



## Analysis of the business environment in Least Developed Countries

# Madagascar

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# Madagascar

Region  
East African country located in the Indian Ocean

Population  
26,262,368

Demographic growth  
3.01 %

GDP per capita (2020)  
495.5 USD

Human Development Index:  
0.528 (164/189)

## Economic overview

Madagascar is an island country in the Indian Ocean off the coast of southern Africa whose economy is essentially dependent on the primary sector, particularly agriculture. Traditional production methods still largely predominate in the country's agriculture. It is estimated that agriculture accounts for more than 25 per cent of total GDP. Rice cultivation occupies the majority of the workforce in the informal agricultural sector and is the largest sector in the Malagasy economy. Accordingly, the informal agricultural sector is the main provider of employment and income for the population and it implicitly contributes to maintaining social balance. According to the World Bank in 2021,<sup>1</sup> unemployment is more pronounced in urban areas in Madagascar, at 4.8 per cent. Economic and institutional constraints linked to tax pressure, administrative procedures (regulations), difficulties in accessing finance and strong market competition due to the lack of markets are some of the obstacles standing in the way of formalising businesses and workers in the informal sector. The increase in the number of informal production units (IPUs) in recent years reflects the growing importance of the informal sector, particularly in agriculture, as the preferred method of joining the workforce in times of crisis, as the country faces recurrent political instability.



In order to mitigate the negative impact of COVID-19 on taxation, and particularly to boost private sector investment, the government, in a rather non-inclusive approach, has developed credit lines for banks without consulting the private sector. Within this framework, banks and micro-finance institutions were granted lines of credit at concessional rates in order to be able to award loans at subsidised rates, a conventional mechanism for social impact lending.

In addition, in order to boost production, the government set up a guarantee fund to encourage banks to take more risks in their financing, which, in the opinion of the actors approached, does not work. These mechanisms were a state aid for reviving economic activity with a view to compensating for the losses in productivity caused by the health crisis and preventing businesses from failing.

To save jobs, the Malagasy Vocational Training Fund (FMFP) was created at the instigation of the private sector to enable the acquisition of new skills and develop workers' know-how.

<sup>1</sup> <https://data-worldbank.org/indicator/SL.UEM.1524.ZS?locations=MG>

## Challenges faced by the private sector

The main challenges to improving the business climate in Madagascar include:

- **Impoverishment of the population** - It is estimated that 8 out of 10 people live below the poverty line (World Bank, 2021).
- **Social inequality** - An unemployment rate among young people aged 20-24 (3.1 per cent) and those with higher education (4.9 per cent) contributes to the development of the informal private sector and underemployment and precariousness. Eight out of ten workers are affected by inadequate employment (paid less than the minimum wage).
- **Widespread informality** - More than nine out of ten workers work in the informal sector. The proportion of jobs by institutional sector is distributed as follows: 17 per cent in the public administration, 46.3 per cent in formal enterprises, 70.4 per cent in non-agricultural informal enterprises and 87.9 per cent in agricultural informal enterprises. Nine out of ten IPU are completely unknown to the administrative services. These IPUs are not registered in the trade register and do not pay a licence fee.
- **A private system that is weak in terms of income** - Households whose head of household works in the public sector have the highest average monthly income (428,000 ariary) compared to 55,300 ariary for households whose head of household works in the private sector (formal and informal); the average monthly income of heads of IPUs is 164,000 ariary per month.
- **Lack of access to infrastructure and structural complications** - Eight out of ten IPUs are housed in makeshift facilities, without access to the main utilities (water, electricity, telephone). In addition, the average size of an IPU is 1.4 people.
- **Structural complications** - Recurrent problems with lack of water, electricity and fuel

supply make economic activities and actors cautious, according to a survey by the Economic Development Board of Madagascar (EDBM) in 2020.

- **Low level of human-capital education/training** - Madagascar ranks 164th out of 189 countries on the Human Development Index.
- **Very high level of corruption** - According to Transparency International's 2021 report, Madagascar ranks 147th out of 180 countries. This indicates that much work remains to be done to improve the business climate in Madagascar.

## Private sector policy recommendations

The recommendations apply to the following areas:

### 1. Supporting and strengthening public-private dialogue

Specific objectives include:

- Including public-private dialogue in sectoral development plans and strategies;
- Establishing and maintaining a genuine public-private partnership;
- Developing a roadmap and agenda for public-private dialogue at national level;
- Actually considering the needs of private sector partners in sectoral development strategies;
- Strengthening state institutions, including assessing the legal and regulatory framework for creating and formalising businesses in the formal sector;
- Constantly coming up with reforms to improve the business climate;
- Complying with agreements;
- Bolstering the role of the state as a guarantor of peace, security and good governance;

- Ensuring independent and accountable social partners;
- Capacity building for social partners;
- Establishing a communication plan to reduce communication gaps between the private and public sectors;
- Establishing a unit or commission to work on promoting and popularising the incentives to be given to the private sector in the short, medium and long term.

## **2. Supporting young investors and women, developing entrepreneurship and fighting against informality**

Specific objectives include:

- Promoting an entrepreneurial culture in society as a whole, particularly in technical and vocational training institutions, on audiovisual platforms (TV and radio) and national online social networks, in adult education centres and in universities;
- Creating training and apprenticeship centres for self-employment for out-of-school youth;
- Creating a favourable climate for investment by providing incentives, e.g. access to credit at subsidised interest rates and on flexible repayment terms;
- Establishing a genuine partnership between the state and the banking sector to encourage domestic financing and investment, including the promotion of self-employment among youth and women;
- Focusing policy on formal job creation;
- Establishing a genuine institutional partnership between the state, the private sector and representatives of local authorities to support and promote the creation of income-generating jobs in rural areas and encourage the development of agri-food cooperatives;
- Promoting the decentralisation and efficiency of local government bodies to facilitate municipal authority access to national and regional financial flows to support entrepreneurship among women and young people in rural areas and to better channel the needs of women and young people for the development of their commercial, agro-pastoral and craft activities in rural areas in particular;
- Organising awareness-raising and education campaigns for informal sector entrepreneurs on the benefits of formalisation and developing incentives to encourage the formalisation of businesses;
- Considering the needs of informal sector operators in strategies for combating informality by the central government in order to better encourage their transition from the informal to the formal sector;
- Organising ongoing training and education sessions on creating and formalising businesses in rural and urban areas;
- Promoting access to digital technology for young people and women in rural areas by creating free digital training centres within local authorities;
- Promoting women's access to land in particular and favouring a reorganisation of the land register;
- Eliminating minimum fees for business start-ups and shortening the waiting period for registering and authenticating documents.

## **3. Fighting informality**

Specific objectives include:

- Establishing a national policy to transition informal production units (IPUs) to the formal sector;
- Establishing incentives and deterrents;
- Sharing and exchanging regional experiences;



- Developing a strong and effective institutional legislative framework;
- Annually implementing structural reforms and sectoral strategies aimed at facilitating the business climate and improving the life of entrepreneurs; in particular in terms of taxation, building permits and business creation;
- Developing guarantee instruments to promote access to credit for young people and women, especially those with economically viable income- and employment-generating projects;
- Reducing costs and delays in obtaining building permits;
- Reducing electricity connection fees;
- Eliminating mandatory minimum fees for business start-ups;
- Eliminating mandatory fees for authenticating documents and shortening the registration period for business start-ups;
- Improving access to credit information, e.g. by extending the coverage of public credit services and by starting to report data from public utilities;
- Annually assessing the registration rate of new companies and considering the needs of unregistered companies in order to better channel and adapt sectoral strategies to facilitate their transition to the formal sector;
- Establishing and modernising an electronic system for creating and registering businesses at national level.

#### **4. Developing human capital**

Specific objectives include:

- Improving the supply of public services (education, health and social protection);
- Ensuring a match between training/

education received and the needs of the labour market in technical and vocational education, general secondary education and universities;

- Promoting development-oriented research in technical and vocational schools, general secondary schools and universities in order to unleash the innovation potential of young people and improve the competitiveness of the private sector globally;
- Priority training for public sector managers;
- Mandatory internships for students to immerse them in the world of business.

#### **5. Improving the labour market**

Specific objectives include:

- Increasing the number of jobs through access to new investments at national level;
- Promoting the application, via the Ministry of Social Affairs and Labour, of a legal framework for workers/employees on working conditions and a minimum wage;
- Implementing sectoral strategies aimed at facilitating access to health coverage for the population, particularly for workers in the formal sector, which may also encourage informal businesses to formalise;
- Promoting flexible working hours for workers;
- Improving employment frameworks, policies and conditions.

#### **6. Promoting digitalisation/new technologies**

This should consist of/and enable:

- Updating/strengthening the digital skills of economic actors;
- Facilitating access to a variety of services and opportunities through the Internet and IT by means of timely reforms and national projects/programmes;

- Promoting online payment of taxes and other services;
- Providing large-scale digital literacy programmes;
- Promoting engineering training and professions in order to capitalise on innovation through strategic partnerships (schools-companies, state and development partners, etc.).

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