

A woman with dark hair, wearing a purple vest over a red and white plaid shirt, is focused on her work at a green industrial sewing machine. She is holding a piece of dark blue fabric with a white and red patterned hem. The machine has a silver metal table and a green body with the number 'L489' on it. In the background, other workers and sewing machines are visible, creating a busy factory atmosphere.

# Impact assessment of formal employment in Madagascar

# Summary

1

I&P and FERDI carried out a study on the social and economic impacts of employment and explored the impacts of an employment contract. Almost 280 employees were interviewed in 5 portfolio companies, covering several sectors, hierarchical levels and types of contractualization.

2

Entrepreneurs are aware of the importance of formalization. However, they face many obstacles, such as tax risk or informal competition, which hampers formalization in a context where almost all production units are considered informal.

3

Companies play an essential role in access to employment and provide income for entire households. Employees were able to embark on new life projects by increasing their spending on education and housing.

4

Companies actively participate in the formalization of employment. This facilitates employees' access to credit and opens the door to benefits. The retirement contribution and health insurance offered by most companies supported by I&P provide an essential safety net for employees.

# The Malagasy labour market



## Sectors

The **primary sector**, which employs **75% of the population**, is the most widespread in the Malagasy economy. However, it is the **tertiary sector** that creates the most value in the country's economy with **54% of the GDP**.



## Independent workers

**Only 11% of the employed Malagasy workers are salaried.** In other words, the overwhelming majority of workers belong to the informal sector, mainly to informal agricultural enterprises.



## Income

The average monthly salary is about **168,000 AR (just under 42€ per month)**. It should be noted that the **average salary of women is almost 50% lower than that of men** in Madagascar.

## FORMAL AND INFORMAL

While there is a clear definition of the informal sector, **it is difficult in practice to distinguish between formal and informal sectors.** There are many cases of "semi-informality" in which formal firms use undeclared subcontracting or service contracts. In this study, we considered as informal not only employees without a declared employment contract, but also forms of semi-informality.

# The typical informal employee

## SPECIFICATIONS



### EDUCATION

The less educated an individual is, **the higher the probability of working in the informal sector.**



### GENDER

**Women are over-represented in the informal sector.** Under-investment in girls' education, early marriage, lack of access to finance and property and their role in the household reduce their integration into the formal market.



### MILIEU SOCIAL

Social reproduction is an important factor since **having a father working in the informal sector reduces a child's chances of having a contract in the future.**



### STATUT MARITAL

**Married workers** are more likely to have access to formal employment.

## CONSEQUENCES



### POVERTY

Informality has important consequences on workers' living conditions, particularly in terms of housing. **In Madagascar, only 2.4% of informal agricultural workers have access to electricity, compared to 63% of formal workers in the private sector.**



### VULNERABILITY

**Income disparity between workers is higher in the informal sector.** Wages are particularly less stable because they overreact to fluctuations in economic activity.



### HUMAN CAPITAL

The stress related to the future is **detrimental to the development of informal workers and their health**, which eventually affects their productivity.

## THE ESSENTIAL

The typical informal worker could be considered as a **poorly educated woman whose parents work in the informal sector.** Informality creates a vicious circle since precariousness and instability of income affect productivity and thus employability.

# Methodology

280 employees in 5 different companies



## Ultramaïlle (146 employees surveyed)

Company specialized in hosiery, knitting and the manufacture of pullovers and other medium and high-end knitwear.



## Nutri'Zaza (72 employees surveyed)

A socially oriented company whose purpose is to fight chronic child malnutrition in Madagascar in a sustainable way.



## Crêpe H&H (23 employees surveyed)

Fast food company offering pancakes made with quality products, located in the capital.



## Chicky (72 employees surveyed)

Fast food company specializing in fried chicken, targeting the Malagasy urban middle class.



## DIGITALL4YOU (24 employees surveyed)

IT services company specialized in the development of websites and mobile applications for SMEs and start-ups in France, Europe and North America.

THE  
ESSENTIAL

The questionnaires were **anonymous to allow employees to respond frankly**. No member of management was allowed to attend the surveys to guarantee the accuracy of the answers. The objective of the study is not to attribute the observed effects directly to the companies ("**prove**"). However, it does illustrate how, and not to what extent, the activity of these companies has economic and social impacts on their employees ("**improve**").

# Impacts of a job



## ACCESS TO EMPLOYMENT

**23%** of workers obtained their **first job thanks to the companies surveyed.**

**57%** of employees experienced a period of unemployment before working in companies supported by I&P. They thus represent a way out of unemployment.



## REMUNERATION GAINS

**116%** higher average salary observed **compared to the national average.**

Median salary before employment	+76%	Median salary after employment
125 000 AR (32 euros)	➔	220 000 AR (55 euros)



## INCOME FOR RELATIVES

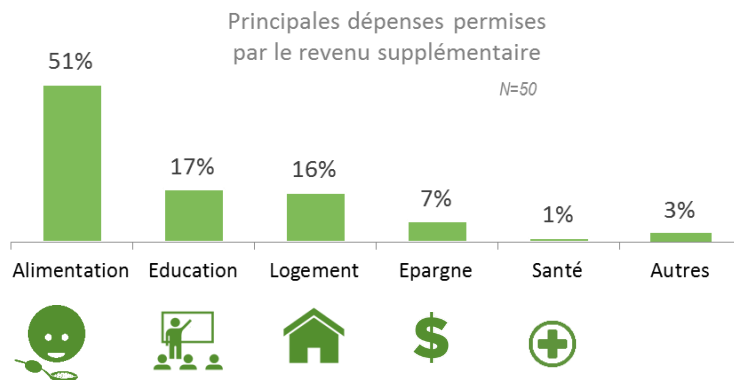
**54%** of household income is generated by the employee surveyed on average.

**4** individuals on average under the same roof maintained **thanks to an income.**

# Improvement of the standard of living

*Increased spending on housing, food and education*

Thanks to the wage increases enjoyed by a large number of employees, they were able to increase their expenses on some current items.



## HOUSING

85%

of employees **moved or improved their housing** as a result of their employment

40%

of employees have **access to running water and electricity** in their homes



## EDUCATION

82%

of employees have **at least one child attending a private school**, which are considered to be of better quality but more expensive



## RETRAITE

56%

of employees **had never made contributions** before they joined the company

## THE ESSENTIAL

Thanks to wage increases, workers **mainly increase their food expenses**. Emphasis is also placed on **housing quality**, as **access to water, electricity and healthy housing** will have many implications for human development (better health, education, etc.). Employees can also better anticipate their retirement.

# Working conditions (1/2)

*A more favourable situation compared to the previous job*

## Average satisfaction (on a scale from 1 to 5)



## Relationship with management (on a scale from 1 to 5)



**80%** say they are **generally satisfied with their jobs**, compared to 3% of **dissatisfied**

**75%** prefer their current situation to their previous situation

THE  
ESSENTIAL

**Over three quarters of employees are more satisfied with their situation since joining the company.** Relations with management and opportunities for dialogue are generally commended, as is the working atmosphere. Nevertheless, wages are still considered too low, as 53% of workers are not satisfied with their remuneration.



# Working conditions (2/2)

*A focus on training with no solution to the heavy workload*



## THE ESSENTIAL

Almost 87% of training sessions were conducted by trainers from inside the company, which shows a **desire to improve the level of human capital** and adopt high standards. **However, workload remains a problematic issue since overtime hours are numerous. Those hours are generally speaking compensated.**

# Benefits of an employment contract

*Job security, social protection and income stability are the main reasons for satisfaction*

## 1<sup>st</sup> advantage: protection against dismissal

In the lack of unemployment benefits and safety nets provided by the State, the guarantee of sustainable employment and protection against dismissal is the first benefit spontaneously mentioned by the employees.

## 2<sup>nd</sup> advantage: access to health insurance

Health is a major concern for employees in a country where few Malagasy people have health coverage and many have to give up health care. Access to health insurance, which is often allowed by formalization, is therefore essential.

## 3<sup>rd</sup> benefit: a guaranteed salary at the end of each month

The predictability and stability of income is particularly appreciated in the context of the employment contract. It reduces the anxiety associated with the uncertainty of the future and makes it easier to start life projects (housing, children, etc.)

## DEVELOPMENT AND SOCIAL RECOGNITION

**84%** of employees say that the **formal contract makes it easier to reconcile private and professional life**

**Almost 90%** of employees believe that the contract **provides greater social recognition in society**, believe that they are **more fulfilled at work** since they have a contract and perceive the employment contract as a **way to reduce the stress associated with tomorrow's anxiety**

# Social protection

## Une première assurance pour de nombreux employés

**56%** of employees have **health insurance for the first time**

## Multiplicative insurance within the household

**3** average number of people covered **for each insured person**

## A concept considered useful by employees

**90%** of workers perceive health insurance as a **useful social benefit**

## But the insurance offered remains insufficient in practice

**64%** of insured employees believe that the coverage rate is not sufficient. Indeed, workers complain about **poor medication coverage**, as well as the limited number of partner pharmaceutical establishments.



### SOCIAL SECURITY COVERAGE IN MADAGASCAR

Only 1% of the employed population is covered by health insurance in Madagascar\*.

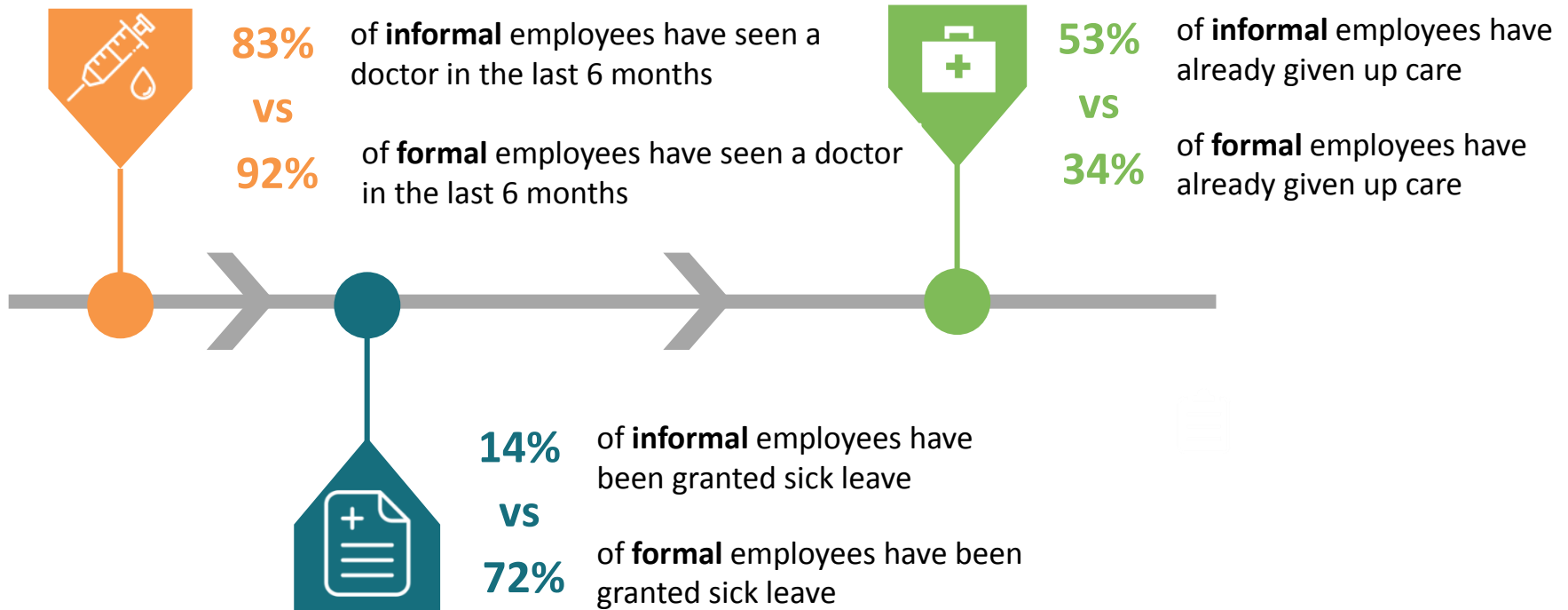
THE  
ESSENTIAL

**Over half of workers are covered by health insurance for the first time through their formal employment.** An advantage that informals cannot enjoy. This social protection policy has a multiplier effect since other family members benefit from it. While the insurance offered helps to ease family budgets, it is considered insufficient by many employees who are not completely satisfied with it because many expenses are not covered.

\*Source: National Survey of Employment and the Informal Sector (ENEMPSI), 2012

# Health

## Formal employees are healthier



Informal workers are generally in **poorer health** than their formal counterparts. Without income and health coverage, they more often give up care. With often more difficult working conditions, they experience more frequent health problems, which they cannot treat. Informal workers thus enter a vicious circle of deteriorating health status. In fact, **85%** of employees believe that having a formal contract improves their health.

THE  
ESSENTIAL

# Integration to the financial system

*95% of employees believe a work contract facilitate their access to credit*

- Formalization implies bancarisation:

**80%** of formal employees have a **bank account**

vs

**20%** of informal employees have a **bank account**

**75%** of formal employees receive their salaries by **bank transfer**

vs

**0%** of informal employees receive their salaries by **bank transfer**

- The contract, a guarantee for the bank

**48%** of formal employees have **obtained a loan** since their arrival, mainly those on permanent contracts

vs

**6%** of informal employees received a loan

**95%** of employees believe that **obtaining a work contract facilities access to credit**

## BANKING RATE IN MADAGASCAR

**4%** of the Malagasy population has a bank account in 2016\*

Formalization is generally accompanied by the **opening of a bank account**, a phenomenon that is still marginal at the national level. Thus, formal employment allows the **development of banking**, in particular through the policy of paying wages by **bank transfer**. Access to credit is then facilitated through this banking history.

# Life plans

*The contract improves children's schooling and housing comfort*



## CHILDREN

Formal  
1 / Informal  
1,4

**children** on average per household

**54%** of workers think that formalization **encourages the decision to have children**

**88%** of employees believe that the contract provides **better schooling for children**



## HOUSING

Formal  
32% / Informal  
13%

of workers are **homeowners**

Formal  
80% / Informal  
53%

of employees have **improved the comfort of their accommodation** since joining the company

**78%** of workers believe that obtaining a contract **facilitates access to home ownership**

## L'ESSENTIEL

Employment allows workers to project themselves into the future by **investing in their children and their homes**. Indeed, the **stability** provided by the contract, as well as paid leave and maternity leave, encourage the decision to **start a family**. Credibility with banks, particularly with people on permanent contracts, is also strengthened, making it easier to access **ownership status**.

# Focus: gender



57% des employés sont des femmes

- Une égalité entre les sexes respectée

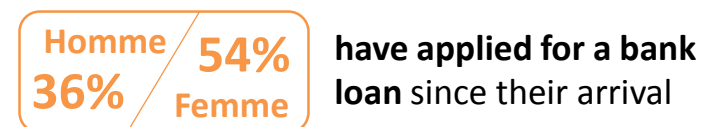
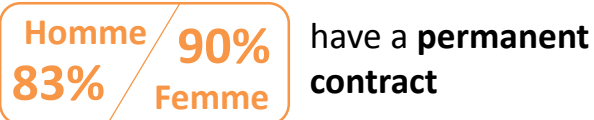
87%

des employés estiment qu'il n'y a **aucune différence de considération** entre les sexes dans l'entreprise

90%

des femmes ne considèrent pas leur genre comme un **frein à leur carrière**

- A policy for the economic empowerment of women:



## L'ESSENTIEL

**57% being women**, companies offer significant economic opportunities to people who are often excluded from the labour market. Employees do not feel discriminated against because the scores given to working conditions are equivalent between men and women. It has often been mentioned by workers that women are even favoured in obtaining employment. Thus, **women are over-represented among permanent employees, which favors their access to credit.**

# Obstacles to formalization

## *Structural limitations in the access to a contract*



### A source of inflexibility

**25%** of the workers interviewed spontaneously cite **lack of flexibility** as the main disadvantage of the contract. For example, they cannot take advantage of professional opportunities as easily because they are tied to the company.

They cannot return home at any time or come to work according to their needs. The contract does not allow for such an easy adaptation to different life events.



### Fear of tax administration

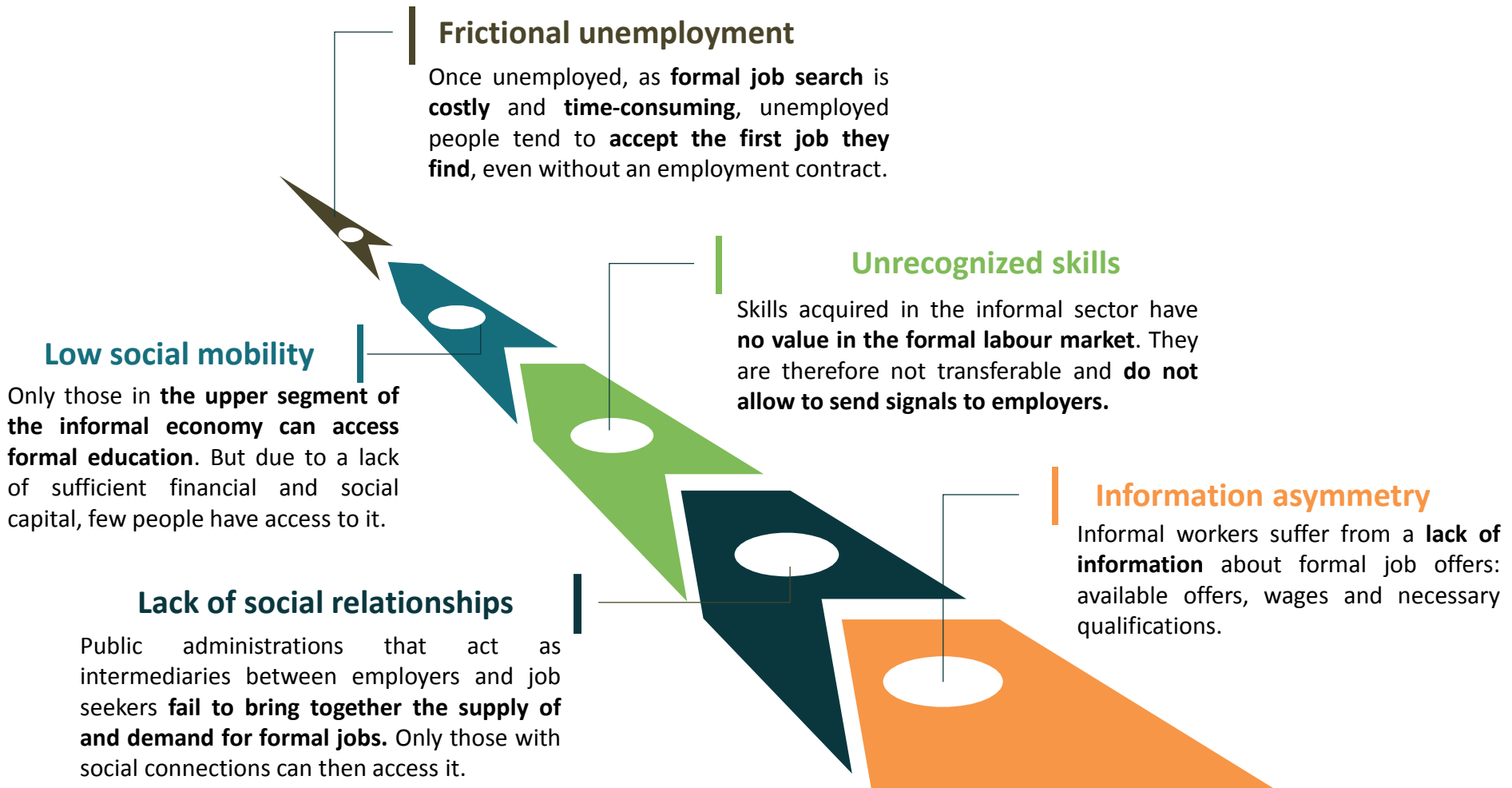
**95%** of employees believe that the **level of corruption is high in Madagascar**.

**45%** of employees surveyed **think they have more to fear from the tax authorities when they are formal**. While one might think that formalization makes it possible to be in compliance and no longer have to fear the tax administration, in the end it is the other way around. The majority of workers believe that the tax administration will increase its supervision once they have declared themselves. They therefore fear sanctions for not declaring their secondary activities, their housing, etc



# A difficult transition towards the formal sector

*There are many difficulties and obstacles to accessing formal employment*



# Integration into the formal labour market

*A difficult process*

## Obtaining an work contract is difficult

**57%** of employees have obtained their first employment contract in this company

## Informality is a first step before the contract

**48%** of formal employees started in the company as informal

## Informality is a situation that is undergone.

**88%** of informal employees want to become formal

**75%** of workers say they are ready to accept informal employment in the event of dismissal

**I&P partner companies play a major role in access to formal employment.** This role is all the more important as once formalized, their chances of obtaining other formal contracts elsewhere increase. More formal workers think they can get a contract elsewhere. The difficulty is to secure this first contract, which seems to be a sustainable entry point into formality.

THE  
ESSENTIAL

# Conclusions (1/2)

## IMPACTS OF A JOB

- **Access to employment** - Companies supported by I&P represent a way out of unemployment since nearly 60% of employees have experienced a period of unemployment. They also allow nearly a quarter of employees to enter the labour market for the first time and offer this first experience that is so important to be more employable.
- **Higher wages that support the entire household** - With wages more than twice as high as the national average, employees contribute almost half of the household income. With an average of 4 people in the household, this salary has changed the daily lives of many people. Many have embarked on new life projects by investing in education and housing.
- **Fulfilling working conditions** - More than two-thirds of workers are more satisfied with their situation since joining the company. A major effort is put into training with just over half of the workers who have already received at least one training. They are thus generally satisfied with the tasks and responsibilities entrusted to them.

# Conclusions (2/2)

## FORMALIZATION

- **Formalization of the economy** - In a country where the majority of workers derive their income from the informal sector, I&P partner companies have enabled 23% of employees to have their first job and especially 57% of employees to sign their first declared employment contract. This formalization is accompanied by several social benefits such as paid leave or maternity leave for women.
- **Essential benefits** - Companies offer initial health insurance to 56% of employees. This coverage extends to two additional people in the household on average. It is also the first time 56% of employees have joined the pension system.
- **Integration into the financial system** - The contract is often accompanied by the opening of a bank account, in particular through the payment of salaries by bank transfer. Access to credit is then facilitated thanks to this banking history: twice as many formal workers have access to credit.
- **Life projects** - The contract encourages the decision to have children and improves children's schooling. Almost twice as many formal workers have improved the comfort of their homes.
- **Rigidity and fear of tax administration** - However, the contract is less flexible. Once bound by a contract, workers cannot so easily take advantage of other economic opportunities. While the contract should protect tax auditors, it also makes the home visible to the tax authorities. As a result, more of them have been confronted with corruption.
- **From informal to formal** - Almost half of the workers started informally, often to test their skills. Informality is considered as a first step before the contract. The difficulty is to obtain this first contract, which is then a durable entry point into the formality.

# Recommendations

<b>Formalization</b>	Informality is widely suffered and it is important to be able to meet workers' expectations and allow them to access the benefits of the contract. The <b>formalization process must therefore be maintained and accelerated.</b>
<b>Overtime hours</b>	Despite the contract, the legal duration is often not respected. Measures are expected to <b>compensate for the many hours of overtime that are often unpaid and unrecovered.</b>
<b>Importance of a permanent contract</b>	The positive impacts of the employment contract are overwhelmingly related to permanent contracts. The <b>stability of the contract</b> enables access to credit and life projects. It is important to encourage this form of contractualization, which also promotes employee development, productivity and loyalty.
<b>Healthcare</b>	In the end, health insurance coverage remains relatively low, although employees consider it essential. <b>Improving health coverage</b> is an important way for them to enhance the perceived value of their contract.
<b>Pension</b>	Workers often express doubts about the actual payment of pension contributions. It is important to <b>address these concerns</b> , for example by providing their contributor number or by arranging an appointment with IPRES to allow them to verify the status of their contributions.
<b>Awareness</b>	Employees are <b>simply not aware of the benefits of the contract.</b> Explaining the role of the various contributions and the benefits provided is an important element in building employee loyalty in the company.



# Contacts

- Emmanuel COTSOYANNIS, Miarakap  
[e.cotsoyannis@miarakap.com](mailto:e.cotsoyannis@miarakap.com)
- Samuel MONTEIRO, I&P et FERDI  
[s.monteiro@ietp.com](mailto:s.monteiro@ietp.com)