



AMERICAN CHAMBER OF COMMERCE

HOW TO MAXIMIZE THE COMPLEMENTARITY BETWEEN AGOA AND REGIONAL TRADE AGREEMENTS

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ACRONYMS

AGOA: African Growth and Opportunity Act
AMCHAM: American Chamber of Commerce
APEX: Agence pour la Promotion de l'Exportation
ASH: Autorité Sanitaire et Halieutique
BFV: Banky Fampandrosoana ny Varotra
COMESA: Common Market Of Eastern and Southern Africa
DTF: Distance to Frontier
FDI: Foreign Direct Investment
FTA: Free Trade Agreement
GDP: Gross Domestic Product
GOM: Government of Madagascar
GSP :Generalized System of Preference
ITC: International Trade Center
JIRAMA: Jiro sy Rano Malagasy
MDG: Madagascar
MIDAC: Ministères, Départements et Agences de Contrôle
NIF: Numéro d'identification fiscal
NTFC: National Trade Facilitation Committee
OECD : Organisation for Economic Co-operation and Development
OSS: One-Stop-Shop
SADC: Southern African Development Community
SME: Small and Medium Enterprise
SSA: Sub-Saharan Africa
USAID: United States Agency for International Development
USITC: United States International Trade Commission

EXECUTIVE SUMMARY

Madagascar was listed among the country beneficiaries of African Growth and Opportunity Act (AGOA) since 2000, but was removed from AGOA eligibility in 2010, following a 2009 coup d'état. After the presidential election of December 2013 the US Government considers that Madagascar has satisfied the AGOA requirements and designated Madagascar as “beneficiary sub-Saharan Africa country” again starting from december 2014. Madagascar qualifies therefore for the benefits provided under AGOA.

During the past two years following the resumption of AGOA, Madagascar's exports under AGOA have continually increased, They have doubled between 2015 and 2016 and increased by nearly 60% between 2016 and 2017.

Madagascar exports to the US can rise further in the coming years as revealed by the export potential map. The current report tries to identify how to exploit the complementarity between regional trade agreements and AGOA advantages in order to maximize AGOA exports. As such two options are identified :

- First exporting raw materials from Madagascar to SADC and COMESA for processing and then exporting processed goods to the US
- Second attracting FDI in Madagascar from our partners in SADC and COMEAS and then exporting processed goods meeting the standards required by the US market.

Yet there are many factors hindering regional trade despite regional integration agreements. As far as Madagascar is concerned they range from infrastructure, administrative procedures and business environment.

High transactions costs are being incurred from inadequate transport as well as poor quality and costly logistics. According to the Doing business indicators 2017 the costs of exporting and importing faced by Malagasy firms are respectively four times and five times higher compared to other OECD countries.

Deficient telecommunications services constitute also an impediment to increased trade in Madagascar. Trade facilitation indicators published by OECD reveals that Madagascar is lagging behind in terms of electronic processing of export and import procedures as well as electronic payment.

Numerous formal and informal non-tariff barriers constrain intra-regional trade, including burdensome administrative and custom procedures. These are reflected by the Enabling trade index of Madagascar which ranks the country 109 out of 136. According to the Enabling

Trade Report, availability and quality of transport infrastructure and availability and use of ITC are the most important problems faced by Madagascar with regards to increasing foreign trade. Still Madagascar is not performing well concerning efficiency and transparency of border administration and operating environment.

The solutions proposed regarding those problems are :

- Increasing investment in transport infrastructure
- Investing in reliable and efficient Telecommunication and ICT :
- Improving transparency about administrative procedures at the borders.
- Updating existing laws and regulations to make trade easier
- Simplifying customs procedures and harmonizing the required information :
- Cultivating a high level of professionalism and integrity at the custom administration :
- Strengthening collaboration between government agencies at the borders

With regards to attracting investment, the most important obstacles are access to finance, irregular availability of energy resources, lack of skilled workers and economic governance.

Access to credit is expensive and limited in Madagascar, especially for small and medium enterprises, and capital markets are underdeveloped and hampered by relatively high interest rates.

Madagascar's power infrastructure cannot provide the needs of the operators. Power shortages and regular interruptions to services are the norm. Energy access and security are further compounded by the irregular availability of energy resources.

Availability of skilled labor of any type is limited in Madagascar. There is a gap between the business sector needs and education so that the labor supply is insufficient to meet the demand of skilled workers from enterprises.

In terms of economic governance, Madagascar is characterized by political instability, crime and insecurity, lack of trust in political institution and widespread corruption. These factors lead to the deteriorating of the business environment.

The recommendations proposed for attracting investment are :

- Developing the financial market
- Increasing electricity supply and improving reliability of electricity
- Capacity building and training for unskilled workers
- Fight Corruption at each level of the supply chains

- Strengthen security
- Ensure Political stability
- Ensure effective implementation and enforcement of policies.

BACKGROUND

The African Growth and Opportunity Act (AGOA) is a United States Trade Act, enacted on 18 May 2000 as Public Law 106 of the 200th Congress. It consists in a trade program meant to establish stronger commercial ties between the United States and sub-Saharan Africa countries. The act establishes a preferential trade agreement between the U.S. and selected countries in the sub-Saharan region, based on a set of conditions contained in the AGOA legislation : rule of law, human rights, and respect for core labor standards. Duty-free access to the U.S. market under the combined AGOA/GSP program stands at approximately 6,500 product tariff lines.

The Act originally covered the 8-year period from October 2000 to September 2008, but legislative amendments in July 2004 served to extend AGOA to 2015. After completing its initial 15 years period of validity, the AGOA legislation was extended on 29 June 2015 by a further 10 years, to 2025.

Madagascar was among the country beneficiaries of African Growth and Opportunity Act (AGOA) since 2000, but was removed from AGOA eligibility in 2010, following a 2009 coup d'état. After the presidential election of December 2013 the US Government considers that Madagascar has satisfied the AGOA requirements and designated Madagascar as ‘‘beneficiary sub-Saharan Africa country’ again starting from december 2014. Madagascar qualifies therefore for the benefits provided under AGOA.

During the past two years following the resumption of AGOA, Madagascar’s exports under AGOA have continually increased, They have doubled between 2015 and 2016 and increased by nearly 60% between 2016 and 2017. Madagascar exports to the US can rise further in the coming years as revealed by the export potential map in a previous study¹ carried out by the American Chamber of Commerce in Madagascar.

For that purpose, The *USAID East Africa Trade and Investment hub* is working with the American Chamber of Commerce (AmCham) in Madagascar to support an increase in exports to the U.S. under AGOA. As part of the ongoing project the AGOA Resources Center in Madagascar plans to reinforce the country strategy to benefit from the African Growth and Opportunity Act and thus to conduct a ‘Strategy and Workshop session on intra-regional trade and AGOA exports’.

¹ « MADAGASCAR INTRA-REGIONAL TRADE AND AGOA EXPORTS: CHALLENGES AND PROPOSED STRATEGIES »

A first workshop was held in December 2017 and a first document entitled « MADAGASCAR INTRA-REGIONAL TRADE AND AGOA EXPORTS: CHALLENGES AND PROPOSED STRATEGIES » was published subsequently. This first study presents the exports performance of Madagascar to the US and to the main regional groupings SADC and COMESA. Moreover the study assesses the export potentials of Madagascar to the US which consist in the following sectors : textile, fishing, essential oils, handicraft and species. In order to maximize the exports of these sectors, all impediments to trade were assessed and recommendations were proposed in order to improve the competitiveness in general and to solve specific sectors' challenges.

A second workshop was held in June 2017 in order to prolonge the outcome of the first study. The objective of this second study is to exploit the complementarities between regional trade agreements and AGOA advantages in order to maximize AGOA exports. Indeed given that Madagascar is a developing country its exports used to be limited to raw materials. The share of the industrial sector in the GDP is less than 20% suggesting that Madagascar's industry has less possibility to export processed products demanded by the US market. As such two options are identified :

- First exporting raw materials from Madagascar to SADC and COMESA for processing and then exporting processed goods to the US
- Second attracting FDI in Madagascar from our partners in SADC and COMEAS and then exporting processed goods meeting the standards required by the US market.

The objective of this study is to identify impediments to exports to the regional markets and to identify obstacles to attract FDI in Madagascar. Recommendations are proposed to overcome these impediments and obstacles.

Accordingly, this document is organized as follows. The first part outlines the impediments to regional trade which are: infrastructure, administrative procedures and business environment. It concludes briefly on the proposed recommendations. The second part presents the obstacles to investment and the recommendations to remove these obstacles. A matrix of recommendations driven from the workshop is presented at the end of the document.

I. FOSTER REGIONAL TRADE TO BENEFIT FROM AGOA

Madagascar's exports to the US continue to increase during the past five years, boosted by the renewal of AGOA after its suspension during the political crisis. For the whole year of 2017, total exports amounted to USD 742 Millions. For the first quarter of 2018, total export amounted to USD 285 Million compared to USD 191 Million for the same period in 2017, hence increasing by 49 percent. During the same period, AGOA exports have increased by 18.7 percent.

Table 1 : Madagascar exports to the US

Import program	2017	2017 YTD (Jan-Mar)	2018 YTD (Jan-Mar)	Percentage change
No program claimed	589.474	154.839	243.395	57.2%
AGOA (excluding GSP)	148.028	34.568	41.048	18.7%
GSP	4.888	1.723	848.000	-50.7%
TOTAL	742.391	191.129	285.293	49.3%

Thousand USD

Source : USITC

Madagascar's products with high export potential to the US are mainly vanilla, fish products and textile and apparel products². Yet Madagascar can benefit from regional trade to increase its exports to the US by exporting raw material to its partner within SADC and COMESA for processing and exporting finished products to the US under AGOA. Indeed meeting the standards required by US clients are one of the obstacles reported by exporters. More industrialized countries such as Kenya and South Africa can be Madagascar's partner in processing raw materials prior exporting to the US.

Nevertheless studies show that regional trade agreements between African countries have failed to boost regional trade so far despite reduced custom duties and tariffs. Indeed, tariffs alone are not the main obstacles to intra-regional trade in Africa. Other factors are hindering trade. As far as Madagascar is concerned they range from infrastructure, administrative procedures, fees and charges and business environment.

² AMCHAM Madagascar (2017)

Impediments to intra-regional trade

Infrastructure

Constraints such as poor infrastructure, or its complete absence, make trade physically difficult, if not impossible. The most important one is transport infrastructure.

Transport infrastructure

High transactions costs are being incurred from inadequate transport as well as insufficient quality and costly logistics. They serve to raise logistics costs and result which impacts on the competitiveness of exports. Along with other sub-saharian countries Madagascar is characterized by insufficient transportation infrastructure that pushes up trading costs. Studies reveal that transportation costs in Sub-Saharan Africa range from 15 to 20 % of trade costs, a figure 3-4 times that of developed countries.³ On average, transport costs in SSA add 18.7 % to the unit cost of goods.⁴

According to the Doing business indicators 2017 the costs of exporting and importing faced by Malagasy firms are respectively four times and five times higher compared to other OECD countries, however better than in Sub-Saharan countries.

Table 2 : Cost to export and import for selected regions

Economy	Cost to export: (USD)	Cost to import: (USD)
OECD high income	35.4	111.6
Sub-Saharan Africa	215.1	686.8
Madagascar	117.0	595.0

Source : World Bank – Doing Business 2017

Telecommunication and ICT

Deficient telecommunications services constitute also an impediment to increased trade in Madagascar. As a result, electronic payment and other process aimed at streamlining export procedures are difficult. Trade facilitation indicators published by OECD reveals that Madagascar is lagging behind for the following indicators of Trade facilitation :

³ I4 Teravaninthorn S and G Raballand (2009)

⁴ Morrissey, O. (2009)

Table 3 : Trade Facilitation Indicators for selected countries

	Madagascar	South Africa	USA
Electronic import declaration	0	1	1
Electronic export declaration	0	1	2
Procedures electronic processing	0	2	2
Processing electronic payment	0	2	2

Source : OECD

The Trade Facilitation Indicators take values from 0 to 2, where 2 represents the best performance that can be achieved.

Trade barriers :

Numerous formal and informal non-tariff barriers constrain intra-regional trade, including onerous customs procedures, delays at ports. A regional study for SSA countries reveals that trade is also hindered by the time taken to trade⁵ and uncertainty regarding the timing of trade due to the unreliability of logistics services. Each additional day that a product is delayed before being shipped reduces trade by more than one percent.

Lengthy administrative procedures:

As far as Madagascar is concerned, the most important trade barriers face by operators are the numerous papers required as well as the obligation of several inspections and control necessary before shipment. This causes lengthy procedures, which combined with insufficient opening times may increase the time spent at port. In addition to over-reliance on certifications, exports in Madagascar are subject to payment of fees and charges at the level of Government agencies. These factors create unnecessary barriers to trade.

Table below summarizes different certificate needed and payment requested for exporting the most important products in Madagascar.

⁵S Djankov, C Freund C. Pham (2010)
Freund, C and N. Rocha (2010)

Table 4 : Certificate and payment required for selected export products

Product	Certificate required for exports	Amount of fees paid	Observation
Plants, products of plant origin, food of plant origin	Phytosanitary certificate	0 Ar	
	Certificate of consumability	Ar 12.000 – Ar 112.000	- Mandatory for processed product - if required by the importer for non-processed product
	Control certificate, packaging and origin	0.5 %	Suspended since 2015 until a new order is issued except from clove, vanilla and coffee
Vanilla	Control certificate, packaging and origin	0.5 % of FOB price	
	phytosanitary certificate	0 Ar	
	Certificate of consumability	Ar 12.000 – Ar 112.000	Only if required by the importer
Clove	Phytosanitary certificate	0 Ar	
	Certificate of consumability	Ar 12.000 – Ar 112.000	- Mandatory for processed product - if required by the importer for non-processed product
	Certificate of Quality	0.5 %	
Meat	Sanitary certificate (Ministry in charge of livestock)	2 % CAF	
Essential Oil	Export Authorization (Ministry of Forest and Environment)	1.5 % of FOB price	
	Certificate of Quality	0.5 % of FOB price	Only for essential oil of clove

Fisheries and Halieutic Product	Sanitary certificate	0 Ar
Mining products	Certificate of conformity	0.2 % of declared value If value >Ar 50 Millions
		Ar 100.000 If value <Ar 50 Millions

Source : Author's investigation.

Customs procedures

Customs port procedures are reported to be major obstacles to trade in Madagascar and other african countries compared to OECD countries.⁶. Table 6 below shows the World Bank Doing business indicators related to export and import as of June 2017. *Doing Business* records the time with the logistical process of exporting and importing goods. It measures the time associated with three sets of procedures—documentary compliance, border compliance and domestic transport—within the overall process of exporting or importing a shipment of goods.

Table 5 : Doing business indicators related to export and import

	Trading Across Borders DTF	Trading Across Borders rank	Time to export: Border compliance (hours)	Time to export: Documentary compliance (hours)	Time to import: Border compliance (hours)	Time to import: documentary compliance (hours)
OECD	93.92	25	12.7	2.4	8.7	3.5
SSA	52.50	137	100.1	87.8	136.4	103.0
Madagascar	60.95	134	70.0	49.0	99.0	58.0

Source : World Bank Doing Business 2017

⁶ Freund, C and N. Rocha (2010)

Business environment:

Business environment matters for trade as Madagascar's administrative and regulatory environment is essential to facilitate the moving of goods across border. Two major constraints are mentioned by the business sector: lack of transparency and lack of coordination among Government agencies.

Lack of transparency

The laws and regulation concerning international trade are opaque in the sense that there are many decrees, arrêtés, notes issued by the different ministries. Operators consider that the diffusion of these regulation is insufficient. Sometimes they are subject to unpredictable change. Some current rules and regulations governing exports need also to be updated since a number of them don't match with the evolution of the business environment. On the other hand, there is not enough time for publication before a new regulation enters into force. For example the budget law is adopted in December and enters into force on January.

Lack of coordination among government agencies

Lack of coordination across government ministries and regulatory authorities also causes significant delays. Most of the time there is a lack of harmonization between the different ministries. Despite progress at the level of the customs administration, release and shipment of goods are delayed because the other ministries don't follow.

For example, the sanitary requirements for fishing products are available on paper version at the office of the Sanitary authority of Fishing product (ASH) and also on the website of the Ministry. However there is no regular update so that sometimes the information is not conform with the reality. The Sanitary authority of Fishing product and the Ministry of Fishing don't have the same information sometimes because of lack of communication between the two entities.

Another example concerns the parataxes. They vary from one port to another. Thus, it's difficult to predict the cost. There are different ways for collecting these fees at the ports.

The table below shows the difference of communal taxes paid at the different ports.

Table 6 : Communal taxes

Port	Container 20'	Container 40'
Tamatave	20.000 Ar	30.000 Ar
NosyBe	25.000 Ar	50.000 Ar
Majunga	Not liable if the importer has a NIF	Not liable if the importer has a NIF
Tuléar	25.000 Ar	40.000 Ar
Fort-Dauphin	10.000 Ar	15.000 Ar

To summarize the context in which operators are evolving in Madagascar with regards to foreign trade, the Enabling Trade Index (ETI) is presented in the table below. The ETI measures the factors, policies and services that facilitate the trade in goods across borders and to destination and confirms the existence of barriers to trade mentioned above.

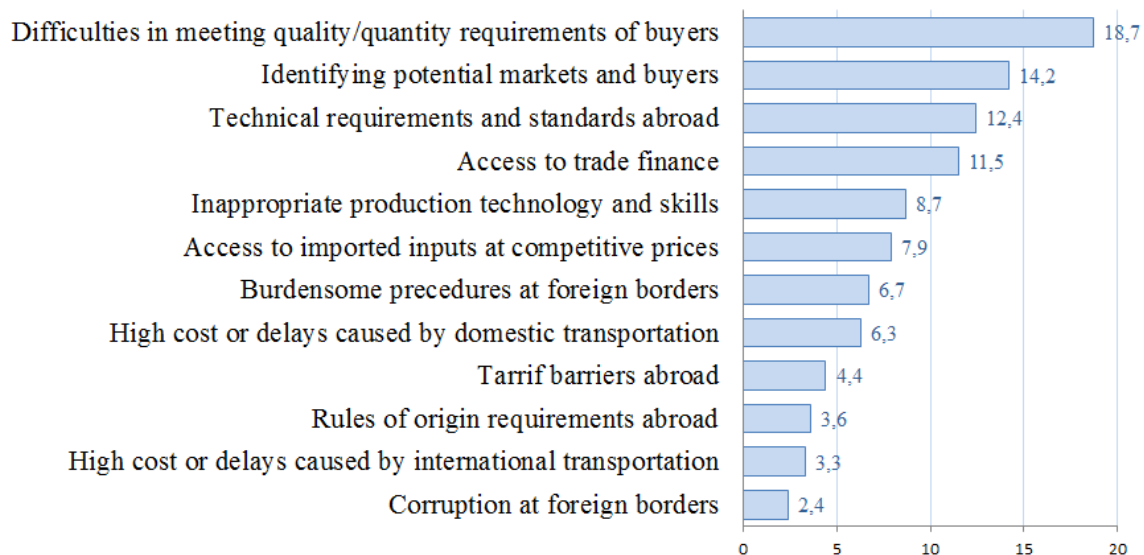
Table 7 : Enabling Trade Index for Madagascar

Indicator	Score (1-7)	Ranking (out of 136)
Enabling trade index	3.8	109
Efficiency and transparency of border administration	3.8	113
Availability and quality of transport services	2.87	131
Availability and use of ICTS	2.07	132
Operating environment	3.81	112

Source : World Economic Forum, Enabling Trade Report 2016

A survey conducted for the Enabling Trade report revealed also the following factors as problematic for exporting :

Figure 1: Most problematic factors for exporting



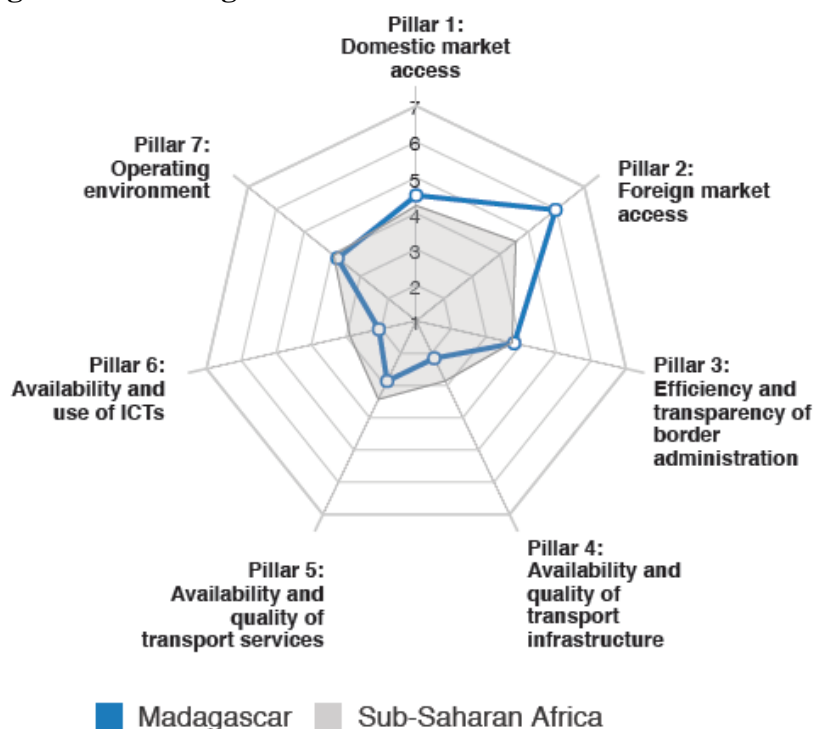
Source : World Economic Forum, Executive opinion survey

Recommendations

The first part of the study assesses the factors hindering regional trade. Madagascar has potential in terms of export however as revealed by the enabling trade report, the country faces mainly the following problems:

- Availability and quality of transport infrastructure
- Availability and use of ITC
- Efficiency and transparency of border administration
- Operating environment.

Figure 2: Enabling Trade Index chart



Source :Enabling Trade report 2016

To benefit from the opportunities offered by AGOA and regional trade agreements, the country will gain in addressing those problems. Following are the recommendations:

▪ Increasing investment in transport infrastructure

Transportation infrastructure is critical for the competitiveness and success of export. The Government should prioritize road network from the main economic activity

zones to the main ports of the country. The Government budget for road construction and maintenance should therefore be increased. But the private sector has also an important role to play through a Public-Private Partnership by contributing to the development of transport infrastructure.

- **Investing in reliable and efficient Telecommunication and ICT**

Information and communication technologies (ICTs) and services are vital for the streamlining of export procedures. Although private sector has invested in ICT to boost their businesses, government agencies dealing with certification and inspection for exports should be efficiently equipped by Telecommunication and ICT. Adequate equipment and efficient telecommunication services in all border administration and all agencies dealing with exports and imports procedure are necessary to enhance the facilitation of trade. Not only transaction costs will be reduced but shipment will be accelerated, thus reducing the additional costs related to the delay at the borders. This is the responsibility of the ministry in charge of telecommunication but also the commitment of each agency at the borders or issuing certificate. The country should also move forward regarding the automation of export procedures.

- **Improving transparency about administrative procedures at the borders**

Every laws and regulations need to be published both on printed copy and on an information portal. Not only transparency helps operators to anticipate the procedures but it is also a mean to combat corruption. Information is a key in trade facilitation and all agencies should publish largely the regulations, fees and charges, procedures and certificates required on printed copy, on a notice board and also on an information portal. A trade portal at the Ministry of trade is important as it constitutes an avenue for information. For that purpose the existing One Stop Shop export can be strengthened and expanded at the main ports.

- **Updating existing laws and regulations to make trade easier**

As the current laws and regulations are burdensome and sometimes constitute bottlenecks for shipment, they can be simplified for more efficiency. Each Government agencies may have a meeting to draft new regulations that facilitate trade without threatening the safety of goods and persons. Regulations that are out of

context can be removed and replaced by new ones which are more consistent with the current international business environment.

- **Simplifying customs procedures and harmonizing the required information:**

Expanding the use of the custom administration single window (MIDAC) can help the operators to accelerate the custom clearance procedures and therefore avoid wasting time. The GOM has begun the process of automating custom procedures through the use of the MIDAC system. However this system doesn't include all Government agencies and concerns mostly import procedures. MIDAC has helped to facilitate custom clearance procedures so far but needs to be expanded to all agencies. For that purpose, the commitment of the different agencies is necessary but also the Government needs to be involved in the process by ensuring funding, equipment, and training.

- **Cultivating a high level of professionalism and integrity at the custom administration and border agencies**

To unlock the problem at the borders, the border agencies need to have a high level of professionalism. Therefore capacity building is required and integrity is necessary. Indeed corruption constitutes a major problem as reported by the private sector. A proposed solution is to strengthen the role of BIANCO in enforcing the corruption law and the national strategy to fight corruption. The electronic processing of custom procedures can also be extended.

- **Strengthening collaboration between government agencies at the borders**

Some products necessitate the control and inspection of several Government agencies at the border before shipment. Exporters sometimes waste time by waiting for the different officers who carry out the inspections. To reduce the delay, it's important to have a formal agreement in the case of product inspected by different agencies. They can sit together and decide on how to work and coordinate the inspections. The Government can also put in place a One Stop Show at the borders.

II. HOW TO ATTRACT INVESTORS TO BENEFIT FROM MADAGASCAR'S ADVANTAGE UNDER AGOA AND THE REGIONAL MARKET

The second option to benefit from AGOA is attracting FDI in Madagascar from our partners in SADC and COMESA and then exporting processed goods meeting the standards required by the US market. However some obstacles to investment need to be removed for that purpose.

Obstacles to investment

Finance : tight financial market, high cost of credit

Access to finance is one important factor for investing. To grow their businesses, firms need to acquire productive inputs, purchase quality capital equipment and invest in human capital. For that purpose, they must be able to access finance in a timely and cost-effective manner. Finance must be made available in the form of grants and/or loans that are offered to entrepreneurs at non-predatory interest rates. Yet regarding the indicator of « access to finance » in the enabling trade report 2016, Madagascar is ranked 116/136 with a score of 3.2 (7 is the best performance).

Access to credit is expensive and limited in Madagascar, especially for small and medium enterprises, and capital markets are underdeveloped and hampered by relatively high interest rates. The financial sector comprises 11 banks, seven financial establishments and 25 micro-finance institutions. Only two banks (Bank of Africa and BFV-Société Générale) are fairly well established outside the capital. Madagascar's financial sector is dominated by banks, the assets of which amount to 25 percent of GDP. Commercial banks hold 84 percent of total system assets, but only offer basic savings and credit products to a select clientele. Most of the commercial banks are now foreign-owned, and the subsidiaries of three large internationally active French banks have a combined market share of around 65 percent of assets.

Table 8 : Banking system in Madagascar

Territorial Banks	11
Extra-Territorial Banks	00
Financial Establishment	04
Microfinance Institutions	25
Specialized Financial Institutions	00

Source: Central Bank of Madagascar

Malagasy entrepreneurs claim that the relationship between entrepreneurs and commercial banking institutions in Madagascar is “difficult”. To access a bank loan, firms must be willing to accept an interest rate set by all of the country’s major banks at around 18 % which is very high and constitutes a major disincentive to invest. As a result, they have to do mobilize “internal funds” (namely the firm’s savings). High interest rates and demanding collateral requirements prevent firms to acquire loans. Malagasy banks hardly lend to small firms and that even when firms are able to access finance, this tends to come in the form of short-term loans rather than the types of long-term, with a maximum maturity of seven years making the funding of large infrastructure projects a challenge

Table 9 : Interest rate of the banking system

	December 2017			April 2018		
	AWR	MIN	MAX	AWR	MIN	MAX
BANK LENDING RATE	15,16	0,00	60,00	14,80	0,00	59,88
Short Term Credit	17,07	4,00	60,00	16,70	0,00	60,00
Medium Term Credits	14,09	1,08	45,00	13,82	1,08	45,00
Equipement Credit						
Of which :						
- credits to enterprises	10,59	1,08	21,00	9,80	1,08	21,00
- credits to households	15,55	6,00	45,00	15,48	6,00	45,00
Long Terme Credits	11,97	0,00	21,60	11,82	1,25	21,60
Equipement Credit						
Of which :						
- credits to enterprises	12,90	0,00	19,90	12,79	7,00	19,90
- credits to households	10,16	2,50	19,65	9,70	2,50	19,65

Source :Central Bank of Madagascar

Supply of electricity

Along with African countries Madagascar's power infrastructure delivers only a fraction of the service found elsewhere in the developing world. Power shortages and regular interruptions to services are frequent. Energy access and security are further compounded by the irregular availability of energy resources. In general Africa's firms report losing 5 % of their sales as a result of frequent power outages. This rises to 20 % for informal sector firms unable to afford backup generation facilities.⁷

Data from the Doing Business 2017 confirms that it's difficult to have access to electricity supply in Madagascar and supply of electricity is not reliable. This constitutes a problem for production mainly in the industrial sector.

Table 10 : Doing Business Indicators related to electricity supply

Economy	Getting Electricity DTF	Getting Electricity rank	Procedures (number)	Time (days)	Reliability of supply and transparency of tariff index (0-8)
OECD high income	84.44	40.0	4.7	79.1	7.4
Sub-Saharan Africa	45.91	148.0	5.3	115.3	0.9
Madagascar	21.07	184.0	6.0	450.0	0.0

Source : Doing Business 2017

Note : The reliability of supply and transparency of tariffs index encompasses quantitative data on the duration and frequency of power outages as well as qualitative information on the mechanisms put in place by the utility for reporting power outages and restoring power supply, the reporting relationship between the utility and the regulator for power outages, the transparency and accessibility of tariffs and whether the utility faces a financial deterrent aimed at limiting outages (such as a requirement to compensate customers or pay fines when outages exceed a certain cap).

⁷ Foster, V. (2008)

Labor force : lack of skilled workers

The quality of the Malagasy workforce is essential in growing business. Yet, a lack of skills needed to boost the competitiveness of firms and modernise the economy is particularly relevant for Madagascar. The country has a significant pool of available labor, though the availability of skilled labor of any type is much more limited. Education outcomes and systems in Madagascar currently perform poorly compared to global averages. There is a gap between the business sector needs and education that the institutions and programs could hardly bridge in the past. Business schools and colleges for technical and vocational skills are insufficient to meet the demand of skilled workers from enterprises. Foreign workers often are brought in to fill skills gaps, particularly in the mining industry. The most stringent case was the recruitment of thousands of Philipino workers for the construction of the Ambatovy mining project in Tamatave in 2008.

Economic governance

Economic governance has a direct impact on the improvement of business environment and invesment climate. Indeed, a good economic governance leads to more effective institutions and improve policies and service delivery. Madagascar is characterized by political instability, crime and insecurity, lack of trust in political institution and widespread corruption (including alleged involvement of government officials)

Corruption :

One indicator of economic governance is the corruption perception index since corruption has a negative effect on growth and development. Indeed with high corruption the population and the business sector are forced to pay bribes for public services.

The table below shows the scope of corruption according to the World Bank enterprise survey.

Table 11 : Survey on corruption in selected countries

Indicators	Madagascar	Sub-Saharan Africa	All Countries
Bribery incidence (percent of firms experiencing at least one bribe payment request)	32.9	24.2	18.1

Bribery depth (% of public transactions where a gift or informal payment was requested)	32.0	18.4	14.1
Percent of firms expected to give gifts in meetings with tax officials	31.7	18.1	13.3
Percent of firms expected to give gifts to get an operating license	45.7	18.1	14.5
Percent of firms expected to give gifts to public officials " to get things done "	43.1	27.8	22.4
Percent of firms identifying corruption as a major constraint	30.2	41.5	32.7

Source : Worldbank enterprise survey 2013

In addition to corruption, the business sector considers the following factors as obstacles to investments:

Crime and security :

Organized crime and theft increasingly threatened human security and socioeconomic development. During the past years, increasing thefts and armed robberies, residential break-ins and home invasions were reported throughout the country especially in areas with limited police/gendarme presence⁸. A number of these attacks resulted in serious injury/death to the population, mainly business owners. There have been allegations of security forces using their official weapons to conduct home invasions and kidnappings or loaning their weapons to criminal elements to do so.

In rural areas highway banditry are perpetrated at night by several armed individuals. Furthermore, sporadic violent clashes between government security forces and armed cattle rustlers (*dahalos*) occurred in the south, resulting in injuries and hundreds of deaths. Such insecurity problems discourage entrepreneur to invest in the country.

Political instability

Madagascar has a history of political instability associated with cyclical coups d'état aimed to topple sitting governments.. During the past three decades, each political crisis led inevitably to an economic downturn, affecting seriously both enterprises and workers. Indeed anti-

⁸ US Department of State : Madagascar 2017 Crime & Safety Report

government demonstrations often led to looting and clashes with security forces. Strikes and demonstrations within government agencies such as custom administration impact adversely the business sectors. Unconstitutional change of government results in the suspension of key donor aid leaving Madagascar's economic situation fragile.

Lack of trust in political institution :

The private sector considers that there are many roundtable and workshop held to improve business environment and facilitate trade. However, the recommendations from such meetings are not implemented. If there is a consultation of the private sector and they make comments on an issue, the government doesn't take them into consideration. This absence of effective implementation and enforcement of policies results in a lack of trust in political institutions.

Recommendations

Attracting investors in Madagascar can help the country to meet the demands of the US market, thus increasing AGOA exports. The Malagasy economy should however remove a number of constraints to investment. The following recommendations are proposed for that purpose.

- **Developing the financial market**

Madagascar's tight financial market can be expanded by augmenting the number of actors. Increased competition on the financial market contributes also to push down the interest rate. The country needs to open to foreign investors in the banking sector which can provide a diversity of credit mainly in financing for Research and Development and financing for innovation-led investment

- **Increasing electricity supply and improving reliability of electricity supply**

Electricity is a big issue for the productive sector since JIRAMA - a state owned company- is the unique supplier throughout the country. The GOM should continue to support JIRAMA so that it can increase its supply and multiply the number of users. A proposed solution is to allow private company to produce and sell electricity to JIRAMA for distribution.

As the country as a whole has an enormous potential in terms of renewable energy, it can switch to new source of energy and allow private companies to provide electricity in rural areas not covered by JIRAMA. Public-private partnership can be promoted as there are already private companies interested to invest in the sector.

- **Capacity building and training**

The qualification of the labor force is a key for the exporters to meet the required standards of the US market. Both the public sector and the private sector should improve and strengthen technical training for unskilled workers. The Government has already the National Policy for technical Education and Professional training and this policy needs to be fully implemented. The contribution of all stakeholders namely the business sector, the Government and the donors are necessary. The role of the private sector in addition is to promote transfer of knowledge and technology by an increased cooperation with foreign companies.

- **Fight Corruption at each level of the supply chains**

The country has adopted the anti-corruption law and has a national strategy to fight corruption. This strategy needs to be fully implemented and actions need to be taken not only at the national level but also at the regional level and at the different Government agencies.

Fight against corruption is not only the responsibility of the Government but also of the private sector which fuels corruption by accepting to pay bribes. In the short term corruption may help the business sector but in the long term it creates distortions on the markets and thus deteriorating further the investment climate.

- **Strengthen security and ensure Political stability**

An environment conducive to growth is free of instability and insecurity. The Government has already a National Security Strategy involving military, gendarmes, police forces, parliamentarians and the whole society. The implementation of this strategy is urgent not only for the economic sector but for social peace to give signals to foreign investors. All stakeholders need to appropriate the strategy and participate for its enforcement.

- **Ensure effective implementation and enforcement of policies**

The purpose of this study is to assess the obstacles of trade and investment in Madagascar so that the country can fully benefit from AGOA and increase its exports to the US. Many roundtable and workshops have been held concerning trade and investment promotion. Several recommendations were proposed but the implementation fails for different reasons.

The country has also National strategy in different areas of interest. Henceforth the private sector should play an important role to advocate for the full implementation of the policies and recommendations proposed. For that purpose they have to be united and speak on a common voice to be heard. Their solidarity must be strengthened by a lobbying if needed. Currently they speak separately and appear to have not enough strength to put pressure on the Government.

A common platform of exporters can be set up to act as a counterpart of the different ministries. To be effective this platform should be led by committed business people under an umbrella of a recognized organism, unless the policies remain just a dream.

There is also a need of continual discussion between the Government, private sector and donors for the implementation of the policies. As such regular workshops to monitor the progress in implementing the strategies can be organized by the platform which doesn't depend on political appointments so that despite frequent cabinet reshuffle the policies can continue to be enforced.

CONCLUSION

Since 2000, AGOA has successfully led to increased and more diversified exports to the United States from Madagascar. Given that exports are expected to increase further in the future, the objective of the studies carried out by AmCham Madagascar are to assess how the country can better utilize the AGOA program and its duty-free benefits.

Madagascar faces numerous challenges. These include poor infrastructure, inadequate access to electricity, skilled labor shortages, unfriendly business environment and bad economic governance.

Many recommendations were proposed in the context of public private partnership in the past but because of frequent change in the cabinet, policies are hardly implemented. Yet political instability is adversely affecting business in general and exports in particular.

The Malagasy Government plans to organize presidential elections by the end of 2018 in a context of strikes of labor union and absence of security as well as the opposition calling for the dismissal of the President. This presents a high risk for AGOA given that rule of law and democracy are among the prerequisites for a country to benefit from AGOA.

In addition to economic factors, political issues need to be addressed in Madagascar as the history of the countries showed that many years of reforms and improvement can be instantaneously cut down by a political crisis. The suspension of Madagascar after 2009 can serve as a lesson for all stakeholders if the country wishes to take advantage of AGOA.

ANNEXE I: MATRIX OF RECOMMENDATIONS

CHALLENGES	OBJECTIVE	ACTIVITIES	INDICATORS	TIMELINE	PROPOSED LEAD
BARRIERE AU COMMERCE					
Burdensome fees an charges	Reduction of barriers	the Harmonize and ensure consistency between all framework regulating the activities		Progressively	Each ministry
administrative Procedures: many papers, many inspection and controls	Facilitation	Put in place the APEX and speed up the automation of the OSS Export			MCC
congestion at the port		Continue the current process of decongestion			Prime Minister Office
Customs Procedures		<p>Reduce custom clearance time : many inspection and controls</p> <p>Remove non necessary extra-procedures</p> <p>Publish all procedures + payments</p> <p>Ensure aminimum service in case of strike</p> <p>Reduce unpredictable cost</p>			NTFC (douane +commerce)

CHALLENGES	OBJECTIVE	ACTIVITIES	INDICATORS	TIMELINE	PROPOSED LEAD
SPS Measures		<p>Training for the exporters to meet the requirements</p> <p>Capacity building for the institutions : information dissemination</p> <p>Training on the denunciation of non-tariff barriers</p>			MCC et autres ministères
laws and regulation concerning international trade are opaque and subject to unpredictable change		Ensure transparency and predictability of measures and procedures			
Lack of harmonization between government agencies at the borders		Have a formal agreement on how to work and coordinate the inspection.			
INVESTISSEMENT					
Finance :Tight financial market and high cost of credit	Facilitating access to investment financing	increasing the numbers of actors, expanding financial activities of the banking sector			Banking system
Lack of skilled workers	Availability of different type of skilled workers				GOM , private sector, Ministry of technical

CHALLENGES	OBJECTIVE	ACTIVITIES	INDICATORS	TIMELINE	PROPOSED LEAD
					training
Availability of electricity and high cost of electricity	Electricity supply reliable and at low cost	allowing private company to produce and sell electricity to JIRAMA for distribution			GOM , JIRAMA
Telecommunication and ICT use underdeveloped		Equip government agencies by Telecommunication and ICT			GOM
Failure of the GOM in implementing policies => Lack of trust in political institution		Strengthen the solidarity and notoriety of the private sector to put pressure on the GOM Bilding the capacity of the private sector in terms of lobbying and advocacy			Private sector
Bad Economic governance		Fight Corruption at each level of the supply chains : disseminate largely laws and regulations Strengthen security thanks to the participation of all stakeholders Ensure Political stability			Ministry of interior, Gendarme, Police, Ministry of justice, Decentralized collectivities

ANNEX 2 : LIST OF PARTICIPANTS



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EAST AFRICA
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AGOA
RESOURCES CENTER
MADAGASCAR

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Second Strategy and Workshop session on intra-regional trade and AGOA exports

AGOA RESOURCES CENTER IN MADAGASCAR-AMCHAM-East Africa Trade Hub

VENUE: COLBERT Hotel, Antananarivo, Madagascar

DATE: June 05th, 2018

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