

MADAGASCAR

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Country Information

Madagascar is the world's fourth largest island covering a total area of 587,000 square kilometres. Each region has its own climate varying from a temperate climate in the central highlands to an arid one in the southern regions. The eastern region is hot and humid. The west is dry and the north is fairly wet. The urban population accounts for 29% of the whole population whose origin is mixed Malay-Indonesian and African-Arab.

Political System

The principal institutions of the Republic of Madagascar are a presidency, a parliament, a prime minister and cabinet, and an independent judiciary. The president is elected by direct universal suffrage for a 5-year term, renewable twice. The last presidential election was held on December 3, 2006.

On March 17th 2009, democratically elected President Marc Ravalomanana stepped down and handed the government over to the military, which in turn conferred the presidency onto opposition leader and Antananarivo mayor Andry Rajoelina. Rajoelina has refused to form a power sharing government in accordance with an agreement (previously agreed by him) brokered by the Southern African Development Community (SADC). A referendum on a new constitution was held in November 2010 and parliamentary and presidential elections are scheduled for March and May 2011 respectively.

Latest GDP Figures

- GDP (real): US\$9.3 billion
- GDP per capita: US\$406
- GDP (purchasing power per capita): US\$20 Billion
- GDP per capita (purchasing power parity): US\$1,000

Inflation Rate

9.2%

Investment Climate

The last decade has seen the enactment of several laws and regulations that have considerably improved Madagascar's image as a foreign investment destination. Enactments of the Company Law, Investment Law and laws specific to high-growth areas such as mining have all contributed to some major world-class projects. In addition to this, the government of former

President Marc Ravalomanana aggressively sought foreign investment and implemented policies to combat corruption, reform land-ownership laws, encourage the study of American and European business techniques and actively pursue foreign investors. This contributed to the removal of administrative hurdles, improved treatment of national and foreign investors, the creation of a one-stop office to perform all investment procedures and the reduction of certain tax rates which have all contributed to a vastly improved investment climate.

However, the current political instability following a March 2009 coup has had a negative impact on foreign investment in the country. Overall foreign investment declined by 17 percent during the first three quarters of 2009 compared to the same time period in 2008.

Forms of Business

Company law provides for several business vehicles but the most attractive for investors are:

- a société anonyme (SA) which is a limited liability company with either a board of directors or a unique shareholder. Unlike a limited public company, an SA may not list its shares;
- a société à responsabilité limitée (SARL) which is similar to an English limited liability company and is administered by one or more directors called "gérants".

A sole proprietorship is also a possibility under the Company Law but it is not recommended to investors as it refers largely to small scale businesses. Joint ventures are often formed in the mining and petroleum sectors.

Formation of a Company

A company is incorporated by registering all documents at a "one-stop" office in Madagascar called the Economic Development Board of Madagascar (EDBM).

The following documents are required:

- name, activities, and registered office of the future company;
- incorporation documents of the company initialled on each page;
- amount of the company's expected share capital;
- proof of residency/domiciliation contract;
- declaration of existence;
- identification of shareholders, residence certificates, long-term visas and attestation of no criminal convictions with a birth certificate for foreigners;
- capital investment form;
- fiscal identification form.

Once all of these have been submitted, the EDBM issues:

- registered incorporation documents;
- an extract from the Commerce Registry;
- a company number;
- a fiscal identification number.

Lastly, the company must make an announcement in the official journal or in a legal announcement journal.

Exchange Controls

The Exchange Code enacted in 2006 and its implementing decree dated 2009 eliminated foreign exchange restrictions. Funds can now be freely converted and transferred.



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Taxation

Income tax is payable on all income earned and paid in Madagascar. The marginal rate is 23%, which applies on all earnings over MGA 250,000 (about US\$125) per month. Employers are required to deduct this at source and are also required to make contributions of 13% and deductions of 1% towards the state social fund.

Value added tax (VAT) is charged at 18% on all goods and services including rental agreements. This can be offset against VAT charged on taxable supplies.

Corporation tax was incorporated into income tax in 2008 and is charged at a rate of 23%.

Madagascar has double taxation treaties with France and Mauritius.

Import/Export

Imports accounted for US\$2.4 billion of the economy in 2009 and mostly consisted of electrical appliances and consumer goods.

Exports consisted largely of commodities like vanilla, cocoa, cloves and seafood, and amounted to US\$1.2 billion. Textile exports have seen a sharp increase in recent years primarily due to duty-free access to the United States provided through the African Growth and Opportunity Act (AGOA).

Monetary Policy

The loss of external aid in 2010 has obliged the government to adopt a restrictive fiscal policy to contain deficit and inflationary pressures. The central bank's monetary policy has likewise focused on fighting inflation, notably by intervening in the foreign exchange market to avoid excessive depreciation of the national currency (the ariary).

Legal System and Judicial Environment

Being a former French colony, the Malagasy judicial system is based on French civil law. During the 1960s and 1970s, a transition began from a bifurcated judicial system (customary courts for most Malagasy and local courts for foreign residents and urbanized locals) towards a single judicial system characterized by the Supreme Court and Court of Appeal in Antananarivo, courts for civil and criminal cases as well as military courts. This transition also established a High Court of Justice to try high officials and a High Constitutional Court. Traditional courts (*dina*) continue to handle certain civil disputes and criminal cases.

Intellectual Property

Intellectual property protection is provided by statute. There is a registry of trademarks operated by the Madagascar Bureau of Intellectual Property (OMAPI). OMAPI is responsible for registration and enforcement. In addition, there is another office for intellectual property rights called the Office Malgache du Droit d'Auteur (OMDA).

Financial Services/Insurance

A program to assist US trade with Madagascar has been introduced by Eximbank. Local credit is available to exporters of traditional agricultural products at relatively high interest rates. Madagascar is also a member of the

Multilateral Investment Guarantee Agency (MIGA).

Key Strategic Growth Initiatives by Government/Private Sector

The most important key initiatives made by the government have been funded by the private sector to enhance the country's growth prospects. An example is the massive Ambatovy Project (nickel and cobalt) co-owned by the Sumitomo Corporation, Sherritt International, Korea Resource Corporation and SNC Lavalin. Another major project is the QIT Madagascar Minerals QMM Project (ilmenite export) run by a subsidiary of the Canadian company Rio Tinto. There are also various uranium, coal and petroleum projects. Madagascar's participation in the Extractive Industries Transparency Initiative (EITI) is also part of an ongoing policy to increase development and to use income derived from mining exploitation to fund investments in infrastructure.

Treaties and Bilateral Agreements

Among others, Madagascar has acceded to the New York Convention on the enforcement of foreign Arbitral Awards, the Berne convention and the TRIPS agreement on intellectual property, the United Nations (UN) Convention on the Law of the Sea, the Convention on International Trade in Endangered Species (CITES) and the United Nations Framework Convention on Climate Change (UNFCCC) and Kyoto Protocol aimed at fighting global warming.

Membership of International and Regional Organisations

Madagascar is a member of the World Trade Organisation (WTO), the African Union (AU) and its New Partnership for Africa's Development (NEPAD) and the Common Market for Eastern and Southern Africa (COMESA). However, since the 2009 coup, Madagascar's membership of the Southern African Development Community (SADC) and the African Union (AU) has been provisionally suspended.

Economic Developments

The prominent Chinese steelmaker group, Wuhan Iron & Steel Group Company (WISCO), was issued an exploration permit in May 2009 to conduct research on a mine site for a fee of US\$100 million. The exploration project is a joint venture established between WISCO, Guangdong Foreign Trade Group and Kam Hing International Holdings with a share structure of 42%, 38% and 20%, respectively. The project will consist of two stages: exploration and exploitation of minerals. Approximately US\$8 billion has been allocated for both stages. The exploration phase is expected to last three years and cost approximately US\$2 billion. The second phase is scheduled to start in 2014 and will lead to a steel production unit in 2019. It is worth noting that the project is expected to involve the construction of various infrastructure nodes such as industrial zones, ports and a hydraulic plant.

Infrastructure

Madagascar's infrastructure is a major obstacle to its economic progress, restricting the exchange of goods and limiting development opportunities.

Approximately 10% of its 49,828 kilometres of roads are paved. During the rainy season, many of them are completely impassable, isolating large parts of the country. Transport by rail is also largely limited, with 885 kilometres of track, in two unconnected systems, and most of it in a poor state. However,



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the introduction of private trucking licenses and the planned sale of the national railroad company should help, but the problem remains a fundamental one.

Due to the limited function of road and rail transport, Madagascar has a relatively well developed airport infrastructure. It is composed of 57 airports open to the public, 3 of these being international and 14 of them equipped with basic or better facilities. The revival of the national airline has resulted in improved profitability.

Energy

The petroleum research sector is growing in Madagascar. A number of companies which are contracted to work permanently with the *Office des Mines Nationales et des Industries Stratégiques* (OMNIS), are exploring offshore fields or onshore sites in the sedimentary basins in the western part of the island. Those companies include Vanco Energy Co, Sterling Energy, Exxon Mobil, Tullow Oil, Total and Madagascar Oil.

At present, Bemolanga is deemed to be one of the most important heavy oil deposits in the world with a total capacity of 16 billion barrels. Exploration costs at the first stage are amounting to US\$170 million. Madagascar Oil owns 40% of the Bemolanga schist blocks and the French group Total acquired 60% of Bemolanga in September 2008. 180,000 barrels per day are expected to be produced during the next 30 years.

Telecommunications

The Malagasy telecommunications market has four mobile network operations and a dozen internet service providers. Prior to the sector reform of 1994 (on the basis of Law 93-030), domestic telecommunication services were poor and under government control with a semi-private entity STI-MAD providing international services. The government's main tasks as far as telecommunications services are concerned are cost reduction to end users, providing greater access to services for end users, attracting private capital into the sector and developing the economy's competitiveness through telecommunications.

Information and Communications Technology

With the establishment of several important companies in the mobile telephony such as Orange and Bharti-Airtel, the Information Technology (IT) sector of the Malagasy economy has become an area of high growth.

Mining

Mining is certainly the most developed sector in Madagascar due to favourable provisions in the mining code. Several favourable benefits have been granted to investors regarding the tax, exchange and customs regime. The determination of Madagascar to develop its mining sector is reflected in the existence of some large world-class projects operated by major international companies (see above under Energy).

Agriculture

Agriculture, including fishing and forestry, is the mainstay of the economy, making up about a third of Madagascar's gross domestic product (GDP). Madagascar has several crops that are almost entirely exported overseas and contribute to 70% of exports.

Industrial Relations

Many regulations govern the employment sector. The Employment Code is dated 28th July 2004 and related legislation is generally employee friendly. Unemployment is high in Madagascar and labour is inexpensive and plentiful. Wage rates in the country are among the lowest in the world.



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