antsirabe and the west-coast port of Mahajanga is likewise unsuitable for efficient loads due to gaps in the system.
>
> Meanwhile, the main rail link between the port (Toamasina) and the capital is so inefficient that it takes trains twelve hours to cover the 180 miles.

Even between the country's major cities, communications delays of 12-24 hours are common.

Another significant problem is that an effective monopoly of interconnected local companies controls freight movements, keeping inefficiencies present from lack of competition. Thus, while port facilities at Toamasina and Mahajanga are generally adequate, goods do not move very fast, particularly without the right connections.

As a result, transportation costs are high. One mineral producer has learned that his cost for a container of product delivered in Mauritius has a freight component twice as large as a South African producer shipping from South Africa to Mauritius.

On the other hand, development in relatively new transport sub-sectors has been relatively rapid. For example, by 1991 there were twelve car rental firms catering to the tourist sector.

7.2 ENERGY

Madagascar is entirely dependent on energy imports, primarily petroleum and coal, though it has substantial deposits of both. There is an oil refinery at Toamasina with a capacity of 12,000 b/d, but it is operating well below that. Energy costs can be quite high because of transport problems. Shortages have been common recently, particularly at the consumer level. Power supplies are generally regular only in the largest cities.

7.3 COMMUNICATIONS

Madagascar has installed capacity for all modern types of communications, including satellite links for international telephone and faxes, but the system works poorly, is difficult to access, and is almost prohibitively expensive. Satellite uplink facilities--and most other telecommunications services--are available only in the capital and the main naval port; they are not available in the main commercial ports, making direct access to overseas customers extremely difficult. Generally speaking, internal communications between major cities are either non-existent or so unreliable as to be virtually useless.

The postal system works slowly; mail from Madagascar reaches the U.S. in about one month. (The U.S. Embassy routinely sends non-priority items home with travelers rather than through the mails.)

7.4 Business Services

All major types of business services are available on a limited scale, but the type of services provided are basic. For example, there are no reliable sources of information on new companies and suppliers, on past performance, and on firm references. Excellent consulting and accounting firm services are available, though almost all work only in French or Malagasy.

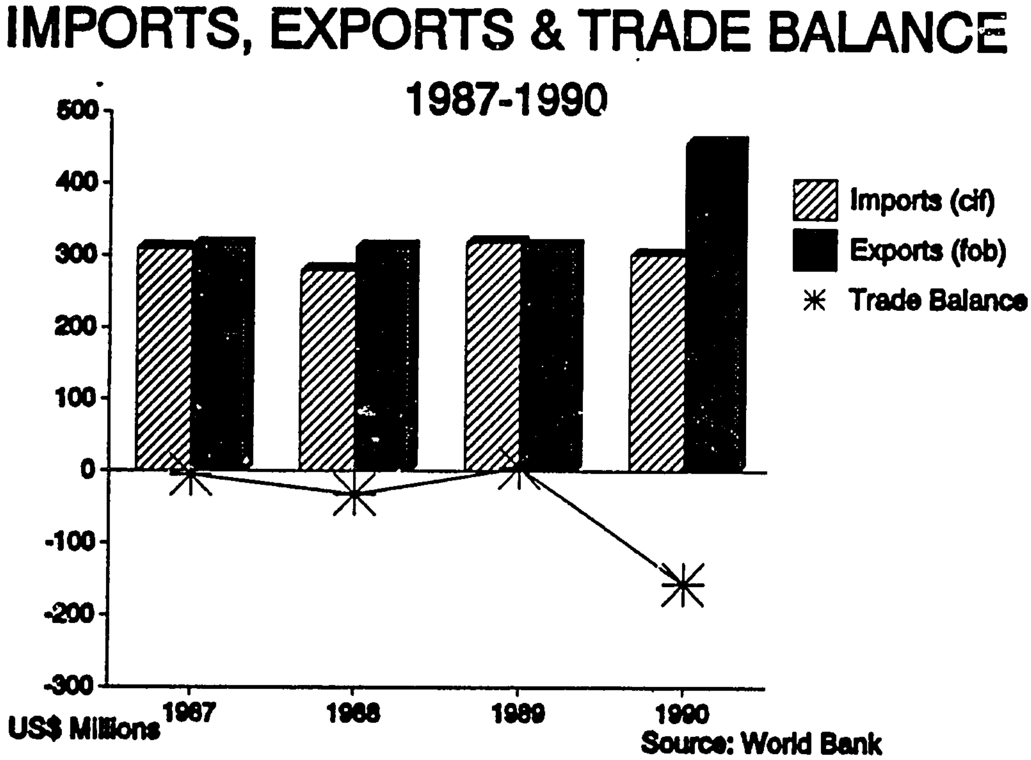
Most investors use the more sophisticated services available in Mauritius or elsewhere in the region.

7.5 Implications for American Investors

- Madagascar's infrastructure is quite poor and a major problem.
- Investors should consider carefully how to get around such problems (such as building enterprises on the coast near the ports, or in the capital area where supplies and communications are best).
- Madagascar's infrastructure will improve slowly over the coming years, but the base on which to build is so degraded that substantial progress will not come in the short term.

8. FOREIGN TRADE AND BALANCE OF PAYMENTS

8.1 MAJOR INDICATORS, SUMMARY TABLE



8.2 RECENT PERFORMANCE

Madagascar's balance of payments has been in deficit for the last decade. Figures vary depending on the source. World Bank figures show a "resource balance" deficit ranging from a high of $594 million in 1980 to a low of $109 million in 1989. Last year's figure jumped up to -$271 million. The IMF reports a current account deficit of $193 million in 1984, dropping gradually to a deficit of $128 million in 1989. The U.S. Embassy, meanwhile, calculates a current account deficit of $312 million in 1990, rising from a level of $303 million in 1989.

Merchandise exports over the past decade have consistently run about $300 million, while imports have run regularly higher. Imports exploded in 1990, producing a trade deficit of $254, or equivalent of 84 percent of exports.

These numbers indicate the extremely small size of Madagascar's external trade--exports represent the equivalent of only 14 percent of GDP.

8.3 EXPORTS

It is startling to realize that the composition of Madagascar's exports has changed very little for perhaps 150 years: vanilla, cloves and coffee remain the major export earners, accounting for 40 percent of export earnings today, down from two-thirds in 1984. Remaining exports come from other crops, the few mining operations in operation, and small specialty enterprises such as the one that ships high-quality foie gras to France.

Besides the three main exports, other exports include:

graphite
sugar
spices (e.g., cinnamon)
fish products (lobsters, tuna)
textiles (primarily woven cotton fabrics)
essential oils (for flavors and fragrances)

Other than this modest diversification, there has been little positive evolution in Madagascar's export profile for the past decade. In fact, since the overall value of exports has stayed roughly the same, diversification indicates a *loss* of export share in vanilla, cloves and coffee. Indonesia, for one, now commands significant market share in both vanilla and cloves; its efforts have been helped by high export taxes in Madagascar, which have in effect reduced producers' margins sufficiently to discourage production.

8.4 IMPORTS

Madagascar imports all of its higher-technology manufactured needs, all of its petroleum, and virtually all inputs for its current manufacturing operations. Capital goods account for roughly 35 percent of imports, other intermediate goods for 24 percent, consumer goods for 18 percent, and fuel for about 16 percent. These proportions have been generally consistent over the past few years. The sharp increase in imports in 1990 reflected increases in each of these categories.

U.S. exports to Madagascar are minimal: the U.S. exports some $13 million worth of products annually, primarily basic food products, spare parts for airplanes and helicopters, cars and trucks, and pharmaceutical products.

8.5 DIRECTION OF TRADE

About a third of Madagascar's exports go to France, with Japan a distant second (about 12 percent). The U.S. imports about $30 million of Malagasy goods each year, primarily vanilla ($24 million). Other items include graphite, sugar, coffee, cloves, cinnamon products, lobsters, tuna, woven cotton fabrics, and essential oils.

Madagascar's imports again come primarily from France, though the sources of imports are more diverse, with significant proportions coming from Thailand, Japan, Germany, Italy, and Pakistan. Imports from the U.S. total about $13 million. These proportions have also stayed consistent over the past few years.

8.6 Exchange Rate Policy

The government fixes the exchange rate of the Malagasy franc on a periodic basis and controls demand for its conversion into hard currency. Under IMF pressure, it has depreciated rapidly over the past few years, falling from FMG 645/SDR in 1984 to FMG 2,085/SDR in 1990, or a 223-percent fall in six years. (The major depreciations occurred in 1986 and 1987; declines have been more gradual since.) Currently, the dollar exchange rate is FMG 1,919/$, compared to FMG 1,494/$ in 1990.

8.7 Currency Outlook

Exchange rate policy over the next one to two years will be dictated by donors, who will supply foreign exchange to shore up the FMG in return for some control on how it is managed. The French treasury will maintain significant influence for much longer; investors should anticipate currency movements directed by Paris and perhaps tied to the French franc after one to two years. The hope is that the FMG will be able to float within the next five years, which may be possible at the outside edge of that period.

For the next few years, however, donors will try to keep Madagascar's terms of trade at least somewhat competitive while avoiding precipitous depreciations that could upset the domestic economy.

8.8 Trade and Payments System

All current transactions involving foreign exchange have to go through the central bank, which is, in turn, currently dependent on donor money for foreign exchange (reserves in December of 1990 had dropped to only nine weeks of import cover and have gone lower since; this means that the country could not even pay for one shipment of petroleum).

The World Bank began an import credit support facility in 1988, which financed the import of inputs into the manufacturing sector. This was followed by creation of the EPZ in 1989. But investors did not really begin coming to Madagascar until the second half of 1990 as they were waiting for laws and regulations to be put in place. By early 1991, trouble had developed in obtaining short-term credit, and then political turmoil erupted. Thus, investor experience with the trade and payments system has been only a matter of months.

It should be noted that the World Bank facility was an absolute prerequisite for making the EPZ work. Local companies report that the foreign exchange situation was so bad in 1989 that some were still waiting for allocation of hard currency to pay dividends from *1981*. One way or another, however, the central bank was eventually able to meet all hard currency demands until earlier this year.

Madagascar's foreign exchange reserves are now supplied fifty-fifty by the World Bank and the French government. The World Bank has put together a new $100-million facility for supporting imports, but, as of mid-summer, was still negotiating with the previous government about terms. No tranche from this new facility should be expected in 1991, which will further tighten the foreign exchange situation in the near term.

For the few months it was working, business reported that they had no major problems and only short delays with foreign exchange access. Once a new system is in place, it should work fairly unencumbered by red tape or delays, though some rationing may be necessary for a while, depending on how fast the local economy recovers.

8.9 Licensing Requirements

Licenses are officially required for both imports and exports, but investors operating in Madagascar report that in practice this usually means simply filing the proper paper declaration of the transaction with the central bank. Thus, licensing requirements are fairly minimal and should remain that way.

8.10 Invisibles

Foreign exchange allowances for citizens remain in place; there are no such restrictions on non-Malagasies. Tourist bills are paid in local or hard currency, depending on circumstances.

8.11 Capital Transactions

Capital transactions must go through the central bank and are restricted as follows:

- Revenues from the sale of personal property, buildings, and businesses (i.e., capital for repatriation) can be transferred only in installments, "according to percentages prescribed by legal dispositions depending on the level and category of revenues." Amounts not transferable immediately are deposited prior to transfer in a capital account at an authorized intermediary, presumably one of the local banks.

- Enterprises in the EPZ are required to open accounts in foreign currency at local banks; they must use these to domicile all export operations and to repatriate export revenues within 190 days from the date of loading.

In practice, most investors have not yet tried to repatriate much of their capital. Also, it is likely that some have worked out individual arrangements with the government, which investors should consider an option, if an unknown one. Meanwhile, many local businesses, including Mauritian textile firms operating in the country, report they have little expectation of being able to repatriate their capital, which is one reason they often use outdated capital equipment for their plants.

8.12 Regional and International Affiliations

Madagascar is an Associate Member of the EC, which, under the Lomé Convention, allows duty-free exports to the Community of qualifying goods, and which gives the country a sugar quota (currently mostly unused) and other agricultural benefits under the Common Agricultural Policy. Unlike in Mauritius, where these assets are vitally important to the local economy and to attracting investors, in Madagascar they really have not had much impact yet because of how difficult the investment environment is in other ways.

Madagascar is also a member of the Preferential Trade Area (PTA) of eastern and southern Africa. This, too, could offer an advantage to investors because of its clearing house for foreign exchange allocation by member governments. But for the moment Madagascar's foreign exchange situation is just as bad or worse than those of other members.

8.13 Implications for American Investors

- Madagascar's external economy is small and underdeveloped. This provides a number of interesting opportunities but also numerous problems since investors have had little chance to work with the system.

- Access to foreign exchange is currently a problem and will remain constrained for the foreseeable future as the country depends on donors for virtually all hard currency supplies.

- Foreign exchange management, on the other hand, should continue to become more competent and predictable.

- Investors should not count on being able to repatriate their capital easily under the current system (i.e., as long as capital transfers have to go through the central bank). Dividend remittance should be easier, depending on foreign exchange availability and regulation concerning whether investors can hold offshore accounts for such purposes. World Bank foreign exchange support will ease both problems, but not necessarily make them trouble free.

9. EXTERNAL DEBT AND AID

Madagascar's enormous external debt burden will bring continuing reschedulings and debt forgiveness, but debt service will remain a drain on hard currency earnings for many years to come. This situation only underscores the country's dependence on donor aid for survival over the next few years.

9.1 EXTERNAL DEBT

Madagascar has an enormous external debt burden, one which the country cannot possibly service or pay back. Bilateral donors have begun forgiving debt obligations, but the large amount of borrowing from France and the multilateral institutions over the past few years, which will continue indefinitely, will ensure net annual increases to the country's external obligations for the foreseeable future.

Total external debt at the end of 1990 was estimated at $3.1 billion, or about 150 percent of GDP and more than 1,000 percent of export earnings. Almost all this debt is owed to Paris Club creditors, primarily France. The debt service ratio last year, even with the recent Paris Club rescheduling, was over 60 percent.

9.2 FOREIGN AID

Madagascar is vitally dependent on foreign aid, both grants and loans. The amounts of foreign aid necessary for keeping the economy going under current conditions are massive. The flow of net official transfers has risen from $77 million in 1980 to $170 million in 1990. The amount of debt outstanding from official creditors has risen from $579 million in 1980 to $3.2 billion in 1990, an increase of 450 percent.

France has been providing major amounts of funding since the quiet rapprochement between the two countries in the late 1980s. The French have already forgiven FF 4 billion ($720 million) of obligations, a major portion of Madagascar's outstanding debt, and they are also considering a FF 100 million ($18 million) balance-of-payments support facility. Likewise, the U.S. has recently forgiven a substantial portion of its outstanding obligations.

This foreign aid will continue indefinitely and may even increase in the short term as the industrial countries show their support for the democratization of Madagascar. This aid will also unfortunately keep adding to the country's debt burden. More massive debt forgiveness is thus probably all but certain over the next decade.

9.3 Multilateral Adjustment Programs

The IMF has had a structural adjustment program in place since 1982, but significant government cooperation (and progress) did not really begin until 1987 and 1988. Meanwhile, the World Bank is working closely with the Fund, providing complementary support and conditionality both at a macro and project level. Out of necessity, both institutions will remain intimately involved with the government for the next several years.

9.4 Implications for American Investors

- Donor involvement in managing the Malagasy economy will mean much more stability and predictability for foreign exchange availability and economic management.
- Because Madagascar will be dependent for some time on donor assistance, particularly from France and the multilateral institutions, American investors should monitor closely donor programs and conditionalities as signals of new contract opportunities and changes in policy.

10. LABOR

Investors report high levels of satisfaction with Malagasy labor, citing high productivity rates in particular. Labor is one of the country's main attractions and will remain so for investors seeking low-cost labor assembly and manufacturing platforms.

10.1 PROFILE OF LABOR RESOURCES

Labor in Madagascar is cheap, literate, manually skilled, willing to learn, and loyal. As a consequence, it is also productive and efficient. Mauritian textile companies now operating low-skill production in Madagascar report productivity rates higher than in Mauritius and turnover rates as low as three percent. Madagascar thus offers a particularly attractive resource for labor-intensive enterprises.

Skeptics point out that the general employment picture in Madagascar is so bad that anyone getting a good job will work hard to keep it, and thus that the Malagasy worker may not be as good as she is currently described. But the few long-term investors, such as Cotona, the textile firm that is based in Madagascar, report high levels of satisfaction with workers over the several decades the company has operated in the country.

The average monthly wage in Madagascar in the manufacturing sector (textiles) is about $90 (FMG 172,000), or about one-third the average cost of labor in neighboring Mauritius.

The proportion of labor in agriculture is likely to begin rising soon as new price incentives move people back to the farms. In general, between 90 percent and 95 percent of the labor force are in agriculture and about 5 percent in industry.

When discussing Malagasy labor, private-sector managers distinguish between the Merina, or plateau people, and the coastal people, primarily the Betsimisaraka. Plateau workers are universally acknowledged to be the superior workers. Moreover, managers caution that ethnic troubles can erupt in enterprises if the two groups are mixed inappropriately, such as importing plateau managers for an enterprise on the coast.

Another important clarification about Malagasy labor is that it is literate but not necessarily in a major language. Specifically, the government prohibited the teaching of French throughout the educational system between 1975 and the mid-1980s. Younger people, therefore, cannot speak or write correct French though they are generally well educated otherwise (they read and write Malagasy, the national language). This gap will close relatively quickly since people are now anxious to learn foreign languages, including English. Also, most people schooled before 1975 are literate in French and, indeed, are quite well educated--before 1972, Madagascar had a superior educational system.

Finally, technicians and managers are generally not available, though older workers with high education levels are relatively numerous. Private-sector managers report excellent results from their own training programs at both high- and low-skill levels. Also, the government and donors are providing a growing number of training and human resource development programs, such as the new Hotel Training Institute. These programs will begin to help alleviate the shortage of managers and technicians over the next few years.

10.2 Under- and Unemployment

There are no official measurements of under- or unemployment in Madagascar, nor are these statistics particularly relevant given the high level of subsistence farming still present in the economy. But there is clearly an employment crisis in the country--a substantial portion of the urban population do not have jobs, in particular high school and university graduates.

One important evidence of this situation is the significant rate of urbanization over the past few years. Antananarivo now hosts as many as two hundred thousand squatters who have left their farms in despair and come looking for something better in the city (other cities have similar, if smaller, squatter populations).

Another indicator of the extent of the labor problem is the many anecdotes about highly educated people who cannot find jobs in their own sectors--trained doctors are tending diplomats' gardens, and a group of unemployed lawyers which has formed an aquaculture enterprise. The medical association claims there are close to 700 unemployed physicians in Madagascar. While this evidence is not a scientific sample, such situations nevertheless seem to be widespread.

10.3 Incomes Policy

The government establishes each year a *salaire minimum* per hour. It then indexes this minimum for each job category, with higher skill levels receiving a higher wage as a multiple of the basic wage. Unfortunately, the job categories used date from the 1950s and thus do not cover most modern manufacturing-type jobs. Most investors therefore have to make up their own job categories and indexes, in cooperation with the local labor union.

Benefits are extremely generous, stemming from the country's recent socialist past.

- The government mandates 2 1/2 days per month of paid leave, or thirty calendar days per year of "actual service."
- "Actual service" includes time spent for other benefits, which can include
  - up to six months' sick leave annually

- work accident or occupational sickness (time period undefined)

- fourteen consecutive weeks of maternity leave as well as one hour daily over a period of fifteen months for breast-feeding

- up to ten "family days" per year.

- In addition, there are thirteen official public holidays, ranging from Easter Monday to "O.A.U. (Organization of African Unity) Day."

Social security contributions include 5.0 percent to 5.5 percent of annual salary for the "occupational work plan" and 1.0 percent of annual salary for social security.

Length of notice for firing depends on a complicated schedule ranking the worker's seniority and professional category. Notice required varies from two hours for the lowest-grade, brand-new employee to six months for executive-grade employees who have been with the company more than five years.

10.4 LABOR UNIONS

Madagascar has five major labor unions. SEREMA, associated with the previously dominant AREMA party, is the major union; the four other unions are associated with the other parties. Investors report that the unions are not radical, and that discussions with them focus primarily on benefits and working conditions.

10.5 EMPLOYMENT OF EXPATRIATES

Investors can employ expatriates freely. Two permits are required, a work permit and a resident permit, both of which are usually granted without problem by the government.

Madagascar currently has no "indigenization" requirements (i.e., that a certain portion of management must be local within a set time period).

Investors working under the Investment Code and the IFZ can technically remit expatriate wages without limit. In practice, however, investors still pay a certain portion of expatriates' salaries offshore to get around local foreign exchange shortages.

For local companies, expatriate remittance cannot exceed FF 6,000/month (currently about $1,000).

10.6 Expatriate Living Conditions

Though Madagascar is a beautiful and bountiful country, expatriate living conditions are currently somewhat difficult and are likely to remain so for the foreseeable future, primarily because of the generally unsettled political and social environment. Antananarivo itself offers a wide variety of foods and other basic goods, but most higher-end European and American items are not available or are quite expensive. Housing is expensive and difficult to find outside of the capital. Living conditions in general deteriorate rapidly away from the largest cities. The American School of Antananarivo is available for all grade levels.

10.7 Implications for American Investors

- Malagasy labor is particularly attractive for labor-intensive enterprises.
- Investors should count on providing training across the board; managers are generally not available, though those that are will be attracted by good opportunities with pioneer investors.
- Investors should generally count on enterprises based on jobs of lower skill levels, though the population's high manual dexterity and

literacy mean that training should be rapid and successful. The exception to this is in any handicraft-related enterprise, where the Malagasy excel.

11. FINANCIAL SECTOR

Madagascar's financial sector is basic and still primarily state controlled. It will for the next several years be controlled and then monitored by the major donors, who will be supplying liquidity and directing restructuring of the sector.

11.1 Overview of the Financial Sector

Madagascar's financial sector was limited to three public-sector banks until 1987, when the World Bank succeeded in getting the government to agree to a program to privatize the sector. Also under the agreement, the door was opened to 100-percent foreign-owned banks.

The financial sector has thus been at least partially privatized, but it still offers no institutions or markets outside of the four banks now operating (see below). The banks provide very basic short-term credit services, including commercials bills, bearer bills, credit sales, documentary remittances, advances such as for overdrafts, and agricultural credits. For the time being, the banks do not have the level of funds necessary to provide medium- and long-term financing. In any case, all money available for such needs is channeled through the donor programs. The central bank is the clearing house but has in practice abdicated much of its previous authority for monetary policy and foreign exchange management to donor advisors.

The IMF has established credit ceilings for each bank. These ceilings are now "under review" since the one remaining fully public-sector bank was responsible for significantly more credit in the economy last year than allowed. "Under review" probably means revamping the credit ceiling process as part of an IMF-designed reorganization plan for the sector that is expected in October. This plan will also allow further opening of the sector to foreign investment. In the meantime, investors do as much of their banking as possible offshore, a good portion of it in Mauritius. Local savers likewise have little use for the local financial sector: at last count (1988), the Malagasy savings rate is eight percent, among the lowest in sub-Saharan Africa.

11.2 Banks

Under the 1987 World Bank plan, Madagascar's banks now have the following ownership profiles:

BTM	100% government owned
BFV	75% government owned, 25% private
BNI	45% government owned, 55% private (BNP, Reunion Bank)
BMOI	100% privately owned (BNP, Dresdner Bank; opened in 1989)

In addition, the Mauritian Commercial Bank (MCB) has an office in Antananarivo and is planning to open a branch in the near future, and there are reports of interest by South African banks in opening local offices or branches.

11.3 Monetary Policy

Monetary policy has been largely directed by the World Bank and IMF since the beginning of their active intervention in the economy in 1982, and particularly since 1987 and the beginning of the financial sector's privatization.

As mentioned above, the IMF has imposed credit ceilings on each bank since 1987, though these have not always been adhered to. There is, of course, some discrepancy between the mandate to liberalize the financial sector on the one hand and the imposition of credit ceilings on the other. But in Madagascar's case, this marriage has been necessary because of the government's inability to manage monetary policy effectively, and, more important, because so much of government revenues are now coming from donors, who want some control of how their money is being spent. Previously, for example, more than 50 percent of all credit was going to parastatals, and almost 85 percent was going to large enterprises at the expense of small- and medium-size firms.

Investors can thus expect monetary policy to be generally conservative and well managed over the foreseeable future because overall direction is coming from donors. However, this also means some continuing restrictions on credit availability. The largest, most creditworthy firms continue to pay a spread of up to five percent on loans and wait six months for credit approval.

11.4 IMPLICATIONS FOR AMERICAN INVESTORS

- Because monetary policy is being directed largely from Washington and Paris, American investors can be relatively assured that it will be capably managed and balanced between the need for stimulus and the need to control inflation.

- In any case, however, most investors are not affected significantly by monetary policy because they source almost everything (including capital) from outside the country. Americans investors should count on doing the same for at least the next year.

12. INFLATION AND PRICE CONTROLS

Moderate inflation will continue to plague Madagascar, but price controls will continue to decrease under donor guidance.

12.1 INFLATION AND ANTI-INFLATION POLICIES

Inflation is present in Madagascar, but since most economic activity is outside the formal economy, no one is sure what actual consumer-level inflation is at a national level. The World Bank estimated consumer inflation at 12 percent in 1990, with a GDP deflator of about 13 percent. The average consumer inflation rate during the 1980s was 17 percent.

Chronic inflationary pressures exist in the economy since, with the exception of 1990, the population has been growing faster than economic production for at least the past decade, and imported goods have not been available on a scale sufficient to compensate for this gap. Moreover, prices, particularly of imported goods have risen much faster than wages, especially as a result of depreciation of the Malagasy currency (FMG).

No estimates are available for inflation in the informal sector, though it certainly varies by region given the country's high degree of regional isolation, and between urban and rural areas. In rural areas, inflation depends primarily on exogenous factors such as the weather, since rural areas are still largely autarkic and dependent on local food production. In the major cities, growing populations caused by rural flight over the past decade have brought a significant rise in prices as suppliers sought to keep up with rising demand. Inflation has moderated somewhat recently because of the clampdown on credit, but, in the end, incomes have not kept up with prices. Investors' anecdotal experiences indicates that "there are plenty of things to buy now, but no one can afford them."

The government has no anti-inflation policy, per se.

12.2 PRICE CONTROLS

Officially, most prices are controlled by the government; in practice, the civil service does not have the manpower or ability to control them since the informal sector is relatively control-proof.

The major exception is rice, the principal food crop, whose price is effectively controlled. Steep increases in the retail price of rice after 1986 have led to increased investment, particularly by small growers, which has in turn spurred a return to farming and greater investment in downstream processing.

The IMF is pushing to scrap existing price control legislation, particularly since it does not work anyway.

12.3 IMPLICATIONS FOR AMERICAN INVESTORS

- Most investors are not particularly affected by local inflation and price controls since all inputs except labor are usually imported into the country. American investors should plan for similar massive investment of inputs, subject to examination of the local market at the time of the investment.

- Inflation will remain a problem in Madagascar because production in general cannot keep up with demand, and because imports are still too expensive for most citizens. Moreover, imports are likely to drop as IMF/World Bank adjustments take hold this year.

13. PUBLIC FINANCE

Madagascar's fiscal management has been poor. Government revenues are for the time being significantly dependent on donor funds, while expenditures are being restructured under donor guidance.

13.1 Overview of the Fiscal Situation

The Malagasy government's fiscal situation is for the time being almost entirely dependent on funds from France and the multilateral institutions. The government has mismanaged fiscal resources on a large scale, to the extent that it refuses to report fiscal figures to the IMF or make them generally available.

Recent World Bank figures, however, indicate that Madagascar has run a consistent budget deficit for at least the past decade, ranging in size from 14.3 percent of GDP in 1980 to 0.9 percent of GDP in 1990. This improvement is notable, particularly since it is based on a sharp reduction of expenditures since 1980. However, revenues as well have been declining as a percentage of GDP, largely because of the general economic depression.

Meanwhile, the structure of deficit financing has improved, with commercial borrowing replaced by highly concessional aid loans. In fact, aid has become such an important source of government revenue that, if grant aid and concessional loans are included as revenue, the fiscal account would show a *surplus* equivalent to one percent of GDP.

Madagascar's fiscal situation will remain dependent on donors until the economy, and particularly the export sector, are able to function well enough to provide the necessary levels of tax income on a steady basis. This is not likely over the next one to two years, though the situation could improve noticeably after 1993. Thus, for example, investors should not expect any significant infrastructure improvement outside of donor-funded projects (donors are in fact focusing a large proportion of their money on infrastructure).

13.2 Public Expenditures

By 1988, public expenditures had been reduced to 19 percent of GDP, which the World Bank points out is significantly lower than in most other low-income developing countries.

Expenditures in 1990 totaled FMG 784 billion ($524 million), or 17 percent of GDP.

> The single largest share of fiscal spending went for agriculture and forestry (17 percent), followed by transport and communications (15 percent), education (13 percent), general public services, and defense and police.
>
> Almost a third, however, went to "other," which includes the bloated parastatal sector--and which, it must be said, also includes many officials' pockets (though this has declined sharply since the French and multilateral officials have assumed a more watchful eye on where their money is going).

Fiscal spending is likely to rise in the near future given pressing spending demands, remaining close to 20 percent of GDP for the next few years.

13.3 Government Revenues

The level of tax revenues in Madagascar in recent years has been (as the World Bank puts it) "low." The ratio of tax revenues to GDP, which for most low-income countries is just under 20 percent, fell in Madagascar to just 11 percent in 1989.

The structure of tax revenues is particularly problematic since three-fifths come from international trade taxes. With these presumably scheduled to be phased out in the long run, the government must find other sources of tax revenue. This may be possible: already the export tax liberalization has reduced the role of this tax, which was once the single most important source of tax receipts. Another area where there is major room for improvement is in tax collection, which is inefficient and corrupt.

Domestic revenues in 1990 totaled FMG 547 billion ($366 million), leaving a financing gap of some $158 million.

France now supplies approximately 15 percent of total government revenues directly from the French treasury, and another substantial portion in various types of aid, both grants and lending. The World Bank and IMF meanwhile provide other concessionary lending that comprises a further major portion of the local treasury's needs.

13.4 Implications for American Investors

The Malagasy fiscal situation underscores the economy's dependence on donor financing. But the situation should not affect investors except that infrastructure spending will come almost entirely from donor projects for the foreseeable future.

14. TAXATION

Madagascar's tax policies for investors are liberal and attractive but may not be rigorously enforced over the near term.

14.1 OVERVIEW OF TAXATION POLICY

Tax policy is in transition in Madagascar, but in general the tax burden on investors is liberal, while that on local companies is relatively heavy.

The government has three main investment promotion schemes under the Industrial Free Zone regulations:

FZDMC - Free Zone Development and Management Companies

IMC - Industrial Manufacturing Companies

SC - Service Companies

Investors under these schemes are generally exempted from all taxes and duties except:

- 10 percent corporate income tax after a specified grace period
- 10 percent corporate dividend tax (no grace period).
- income tax on expatriates (35 percent top marginal rate)

Because of the recent political problems, information from the government on the more detailed aspects of tax policy for investors (such as depreciation) was not available for this report, but investors indicate that most such issues are relatively standard, at least in print. Investor experience with taxation issues, however, is limited.

Enforcement of tax policies is variable, depending on the circumstances and the amount of corruption involved. Thus, while the code is quite liberal, taxation in actual practice will for a while be rather ad hoc. Investors are urged to consult with a knowledgeable accounting firm either locally or in Mauritius for the latest information on tax policy and enforcement.

14.2 Principal Taxes

• *Corporate Profits Tax*

Investors in the FZDMC are exempted from corporate profits tax for 12 years; in the IMC, for 5 years; in the SC, for 2 years. All pay a flat 10 percent rate thereafter.

The standard corporate profits tax rate is 45 percent, with a 35 percent reduced rate if three-quarters of turnover results solely from agricultural, industrial, mining, hotel, tourism cottage industry, or transport activities.

• *Dividend Tax*

Investors in all three sectors pay a flat 10 percent rate.

The standard dividend tax varies from 8 percent to 45 percent. The rate is 15 percent for companies whose registered office is located in a country that has not signed a tax treaty with Madagascar.

• *Income Tax*

There is a 35 percent top rate for expatriates. The standard "salary tax" has a FGM 5,000 minimum and a top rate of 45 percent.

- *Customs Duty and Import Tax*

  Investors in all three sectors are exempted from customs duties and import taxes.

  Standard duties and taxes range from 10 percent to 80 percent of CIF value.

- *Single-Rate Transaction Tax*

  Investors in all three sectors are exempted from the single-rate transaction tax (TUT).

  The standard TUT is 15 percent of the value of imports or goods and services delivered to the individual or company. Companies with 75 percent or more of turnover going to exports may request exemption from the TUT.

- *Export Duty and Tax*

  Investors in all three sectors are exempted from export duties and taxes.

  The standard rates are "variable according to product tariff classification." In practice, export duties are high enough on Madagascar's few significant export products (such as vanilla) to have caused a major decline in the country's competitiveness on world markets in these products (though these are being reduced).

- *Excise Tax*

  Investors in all three categories are exempted from excise taxes.

  Standards rates vary from 5 percent to 125 percent according to product tariff classification.

14.3 DETERMINING TAXABLE INCOME

No information is presently available on current practices regarding determining taxable income for foreign investors. Investors should anticipate a relatively standard methodology based on Mauritius' allowances.

14.4 DEPRECIATION

No official published depreciation schedules are available. Again, the amount and type of foreign investment in Madagascar has meant that depreciation issues are not of great relevance at the moment, though a standard code should be forthcoming.

14.5 TAX TREATIES

Madagascar does not have a double taxation treaty with the U.S.

14.6 APPEALS

Tax appeals would be treated under standard Malagasy law. There is no special tax court or tribunal known. Investor experience on this issues is minimal.

14.7 IMPLICATIONS FOR AMERICAN INVESTORS

- The Malagasy tax system will be somewhat fluid in operation for some time to come, so investors should expect practice to deviate from the law.

- In general, however, the tax environment is favorable for investors. If the new government can succeed in reducing corruption in the civil service, the tax environment will become more attractive and predictable.

15. INTELLECTUAL PROPERTY PROTECTION

Madagascar offers no particular protection of intellectual property, but such issues have not arisen for most investors given the basic types and small levels of investment going into the country.

15.1 PATENTS, TRADEMARKS, COPYRIGHTS AND REDRESS

Madagascar has not yet reached the stage of economic development where issues of intellectual property protection are particularly relevant. Madagascar has laws on the books protecting intellectual property; the country is a signatory to the Patent Cooperations Treaty, which provides a number of standard provisions for protecting intellectual property.

The fact of the matter is that there has not yet been enough investor experience with intellectual property in Madagascar to give any clear picture of how well it is protected there. As noted elsewhere in this document, most investors to date have put only basic--and even obsolete--capital equipment into the country. Moreover, information hardware and software are still nascent, with only a few PCs here and there, and with only a few technicians around even capable of copying or pirating higher technologies.

Redress for intellectual property cases would have to be handled on an ad hoc basis through the government, which has little or no experience with such matters so far.

15.2 IMPLICATIONS FOR AMERICAN INVESTORS

> Investors should not expect significant protection or redress for intellectual property in Madagascar until more investors' experience indicates how well local enforcement may work under the new government.

APPENDICES

Appendix One

LOMÉ CONVENTION PREFERENTIAL TRADE ARRANGEMENTS

The Lomé Convention is a co-operation agreement between the European Community (EC) and the African, Caribbean and Pacific Group of States (ACP). The former has twelve member states and the latter comprise of sixty-six. This convention was concluded in order to promote and expedite the economic, cultural and social development of the ACP States through trade, financial and technical assistance.

Under this convention the chapter on Trade Co-operation has as its object to promote trade between the ACP States and the Community by improving the conditions of access for their products to the community market.

2. Products originating in the ACP States shall be imported into the community free of Customs duties and charges having equivalent effect.

   The following products shall be considered as products originating in an ACP State.

   (a) products wholly obtained in one or more ACP State.

   (b) products obtained in one or more ACP States in the manufacture of which products other than those referred to in (a) are used, provided that the said products have undergone sufficient working or processing.

Sufficient working or processing means that the goods obtained receive a classification under a different tariff heading from that covering each of the products worked or processed. The incorporation of non-originating materials and parts in a given product obtained shall only make such products lose their originating status if the value of the said materials and parts incorporated exceeds 5% of the value of the finished product.

When products wholly obtained in the community (EC) or in their overseas territories or ACP States undergo working or processing in one or more ACP States, they shall be considered as having been wholly produced in that or those ACP States, provided that the products have been transported directly - direct consignment rule.

Eligible products shall be accompanied by evidence of originating status, the movement certificate EURI.

However, products which fall under a common organization of the treaty establishing the European Communities or are subject on import into the community, to specific rules introduced as a result of the implementation of the Common Agricultural Policy (CAP) may be excluded or subject to quantitative restrictions or the safeguard clause.

The following products shall be considered as wholly obtained either in one or more ACP States or in the community.

(a) mineral products extracted from their soil or from their seabed;

(b) vegetable products harvested therein;

(c) live animals born and raised therein;

(d) Products from live animals raised therein;

(e) products obtained by hunting or fishing conducted therein;

(f) products of sea fishing and other products taken from the sea by their vessels;

(g) products made abroad their factory ship exclusively from products referred to in subparagraph (f);

(h) used articles collected there fit only for the recovery of raw materials;

(i) waste and scrap resulting from manufacturing operations conducted therein;

(j) goods produced there exclusively from the products specified in subparagraphs (a) to (i).

For the purpose of para.2(b) the following shall always be considered as insufficient working or processing, whether or not there is a change of tariff heading:

(a) operations to ensure the preservation of merchandise in good condition during transport and storage;

(b) simple operations consisting of removal of dust, sifting or screening, sorting, classifying, matching, washing, painting, cutting-up;

(c) (i) changes of packaging and breaking up and assembly of consignments;

(ii) simple placing of bottles, flasks, bags, cases, boxes, fixing on cards or boards.

(d) affixing marks, labels and other like distinguishing signs on products or their packaging.

(e) (i) simple mixing of products of the same kind where one or more components of the mixture do not meet the conditions as originating product.

(ii) simple mixing of products of different kinds unless one or more components of the mixture do not meet the conditions as originating product.

(f) simple assembly of parts of articles to constitute a complete article;

(g) a combination of tow or more operations specified in subparagraph (a) to (f)

(h) slaughter of animals.

In defining the concept of originating products, Protocol I of the Lomé III Convention gives a list of working or processing operations carried out on non-originating materials which result in a change of tariff heading without conferring the status of "originating products" on the products resulting from such operations.

The Lomé Convention has a provision for financial assistance in trade promotion so that exporters from any ACP country may participate in trade fairs and exhibitions.

Appendix Two

COMPANY LAW

I – CHARACTERISTICS AND GENERAL PRINCIPALS

Any company wishing to engage into economic, commercial or industrial activity in Madagascar must do so within the framework of a company, incorporated under Malagasy Law, with its registered office and management and accounting systems established in Madagascar. The Malagasy Company Law originateds from French Law. (Ex SA/LOI of July 24, 1867 or SARL/LOI of March 07, 1925).
Liability - which is at the base of any commercial transaction - is borne, as the usual case, either personally by the partners or by the share capital, depending on the type of company formed.

- Personal Company (Partnership or Single owner)
- Public Company (financed by shares or private company)
- Limited Liability Company.

Private and limited liabilyt companies are the two most common forms of compnay operating in the Malagasy econmic environment.

II – FORMALITIES FOR STARTING A NEW ENTERPRISE

WHAT MUST BE DONE?	WHERE?	HOW MUCH TO PROVIDE?	LTD. LIABILITY CO.	PRIVATE CO.
Minimum requirements -Share capital -Members			MGF 500,000 2 shareholders	MGF 500,000 7 Shareholders
Formation formalities				
-Preparation of Articles of Association[2]	registered office		★	★
-Depositing of Articles of Association[2]	Trade Tribunal			★
-List of subscribers	registered office			★
-Shareholders' contributions[1]	registered office		★	★
-Bank deposits	main banks		★	★
-Declaration of subscribed capital and deposits[2]	registered office			★
-First general meeting	registered office			★
-Collective decisions	registered office		★	
-First management meeting	registered office			★
-Auditor				
-Authentification of definitive articles[2]	town hall	Legal signature and stamp	★	
		duty/page		★
	company registry	Registration duty[3]		★
		-basis MGF 1,000	★	★
		-subscription 2% tender value 6% others		
-Registraiton of Articles of Association[2]				
-Filing of final Article of Association with Registrar				
-Final Articles				
-Resolution of appointment officers				
-Minutes of proceedings of first General Meeting and			★	★
of first Management Meeting			★	★
REGISTRAITON AND DISCLOSURE OF FORMALITIES:				
-Entry on trade register	Trade tribunal	Provision: MGF 100,000	★	★
-Notification to tax authorities				
-professional tax	company tax department	Standard fiscal legislation	★	★
-Corporate profits tax	company tax department	Standard fiscal legislation	★	★
-Sales tax (TUT)	goods tax department	Standard fiscal legislation	★	★
-Statistical register	data bank		★	★
-Legal public notice	daily newspaper	Advertising and newspapers	★	★
-Certificate of incorporation	company registry		★	★
-Social Security formalities	CNaPS		★	★
-Company medical formalities	OSTIE		★	★

[1] This relates to cash contributions
In the case of contributions in kind:
- For limited liability companies, the shareholders are jointly and separately liable up to the amount attributed to the respective shareholders contributions.
- For private companies, a first general meeting must be held, to nominate an officer responsible for shareholders contributions. A second general meeting will then be fixed to consider the officer's report.

[2] In the case of private companies, these formalities can be effected by way of a legal document. Notary fees vary according to each case.
[3] With regard to IFZ companies, exemptions may apply which are mentioned in the section covering IFZ's.

III. Conditions of Foreign Participation in Companies Established under Malagasy Law

FOREIGN RESIDENTS:

Foreign residents (individuals having lived in Madagascar for over two years) enjoy the same rights as Malagasy nationals; they are free to participate in companies established under Malagasy law.

FOREIGN NON-RESIDENTS:

For non-residnet foreigners (individuals or corporations, public or private being usually resident, or having their registered office abroad, or corporations having their registered office in Madagascar but under foreign direct or indirect control), the distinction should be made between:

-Individuals

The purchase, creation, or extention of goodwill, branches or personal business must have prior authorization of the Ministry of Finance.

-Corporations

Any contribution or surrender exceeding 20% of the capital of an existing company or a company to be formed, must have prior authorization of he Ministry of Finance. The percentage calculation is based on the totla contribution of all non-resident investors and not on each individual contribution.

PROCEDURES TO FOLLOW

1. Standard legislation

-Application for direct investment permission in 3 copies addressed to the Ministry of Finance (Exchange Control Department: FINEX) through an authorized intermediary (a bank).
-Information relatin to the volume of annula imports and means of financing.
-If prior authorization is given, a return confirming the investment must be sent to the Ministry of Finance within 20 day of operation.

2. IFZ enterprizes or enterprizes falling under the Investments Code

For these enterprizes, the minutes of the approval decision have the same effect as the Direct Investment Authorization; hence, the application for prior authorization is not necessary.

BANKING SYSTEM AND CREDIT POLICY

1. Operation

CENTRAL BANK OF MADAGASCAR - ANTANINERENINA - P.O. BOX: 550 - tel.: 217.51-52 - 234.65 - Telex: 22.329 - Fax: 34552 - ANTANANARIVO

MAIN BANKS	B.N.I.	B.F.V.	B.T.M.	B.M.O.I.
Addresses				
Registered office	74,26 Juin 1960 Street ANTANANARIVO	14, Jeneraly Rabehevitra St. ANTANANARIVO	Independence Square ANTANANARIVO	VOG Building Ratsimilaho Street ANTANANARIVO
P.O Box	174	196	183	25 bis
Tel (262-2)	239 51	206 91 to 95-264 24	202 51	346 09
Telex	22 205	22 257	22 208	22 381
Fax (262-2)	33 749	34535	21398	346 10
Number of branches	22	28	67	1

2. Range of services

DESIGNATION	PERIOD	BASE RATE (Oct 90)
Short term Credit	24-36 months	
-Commercial bill discounting		14.47% to 19.00%
-Bearer bill discounting		14.74%
Credit sales		
Motor vehicles and professional equipment		14.75%
Agency vehicles		16.50%
Documentary remittance discounting		
Document against payment		18.25%
Document against acceptance		13.25%
Advances		
Overdraft		18.00% to 21.50%
ASM		14.00% to 21.25%
ASP		13.00% to 21.75%
Advance against book debts		14.75% to 21.50%
Agricultural credit		14.00% to 20.00%
Medium-term credit stock purchases and factory buildings	2 to 5 years	15% to 20%
Long-term credit Acquisition of long-term capital eqiupment	> 5 years	
Credit against signature acceptance		0.30%
Security guarantee		
customs security	>3 months	0.50%/3 months
tax administrative security	2 to 3 months	0.5% to 1.0%/3 months
market security	1 to 3 months	1.0%/month to 0.5%/3months
Clients - credit security	3 months	0.6%/term
Interest on term deposits	>5 months	11.5% to 17.75%

ENTRY FORMALITIES

PRINCIPLE	ENTRY VISA	
	SHORT STAY	LONG STAY
	Can be delivered: -either by: Ministry of External Affairs, Lalana Andriamidildy, Ampefiloha, ANTANANARIVO 101 - Tel: 211-98 -or by a: Malagasy diplomatic representation abroad	Can be delivered: -either by: Ministry of External Affairs, Lalana Andriamidildy, Ampefiloha, ANTANANARIVO 101 - Tel: 211-98 -or by a: Malagasy diplomatic representation abroad
RATE TO BE PAID	MGF 5,000 per entry MGF 10,000 for two entries or more	MGF 10,000 for two entries MGF 40,000 for several entries
LENGTH	-short stay: maximum: 3 months -tourism: maximum: 1 month (renewable) -family visit: initial visa: 1 month (renewable)	

PRINCIPLE	EXTENSION OF STAY		
	SHORT STAY	LONG STAY	FOREIGN ID CARD
	Formalities to be undertaken at: The Ministry of Internal Affairs Lalan Adriamfidy, Ampefiloha P.O. Box 833 ANTANANARIVO 101 Tel: 214-65 298-82 (foreigner control)	Formalities to be undertaken at: The Ministry of Internal Affairs Lalan Adriamfidy, Ampefiloha P.O. Box 833 ANTANANARIVO 101 Tel: 214-65 298-82 (foreigner control)	Every foreigner having a visa for more then three months is a resident. It is compulsory for each resident to have an ID card delivered by local authorities (tertiary)
RATE TO BE PAID	MGF 5,400	-extension: 3 months to 2 years: MGF 20,000 -extension: 2 to 5 years: MGF 40,000 -permanent resident: MGF 50,000	-delivery fee: MGF 10,000 -annual visa: MGF 10,000
LENGTH	-extension short stay: maximum: 3 months -length of formalities: 3 to 4 days	-extension long stay: length more than 3 months	

DESIGNATION	ADDRESS	TEL	TELEX
MALAGASY REPRESENTATION ABROAD			
EMBASSIES			
USA	2374 Massachusset Avenue, N. W. Washington, D.C. 20008	265-5525	440-167 AMBAMAD
USSR	5, Kourovoy Pereoulok Street, 1190 34 Moscow	290-02-14	
GERMANY	Rolandctrasse 49, Postfach 200 251. Bonn 2 D 5 300	331057/58	8 85 781 Ardm D
JAPAN	2.3.23 Moto-Azabu Minato-ku TOKYO 106	446-72-52	TELEMAD 25 941
ITALY	Via Riccardo Zadonai 84/A 001 94. ROME	327-77-97	ROME 622
MAURITIUS	Queen Mary Avenue Floreal-Mauritius	428 5015	4340 AMBAMAD IW
FRANCE	4, Raphael Avenue 75016 PARIS	45-04-62-11	610394 F TELEMAD
CHINA	San Li Tun Dong Jie No 3 PEKIN	532-1353	22140 MAD PK. CN
BELGIUM	276 de Torvuren Avenue, BRUSSELS 1150	770-17-26	61197 TELEMAD B
ALGERIA	22, Bologhine Street, (16 090) ALGER	62-31-96	611 56
CONSULATES			
TANZANIA	Margaret Street, 135 PO Box 5254 DAR-ES-SALEM	29-442	4 1 291
SWITZERLAND	Birkenstasse 5,6000 LUCERNE	211-27-21	8 134 42
SINGAPORE	(to be opened soon)		
REUNION	77, Juliet Dodu Street, 97 400 SAINT-DENIS	21-66-00	
MEXICO	Santimo 5 Bis San Angel Mexico 20 de Mexique	598-50-94	17 64 198
LEBANON	St Joseph Hospital Street, Andre G.L Gemayel Building, 6th floor Bauchriech Dore PO Box 75 Bikfaya	69 96 881	TAMERR 42 800 LE
KENYA	Hilton NAIROBI 1st Floor MAMANGINA PO Box 41 723	252-98	AERONOTIQUE SITA
INDIA	Ismail Building Flora Fountain Bombay 400.001	25 4-5 96	
GREECE	23.25 Emou Street G.R. 10.563 Athens	32-43-715	
GREAT BRITAIN	Tenchurch Street 69/70 Mark Lane	01-418-36-99	941 97 27 100
FINLAND	Vanha Kelikamaki 10 SF 00570 Helsinki 57	69-65-02	
SPAIN	432 Diagonal Avenue 432 BARCELONE 37	273-05-62	
CYPRUS	Thessalonikes St. Limassol CYPRUS	051 52 545	
CANADA	398 Clermont Crescent Calville Flat TORONTO L GJ GKL	(416) 845 8914	
BRAZIL	R 1809 PO Box 5194. CEP 220 72,332 Alm Gullhem St. RIO DE JANEIRO	521 5775	
AUSTRIA	Potzleindorfer Strasse 94-96, A-1184 VIENNE	47-41-92	21 13 602
AUSTRALIA	92 Pitt Street, 4th Floor SYDNEY - New South Wales 2000	221-3007	11 52 06
SAUDI ARABIA	IEGAL Advision JEDCAH PO Box 1342	214 62 662 1544	700 31

ACRONYMS

ACP	African, Caribbean, Pacific
EC	European Community
EPZ	Export Processing Zone
FMG	Malagasy franc
FZDMC	Free Zone Development and Management Companies
GDP	Gross Domestic Product
GDRM	Government of Madagascar
IMC	Industrial Manufacturing Companies
IMF	International Monetary Fund
JIRAMA	The electricity and water company
MCB	Mauritian Comercial Bank
OAU	Organization of African Unity
OPIC	Overseas Private Investment Corporation
PTA	Preferential Trade Area
SC	Service Companies
SRC	Supreme Revolutionary Council
TUT	Single-Rate Transaction Tax