

Chandrawat  
& Partners

# Doing Business in **MADAGASCAR**

[enquiries@chandrawatpartners.com](mailto:enquiries@chandrawatpartners.com) [www.chandrawatpartners.com](http://www.chandrawatpartners.com)



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# INTRODUCTION



Madagascar is the world's fifth-largest island, situated in the Indian Ocean off the coast of southern Africa.

Madagascar is an island nation in the Indian Ocean off the southeastern coast of Africa. Madagascar has a strategic location along the Mozambique Channel. The government system is a republic; the chief of state is the president, and the head of government is the prime minister.

Madagascar transitioned from socialist economic policies to a market economy with policy of privatization and liberalization. Madagascar is a member of the Common Market for Eastern and Southern Africa ("COMESA") and the Southern African Development Community.

Although located some 250 miles (400 km) from the African continent, Madagascar's population is primarily related not to African peoples but rather to those of Indonesia, more than 3,000 miles (4,800 km) to the east.

Madagascar consists of three parallel longitudinal zones—the central plateau, the coastal strip in the east, and the zone of low plateaus and plains in the west.

# ECONOMIC REVIEW

In 2022, growth is estimated to decelerate to 3.8% reflecting mostly the impact of repeated natural disasters compounded by a deteriorating global context. In early 2023, two severe tropical storms hit Madagascar, submerging many roads, flooding, and destroying schools and health centers. Moreover, recent evidence indicates that repeated cyclones increased the poverty rate among affected households by 27%. Real GDP growth is projected to improve to 4.2% in 2023 and to accelerate to about 5% in 2024-25 mostly boosted by a recovery of the mining industry coupled with the gradual reopening of the air traffic, especially with South Africa.

Rising food and energy prices, exacerbated by the indirect impact of the war in Ukraine on the prices of imported goods, have fueled inflation, which reached 10.9% (y/y) in December 2022, eroding household purchasing power and exacerbating already high poverty levels, especially in urban areas.

The current account deficit is estimated to have increased to 5.6% of GDP in 2022 as a recovery in mineral exports is offset by higher imports of refined petroleum products, food, and intermediate goods. Gross international reserves declined, but remained broadly adequate, from 5.9 months of imports in 2021 to 5.0 months of imports in 2022.





# FOREIGN DIRECT INVESTMENT POLICY

FDI inflows to Madagascar had been declining in the past years due to the country's political crisis, and in the context of a challenging global environment, that trend continued. Policy and institutional reforms and infrastructure projects that were expected to improve investment climate did not materialize (US Department of State).

According to UNCTAD's World Investment Report, 2022. According to UNCTAD's Investment Trends Monitor, global FDI momentum weakened in 2022 in the context of the war in Ukraine, rising food and energy prices, financial turmoil and debt pressures. Mauritius, China, the Netherlands and France are the main investors in the country (IMF). The main investment opportunities concern the mining, infrastructure, textiles, energy, tourism and agri-business sectors.

An agreement was signed between the Malagasy Economic Development and Business Development Agency (AMDP) and the Chinese consortium Taihe Century Investments Developments co. Ltd. The agreement involves a global investment of 2.7 billion USD over ten years, targeting six projects, in particular in the fields of fishing, aquaculture, the fight against illegal fishing, shipyards and recreation centres. The Malagasy government enacted various reforms to improve the business climate, including some related to company creation, granting construction permits and trans-border trade.





# KEY SECTORS

Madagascar has a market economy with agriculture, textile, mining, and tourism industries contributing significantly to the economy. The biggest industries in the country according to their annual output are the seafood industry, glassware, sugar, textiles, cement, tourism, paper, petroleum, and mining. Fishing, mining, and tourism make up the three pillars of the Malagasy economy.

The Agriculture industry, inclusive of forestry and fishing is Madagascar's largest contributor to the GDP, and it employs 80% of the country's workforce. Madagascar has a wide range of climate that ranges from tropical along the coasts to arid in the south. Tropical crops such as cassava, rice, bananas, and beans do well on the island.

Madagascar is the second largest producer of vanilla in the world. Rice is the main produce and export in the country with most of the farms being small-scale. The major cash crops in the country include coffee, cotton, vanilla, pepper, tobacco, litchi, groundnuts, sisal, sugarcane, and cloves.

- **Forestry:** Some of the major trees in the island's forests include rosewood, mahogany, and ebony. Forests in the island are under threat due to deforestation. The island has several forests, and the trees are cut down for timber used in construction and fuel.
- **Fishing:** Since Madagascar is an island, fishing has been one of the industries contributing to the island's economy. Shrimp and shrimp produce make up the major export in Madagascar's seafood sector. Due to the high prices, shrimp has a low demand locally with the locals preferring to purchase the small and medium-sized fish from small fish shops.





- **Tourism**

Madagascar's biodiversity and its beaches make up the major tourist attractions on the island. 5% of the global plant and animal species can be found in Madagascar with 80% of these indigenous to the island. The 50 known Lemur species are native to Madagascar. A majority of the tourists to the island are French due to island's past connection to France as a French colony.

- **Textiles**

The textile industry is one of the biggest industries in Madagascar with export processing zones in Antsibare and Antananarivo contributing to a large percentage of the textile exports. Most of the textiles from Madagascar are exempt from customs restrictions in the European Union and the US, and the exemptions have led to the growth of the country's textile industry.

- **Mining**

Some of the mineral deposits in Madagascar include ilmenite, coal, oil and natural gas and chromite. Ilmenite mining is one of the growing sectors in the mining industry. Ilmenite is an oxide mineral containing titanium and iron that is steel and grey or black and is magnetic. The mineral is the most important titanium ore. Ilmenite mines in Madagascar are located near Fort Dauphin and Tulear. Gemstone mining is another significant sector of the mining industry





# ADVANTAGES

The following advantages are:-

**Strategic location:** Madagascar is located in the Indian Ocean, making it a strategic location for businesses looking to expand into Africa and Asia. Madagascar is located off the eastern coast of Africa, making it a gateway to the continent.

**Natural resources:** Madagascar is rich in natural resources such as minerals, precious stones, and timber, which can be beneficial for businesses in the mining, forestry, and construction industries. Madagascar is renowned for its gemstone deposits, including sapphires, rubies, emeralds, and tourmalines.

**Growing economy:** Madagascar's economy has been growing steadily in recent years, with a focus on agriculture, tourism, and manufacturing. Agriculture is a vital sector in Madagascar, employing a significant portion of the population and contributing to the country's GDP.

**Government incentives:** The government of Madagascar offers various incentives to attract foreign investment, including tax exemptions and reduced tariffs.

**Skilled labour force:** Madagascar has a young and growing population, with a large percentage of the population under the age of 25.

**Ease of doing business:** Madagascar has made significant improvements in its business environment in recent years, making it easier for businesses to start and operate in the country.





# TYPES OF BUSINESS ENTITIES

Four types of companies in Madagascar:

1. Public limited companies (SA)
2. Limited Liability Companies (SARL)
3. General partnership (SNC)
4. Simple Limited Partnership (SCS)

For the creation of each of them, the procedure is described below.

## Public limited companies (SA)

- May be constituted by one or more natural or legal persons
- The rights of shareholders are represented by shares
- Partners are only liable for social debts up to the amount of their contributions

## Limited Liability Companies (SARL)

- May be constituted by one or more natural or legal persons;
- The rights of shareholders are represented by shares;

The partners are only liable for the company's debts up to the amount of their contributions

## Simple limited partnership

- Can be set up by one or more partners with unlimited and joint liability for company debts - general partners
- With one or more partners responsible for the social debts within the limit of their named contributions - limited partners or general partners.



# ELIGIBILITY CRITERIA



Minimum 7 shareholders are required to form a Public Limited Company.

A minimum of 3 Directors is required to form a Public Limited Company.

A minimum share capital of Rs.5 lakh is required.

DSC of one of the Directors is needed when the self-attested identity copies and address proof are submitted.

DIN for the Directors is necessary.

Application is to be made for the selection of the Name of the Company.

An application that comprises the main object clause of the company is made. This object clause will define the main objectives of a Company after the incorporation.

"The application is submitted to the ROC along with the necessary documents like MOA, AOA, a duly filled form DIR-12, Form INC 7, and Form INC -22 is needed."

Payment of the registration fees that are prescribed by the ROC.

Once the ROC has approved the company should apply for the business commencement certificate



# HOW TO SET UP A BUSINESS?

## **1. Apply for a tax identification number (NIF) and verify the necessary forms and registration fees at the One-Stop Shop (EDBM)**

A new company can be registered at the One-Stop Shop (EDBM). Upon arrival at EDBM, the entrepreneur needs to stop at the front office to apply for a tax identification number (NIF), for verification of the documents to be submitted for registration and of the amount to be paid to the tax authority. The front office will apply for the tax identification number online for the applicant (through a process called NIFONLINE) and will verify whether the forms were correctly filled and that no information is missing. The forms are available online and the entrepreneurs can either print them at home or obtain them at the registry.

## **2. Register the company, pay the registration fees and apply for a license (carte professionnelle), for registration at INSTAT and for the publication of a notice of company incorporation.**

The entrepreneur must apply for company registration at EDBM, by presenting the company's articles of association, paying the registration fees in cash and applying for a license and registration at the National Statistics Institute (Institut National de la Statistique Malgache - INSTAT) at EDBM.



3. Register employees with Social Security. The company must register its employees with the National Social Security Fund (Caisse Nationale de Prevoyance Sociale), and file two copies of an application form (bulletin d'adhesion nouveau membre) along with a list of names of all employees and their identity cards to enroll for health insurance.

4. Register employees for health insurance. OSTIE Registration with an insurance scheme is mandatory. OSTIE is the public insurance scheme and registration is free of charge. However, companies can choose to offer the services of a private insurance scheme. In case they chose to do so, the additional cost is not deductible from taxes.

5. File a declaration of start of activities to the Labour Inspectorate Labour Inspectorate As foreseen in art. 251 of the Labour Code, new companies shall submit a declaration of start of activities to the Labour Inspectorate. This declaration can be submitted after the employee registration with Social Security.





# TAXATION



## VALUE ADDED TAX

A fixed 20 per cent Value Added Tax (VAT) is charged for most products, with some exceptions to certain food, basic products used in agriculture, sports equipment and some other articles.

## INCOME

An individual tax rate of 20 per cent is payable on salary above MGA 250,000 or non-employment income earned in the preceding year. The fiscal year runs from 1 January to 31 December, although a taxpayer who has a business may elect a different tax year.

## CORPORATE

The corporate tax rate on chargeable income of companies:

- Resident - 20 per cent
- Non-resident - 10 per cent.





# EMPLOYMENT AND LABOUR WAGES

## Minimum Wages

Minimum wage rates in Madagascar are determined either by Government or by a collective agreement between the employer and the worker.

The minimum starting salary (SME) is determined by taking into account the minimum vital for workers in order to guarantee them sufficient purchasing power; cost of living; national economic situation and current economic climate; the nation's budget evolution/balance sheet; and consumer prices.

Compliance with provisions of the Labour Code including minimum wages is labour inspectors who have the right to enter workplaces at any time and carry out inspections. Employers who fail to pay the legal minimum wage are liable to a fine which may range between 2,500,000 to 10,000,000 FMG

## Regular Wages

The Labour Code 2003 regulates the payment of wages to all classes of workers. The salary is the counterpart of the work; no salary is due in case of absence outside the cases provided by regulation and unless agreed in writing between the parties.

## Employment policies

According to the World Bank collection of development indicators, compiled from officially recognized sources. Madagascar - Employment in industry (% of total employment) - actual values, historical data, forecasts and projections were sourced from the World Bank on June of 2023.





## HOW WE CAN HELP?

Our team provides full-service for immigration law including visa applications, sponsorship applications, interview preparation, appeals process, and general counselling. Some of the services provided by our team are as follows :

- Our Team work to help our clients apply for visas across the spectrum like employment, education, entertainment, business, and tourist visas.
- Our Team also work with the internal application processes to ensure full compliance with the law.
- Our Team can assist clients with single or multiple-entry business visas, social visas, visa-on-arrival, and visit visa extensions.
- Our team can assist clients in immigration audits, deportation cases, detainment cases, and administrative court cases.



## SERVING CLIENTS WORLDWIDE



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## Key Contact



**Surendra Singh Chandrawat**  
Managing Partner

✉ [surendra@chandrawatpartners.com](mailto:surendra@chandrawatpartners.com)

Connect Surendra on



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