MADAGASCAR

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MADAGASCAR

- **The still-sluggish economy grew slightly faster (2.6%) in 2013 (1.9% in 2012) thanks mostly to mining and should speed up in 2014 (3.7%) and 2015 (5.4%) as the political situation normalises.**
- **Madagascar took another step towards recovery from its five-year political crisis by holding presidential and parliamentary elections in the last quarter of 2013, opening the way to renewed international acceptance and revival of economic and social development.**
- **The country's participation in global value chains is still small despite its many assets, such as tourism, a free zone for textile factories, ICT-related services and natural resources (agriculture and mining).**

Overview

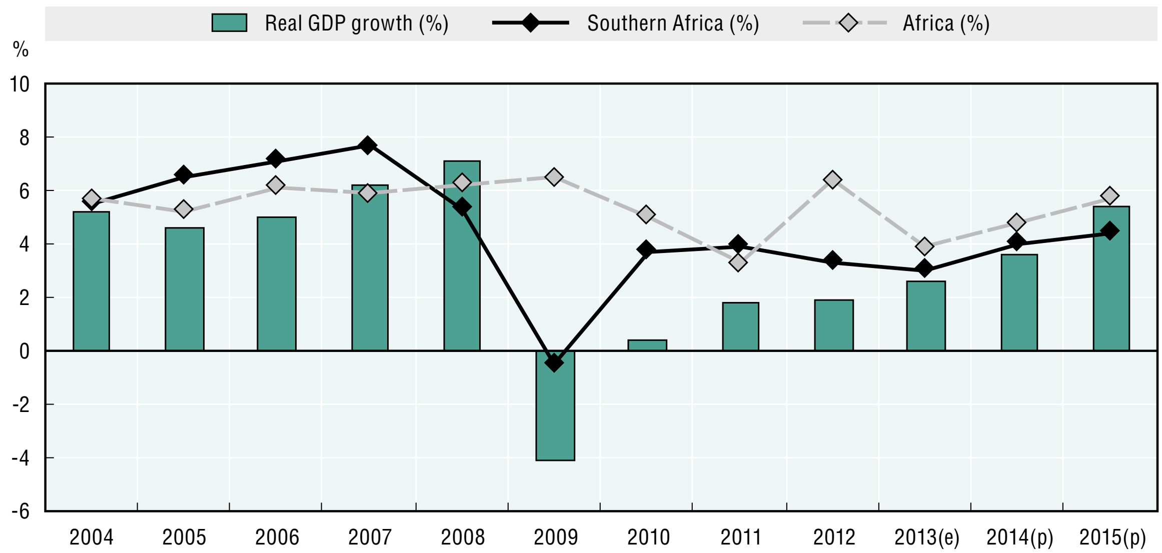
The country's political crisis since 2009 is still hampering economic and social progress. Economic growth of 1.9% in 2012 and 2.6% in 2013 was unimpressive against the International Monetary Fund's estimated sub-Saharan average of 5.1% and an annual national population increase of 2.8%. It was mainly driven by extractive industries, agro-industry, banking, transport, livestock and fisheries. Macroeconomic stability was maintained by drastic budgetary adjustments that undermined the government's ability to provide basic services and also held back economic recovery.

The budget deficit deteriorated to 3% of gross domestic product (GDP) from 1.3% in 2012. The current account deficit was held at 8.8% of GDP (close to its 8.3% value in 2012). Inflation rose to 6.9% from 5.8% in 2012. If the political situation normalises after the December 2013 presidentialand parliamentary elections, growth could improve in 2014 to a projected 3.7% and in 2015 to 5.4%, largely due to agriculture, agro-industry, extractive industries, tourism and construction.

Sluggish and poorly-distributed growth has not improved living conditions for most people and has damaged efforts to achieve the Millennium Development Goals (MDGs) by 2015. A nationwide 2012/13 survey of MDG progress showed more than 70% of Madagascans (including 77% in the countryside) lived below the national poverty line. Underemployment is especially high for young people and the crisis has made jobs precarious for 81% of the workforce, especially women in rural areas.

Although global value chains (GVCs) are an opportunity for the economy to expand, Madagascar's participation is limited to exporting unprocessed goods and selling imported goods to consumers. The country does have many assets – tourism, a free zone for textile manufacturing, ICT-related services and natural resources in agriculture and mining. To participate fully in GVCs, it must end recurrent political unrest, fight corruption strongly, train the workforce and improve infrastructure.

Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. **Macroeconomic indicators**

	2012	2013(e)	2014(p)	2015(p)
Real GDP growth	1.9	2.6	3.7	5.4
Real GDP per capita growth	-0.9	-0.2	0.9	2.6
CPI inflation	5.8	6.9	7.2	6.2
Budget balance % GDP	-1.3	-3.0	-3.1	-1.5
Current account balance % GDP	-8.3	-8.8	-7.5	-7.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

The continuing national social and political crisis undermined the economy in 2013, harming public and private investment. The business climate worsened, partly due to widespread insecurity issues, poor infrastructure and bad governance. Cyclone Haruna and a locust invasion damaged production and the government had no national strategy to overcome development obstacles and seize short and medium-term opportunities. The estimated 2.6% economic growth in 2013 was mostly based on mining but was below the 2.8% annual population increase, below precrisis growth potential (5.7% annually in 2005-08) and also the estimated 5.1% average sub-Saharan Africa growth in 2013.

National statistics institute figures showed the secondary sector (about 15% of GDP) as the growth leader in 2013, expanding 7.9% (up 1.3 percentage points on 2012), mainly due to extractive industries (+127.7%, as nickel and cobalt processing by the firm Ambatovy began) and agro-industry (+11.8%). The tertiary sector (56% of GDP) grew 2.4% (2.6% in 2012), mostly due to banking and transport.

The primary sector (29% of GDP) slowed, expanding only 0.9% (down from 1.5% in 2012), based mostly on livestock and fisheries. Paddy-rice production dropped 21% in 2013 due to Cyclone Haruna, a locust invasion and rural lawlessness, producing a 240 000-tonne shortfall for the 2013/14 marketing season. Year-on-year maize production also shrank (by 15%), as well as manioc (by 14%).

Overall investment grew moderately (4.5%) in real terms and accounted for 1.1% of GDP. Public investment rose an estimated 6.3%, partly making up for a 34.6% drop in 2012. As implementation of major mining projects ended, private investment only increased 4.2% (against 13.7% in 2012). Total consumption by volume grew a modest 3.1% from 2012, contributing 2.9 percentage points of GDP growth.

Achievement of economic projections for 2014 and 2015 will largely depend on the post-electoral social and political climate and the new government's emergency programme to boost economic and social recovery. Growth of 3.7% is projected for 2014, based on using existing private capacity in the services sector (especially tourism), agro-industry and extractive industries, with higher output of ilmenite, nickel and cobalt if world prices improve.

The economy should benefit in 2015 from gradual resumption of worldwide growth (especially in Europe), from a post-crisis rebound and the government's economic and social recovery strategy, backed by the country's technical and financial partners (TFP). Overall growth could then reach 5.4%, close to the annual pre-crisis average.

Table 2. **GDP by sector (percentage)**

	2008	2013
Agriculture, hunting, forestry, fishing	24.8	26.4
of which fishing		
Mining	0.1	0.3
of which oil		
Manufacturing	14.7	14.6
Electricity, gas and water	1.3	1.3
Construction	4.9	3.5
Wholesale and retail trade, hotels and restaurants	10.4	11.1
of which hotels and restaurants		
Transport, storage and communication	21.5	24.0
Finance, real estate and business services	15.5	11.3
Public administration, education, health and social work, community, social and personal services	6.7	7.5
Other services		
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

The 2013 national budget was implemented amid worsening economic conditions, low foreign aid, extra spending on elections and on fighting the locust invasion, and continued fuel subsidies of about 177 billion ariary (MGA) (0.75% of GDP). The fuel support included fixed and variable subsidies, payment for arrears owed to the national electricity company and other payments.

Budget revenue thus had a 10.4% shortfall of MGA 292 billion (about 1.3% of GDP). The tax burden, one of the lightest in the world, was 10.4%, almost unchanged since 2013 (10.3%) and reflecting poor tax collection and governance problems. In 2013, the central bank, BCM, approved an institutional governance support programme, PAGI, which should boost revenue through better collection and by modernising tax policy.

To ensure that the budget deficit was in line with the goal of macroeconomic stability, the government slashed allocations to all ministries and prioritised current spending such as salaries. The cuts especially affected investment crucial for growth and poverty reduction. The overall budget commitment rate was estimated at 83.56%, down from 96% in 2012. Execution was short by about 3% of GDP, compared with the target of 0.6%, mostly funded by local banks and by adding to domestic-debt arrears.

The 2014 budget was drafted amid political uncertainty and is once again cautious, with a deficit of 1.6% of GDP, 10% more revenue, 3% more grants and 4% higher spending. It is expected to be amended by the new government to reflect their priorities of economic and social recovery. The overall deficit may therefore be higher, at about 3.1% of GDP, but should improve in 2015 with increased foreign aid and domestic revenue as part of economic recovery.

Table 3. **Public finances (percentage of GDP)**

	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Total revenue and grants	**16.7**	**14.3**	**13.2**	**12.1**	**12.0**	**13.9**	**16.2**
Tax revenue	10.1	10.8	11.1	10.3	10.4	11.4	12.0
Grants	5.7	1.9	1.9	1.2	1.1	2.0	3.6
Total expenditure and net lending (a)	**20.7**	**15.1**	**14.9**	**13.3**	**15.0**	**17.0**	**17.6**
Current expenditure	10.9	10.1	10.7	10.6	12.3	14.0	14.3
Excluding interest	8.2	9.3	10.0	10.0	11.0	12.7	13.2
Wages and salaries	4.5	5.2	5.3	5.3	5.7	5.9	6.2
Interest	2.6	0.8	0.7	0.7	1.3	1.2	1.1
Capital expenditure	9.9	5.0	4.2	2.7	2.8	3.1	3.3
Primary balance	**-1.4**	**-0.1**	**-1**	**-0.6**	**-1.7**	**-1.9**	**-0.3**
Overall balance	**-4.1**	**-0.9**	**-1.7**	**-1.3**	**-3.0**	**-3.1**	**-1.5**

Note: a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

Madagascar does not belong to any monetary union. The main official job of the BCM is to keep the currency stable at home and abroad. The ariary is steady against major currencies due to the bank's intervention on the money market, especially through refinancing or mopping up liquidity. Its nominal value fell 3.5% against the euro and increased 0.8% against the dollar between December 2012 and December 2013. This relative stability, along with weak internal demand and fuel subsidies, enabled annualised inflation to be kept at 5.8% in 2012 and 6.9% in 2013, when the cost of staples, especially rice, increased after bad harvests. The government imported some 400 000 tonnes of rice in 2013 to keep prices down.

Interest rates are high even though the BCM's 9.5% intervention rate has been unchanged since August 2009. The minimum lending rates varied in 2013 between 13.8% and 24% (at end October), compared with 10.5% and 24% year-on-year in 2012. The effect of interest-rate fluctuations on volume of private investment is however hard to measure in an unhealthy business climate. The current lack of political clarity makes it difficult for the private sector to get loans, and private borrowing fell to 10.9% of GDP in August 2013 from 11.7% in 2012, according to the BCM. Microfinance activity is small, at only 5% of all bank transactions.

The BCM plans to continue its cautious monetary policy in 2014 to ensure funding for the economy without endangering price stability.

Economic co-operation, regional integration and trade

Madagascar belongs to several regional groupings, including the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC) and the Indian Ocean Commission (IOC), but has little trade with them. In 2012, SADC countries bought 5.3% of Madagascar's total exports, COMESA countries 3% and IOC countries 3.1%. Of its total imports, 12% came from SADC countries, 6.9% from COMESA countries and 5.5% from IOC countries. An interim economic partnership agreement with the European Union (EU) came into force in January 2013, but Madagascar does not have to abolish tariffs for EU imports until the first half of 2014.

The current-account deficit increased slightly in 2013, to 8.8% of GDP from 8.3% in 2012, mainly due to worsening trade and services balances, but higher mineral exports and transfers to public bodies should reduce the deficit in 2014 and 2015. Leading exports are minerals, cloves and oil products, while imports are mostly oil products and food items such as rice and other agricultural crops. The volume of trade depends on the exchange rate of the ariary, the level of internal demand, world raw-material prices, the political situation and the business climate. This will not change in 2014 and 2015.

As implementation of major mining projects ended, private investment only increased 4.2% (13.7% in 2012). Total consumption by volume grew a modest 3.1% from 2012, contributing 2.9 percentage points of GDP growth.

As large-scale mining projects were completed, foreign direct investment shrank from USD 831.4 million to USD 814.2 million between 2011 and 2012 and was estimated by the BCM at USD 611.1 million in 2013, most of it from Canada, the United Kingdom, Japan, South Korea and France. Its level over the next few years will largely depend on the political situation.

Table 4. **Current account (percentage of GDP)**

	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Trade balance	-11.4	-12.3	-9.5	-9.0	-9.6	-8.8	-7.0
Exports of goods (f.o.b.)	16.5	12.3	14.7	16.0	14.7	14.9	15.1
Imports of goods (f.o.b.)	27.9	24.5	24.2	25.0	24.3	23.7	22.1
Services	-1.7	-1.6	-1.6	-2.4	-1.8	-1.8	-3.1
Factor income	-1.6	-1.0	-1.7	-2.6	-2.9	-2.4	-2.6
Current transfers	4.8	5.6	5.9	5.7	5.6	5.5	5.0
Current account balance	**-9.9**	**-9.4**	**-6.8**	**-8.3**	**-8.8**	**-7.5**	**-7.7**

Source: Data from the Central Bank and domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

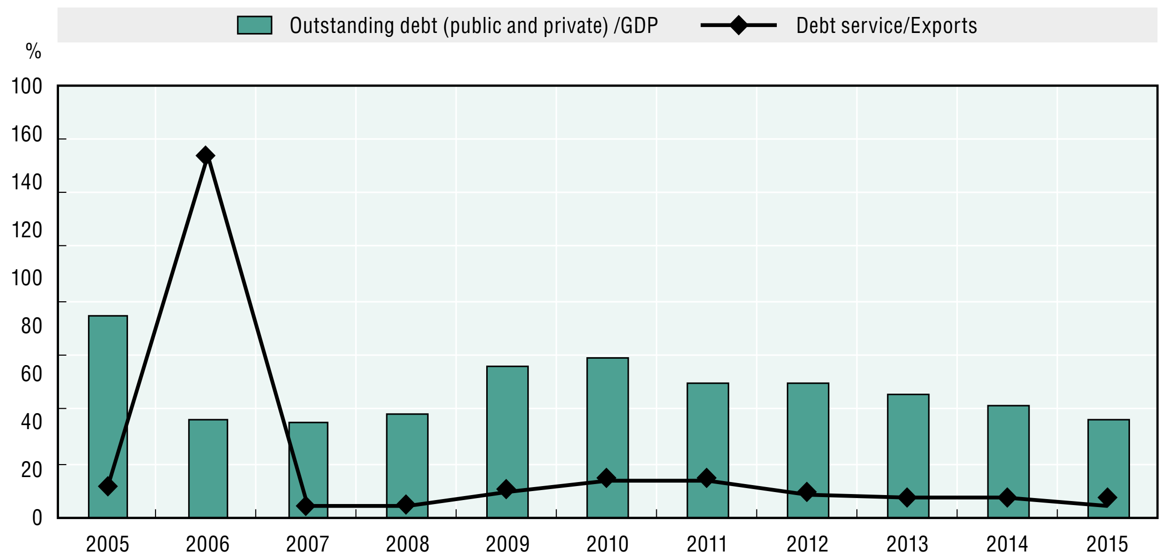
The public debt is basically sustainable in the short term. External debt is quite small and thus viable because the possibility of contracting such debts since the start of the political crisis has been minimal. It was 25.8% of GDP in 2012 and about 25% in 2013, according to the IMF, despite approval of new emergency loans from the African Development Bank (AfDB) and the World Bank. The external debt was 77.2% multilateral, 22% bilateral and 0.8% private in origin. The government was behind in some repayments, totalling MGA 633.4 billion at the end of June 2013, mainly to Libya, Algeria, Angola and Russia.

The government's domestic debt has been estimated at MGA 1 563 billion in 2013, up from 1 441 billion at the end of 2012. Given the tight situation, the government had accumulated MGA 77 billion in domestic debt arrears by October 2013. External debt service was predicted to be MGA 217.9 billion in 2014, 113% up on the estimated figure for 2013 due to repayment of arrears. Internal debt will cost an estimated MGA 219.2 billion, three times more than the estimated 2013 figure.

A 2013 World Bank survey of the country's debt management capacity revealed serious flaws in several areas, including judicial aspects, management strategy, analysis ability and human resources. The bank is to offer technical aid to remedy this.

The political crisis led to a big cut in government development aid, with disbursements in 2013 of only MGA 289.1 billion, little more than half (52%) of the aid granted in 2008. As the political situation normalises, aid should increase again, especially when foreign donors return in 2015.

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source: IMF (WEO & Article IV).

Economic and political governance

Private sector

The business climate is still difficult in Madagascar because of the drawn-out political crisis. The country continues to lose ground in the World Bank report *Doing Business 2014*, dropping another four places in the overall ranking for ease of doing business, to 148th out of 189 countries. The country did make progress in the measurement for ease of paying taxes – up 11 places thanks to the introduction of online declaration of value-added tax (VAT) and to having reduced company tax – and for ease of trading across borders, up 6 places thanks to the creation of a one-stop shop for exports and imports, MIDAC, which unified customs procedures and made them more secure.

Lack of other reforms, however, meant the country slipped back in most indicators, notably starting a business, dealing with construction permits, registering property and resolving insolvency. The poor business climate was reflected in a 40.4% drop in the number of new businesses, from 22 019 in 2012 to 13 118 in 2013, according to the national statistics institute. The World Economic Forum's *Global Competitiveness Report 2012/13* says major obstacles to improving the investment climate are political instability, difficult access to credit, corruption, lawlessness, lack of infrastructure, costly and unreliable energy supply and absence of an independent legal system. Private-sector organisations have drafted a plan for reviving the economy and some of their short-term proposals may be adopted by the new government.

Financial sector

The financial sector is small, with 11 banks, 6 finance establishments and 31 microfinance institutions. Only about 5% of the population use banks. The political crisis has damaged the quality of bank portfolios, making it difficult for banks to honour commitments. Bad loans were 14.4% of gross credit in 2012, according to the BCM, and by the end of June 2013 they amounted to MGA 354.9 billion, a 2.8% increase since the end of 2012. Even though the banks had an

MGA 118.9 billion end-2012 surplus over their required reserves, according to the BCM, they lent little to businesses, especially not medium- or long-term because of high political risks. Long-term loans were only 10.5% of all gross credit at the end of 2012, down MGA 39.5 billion from 2011. The political crisis has prevented any reform of financial regulations in recent years.

Microfinance is part of the 2013-17 national inclusive financial strategy. The national microfinance commission reported in September 2013 that gross loans had increased 26% since the beginning of the year and deposits by 19%. Bad loans were up 55.4%, reflecting the worsening quality of microfinance portfolios. The government intends to conduct a nationwide survey on financial inclusion to obtain more reliable data about the sector.

Insurance companies are doing well and a 2013 national statistics institute survey showed insurance was the only sector to have expanded during the year, despite the political crisis. Retirement funds are few and mainly only cover formal-sector employees, who are less than 10% of the workforce.

Public sector management, institutions and reform

Privatisation of state-owned firms has been suspended since the start of the political crisis, so the government still has shares in several of them, in energy, telecommunications, agro-industry and air transport.

The transitional authorities have continued some public-finance reforms scheduled before the crisis, mainly in the programme-aid budget, procurement, prioritised supervision of spending and strengthening taxation authorities. Public-finance management still has, however, serious flaws, such as budget credibility, transparency, raising domestic revenue, accounting methods and monitoring systems. The BCM's role in the 2013 PAGI support project for institutional governance should iron out some of the problems, especially those due to inadequate internal resources and monitoring systems.

As the political crisis fades, privatisation is expected to resume along with further public-finance reforms, all supported by the country's main economic partners.

Natural resource management and environment

Madagascar has more than 5% of the world's biodiversity, about 90% of it endemic. The country has ratified most international environmental conventions and adopted several policies and programmes to combat environmental damage. These include an environmental charter, a national environment policy, a national policy for climate-change, a national strategy for clean development and a national action plan for adapting to climate change called PANA. The government banned the export, movement and sale of exotic woods in 2010 as smuggling of rosewood increased. Nonetheless, environmental protection is hampered by weak institutional capacity.

Progress has been made towards the MDG of ensuring environmental sustainability, according to the 2012/13 national survey of MDG progress. The pace of deforestation has been reduced 75% in the past 20 years and new protected areas (11% of the country) have been created. All the same, wood (69%) and charcoal (26.2%) are the most popular choices for cooking fuel, which threatens environmental resources depending on ligneous species.

Only 27.7% of the population has access to water and only 7.1% to improved sanitation, which is still a serious problem. MDG targets are 68% and 54%, respectively. As many as 88.2% of urban dwellers live in slums and more than 57% dump their rubbish anywhere (65.5% in the countryside). Madagascar was excluded from the Extractive Industries Transparency Initiative (EITI) in 2011 because of the political situation, but the government has continued to apply the EITI programme. According to the EITI data-reconciliation report published in October 2013, the extractive industries only accounted for 0.53% of GDP and provided only 7.83% of all tax revenue in 2011, showing that revenue from exploitataion of natural resources is still small and does not at all reflect the country's potential in this domain.

Political context

The political situation is returning to normal after a transition period of nearly five years but is still fragile. Presidential and parliamentary elections were held in the last quarter of 2013 with help from the international community and regional organisations. Hery Rajaonarimampianina, backed by the party of the former head of the transitional government, was elected the first president of the fourth republic after a vote seen as free and fair by international observers. He promised at his inauguration on 25 January 2014 to open a political dialogue in a spirit of national reconciliation in order to create the conditions for lasting political calm. After he took office, Madagascar was allowed back into various bodies of the African Union from which it had been excluded in 2009.

Still, resumption of normal ties with the country's main development partners depends on installing the new parliament and appointing a new prime minister and government, which should be in place by the end of February 2014. International support for the new government is needed to implement the policy of open dialogue and national reconciliation required for economic and social recovery.

The political deterioration during the long crisis weakened state authority, led to pay claims by trade unions, increased lawlessness towards people and property, and led to human rights violations and widespread bad governance, helped by an already weak legal system and failure to punish criminals. The Mo Ibrahim 2013 index of governance in Africa ranked Madagascar 37th out of 52 countries, with a score of 45.7, lower than the continental average of 51.6.

After serious attacks on freedom of the press at the start of the political crisis, efforts have been made to improve the protection of journalists through UN governance promotion programmes and other TFPs. Madagascar moved up seven places (to 81st out of 180 countries) in the 2014 Reporters Without Borders world press freedom index.

Social context and human development

Building human resources

With a per capita GDP of USD 477 in 2012 and a low UN Development Programme (UNDP) Human Development Index score of 0.483, Madagascar will not achieve the MDGs by 2015. Progress has been made towards universal primary education, with the completion rate rising to 69% in 2012 from 47% in 2004, but the net enrolment rate has dropped sharply, from 96.8% in 2006 to 69.4% in 2012 (70.8% for girls and 68.1% for boys). One-third of primary-age children do not attend now, compared with only 3% in 2006, mainly due to an insufficient educational provision and parents' inability to pay. A family needs MGA 66 000 (about EUR 22) to pay for each child in school, according to the 2012/13 MDG survey.

Under-five child mortality was about the same between 2009 and 2012 but maternal mortality was still high at 478 per 100 000 live births in 2012, compared with the MDG target of 127. HIV/AIDS prevalence was only 0.5% at the end of 2012, but the situation was more alarming amongst homosexuals (14.7%), according to a 2010 biological and behavioural survey, the ESBC. Of under-fives, 47.3% were chronically malnourished, 18.1% severely. Tuberculosis affected 119 of every one hundred thousand inhabitants in 2012, below the projected maximum of 128. Deaths from malaria rose from 5.8 per 100 000 in 2011 to 6.5 in 2012. Prevention and treatment of HIV/AIDS, tuberculosis and malaria are underway, but government funding is not enough to reach targets.

Poverty reduction, social protection and labour

Madagascar's poverty is structurally high. The 2012/13 MDG national follow-up survey found more than 70% of the population living under the absolute-poverty line, estimated in 2012 at USD 245, with more than 75% in the countryside, 55% in provincial towns and 31% in the capital. In the poorest regions, almost everyone was affected, with 97% in Androy and 93% in Atsimo-Atsinanana. Poverty is highest amongst famers (between 79% and 86% of households, depending on the size of their plots), followed by the self-employed (43%).

Underemployment is very high, and inadequate jobs, which spread during the political crisis, affect more than 81% of the workforce, especially rural women. Some 56% of persons between 15 and 29 with jobs are not satisfied by their situation.

The 2013 draft budget targeted priority areas for poverty reduction – greater healthcare and education access, greater food security, farm-production support, greater protection for people and property, and better energy supply – but results fell short. With the drop in external funding, priority-sector budgets were smaller than in 2012, notably agriculture (4.1% of the total, down from 7.0%), healthcare (7.6%, down from 8.2%) and education (17.9%, down from 19.7%).

Various social safety-net programmes were implemented by government bodies and the TFPs – the World Bank, the European Union, the International Labour Organization, the UNDP and a number of municipalities – to soften the effects of the crisis on the poorest families by providing them with income and helping them to access basic social services. Educational kits, school meals and operational subsidies for some schools were provided, along with equity funds to cover healthcare for the very poor in rudimentary clinics, funding to reduce maternal and neonatal mortality (in place in only four regions) and mutualised health insurance (focused on the capital, Antananarivo).

Labour-intensive public works provide wages for some. The social-protection project of the national development fund FID inaugurated 412 micro-projects to benefit 59 795 people in 2012, but their scope and funding is not enough to protect most of the poorest and vulnerable.

Gender equality

Madagascar is making great efforts to achieve gender equality and is ranked in this area 9th out of 52 countries in the 2013 Mo Ibrahim index, with a score of 69.6 out of 100, well above the African average of 53.8. The 2012/13 MDG national follow-up survey showed that primary-school gender parity had been achieved, with a 1.05 ratio in favour of girls, but amongst older pupils it was less – 0.93 at junior secondary level and 0.86 at senior secondary level. Gender parity has not been reached for literacy amongst 15- to 24-year-olds.

Madagascar is amongst the top five African countries for women's economic rights, according to the Mo Ibrahim index. The MDG survey says fewer women than men work in the formal sector of the economy (a ratio of 0.69), but parity has been achieved (1.01) in the informal sector. Land acquisition is still subject to strict traditional laws that exclude women in some areas, notably in the south and southeast.

No law promotes positive discrimination in favour of women to speed up gender parity amongst decision makers. Under the transitional regime, women had only 14% of seats in parliament, only 6% were heads of local government and only 27% government ministers.

Violence against women is a national problem and the MDG survey said that in the 12 months before the survey, 3 out of 10 women said they had been subjected to at least one of either physical, sexual, psychological or economic violence and 8% had suffered two kinds. Efforts to remedy this have included raising awareness through the national platform to fight violence against women, support for psychological and social after-care and setting up regional centres to fight gender-based violence.

Thematic analysis: Global value chains and industrialisation in Africa

Madagascar's participation in global value chains (GVCs) is limited to exporting unprocessed goods to Western Europe and North America and selling to consumers mainly non-food products imported from France and China and food imported from SADC and COMESA member states. Sectors such as tourism, the textile-manufacturing free zone and ICT-related services are exceptions in that they are not limited to unprocessed products and also include transformation and processing activities.

Tourism has developed over the past 15 years and arrivals of tourists were about 375 000 in 2008. The political crisis and increasing lawlessness slowed tourism down and arrivals fell 52% between 2008 and 2013. The industry did generate more than 31 000 direct jobs in 2011.

The country's textile industry has greatly benefited from the free zone set up in 1989 and from the US African Growth Opportunity Act (AGOA) which the country signed up to in 2001. Textile exports grew strongly, from 14.9% of all exports in 1995 to 54% in 2008, before dropping after 2009, when the country was excluded from AGOA, to 27.5% in 2012. The sector, which accounted for 1.6% of jobs created in 2012, according to the MDG survey, was the hardest hit by the political crisis, losing about 20 000 jobs.

Despite the crisis, the ICT sector has expanded steadily over the past decade thanks to the opening-up of the sector and major infrastructural investment. The volume of business by mobile-telephony companies grew 13-fold between 2005 and 2009 and created direct and indirect jobs.

Madagascar could also boost its GVC participation through its natural resources of agriculture and minerals. Only a quarter of the country's 8 million hectares of arable land is cultivated. The island also has 5 000 km of coasts and more than 1 500 km^2 of natural lakes that could be used for fishing and fish-breeding. The country's rare and endemic medicinal and aromatic plants give it a potential competitive advantage too. Growing regional demand for agro-industrial products and the recent world food crisis are also potential sources for greater agricultural exports.

The firm Lecofruit is doing research on green beans and engaging in contract agriculture with small farmers to gather, process and ship produce to local and European markets, transforming the subsistence activity of 9 000 farmers into export production. Another firm, Guanomad, has set up a business over the past decade manufacturing bio-fertiliser made from bat droppings for local and foreign markets, an example of successful entry into the GVCs at the level of sustainable bio-agriculture.

The government has granted prospection and production licences since 2003 for major mineral deposits. Rio Tinto has invested some USD 760 million in the QMM (Qit Madagascar Minerals) group to build an ilmenite mine and a port to ship the mineral to Quebec – 870 000 tonnes in 2013, about 12% of world output. The firm Sherritt has invested about USD 4.5 billion in a nickel and cobalt mine at Ambatovy and a processing plant at Toamasina. The mine began operating at the end of 2012, with annual production of 5 600 tonnes of cobalt (10% of world output) and 60 000 tonnes of nickel (5% of world output). A dozen other firms are prospecting for oil.

Tourism is the services-sector activity most geared to exports, with foreign-exchange revenue that rose from 90.2 million special drawing rights (SDR) in 2001 to 229 million in 2013. Activity chains in Madagascar involve conception, production and marketing of tourism. Better transport and reception infrastructure will enable growth of luxury tourism.

ICT has great potential to draw the country further into GVCs, as shown by the firm Vivetic, which began as a specialist in data entry but whose marketing and relocation strategies led it to expand into cross-channel-customer marketing in French-speaking European countries, creating 1 000 jobs in Madagascar.

Several obstacles prevent the country from moving faster towards more value-added stages in the GVCs, notably its physical distance from developed-country markets, lack of transnational infrastructure and remoteness of agricultural areas, then the small size of local markets, difficult credit access and costly and unreliable energy, which discourages investment. Governance constraints are also significant, especially repeated political crises that force investors to include them as risks in their decision making, and the still major problem of corruption. Slow growth of human resources is another big snag, with tradition still weighing heavily on the economy and curbing creativity and innovation. Fewer than 3% of Madagascan workers completed secondary education according to figures for 2010.

GVCs have been implicitly taken into account in the country's development strategies. The first poverty reduction strategy paper (PRSP), for 2003-06, stressed the need to make the economy more competitive in order to reduce costs and improve quality. The Madagascar Action Plan (2007-12) which followed the PRSP aims for "a diversified and strong private sector" that can meet "the challenges of globalisation and gain a competitive advantage". Another aim in the agriculture, livestock and fisheries development plan being prepared is to "produce better to sell better, at home or abroad, and profit from known competitive advantages". Economic recovery plans after the end of the political crisis and the country's development programmes should include vigorous strategies to boost export items with strong added value.