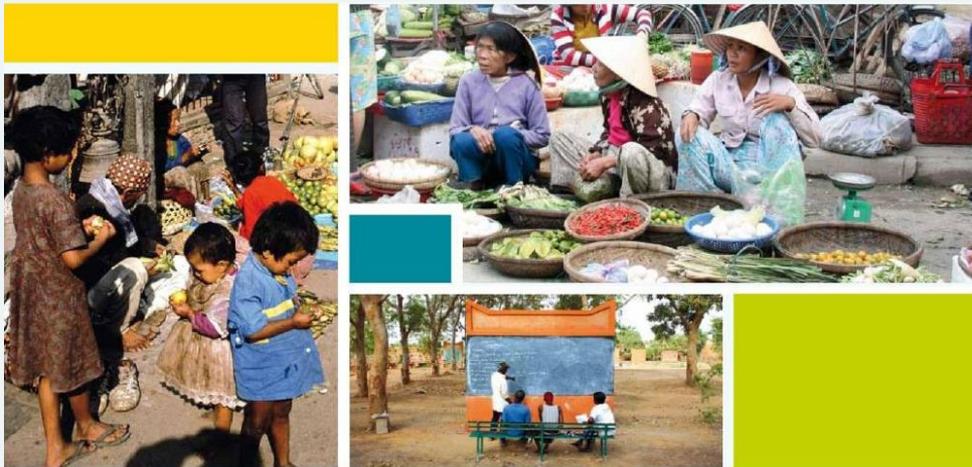


# nopoor final conference

6-7 June 2017, Brussels

## Attracting FDI to Export Processing Zone: A Potential Tool to Reverse Poverty Trend in Madagascar



Hery RAMIARISON  
Mamy RAVELOMANANA

University of Antananarivo



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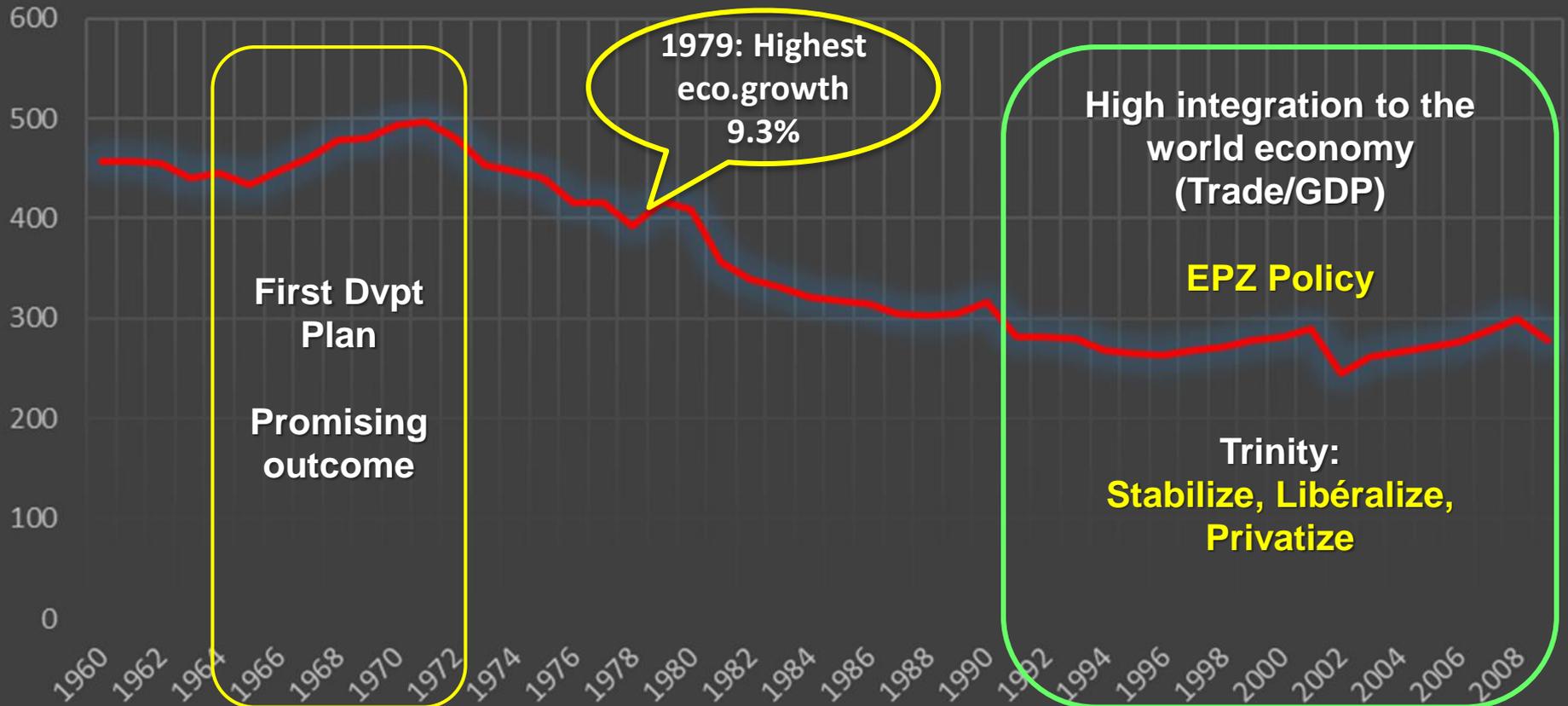


The Nopoor project is funded by the European Union under the 7th Research Framework Programme (Theme SSH.2011.1.) Grant Agreement No.: 290752

# Background and Research objective

## Economic and Social context of Madagascar

GNI per capita (constant 2005 US\$)



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# Background and Research objective

## Economic and Social context of Madagascar

- High rate of poverty: 92%
- LDC, Fragile state
- Poor business climate: 167th out of 190 countries (2016)
- Low HDI: 158th out of 188 countries (2016 report)
- Low level of education: 75% under primary level
- Driver of growth: resource sector
- Failure to sustain productivity growth in non-resource sector



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# Background and Research objective

## International opportunities:

- ❑ Declining competitiveness of Chinese intensive labor industry (wage US\$600/month, Currency appreciation). Need of relocating 80 millions of job
- ❑ EPA, AGOA

## Madagascar's EPZ: a free market policy swift to attract FDI

- ❑ EPZ laws (1989, 1991, 2007): mainly fiscal incentives in order to promote FDI (SAP policy package)
- ❑ Not geographically delimited, 175 firms with 63% in garment,
- ❑ Predominantly foreign firms



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# Background and Research objective

## Research Objective:

❑ Investigating the possibility of addressing the challenge of productivity growth in non-resource sector.

**== > Does Madagascar's garment industry in EPZ have a potential to reduce poverty and to spur high growth?**



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# Key findings

## □ Growth enhancing effects:

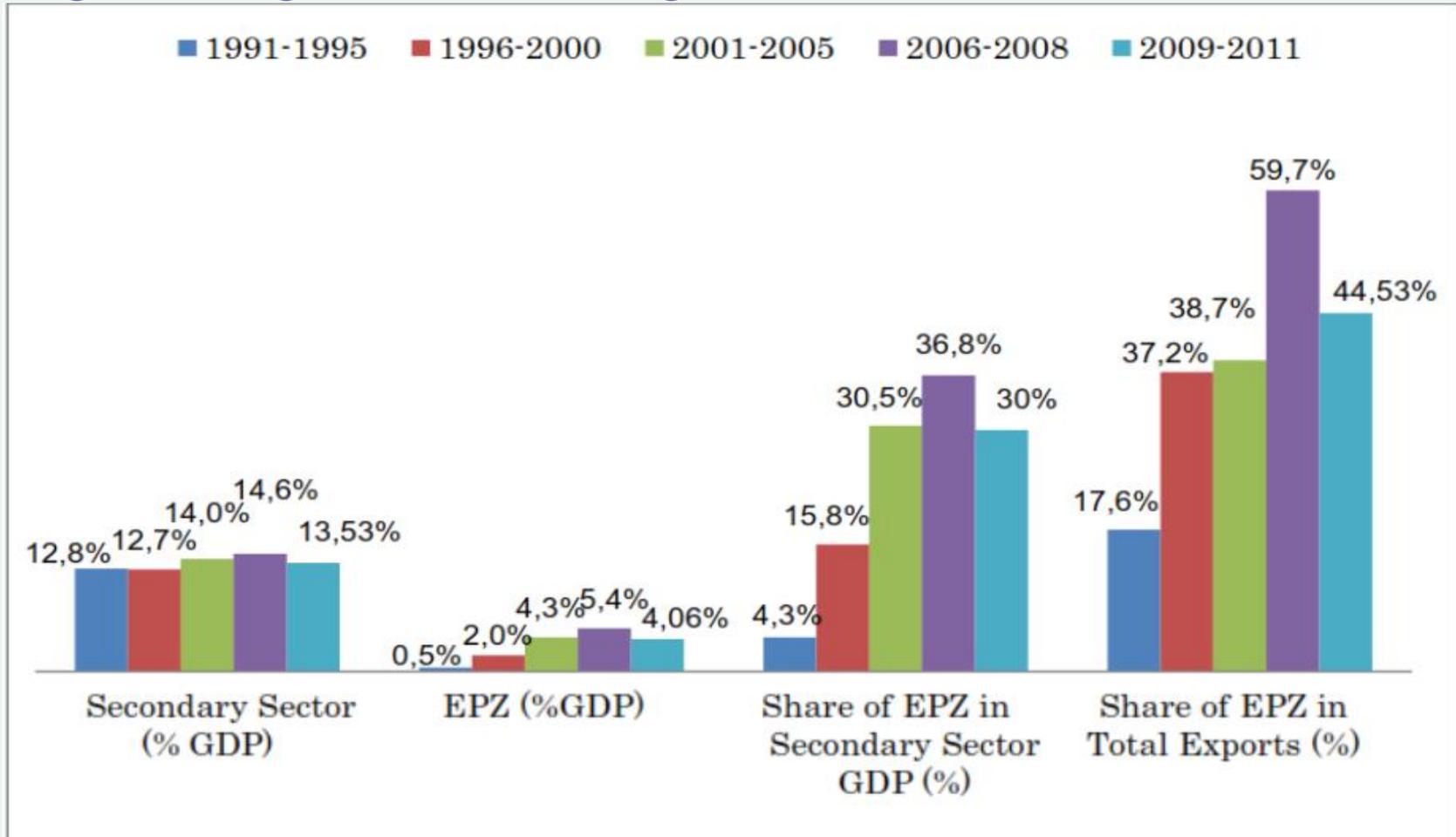
- Value added: more than 20% annual growth per year in the 2000s
- Exports: two digits growth rate, more than half of the country's export earnings in the 2000s, competitive.
- Productivity: 1.7 times higher than non-EPZ sector
- Effectiveness of knowledge transfer: same level of performance for both foreign and local firms in EPZ

**Madagascar possesses both comparative and competitive advantages in garment industry. It has a great potential to undertake export-led growth strategy through specialization in garment manufacturing**



# Key findings

## □ Significant growth enhancing effects:



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# Key findings

## □ Employment and wage effects:

- Important job creation: 107,530 before the political crisis or 20% of total formal jobs, mostly female, 80% are low skilled.
- Low entry barrier for poor without experience and less educated
- Relatively high wage (US\$ 63.4 in 2012) with an average growth rate (11.4%), higher than the inflation rate (7% to 8%).

**Garment industry has high potential in job creation for inexperienced and less educated poor**



# Key Challenges

- ❑ Limited scope of growth enhancing effects:
  - Low local linkages
  - Low share of secondary sector to GDP
  - Low domestic investment
  - Poor governance

**Growth enhancing effects are not yet fully exploited because poor business climate impeded local businessmen to take full advantage of FDI's spillover effects. Lack of effective industrial policy is also another reason**



# Key Challenges

- ❑ Job security, Decent work, labor law enforcement
- Overtime work: important but less paid
- Temporary contract, 15 days paid holiday/year
- Short average length of stay, very few can attain retirement age
- High poverty rate for the households of EPZ workers: 98.3%
- High proportion of expenses accounted to foodstuff (56.1%)
- Low resilience capacity: poverty rate increased from 95.3% in 2008 to 98.3% in 2012, extremely poor doubled

**Employment is precarious and less secure while wage effects are not significant, thereby indicating poor working conditions. A large proportion of households are poor**

# Policy implications

## ❑ Immediate need of proactive government strategy to promote garment industry:

➔ Adequate incentive system (Macro and Micro level) that has to effectively address business climate and market failures in order to encourage foreign as well as domestic investment in this industry

## ❑ Immediate need to deal with lack of financial resources

➔ Current donors' aid strategy, which has been increasingly motivated by basic human needs, gives less growth opportunity to industrial sector.

➔ Need to **rethink aid strategy to favor economic infrastructure and production sectors.**



# Policy implications

- ❑ Immediate need to create and build capacity in law enforcement, in fighting corruption and in setting up an effective judicial system

