OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as "developed", "industrialized" and "developing" are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

MADAGASCAR COUNTRY REPORT

20613

Madagascar

AN OBJECTIVE STUDY OF INVESTMENT CONDITIONS

UNIDO

PUBLISHED BY CORPORATE LOCATION IN ASSOCIATION WITH
THE UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANISATION

[illegible]

THROUGH A NEW CONCEPT OF PAPER MANUFACTURING, WE GET GREATER.

PAPMAD

ECOLOGY CHALLENGE. A NEW STEP TO THE FUTURE.

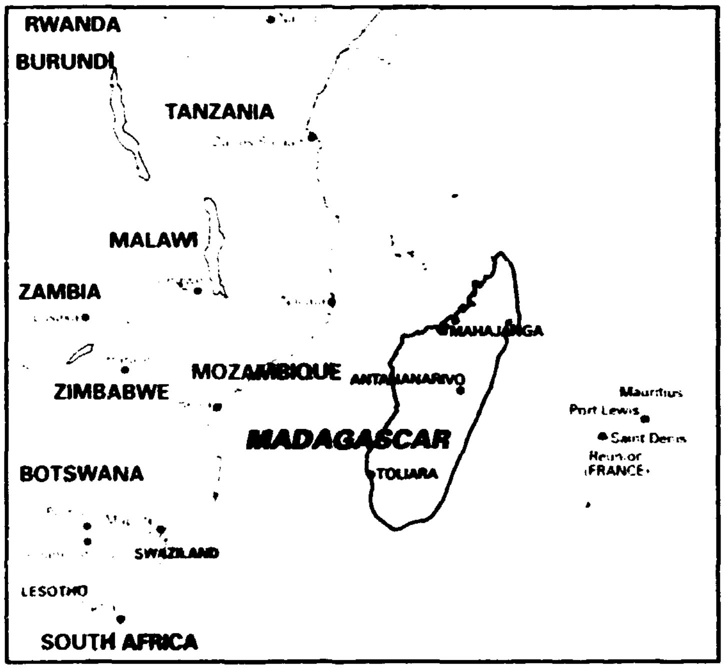
From Marxism to the market

Madagascar is marketing itself as a low-cost, duty-free manufacturing destination but investors must approach the island with a realistic attitude.

WHEN BUSINESSES consider possible overseas locations, Madagascar is unlikely to be the first name that leaps to mind. The country is little known internationally and what is remembered tends to be vague but negative recollections of the Marxist-leaning regime that held sway for much of the last two decades.

Yet this island nation of some 12m people has been finding its way back to the marketplace since the mid-1980s. More recently it carried out a successful and peaceful transition to democracy and today a new government is actively seeking international investors and encouraging the growth of free enterprise.

In the short term Madagascar's main attraction to foreign companies is its abundant pool of cheap and adaptable workers combined with generous tax holidays and related benefits for those willing to aim their output at national priority targets such as export production. Longer term prospects are linked to reconstruction of the country's infrastructures and revival of domestic markets. They centre on Madagascar's rich natural resources, including development of the agri-foodstuffs industries, mining and tourism.



BREAK WITH THE PAST

Herizo J Razafimahaleo, Madagascar's minister for the promotion of industry and tourism, is proud of his background as a successful businessman who turned to politics after learning how the world really works. His ministry was given its present name to underline the break with the central planning instincts of the past and to show that the government's role is to foster business development rather than to tell business people what to do.

"The free zone legislation that was initially put in place in 1989 encourages international investors to use Madagascar as a base for export production," Razafimahaleo explains. "Authorisations have already been granted to 100 or so such enterprises and we expect this policy to lead to the creation of at least 150,000 jobs over the next three to five years," he adds.

"In addition to these special legal structures a further important aspect of government policy towards investment is to simplify and improve access to the fullest possible range of financing techniques. We are keen to boost the local development of procedures that are well-known to Western countries such as venture capital, leasing, and mutual funds vehicles," Razafimahaleo indicates.

Another project the government wants to launch at an early date is the creation of a one-stop information and advice service for potential investors. "Our ultimate aim is to make this office play a truly promotional role for Madagascar, especially by encouraging private sector investment in the economy," Razafimahaleo explains.

As a more modest first step, the government recently issued a decree aimed at simplifying regulatory procedures. Under current rules foreign enterprises have to obtain permits from several different government offices before they can start operating. The new decree - which will require further inter-ministerial co-ordination before it can enter into force - provides for the establishment of a single office ("Guichet Unique") at which all the relevant applications can be lodged.

Foreigners who are permanent residents in Madagascar are free to invest in local businesses without limitation. In the case of non-resident foreign corporations, prior authorisation is required from the Minister of Finance, where the proposed investment exceeds 20% of the total capital of the local business concerned. Moreover, because of the country's acute lack of foreign currency, tight exchange restrictions still apply.

SPECIAL STATUS

However, most foreign investors opt for one of the top special status corporate structures now provided for under the country's recent investment regulations. The first of these is known as the "free zone" or "tax-free business" regime ("regime de zone franche" or "Entreprises franches"). It applies solely to companies that specialise in export production, though both foreign and local businesses can apply.

The major advantage granted by this status is a tax holiday on profits ranging from two to 15 years. This is coupled with a total exemption from import and export taxes, plus free access to foreign currencies and an unlimited right to transfer these abroad.

The second type of special status corporation is set out in the Malagasy Investment Code ("Code des Investissements") and it applies to major investments in manufacturing activities aimed essentially at the domestic market. According to the precise nature of the investment, the code allows for partial or total tax exemptions during a five-year period together with exemptions from import duties and the freedom to transfer dividends and profits abroad.

Antananarivo, capital city of Madagascar and main location for business.

Despite these inducements, Madagascar is not a country for the faint-hearted or those seeking a prestige location. "Everybody recognises that the industrial fabric of our country is virtually non-existent," said Prime Minister Francisque Ravony, when he presented his government's programme to the parliament in August.

As this poor but potentially prosperous country struggles to find its new way in a changed world, bureaucratic reflexes inherited from the recent past can still litter the impatient businessman's pathway to profits.

One complaint repeatedly voiced by export companies for instance is the difficulties and delays experienced in getting their goods through customs. "These criticisms are not very fair though," claims an official with the finance ministry. "We are seriously under-staffed, whilst often free zone exporters are not prepared to comply with even the minimum checking procedures that we have to impose," he claims.

By way of contrast most foreign investors who have located to Madagascar say they have experienced no difficulties in obtaining authorisations at the outset. One example is Francois Pernot, a French citizen who recently set up a knitwear undertaking called Trucomad near the capital Antananarivo.

"The procedure was very simple and quick, with the main part taking no longer than a fortnight," Pernot indicates. "The fact that I have no local partners and that all my shareholders come from outside Madagascar created no problems at all," he adds.

On the other hand Madagascar's legal structures are still not fully adapted to the modern market economy. For instance, the country still lacks an effective system of industrial property protection. However, a local office has now been established and the authorities are working on the issue with UN experts.

Foreign individuals and corporate bodies are still precluded from owning land and real property in Madagascar, although the situation is eased by leasing regulations which allow for long leases of up to 50 years.

Political reform has enabled Madagascar to open up for business. Abandoning the planned economy and introducing democracy ought to be the cornerstones of future prosperity. However, the interim period will be tough as the government attempts to balance the needs of economic restructuring with consensual demand. **CL**

Papeteries de Madagascar

Madagascar's premier papermill is looking to increase its export potential.

FOUNDED in 1963, the Papeteries de Madagascar (Papmad) is the only papermill operating in the Indian Ocean. With an annual production of 9-10,000 tonnes, Papmad dominates Madagascar's domestic market of around 13,000 tonnes a year. Starting from this strong local base, the company is now actively searching for export opportunities.

Papmad's productive plant is situated in the town of Ambohimamabola, some 7 km to the east of the capital, Antananarivo. The company predicts a total turnover of around FMG20bn ($10.9m) this year, compared with a figure of FMG17bn ($9.2m) in 1992.

Papmad produces a full range of paper for the local market, covering everything from the lowest priced products to luxury papers. Major lines include exercise books, envelopes, continuous stationery, telex paper and office writing pads. With a view to answering all the needs of the Madagascar market, Papmad imports the few lines of paper that it does not produce itself, such as high-security paper.

RECYCLING

Since 1991 the company has engaged in the recycling of medium quality waste paper. This makes it possible for Papmad to produce low cost exercise books for consumers of modest means selling at between FMB200 ($0.10) and 400. This approach is also positive in environmental terms. In addition, from next year the Papeteries de Madagascar plans to invest in the decontamination and recycling of higher quality waste paper. Corporate officials believe this is particularly worthwhile since there are potential supplies of around 3,000 tonnes in Reunion, 2,000 tonnes in Mauritius and 1,000 tonnes in Madagascar itself.

Originally the Papeteries de Madagascar belonged to a US-based corporation called Parson & Wetmor. Following a buy-out at the beginning of the decade, the company is now 100% owned by local investors headed by the company's chief executive, Patrick Rajaonary. In line with its development plans Papmad is currently increasing its capital.

EXPORT POTENTIAL

Company managers believe that they are now in a good position to attack a number of export markets. Primary targets in this respect will be the markets for packaging products developed from recycled paper. Papmad claims that it is in a strong competitive position in this sector with capacity to produce 500 to 600 tonnes a month.

Because of low production costs, Papmad also believes it has strong export potential for some of its other products such as exercise books which can be sold for less than FFr1 each. The fact that the sector is one that does not require a huge production capacity in order to be profitable also acts in the company's favour, executives believe. A further positive factor is Papmad's continuing ability to produce products that are still in demand in markets such as Africa but which are no longer produced by companies in the most advanced countries. Stencil papers provide one example. In addition, Papmad's exporting potential is being incidentally boosted by successive devaluations of the Malagasy franc.

As part of its modernisation efforts Papmad recently invested some FMG200m with the assistance of UNIDO in upgrading the company's computer facilities. This exercise placed particular emphasis on materials purchasing procedures and internal administration.

At the same time, the company is also carrying out research into the best ways of using raw materials in its manufacturing processes and into methods to optimise production and improve quality. Work on silk finish coloured writing paper provides one example of this.

Papmad's productive plant includes some 30,000 sq m of covered working space and the company employs a total of 900 staff. Particular emphasis is placed on the provision of good working conditions and related social benefits for employees. These include medical cover and assistance for staff and their families, whilst a new staff canteen has recently been installed at a cost of FMG200m. The minimum salary paid by the company – FMG90,000 a month – is around double the legal minimum laid down by Madagascan employment regulations.

CORPORATE CITIZEN

Moreover, as part of its corporate promotional efforts Papmad plays an active role in sponsoring cultural and sports events throughout the region. For instance, the company recently staged a jazz cabaret event featuring a local singer called Dama who is also a member of the national parliament. Another example is Papmad's sponsorship of a major regional tennis championship involving top players from Kenya, southern Africa and the Indian Ocean region. ■

PAPMAD

SOCIETE ANONYME AU CAPITAL DE
1,308,072,000 MGF

Ambohimanambola Antananarivo Avaradrano
Adresse Postale B.P. 1756 101 Antananarivo
Telephone 206 35
Telex 222 29
Telefax 243 9[illegible]

BFV – National Bank for Trade

THE BRANCH OFFICE network operated by the National Bank for Trade currently comprises 27 outlets. Eight of these are in the capital city, Antananarivo. The bank pursues its activities in all sectors of the economy. BFV is present throughout the world by way of its close working relationships with 510 correspondent banks. These include banks established in Mauritius, Reunion, the Seychelles and the Comoro Islands.

The bank also supports the development of partnership arrangements between foreign and local investors particularly in the context of tax exempt businesses ("entreprises franches").

BFV represents Visa International in Madagascar (cash advance service and merchants' network).

We can also simplify your commercial operations and ensure the smooth-functioning of all your financial transactions on foreign dealings.

With BFV, plan ahead with confidence.

Head office: ANTANINARENINA – ANTANANARIVO

14, Làlana Jeneraly Rabehevitra, BP 196

Tel: +261 20691 Fax: +261 34535 Telex: 22257-22264

Branches at: Antalaha Antsirabe Antsiranana Andapa Farafangana Fenoarivo Atsinanana Fianarantsoa Mahajanga Manakara Mananjary Morondava Nosy-Be Sainte-Marie Sambava Toliary Tolagnaro Vohemar Toamasina Avenue de l'Independance, Rue du Commerce, Bazar - Be

Austere revival

Madagascar has embraced the free market but the economy needs to face the challenge of debt and lack of investment.

MADAGASCAR's recent political and economic reforms represent a complete reversal of the policies originally practised by the preceding regime. For this reason it is more than usually difficult to predict the future performance of the economy by projecting past trends into the future.

However, an analysis of alternative economic strategies for Madagascar carried out by the World Bank in mid-1993 underlines the critical situation in which the country now finds itself.

If the new government's programme to attract productive investments and to place public sector finances on a sound footing is pursued vigorously, the country could over the next 10 years regain the level of relative well-being that it enjoyed at the beginning of the 1970s. But if the dominant trend of the last 20 years continues unchecked, Madagascar could inevitably slide into general poverty and ever worsening underdevelopment, the study suggested.

The immediate situation of the economy is vividly illustrated by the following figures. First, according to the government's own calculations there will be a balance of payments deficit of around FMG560bn ($387m) at the end of 1993. This represents a 5% worsening by comparison with the previous year's shortfall.

At the same time official foreign currency reserves represent little more than the value of one week's imports. Madagascar's petroleum needs account for around 25% of the import bill.

Moreover, by the second half of 1993, arrears on external debt repayments had risen to some FMG1,507bn ($773m). This was equivalent to twice the country's total export earnings for 1992. A package of debt rescheduling measures and new credit lines is expected to be concluded with the World Bank and the IMF by early 1994. Continuing support from both these multilateral donor institutions will be critical to Madagascar's prospects of recovery over the next few years.

In addition Government current account expenditure for 1993 is likely to reach FMG808bn, compared to FMG658bn for the previous year. The budget deficit, which at end 1992 stood at FMG368bn, is set to rise to around FMG551bn by the end of 1993. This is equivalent to some 6.6% of Madagascar's Gross National Product (GNP).

GNP in 1993 is likely to show a smallish increase of 1.9% over 1992. Because of the rate of increase in the total population this will not be enough to prevent a further fall in per capita output. Also, businesses in Madagascar are working at between 15 and 40% below their optimum production capacities.

"Beyond the financial crisis that afflicts our country we are today suffering from a failure to come to grips with financial management, deterioration of productive infrastructures, and a loss of motivation amongst our business people," commented the new prime minister, Francisque Ravony, when he presented the government's action plan to the parliament in August. "This situation calls for an austerity programme, making a clean break with the past," he added.

According to the recent World Bank study the most favourable economic scenario can be realised only if the private sector is allowed to develop dynamically and if export-oriented production also grows rapidly. This in turn will require an investment rate – from foreign and domestic resources combined – of at least 20% of GNP by the year 2000.

"This rate of investment calls for financial stability, but in addition it also requires a national investment capacity, from both government and private sector sources," the study asserts.

"Domestic investment – which apart from foreign aid is today negative – will thus need to increase to around 12 or 13% by the end of the decade." CL

Monetary Situation
(in billions of FMG)

	1992		1993					
	December before consolidation	December after consolidation	January	February	March	April	May	June
External holdings (net)	-398.3	274.3	241.6	226.7	252.0	278.5	281.8	292.2
Domestic credit	1,382.1	1,617.0	1,598.6	1,604.9	1,607.3	1,639.0	1,646.6	1,679.1
Net credit to government	431.6	666.5	650.8	661.9	671.1	695.8	691.1	711.9
Credit to priv. sec. & businesses	950.5	950.5	947.7	943.0	936.3	943.1	955.5	967.2
Holdings = Undertakings	983.8	1,891.4	1,840.2	1,831.7	1,859.3	1,917.4	1,928.5	1,971.2
Monetary aggregate	1,236.0	1,236.0	1,212.0	1,221.7	1,245.4	1,274.2	1,293.0	1,330.1
Long-term ext. undertakings	2,336.3	276.5	276.5	273.2	273.1	272.6	272.4	272.7
Miscellaneous (net)	-2,588.6	378.9	351.6	336.8	340.8	370.7	363.0	368.5

SOURCE: BANK OF MADAGASCAR

Closed shop opens tainted doors

The Madagascan economy is finally open for business after years of mismanagement, inefficiency and underexploitation which have created investment opportunities as well as chronic problems.

The island's agricultural resources need to be better utilised.

TOURISM, agriculture, export production and infrastructure are priority areas for investment. Asked at a meeting held in Paris in September to identify the priority sectors for foreign investments, Tovo Rabetsitonta, Madagascar's economy minister gave the following answer. "Everything is a priority, but areas such as infrastructure, tourism, agriculture and export production are especially important."

The country's agricultural resources are considerably underexploited, with most activity being concentrated on subsistence level farming.

As a result current production does not cover the country's food requirements, which have to be met in part by imports. For example, there is an annual deficit of around 180,000 tonnes with regard to cereals and 13,000 tonnes for vegetable oils. By the year 2005, this deficit could be about 215,000 tonnes annually for rice, 150,000 tonnes for wheat and 42,000 tonnes for vegetable oils.

Food sector export markets are poorly organised and still suffering from a legacy of regulatory restraints. Traditional exports in this sector that could be developed include vanilla, coffee, pepper, cotton and groundnuts.

Seafoods already occupy a predominant position in the foodstuffs export sector. Abundant marine resources exist around the country's 5,000 km of coastlines, and there is great potential for developing exports of species such as crab, crayfish, tuna, and seaweed.

Wood and wood products could also be profitable. However, Madagascar faces a difficult problem of reconciling its need to expand commercial exploitation with the longer term requirements of protecting the environment and managing the country's natural resources.

MANUFACTURING

Manufacturing industry still occupies a modest place in the Madagascan economy representing around 14% of GDP. Structured in the 1970s around a drive towards import substitution, the manufacturing sector is now trying to adjust to the new market conditions. Smaller companies in the private sector have so far proved the most effective in this respect, particularly with regard to export production in the textiles and footwear sectors.

Food processing and textiles represent the major part of Madagascar's manufacturing. Under the first heading, sugar production, vegetable oils, canned foods, cooked meats, milk, tapioca and flour are the most important. Though many textile manufacturers import all their raw materials, the possibilities for setting up integrated production systems are now increasing. Cotton is an important local product, whilst others including silk, sisal, raffia and jute are being developed.

TOURISM

Tourism provides one of the biggest growth sectors for Madagascar. The country benefits from a subtropical climate, moderated by temperate influences, together with extensive coastal scenery and exotic plants and animals. Many species are unique to the country. To this may be added the attractions of local crafts and the importance traditionally placed on welcoming visitors.

Tourism has grown dramatically but remains at pitifully low levels. For example, between 1985 and 1990 the number of foreign visitors increased from about 23,500 to nearly 53,000. "Studies we have had carried out show that we could be welcoming 235,000 visitors by the year 2000," says Herizo J Razafimaheleo, minister for the promotion of industry and tourism. "This implies a big effort in areas such as hotel construction, infrastructures, and making air passenger transport more competitive," he adds.

MINERALS

Madagascar is rich in mineral resources. Mining currently accounts for around 10% of export earnings. Exploitable resources range from industrial minerals such as chromite, quartz, coal and iron to precious and semi-precious stones including rubies, sapphires and emeralds. Moreover QIT, a subsidiary of RTZ, is investigating major mining possibilities in the south of the country.

PRIVATISATION

It is still not clear how far the state-owned businesses will provide investment opportunities. Many are in a disastrous financial condition, and government is adopting a cautious approach to privatisation.

"This is a sensitive area. No possibilities are being excluded, but privatisation is not necessarily an immediate priority," commented economy minister Tovo Rabetsitonta in Paris in September. "Many public sector enterprises still have large debts to reimburse and we cannot simply abandon them. Moreover at this point in the country's development, public sector businesses have a role to play in moderating price increases," he added.

SOURCES

Against the above background the Government intends creating a one-stop-shop information service for potential investors, bringing together all the different sources of data on local markets and partnership opportunities. In the meantime it is often difficult to obtain good quality up-to-date information. Possible sources include banks, business federations and chambers of commerce. Very few firms specialise in business consultancy.

Banks used to be a state monopoly in Madagascar, but private capital has been admitted to the sector over the last few years. Around half a dozen main commercial banking institutions now operate on the market. These often provide business information as well as financing.

For example the BMOI and the BNI-Credit Lyonnais are able to exploit their links with the international networks of the French-based BNP and Credit Lyonnais banks respectively. A more specialised example is the UCB, which is affiliated to parent banks in Mauritius and South Africa.

The Government intends creating a one-stop-shop information service for potential investors.

In addition the main Madagascan insurance company, ARO, has created a venture capital company called Fiaro. "To dae we have taken a stake in 33 ventures representing a total investment of some FMG3bn ($1.6bn)," indicates operations manager Patrick W Razafindrafito.

A recent study drawn up by the Foreign Investment Advisory Service (FIAS), attached to the World Bank, concluded that in a number of cases potential foreign investors had been put off because local parties looked for too much profit without being prepared to take on an equivalent degree of risk. Officials also sometimes encouraged this approach, though attitudes should change as the advantages of direct foreign investment became more obvious, the authors believed. CL

Untapped pool

Madagascar's young and willing workforce is often reported as being the major draw for investors. The Government and professional bodies are now attacking the crucial issue of producing enough middle managers and skilled technicians.

Young workers form the bedrock of the Madagascan workforce.

QUALITY, COSTS and adaptability of the labour force figure amongst the first questions inward investors will want to ask about Madagascar. The country offers a large, available pool of low-cost, adept workers who can be trained quickly and effectively. However, there is a serious shortfall in adequately qualified technicians and middle managers. With support from international organisations, the government and professional bodies are now attacking this issue.

According to government figures, the total workforce in 1990 was 5.389m. At the same time a recent study by the World Bank points out that total salaried employment in the non-agricuitural "formal sector" represents just 2.7% of the population.

Madagascar is a young country with more than half of the population under 20 years old. Combined with an annual demographic growth rate of nearly 3%, the country's pool of potential labour is constantly increasing.

A World Bank subsidiary, the Foreign Investment Advisory Service (FIAS), recently reviewed Madagascar's investment outlook. It discovered that the main motivation of potential investors for choosing Madagascar was the hard-working and abundant labour force.

COMPETITIVE

FIAS also noted that executive salaries were extremely competitive, and standards of education amongst the workforce were relatively high. According to the FIAS, investors were generally satisfied with the performance of their workforces in Madagascar and they generally considered labour problems to be minimal.

"We found that it was possible to train our workforce remarkably quickly," says Jean-Pierre Maurus, an entrepreneur and business development consultant who runs two "entreprises franches" near Antananarivo. One of these - Janel Factory Madagascar - specialises in clothing, whilst the other - Fleurus - manufactures watchstraps. "We took people from the immediate surroundings of our plant with no previous training and we were able to bring them up to the standard we required in about three months."

Curiously, despite high levels of unemployment, many employers report that absenteeism is a problem, while some complain of high rates of pilfering by employees. There are also widely credited reports of some firms evading government regulations on minimum wages and working conditions.

Madagascar has a detailed code of labour law and related social security regulations. "In general terms these rules are fair to all parties," says Hanna Grafin Keyserlingk, a business finance and investment advisor who runs a consultancy firm in Antananarivo. "The law gives some protection to the employee without penalising the employer. Moreover, the minimum legal salary is very modest and in practice there are few strikes - at least in the private sector," Keyserlingk adds.

The minimum legal salary is currently FMG40,490 ($22) per month. Workers are entitled to two and a half days paid leave a month, or 30 days for a full year's service. Employers have to pay into a medical insurance scheme at a rate of between 5 and 5.5% of staff salaries. In addition social security charges come to 13% of salaries paid (8% in the agricultural sector).

The normal maximum legal length of the working week is 40 hours (48 hours in the case of agricultural jobs). Overtime working is permitted up to a maximum of 20 hours a week subject to the prior authorisation of the labour inspectorate. A precise scale of premium payments is laid down for overtime working, rising from an additional 30% above the basic rate for the first eight hours of overtime to a 100% premium for work on a paid public holiday.

Contracts of employment can be terminated only with advance notice. The period of notice required depends on the employee's length of ser-

Employment statistics

Active population	**5,700,000**
Informal and modern sectors	350,000
Government employees *(except armed forces)*	**95,000**
Merchant sector	100,000
Manufacturing	**50,000**
Unemployment rate	12 to 15%

Increase in active population

1980-1985	**2.7%**
1985-1990	**2.9%**
After 1990	**3.2%**

The increase in the active urban population represents about 25% of the growth in the workforce.

vice with the firm and his or her professional category. For example, 10 days notice is required in the case of an unskilled worker who has been with the firm for between one and three years, whereas a top executive who has been with the firm for more than five years is entitled to a full six months notice.

Investors who set up businesses under the provisions of the Investment Code or the Free Zone legislation are subject to the above regulations in the same way as local firms. At the same time there is no limitation on the number of expatriate managers which can be brought in, though work permits and residence papers are required. The first is issued by the labour ministry and the second by the Ministry of the Interior and the procedure should normally take no longer than two weeks. Expatriate personnel can transfer 60% of their net salaries abroad or 35% if they are accompanied by their families (70% and 50% respectively in the case of tax-exempt businesses).

A number of professional bodies in Madagascar have set up training schemes for workers and/or future managers. One example of this is an organisation called Formaco which provides training for textile workers. Another instance is a federation of medium-sized private sector businesses called Fivmpama. "One of our main roles is to buttress the bankability of our corporate members by providing guarantees to the lending institutions," indicates the federation's president, Desire E Ralijaona. "We also see it as an important part of our job to assist training in areas of practical importance such as stock and treasury management and customer bank relationships," he adds.

"We found that it was possible to train our workforce remarkably quickly."

JEAN-PIERRE MAURUS, AN ENTREPRENEUR AND BUSINESS DEVELOPMENT CONSULTANT

There are also several higher level business schools and management centres including the "Centre de Formation des Cadres" and a private institution called ISCAM. In addition, a public body called INSCAE (Institut National des Sciences comptables et de l'Administration d'Entreprises) dispenses degree level business courses.

EDUCATION

More fundamentally the government is re-examining the national education system. A major problem is that a lack of resources for primary schools has led to most of the funds being used to pay teacher salaries at the expense of educational material. According to a recent report by the World Bank, secondary education fails to prepare students adequately for work, and universities are overloaded because there is an automatic right of entrance to all students who obtain specific examination passes.

Against this background the government is taking steps to improve technical training. Employers are being consulted in the design of courses and costs are being kept to a minimum by calling on the services of private business schools and non-governmental organisations. Part of this effort involves an investment of $30m including assistance from the International Development Agency and from France in a programme called Brettec. This is intended to encourage a new global approach to vocational education. CL

Corporate law

By HANNA GRÄFIN KEYSERLINGK, Director of Cabinet Hanna G. Keyserlingk, Legal, Tax and Investment Consultant in Antananarivo.

IN MADAGASCAR the law applicable to companies, except for certain provisions, is French law pre-1960. From this date, and especially under the Second Republic, new kinds of company regulations were issued, with Government partnership going up to 100% for "socialist enterprises" or nationalised companies. This tendency has now been reversed with a programme of privatisation and the repeal of the "Socialist Enterprises Charter".

As in French law, two main types of companies are noted: partnerships and joint-stock companies, or hybrids of these.

PARTNERSHIPS

They are founded on intuitu personae. The managers or active partners have the capacity of traders. They are jointly and indefinitely liable for company debts. To our knowledge this type of company has never been used by foreign investors.

JOINT-STOCK OR SHARE COMPANIES

The liability of all shareholders is limited to their contribution. The partners have rights represented by negotiable shares. A Limited Company (SA) is the model for stock companies. It exists in Madagascar in a classic form: Chairman, Board of Directors, Annual General Meeting. The Germanic form of SA, with Board of Directors and Supervisory Board, is not applicable to Madagascar.

Characteristics of the SA:

- Constitution: the SA can be constituted with or without public issue. The Law of 1867 and its modifying clauses which govern the limited companies in Madagascar lends itself to the writing of modern memorandums and articles of association, comparable to those for French companies of the same kind.
- Number of Partners: min. seven, no upper limit.
- Assets and Capital Assets may be effected either by cash contribution or in kind. In the latter case, prior evaluation by the asset assessor is required. Shares representing company capital may be registered or bearer, according to statutory provisions and the nature of the assets. Since 1957 company capital must be at least 500,000FMG.
- Management: the SA is managed by a board of directors consisting of three to 12 members. Board members are individuals or legal entities; they must be shareholders. The maximum term on the board is six years, renewable. The board members are subject to dismissal ad nutum. The Chairman of the Board of Directors is elected by the Board members. He must be an individual entity. He assumes the general management of the company. He may be assisted by a general manager, who may or may not be a board member.

The board members incur civil and penal liabilities. Examples of acts for which you could be convicted under penal liability are: distribution of fictitious dividends, tampering with financial statements, abuse of company assets and credit, etc.

- General Meetings: every shareholder may participate.

Extraordinary General Meetings (EGM) are called for modifying the statutes:

- Conditions (on first convening): quorum 50%; majority: 2/3 of shareholders present or represented.

Annual General Meetings (AGM) handle matters other than modifying statutes (EGM) or general management decisions which are the job of the board.

- Conditions (on first convening): quorum 25%; majority: straight majority of those voting.
- External auditor: legally required, by a local chartered auditor.

COMPANY WITH LIMITED LIABILITY (SARL)

These are companies where the liability of partners is limited to the sum of the assets. In other respects, the individual partners continue to play a role and are identified. The company shares are not negotiable.

Characteristics of the SARL:

- Number of Partners: minimum two, no upper limit. The one person company with limited liability (EURL) does not exist in Madagascar. The partners can be individuals or legal entities.
- Assets and Company Capital: see SA. However, assets in kind do not require any prior evaluation by the assets assessor. Shares representing company capital must be registered.
- Management: the SARL is managed by one or several managers, partners or non-partners, named in the statutes or by a separate act, with or without limitation of duration. The managers must be individual entities. Toward third parties, the manager has complete power to represent the company. He is liable for mismanagement (see liabilities for SA board members). He can only be dismissed for legitimate reasons (upon a judge's summing up).
- General Meetings: every partner may participate. Regarding the scope of AGMs and EGMs, refer to the SAs. Furthermore, an EGM must be called for admission of a third party, either for transfer of company shares or for raising of capital.
- quorum and majority:

EGM - decided by two-way majority: majority of partners counted by head who in turn represent 3/4 of the company capital;

AGM - absolute majority of existing shares on the first convening, relative majority on the second.

- External auditor: no legal requirements. CL

Exports hold key to wealth growth

Madagascar is rebuilding its industrial infrastructure to enable it to become a low-cost base for EC, US and African markets.

The island nation of Madagascar is looking to boost overseas export markets.

FROM ITS natural bastion in the Indian Ocean, the island nation of Madagascar looks both east and west to garner the market opportunities of the future. Export-led production is a priority if the country's still weak domestic markets are to grow stronger. Foreign investors are likely to follow the same order of priorities.

PRINCIPAL EXPORTS

Madagascar's principal exports are in the agricultural and extractive sectors. They include vanilla, prawns, coffee, cloves, cotton fabrics, chromite and graphite. On the basis of 1991 figures, the chief export destinations in order of importance are: France, US, Germany, Japan, the Commonwealth of Independent States, Reunion, the UK, Mauritius, Italy and Belgium/Luxembourg.

France also leads the list of countries from which Madagascar imports. It is followed by Germany, Japan, Italy, the UK, China, Spain, the Netherlands and Belgium/Luxembourg in that order.

In 1992 the total value of imports – US\$499m – exceeded that of exports – US\$292m – by more than 40%.

"At this stage of the country's development it would be unrealistic to expect exports to exceed imports. Indeed, this would be an undesirable situation since at the moment we have a great need for capital goods from the outside to reconstruct our industrial base and infrastructures," explains an official within the Ministry of the Economy. "In the short run, our aim is to get along with as small a deficit as possible in line with these requirements," he adds.

If this factor explains a large part of the deficit, another element appears to be the unreliability of some local suppliers. For example, foreign companies that have recently set up factories to manufacture in Madagascar often comment that they have to import parts and materials that could be produced locally because of problems in controlling quality and ensuring respect for delivery schedules.

LEGACY

The legacy of nearly 20 years of central government control of production goes a long way towards explaining these difficulties. As managerial techniques develop with exposure to the free market principles and the yawning gaps in productive infrastructure are repaired, a greater part of the country's requirements in both capital and consumer goods should start to be manufactured locally.

With a total population of some 12.2m and a surface area of 580,000 sq km, Madagascar – the world's fourth largest island – has an average population density of only 20 inhabitants per sq km. Its inhabitants rank amongst the poorest in the world. GNP per head is little more than US\$200, and total GNP is currently increasing at less than 1% a year. The population is growing at a rate of 2.8% annually and according to government estimates it should exceed 20m by the year 2015. By then more than half of this total will be concentrated in the main urban areas.

INTERNATIONAL LINKS

Madagascar is a member of the main international organisations such as the IMF, the World Bank, the UN and GATT. Because of its connections with France, as a one-time French colony, the country is also a beneficiary of the Lome Conventions. These were concluded by the EC countries in favour of their former dependencies in Africa, the Caribbean and the Pacific (the ACP states).

This means that most Malagasy products can enter the EC area without being subject to customs duties. As a result of current US trade regulations, exports of Malagasy textiles to American markets are not subject to any quotas.

In addition, Madagascar is also a member of the Multilateral Investment Guarantee Agency (MIGA) set up by the World Bank in Washington DC. Accordingly many foreign investments in Madagascar can benefit from a guarantee granted by that agency.

REALIGNMENT

More generally, as a result of the country's progressive opening up to outside markets since the mid-1980s and the installation of a new government, Madagascar has been taking steps to realign its foreign policy. The new approach accords more with the country's economic interests rather than with outdated doctrinaire considerations. The recent opening towards South Africa is one example of this, whilst efforts are also being made to improve relations with Morocco.

One particularly delicate task for the Malagasy government will be to consolidate growing business links with Taiwan without alienating the People's Republic of China which is also a potentially profitable customer. Because of this, the idea of granting formal diplomatic recognition to the Taiwan government, which seemed recently to be on the cards, will probably be dropped.

GROWTH

In the short term, a significant part of export growth is likely to result from foreign companies choosing Madagascar as a base for low cost production in sectors such as textiles.

As can be seen from the figures for establishment of special tax free businesses ("enterprises franches"), French companies have so far played a leading role in this respect.

The neighbouring (and much smaller) Indian Ocean island of Mauritius also provides a further likely source for additional de-localisation of productive capacity to Madagascar. The Floreal company already provides one example of this. The economy of Mauritius has boomed over recent years because of the establishment of free zone legislation and other enticements to foreign businesses. As a result Mauritian wage levels have risen and capacity has become stretched.

In the longer term, Madagascar hopes to build up a more autonomous exporting capability. The rapidly growing markets of south-east Asia as well as Europe and North America provide potential targets.

Because of the country's natural resources, favourable climate and agricultural traditions, the agri-foodstuffs business provides the most promising sector for early development in this respect. Linked to projected future improvements in communications and liberalisation of air traffic regulations, tourism is also an obvious candidate for generating foreign earnings.

CONSUMER CRASH

Few foreign investors would consider this a good moment to carve out an empire for themselves in Madagascar's domestic market. Consumer spending power has crashed some 60% since the early 1970s. Despite this, a number of companies have managed to identify profitable niches for themselves and thus to establish bases which they can hope to exploit more extensively when conditions improve.

For instance a Malagasy group called Sipromad was established in 1986 and it now operates in half a dozen sectors across the country. These range from the manufacture and distribution of household cleaning products to real estate companies and a recently developed travel arm. The group ascribes its success to a dynamic management approach, significant investment in computer resources, and a financial policy based on short-term borrowing aimed at achieving rapidly profitable results.

A further example is provided by Coralma, a subsidiary of the French-based Bollore group. Bollore negotiated with the Malagasy government at the end of the 1980s to take over part of the local state-controlled and ailing tobacco business. Having successfully turned around the local business, Coralma is now looking to the still-growing African markets for export opportunities. CL

Main exports 1992

Category	Quantity (tonnes)	Value FOB (FMG millions)
Animal products	11,011	97,419.8
Vegetable products	**98,690**	**229,614.5**
Fats and waxes	146	557.0
Processed foods and beverages	**31,385**	**20,823.8**
Tobacco & cigarettes	88	855.1
Mineral products	**232,677**	**49,013.3**
Chemicals & para-chemicals	1,050	6,912.9
Skins & furs	**885**	**3,226.6**
Wood & wood products	12,118	6,700.1
Textiles	**13,001**	**49,482.0**
Miscellaneous	14,715	35,200.8
TOTAL	**415,766**	**499,805.9**

SOURCE: BANQUE DE DONNEES DE L'ETAT BDE

'Entreprises Franches' in Madagascar

According to a study carried out by the Antananarivo "Poste d'Expansion Economique" (an official French trade promotion body), 80 "enterprises franches" were present in Madagascar in May 1993. Of these, 69 were situated in and around Antananarivo, with the remaining 11 being divided between Tamatave, Majunga, Diego and Tulear.

Of these 80 businesses, 45 were controlled by French parties (24 residents and 21 non-residents), mainly in co-operation with local partners. A further 16 were majority owned by Madagascan entities. The remainder were divided between parties from Mauritius, Hong Kong, South Africa, Singapore, Germany, Italy and Spain.

Industrial sectors covered were: clothing, knitwear and related activ[illegible], craft products and decorative arts (11%), small-scale indus[illegible]ring, including wood, mechanical engineering and elec[illegible] foodstuffs (10%).

Switching over from the slow lane

International finance is being made available to help upgrade the island's inadequate telecommunications and transport systems.

Antananarivo International Airport.

BACKED BY international bodies such as the World Bank, UNIDO and UNDP, the government is taking steps to restore and modernise the country's infrastructure. Sectors such as telecommunications and transport are being accorded high priority. Moreover, to keep costs to a minimum and optimise efficiency, the private sector is being involved.

The success of these projects will form a vital element in encouraging future foreign investment and enabling companies to set up plants countrywide. Current inward investment is largely concentrated in the capital and surrounding districts.

ROADS

In total, Madagascar has around 25,000 km of roads, though less than 5,500 km of these have bitumen surfaces. The remainder are earth tracks, which weather conditions can make unpassable for between three and six months of the year. In addition, much of the hard-surfaced road network is in poor repair.

An overall road plan - the eighth such project to be launched by Malagasy authorities - aims to restore much of the existing infrastructure and improve links between major centres. The plan has World Bank, EC and Swiss funding.

RAIL

The country also has two unconnected state-owned railway networks. Much of the rolling stock is outdated and breakdowns are frequent. The total track length of the two systems is a little over 800 km. The railway serves essentially to carry supplies and goods to and from the central high plains region around the capital and connects with important agricultural and mining centres.

SEA

Six long-distance ports and 12 smaller feeder ports handle connections with Europe, Asia and the Indian Ocean region. In addition to this maritime infrastructure, a 430 km long canal, which is navigable all year round, links the two east coast ports of Toamasina and Manajary.

AIR

Because of the rudimentary road conditions, air transport plays an important role in internal communications as well as internationally. The domestic network covers destinations throughout the country. In total, Madagascar has 57 aerodromes including three international airports. The latter serve Europe (France and Switzerland), the islands of the Indian Ocean (Comoros, Reunion and Mauritius) and east Africa (Kenya, Zambia, Malawi and Djibouti). Recently, connections have been established with South Africa.

The domestic air sector is being liberalised whilst international flights are to be deregulated in 1994. Air transport is also an expensive way of satisfying internal communications requirements. A two-tier tariff structure exists under which nationals and long-term residents benefit from lower fares than short-term visitors.

TRANSPORT PRIORITIES

A study commissioned by the transport ministry identified several priorities for action in the transport sector. These include the clarification of goods transport regulations and the liberalisation of transport pricing practices plus the establishment of a global strategy covering all transport modes and networks. For example, the railway company (RNCFM) has already been reorganised into four operational units, staff numbers are being reduced and part of the rolling stock is being renewed.

Madagascar has two state-owned maritime companies – CMR and SMTM. Their high prices are coming under increasing downward pressure as international competition increases. According to transport ministry studies, low productivity in cargo handling continues to be a problem in the country's seaports. Against this background, government policy favours liberalisation of access and opening of the maritime sector to foreign capital.

ENERGY

Madagascar boasts a huge potential in energy resources, particularly in exploiting hydro-electric power. In addition the multinational company Shell has for some time been carrying out exploratory works in Madagascar aimed at uncovering petroleum resources. However, the amount found has fallen below expectations. The country has an oil refinery in the port of Toamasina.

TELECOMMUNICATIONS

Madagascar's state-run telecommunications system is routinely identified by businesses as their top priority in terms of improving infrastructure. "It costs us three times as much to telephone from here to our head office in Mauritius as it does for them to contact us," remarks John Hargreaves, General Manager of Floreal Madagascar SA in Antananarivo. Floreal is a major manufacturer and worldwide supplier of woollen sweaters. "Moreover, the service is unreliable and it is often impossible to get through to our head office in the afternoons," he adds.

Nonetheless, the main cities in Madagascar are served by automatic exchange for both telephone and fax connections on the one hand and telex links on the other. International connections are provided via satellite and telephone links with overseas countries are automated.

LAUNCH

The government is launching a major programme aimed at modernising the entire telecommunications network. This programme will be accompanied by a liberalisation of the regulatory framework, allowing for private sector participation. It will also involve major financing by international agencies, whose agreement is required before the plans can be finalised.

" Government policy favours liberalisation of access and opening of the maritime sector to foreign capital. "

According to Ny Hanina Andriamanjato, secretary of state for posts and telecoms for the Madagascar government, the liberalisation will allow foreign companies access to the Malagasy telecommunications sector. "We intend to grant concessions to the private sector to run our telecommunications systems on mutually agreed-upon terms. Businesses from different countries will be allowed to compete for the concessions. In addition to France, there are operators in countries such as the US, Japan, the UK, South Korea and Spain that we would like to talk with. CL