



COUNTRY PROFILE

MADAGASCAR



Full Name:	Republic of Madagascar
Area:	587,040 km²
Population	18,595,469 (July 2006 est.)
Capital:	Antananarivo
Main Languages:	French (official), Malagasy (official), English (official)
Currency:	Madagascar ariary (MGA)
Head of State:	President Marc Ravalomanana



The Novatech 2007 Regional Investment Conference in Nairobi, Kenya is a component of the Pro€Invest programme which is a common initiative of the European Commission (EC) and institutions from the ACP states (Africa, the Caribbean and the Pacific).

This overview of the ICT sector has been prepared by BK Consultants on behalf of the organizers. The authors accept sole responsibility for the profile which does not necessarily reflect the views of the organizers: Pro€Invest, the Centre for the development of Enterprise (CDE), the African Union (AU) and the Common Market for Eastern and Southern Africa (COMESA).

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1. BUSINESS OVERVIEW

1.1 Key Economic Indicators

Table 1 shows the recent trend for selected key economic indicators using the most up-to-date available information. More general country information is provided in the websites referred to in Section 4.0 at the end of this report.

Table 1: Key Economic Indicators 2003-06

	2003	2004	2005	2006
Area	587,040 km ²			
Population (mn.)	16.87	17.36	17.86	18.37
Population Growth (%)	2.9%	2.9%	2.9%	2.85%
GDP (US\$ bn. at current prices)	5.464	4.357	5.033	5.410
Gross domestic product per capita (US\$ at current prices)	324	251	282	294
GDP growth at constant prices (%)	9.8%	5.3%	4.6%	4.7%
Current account balance (US\$ bn.)	(0.268)	(0.406)	(0.545)	(0.566)
Inflation Rate (%)	-1.1%	14.0%	18.4%	11.2%
Exchange Rate: annual average Malagasy Ariary per US\$	1,238.3	1,868.9	2,003.0	2,161.4

Sources: COMTRADE, World Development Indicators, Oanda.com

1.2 Economic Context

In 2006, total Gross Domestic Product (GDP) amounted to some US\$5.4 billion at current market prices. Madagascar's economy is dominated by agriculture and the service sector. In the same year, agriculture, hunting, forestry and fishing accounted for an estimated 27 percent of the total GDP, compared with 16.5 percent for industry and 56.5 percent for services.

The Madagascan economy has been growing steadily over the past decade, and experienced real GDP growth of 4.7 percent per annum in 2006. The Government has implemented a very successful program under the Heavily Indebted Poor Countries (HIPC) initiative that has enabled the country to reach completion point in this program. As a result, Madagascar has received substantial debt relief amounting to \$836 million in net present value (NPV) terms from all of its creditors. This is an important step for development in Madagascar, where GDP per capita is around \$300 per annum and where some 40 percent of GDP is generated by the informal economy.

The international donor community plays a major role in Madagascar's development. According to the OECD statistics, Madagascar received \$539 million in development assistance in 2003. The United States, Japan, France, Germany and the United Kingdom are the principal bilateral donors. The European Union and the World Bank are the major multilateral donors.

1.3 Population and Labour Force

The population was estimated at about 18.4 million in 2006, of which some 31 percent resides in the capital, Antananarivo, and other urban areas. The overall population density is approximately 31 persons per km². The total labour force is estimated at approximately 8.1 million persons, with around 80 percent engaged in the agricultural sector.

1.4 General Institutional and Regulatory Framework

The legal system in Madagascar is based on French civil law system and traditional Malagasy law. The Foreign Investment Law of 1996 provides for guarantees in order to promote investment in Madagascar. These guarantees are as follows:

- Freedom to invest on the national territory, taking into consideration the current legislation, without any prerequisites or preliminary approval;
- Security of capital, of investment and of the investor;
- Freedom of individual or collective property rights; and
- Freedom of enterprise and of management of the workforce, within the framework of labour laws and social providence.

In addition, the Government has set up a 'one-stop shop' for investors (see Section 4.1.2 below). Fiscal incentives have been revised to attract foreign investment and new regulations allow for tax breaks and mutual agreements to avoid double taxation.

Land tenure

Long prohibited in Madagascar, direct acquisition by foreign persons or entities of land or buildings in Madagascar is now permitted pursuant to Law N°2003-028 of August 27, 2003. In order to obtain approval for the right to acquire land, the foreign investor must present an investment plan, and an attestation of investment of at least US\$500,000. If the proposed investment is between US\$500,000 and US\$1 million, the plan will be submitted for approval by an inter-ministerial committee; if the investment is over US\$5 million, it must be approved by presidential decree. If the investment plan is not carried out in a timely and satisfactory manner, land and fixed investments will return to the ownership of the state. Certain surface restrictions apply (with exceptions possible): tourism projects are limited to 2.5 ha. The average sale price (via realtor) of hotel land is around \$45/m², and the average construction cost about \$220/m².

1.5 Operating Costs

Average operating costs for basic inputs are much lower in Madagascar than in most other countries. For hotel personnel, the average annual gross salary varies from \$1,900 (for technical staff) and \$700 (for unskilled workers).

1.6 General educational level

Unemployment is high in Madagascar and labour is plentiful and inexpensive. However, the labour force is relatively unskilled and on-the-job training is essential. The findings of a World Bank Report in 2002 indicted there is a dearth of trained workers in Madagascar, especially skilled middle-level managers and technicians. Most Malagasy only speak French and a local language, and business operators need to be able to communicate in French as the use of English is limited even in business circles.

1.7 Infrastructure Services

1.7.1 International Air Access

The main international airports are located at Ivato (Antananarivo), Nosy Be, Mahajanga and Toamasina. These are capable of handling wide-bodied jet aircraft. International air services are provided, amongst others, by Aeroflot, Air France, Air Madagascar, Air Mauritius, Kenya Airways and Inter Air. The national airline, Air Madagascar, has connections with Bangkok, Johannesburg, Nairobi, Reunion, Milan, Paris and Zurich. Air France offers direct flights from Paris, while Inter Air operates from Johannesburg.

1.7.2 Domestic Air Services

Air Madagascar flies to 51 towns and localities on the island. Antananarivo is the hub of the network. Private charter services are also available.

1.7.3 Road and Rail Access

National (and some provincial) roads, many of which are in a poor state of repair, are currently being upgraded. The rail network is not focused on passengers.

1.7.4 Sea Access

Five ports - Antsiranana (formerly Diego Suarez), Nosy Be, Nosy Komba, Toamasina and Toliara - can handle tourist vessels. The most popular ports of call for cruises are Nosy Be or Nosy Komba, both of which lie off the north-west coast. Among the cruise lines making calls are the U.S. based Royal Viking Lines and Salen-Lindblad Cruising. There are ferry services to some offshore islands and boat trips on the Betsiboka River.

2. ICT SECTOR

2.1 Overview

After the 2002 political crisis several measures have been taken to re-launch Madagascar's industry. The ICT sector has broadly benefited from the numerous initiatives in question and Madagascar now has a rather competitive telecommunications service.

With a global tele-density of 3,2%, a 14% increase in fixed lines between 2004 and 2005 and a 93% increase in mobile telephony between 2004 and 2005, the Malagasy ICT sector has thus been gradually developing and growing throughout the last couple of years.

2.2 Telecommunications

- 70,000 fixed telephone lines.

2 fixed telephone operators:

- While Telma will guard the actual monopoly until 2008, **Gulfsat**, which obtained a licence in 2001, now provides services of VSAT telephony in 11 locations.
- **Telecom Malagasy (Telma)**, created in 1994, was the national operator in Madagascar until the arrival of Gulfsat in 2001.

Before the privatisation began, the company was owned by the Malagasy state by up to 66%, while the remaining 34% were owned by France Radio Câbles (a branch of France Telecom). The privatisation process of Telma was launched in 1997 and finalised in 2004 with the sale of 68% to the Distacom consortium. The state has guarded 22% of the shares, while 4% have been purchased by the personnel and the rest by a fund.

Telma is planning to install 5000 public payphones in the coming years and to expand the rural coverage with 200 posts. Telma is equally launching an ambitious plan in terms of competing against the gaining mobile telephony by opening "Telma shops" around the country and introducing cordless fixed telephony via CDMA.

- 959 payphones

An increase of 93% in mobile telephony between 2004 and 2005.

- 550,000 mobile subscribers, 80% of whom use pre-paid cards.

There are currently 2 mobile operators, with **Telma** and **Intercel** planning to enter the market in the near future:

- **Orange Madagascar**, formerly SMM Antaris, the company obtained its licence for mobile telephony in 1996, but only began servicing in 1997. With more than 119 cities covered, Orange Madagascar counts 500,000 subscribers. Sagem, Motorola and Orange being its principal partners, Orange Madagascar has additionally concluded a partnership with Gulfsat in order to cover certain areas of the national territory.
- **Celtel**, formerly Madacom, is the second operator in Madagascar. The Provider was bought by the international group Celtel in 2005. Celtel accounts for 230,000 subscribers and covers 70 locations.
- **Telma Mobile**. The company will install mobile services in 125 cities, its principal partner being Ericsson.
- An increase in the number and usage of "taxiphones"; the "Association des Cabines Mobiles de Madagascar (ACAMO)" estimates that 4000 calls have been made from the so-called taxiphones since their appearance in April 2003.
- Additionally, the VOIP (Voice over Internet Protocol) is forbidden in Madagascar.
- Calls centres are emerging on several locations in Madagascar.

- There are 3 VSAT data transmission operators: Datacom (since 1999), Datatelecom Service (since 2000) and Gulfsat Madagascar (since 2000)

In the public sector, the usage of ICT remains marginalised.

2.3 Internet

Madagascar now counts around 90,000 Web Users and 4 Internet Access providers, with 0.5% of the population using Internet:

- **Fortnet,**
- **Simicro,**
- **DTS** (providing VSAT solutions)
- **Gulfsat** (providing VSAT solutions)

- 12,000 subscribers, the majority being companies
- And an increasing number of Internet Cafes.

GOTICOM (Groupement des Opérateurs de l'Information et des telecommunications) is the sectarian organization.

2.4 Regulatory framework and sector regulation

The Ministry of Telecommunications, Postal services and Communication regulates the ICT sector of the country and anticipates creating an 'Agence Nationale pour l'execution de l'E-gouvernance' (ANRE).

The new law nr 2005-023 of 17th October 2005 predicts a liberalization of the sector.

The law additionally announced the replacement of the OMERT (Office Malgache d'Etudes et de Régulation des Télécommunications) with a new '**Autorité de Régulation des Technologies et de la Communication (ARTC)**' mandated to deliver licences. The administrative council of the ARTC will be constituted by 7 administrators, 4 of whom will be representatives of the private sector.

2.5 Opportunities

Madagascar is part of the EASSy underwater fibre optic cable project.

The infrastructure in Madagascar is in need of rehabilitation (particularly electricity and roads). This could impede growth of the ICT sector. However, negotiations are presently underway between Madagascar and the World Bank, UNDP and the EU to look at the upgrading and, in some cases, the rebuilding of the internal road and rail infrastructure and the rehabilitation of the country's power generation and distribution and telecommunications infrastructure. These developments should have positive implications for the ICT industry.

Prospects for investing in the ICT sector are also enhanced by the close co-operation between public and private sectors; and the existence of potential donor support for capacity building as well as the mentioned liberalization of the economy and the privatisation of telecommunications.

An initiative for e-governance has been launched on the aegis of the Ministry of Telecommunications and Presidency: including e-administration, e-service and e-democracy.

3. INVESTMENT ENVIRONMENT

3.1 Investment Framework

3.1.1 Government Policy

Madagascar has made considerable efforts to create an environment that is conducive to private investment, both domestic and foreign. Foreign direct investment has been liberalized since 1995. Incentive schemes are available for investment, mainly in export-oriented activities.

3.1.2 Investment Agencies

Espace Promotion des Investissements (EPI) is tasked with advising and assisting investors to identify opportunities and partners, and in managing the process. Under the authority of the Ministry of Private Sector Development and Privatisation, the business facilitating centre, Centre de Facilitation de Création d'Entreprise (CFCE), provides administrative information about setting up a business.

3.1.3 Double Taxation Agreements

Madagascar has double taxation treaties with France and Mauritius.

3.1.4 Investment Guarantees

Madagascar is a member of the Multilateral Agency for the Guarantee of Investments (MIGA) which protects investors against non-commercial risks.

3.2 Investment Incentives

Madagascar's investment incentives are primarily centred on tax issues. A summary of the various tax measures designed to encourage investment is given below:

Table 3: Tax and other investment incentives

Type of investment	Tax reduction	Conditions
Goods that can be depreciated over a period of at least three years	Tax corresponding to 50% of the investment	Investments must feature on the balance sheet
Acquisitions of equity stakes in new companies	Tax corresponding to 50% of the investment	Investments must feature on the balance sheet
Expenditure on the professional training of Malagasy staff	10% of expenditure during financial year	Statements of expenditure, backed up by invoices
Wages related to the creation of additional jobs.	10% of expenditure during financial year	Statements of expenditure, backed up invoices
Public infrastructure construction and maintenance spending.	5% of expenditure during financial year	Statements of expenditure, backed up by invoices
New buildings and extensions	Exemption from IFPB	Tax code article 01-08-04

Source: EPI

3.3 Access to Finance

3.3.1 Commercial Banks

There are six private banks in Madagascar. The Banking Act of 1998, which privatised the banking sector, led to the creation of Banque Malgache de l'Océan Indien (BMOI), with the participation of the Banque Nationale de Paris (BNP). The banks Crédit Lyonnais and Société Générale have majority control over the Banque Nationale pour l'Industrie (BNOI) and Banque Nationale pour le Développement du Commerce (BFV). Bank of Africa (BOA) has the majority share of Banque Nationale pour le Développement de l'Agriculture (BTM). The State retains minority ownership in these banks.

Madagascar's other banks are Union Commercial Bank, a subsidiary of the Mauritius Commercial Bank and the State Bank of Mauritius. In addition to the banking system, there is a network of mutual firms that can rapidly grant small loans to assist the development of small family-owned companies lacking capital. However, land tenure laws make it impossible for foreign banks to take title to land, rendering it less acceptable as collateral.

3.3.2 International Financial Institutions

Madagascar, as a signatory to the agreement between African, Caribbean and Pacific nations (ACP) and the European Union, known as the Cotonou Agreement, has access to the facilities of the European Investment Bank (EIB).

As a member of the World Bank, the facilities of the International Finance Corporation (IFC) would also be available for projects in Madagascar. Other potential development finance sources include the African Development Bank (ADB), the Development Bank of Southern Africa (DBSA), the Industrial Development Corporation of South Africa Ltd (IDC) and the New Partnership for Africa's Development (NEPAD).

3.3.3 Transfer of Capital and Profits

Transfer of capital and profits can be done on declaration, but capital transfers are subject to prior authorisation from the Ministry of Finance and Economy.

3.4 Residential and Work Visas

Travelling to Madagascar requires a visa. Short-term visas (three months or less) may be obtained either at the airport or port of entry or at diplomatic missions abroad. A long-term visa (more than one month) requires prior authorisation from Antananarivo, which generally takes at least two months. A letter of recommendation, (usually from the organisation sponsoring the trip), is also required. EPI is able to facilitate the acquisition of residential and work visas for approved foreign investors.

3.5 Technical and Promotional Assistance

The comparatively small marketing budgets are complemented by private sector marketing initiatives.

Indian Ocean Commission

The Indian Ocean Commission (IOC) is a regional governmental organization comprising Reunion, Mauritius, Madagascar, Comoros and the Seychelles. The primary objective of the IOC is to promote regional co-operation in economic development and to promote the free movement of goods, services, capital and human resources.

4. LIST OF KEY CONTACTS

Ministry of Telecommunications, Postal services and Communications

Antananarenina
BP 163
101 Tananarive
Tel: +261 20 22 236 07
Email: mtcp@mtcp.gov.mg
Website: <http://www.mtcp.gov.mg>

Groupement des Operateurs en Technologie de l'Information et de la Communication (GOTICOM)

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101 Tananarive
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Fax: +261 20 307 55
Email: goticom@mail.com

Office Malgache d'Etudes et de Regulation des Telecommunications (OMERT)

Route des hydrocarbures
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101 Tananarive
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BP: 99991
Email: omert@wanadoo.mg

Telma

BP 763 Alarobia
Antananarivo
Tel: +261 20 22 538 70
Fax: +261 20 22 358 94
Website: www.telma.mg

Espace de Promotion des Investissements (EPI)

(Investment Promotion Agency and first port of call for potential investors.)

Tel: +261 32 07 13673
Fax: +261 20 22 28024
E-mail: epionudi@simicro.mg

Chamber of Commerce, Industries and Agriculture

(Representative of the business community in Madagascar and a useful source of advice and information on the business community.)

PO Box 166,
Antananarivo 101, Madagascar
Tel: +261 20 22 202 11 / 12
Fax: +261 20 22 202 13
E-mail: cciaa@tana.cciaa.org

Association for the Promotion of Enterprises in Madagascar (APEM)

(Private sector business promotion and a good source of business advice and information.)

Tel: +261 20 22 627 75

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Economic Development Board of Madagascar (EDBM)

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Useful Websites:

- **Southern African Development Community** website contains useful profiles on SADC member states
<http://www.sadc.int>
- **The British Broadcasting Corporation (BBC):** full profiles provide an instant guide to history, politics and economic background of countries and territories, and background on key institutions.
http://news.bbc.co.uk/2/hi/country_profiles/default.stm