

POLICY BRIEF

The economic impact of the political crisis on urban households in Madagascar

*The labour market in Antananarivo in 2010:
looking back over ten years*



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DIRECTION GENERALE

DIRECTION DES STATISTIQUES DES MENAGES

FOREWORD

This analysis was produced by the National Statistics Institute (INSTAT) Household Statistics Department and DIAL using data from employment surveys on a representative sample of 3,000 households in the conurbation of Antananarivo. The 2010 survey, funded by DIAL, is the latest in a series of perfectly comparable surveys conducted regularly in the capital since 1995. Its main purpose is to assess labour market supply trends and analyse households' working conditions to gain a better understanding of poverty in urban areas.

This year, the survey is vitally important in that it provides the first figures on the economic situation of Antananarivo's households since the outbreak of the two crises (international financial crisis and domestic political crisis) at the end of 2008, bearing in mind that the last information available dates back four years when the previous survey was conducted in the first quarter of 2006. Although the 1-2-3 Survey series was launched in 1995, we have taken 2001 as our reference point here as it corresponds to the last high point in the growth cycle observed in Madagascar in the second half of the 1990s. This study also systematically includes the 2002 labour market data, one year after the previous crisis, to compare the effects of the two political crises on the labour market (the 2001 crisis and the 2009 crisis).

We find an alarming deterioration in the market from 2006 to 2010, as evidenced by an increase in unemployment and underemployment and, more importantly, a boom in the informal subsistence sector, the collapse of workers' purchasing power and sharply deepening inequalities. This has cancelled out, if not reversed, the poverty reduction progress made in recent years. This disastrous situation makes it all the more urgent to find a political solution to the crisis (now that the world economy is on the road to recovery), as the situation can only have got worse since the survey six months ago.

From an institutional point of view, the fact that the survey and this policy brief were produced in record time shows that, even in a crisis, INSTAT continues to deliver on its public service mission in partnership with DIAL, which therein confirms its long-term commitment to Madagascar and its institutions.¹ This publication will be followed by more detailed analyses on subjects of general interest.

¹ Wachsberger J.-M. (2010), "DIAL and Madagascar: a long history", *Dialogue* No. 30, Paris.

The 1-2-3 Survey conducted every year since 1995 paints a clear and accurate picture of living conditions and labour market trends in Antananarivo.

Household living conditions in developing countries are generally assessed using a single macroeconomic indicator such as per capita GDP. Yet we know that this indicator is not very reliable in Africa in general and in Madagascar in particular, because not enough quality information is available (mainly due to the inability to measure informal sector production). In addition, the mere ratio of GDP to the number of inhabitants is clearly unable to capture the population's real standard of living. As the *Stiglitz Report*² so strongly states, macroeconomic indicators (such as per capita GDP) can in no way provide a good measurement of households' welfare. The employment survey provides a much better evaluation of the population's socio-economic situation, both because households, especially poor households, derive virtually all of their resources from work and because the survey is renowned for its high quality.

Note, as already mentioned, that Madagascar was hit by two concurrent crises in 2009. This policy brief obviously does not seek to find out which crisis did what, always an eminently hazardous exercise.³ However, we can put forward that the political crisis had a dominantly negative impact. In 2009, the economic downswing was much sharper in Madagascar than in other comparable countries. Whereas GDP growth stood at 7.1% in

² Stiglitz J., Sen A. and Fitoussi J.-P. (2009), *Richesse des nations et bien-être des individus. Performances économiques et progrès social*, www.stiglitz-sen-fitoussi.fr

³ Take, for example, the collapse of the export processing zone. This sector is the most likely to suffer from a downturn in world demand. Yet it is equally true that political crisis, and the resulting climate of uncertainty, triggers a flight of foreign investors and prompts potential new arrivals to choose another destination. The same reasoning applies to tourism, for example. However, many other sectors are not (or are barely) affected by the international environment.

2008, official figures reported 0.6% growth in 2009. And even this figure is probably overestimated, since the IMF published an estimate of -5% GDP growth. This places the gap in growth from 2008 to 2009 at over 12 percentage points, as opposed to just 2 percentage points for the low-income African countries group to which Madagascar belongs (from 6.9% to 4.9%) and 3.5 percentage points for Sub-Saharan Africa as a whole (from 5.6% to 2.1%).⁴ If we add that the growth outlook prior to the outbreak of the crisis was even higher than in previous years (themselves already higher than other comparable countries) and that the projected upturn for 2010 is the lowest of the entire continent (the IMF forecasts -1% as opposed to 4.5% for the low-income African countries), the impact of the political crisis would then appear to be the major and longest lasting element of the current recession in Madagascar. The freezing of official development assistance provides a clear example of this.

The employment survey for the first quarter of 2010 paints the general picture and the main features of unemployment, employment, income and working conditions in the capital. Here, all the indicators are in the red. The continuing political crisis has triggered a serious recession, which is putting a huge squeeze on the population's living conditions.

⁴ IMF (2010), **Regional Economic Outlook: Sub-Saharan Africa back to high growth?**, World Economic and Financial Survey, Washington D.C., April.

The sudden end to growth has not prevented employment from continuing to rise, but tensions on the labour market have prompted an upturn in unemployment and underemployment ...

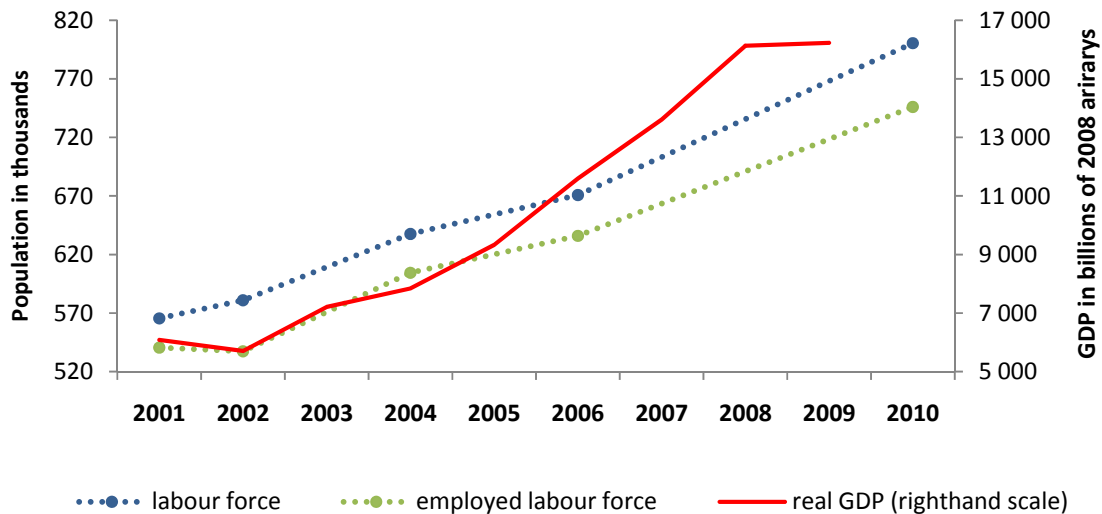
From 2003 to 2008, GDP rose an average 5.6% in real terms per year, which is exceptional growth for this country. Nevertheless, at least through to 2005, this growth brought with it but a very low average increase in earned incomes. Between the first quarters of 2004 and 2006 (dates of the last two employment surveys), workers' purchasing power rose a mere 1% per year and economic growth was accompanied by hugely deepening inequalities as the poor got poorer: median income (which separates the population of workers into two equal parts, where one earns less than the median and the other more) fell 3.4% per year over this period.⁵

The political crisis that flared up in late 2008 stopped this growth cycle in its tracks and dealt a sharp blow to the labour market. Growth, according to the estimates used by the government for the 2010 budget act, climbed back up to 0.6% in 2009. Yet employment has continued to grow at a similar rate to the potential labour force (here defined as the population aged 10 years and over). The labour force participation rate for those

⁵ Rakotomamana F., Razafindrakoto M. and Roubaud F. (2006), *Dynamique du marché du travail dans l'agglomération d'Antananarivo 2001-2006 : Une période difficile pour l'emploi*, INSTAT/DIAL, July.

aged 10 years and over has therefore remained more or less the same as in previous years (60.4% in 2010).

Chart 1: Growth in the labour force, the employed labour force and real GDP from 2001 to 2010



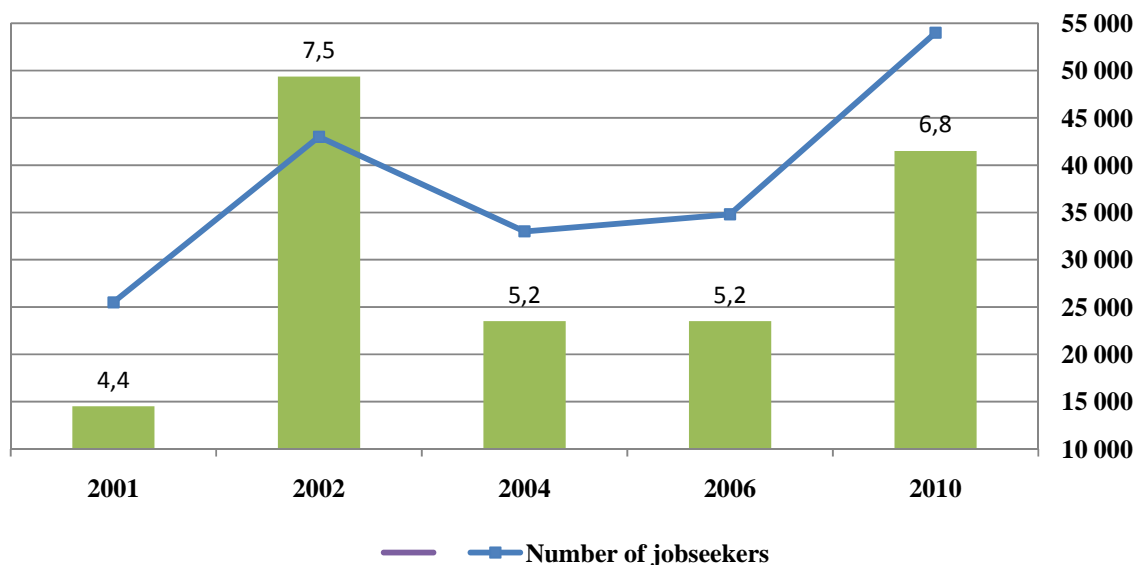
Source: *I-2-3 Surveys*, phase 1 “Employment”, 2001-2010, INSTAT/DIAL and INSTAT for GDP. Authors’ calculations

Tensions on the labour market have nevertheless prompted an increase in unemployment and underemployment.

Despite the unemployment rate being structurally low in Madagascar, it rose from 5.2% in the first quarter of 2006 (stable compared with 2004) to 6.8% in the first quarter of 2010. This is an increase of over 30% and nearly 20,000 unemployed. This sharp rise in the number of jobseekers is due to a double-edged phenomenon. First, young graduates are finding it harder to enter the labour market. The number of first-time jobseekers has risen from approximately 10,000 in 2006 to nearly 20,000 in 2010. Second, it is the consequence of an increase in redundancies in the formal private sector: 60% of previously employed jobseekers said they were looking for a job because they had been laid off, as

opposed to 53% in 2006. The majority of these redundant workers have come from large private firms (49% of cases) and the export processing zone (36% of cases), much higher percentages than these two sectors represent in terms of jobs.

Chart 2: Growth in the number of jobseekers and the unemployment rate from 2001 to 2010



Source: *I-2-3 Surveys*, phase 1 “Employment”, 2001-2010, INSTAT/DIAL, authors’ calculations

The automatic knock-on effect of this deterioration in the labour market has been a sharp drop in the average length of unemployment (from 23 months to 11 months). Far from being a positive sign, this drop actually reflects the soaring unemployment: 54% of jobseekers have been unemployed for less than one year as opposed to 40% in 2006.

However, unemployment is not a sufficient indicator of tensions on the urban labour market in a developing country. Given that the level of poverty is high in these countries and work is the only possible source of income, unemployment is often a “luxury” that

only the least disadvantaged can afford. The others have no choice but to work, even if they are underpaid.

We therefore commonly find two other aspects of underemployment, in the form of *time-related underemployment* and *inadequate employment situations*. The first is defined as all the individuals who reluctantly work less than 35 hours a week: 21.1% of employed workers are in this situation in 2010, which is one percentage point less than in 2006. The second aspect covers full-time jobs worked for less than the hourly minimum wage in force. Paradoxically, in fact, very long working hours can sometimes be a sign of underemployment when they are made necessary by excessively low earnings from the job. Measured in comparison with the 2001 hourly minimum wage in constant ariarys, the proportion of *inadequate employment* has risen from 47.3% in 2006 to 51.5% in 2010, which represents a deterioration of over four percentage points.

Table 1: Growth in underemployment from 2001 to 2010

	Time-related underemployment (%)					Inadequate employment situation (employed workers earning less than the 2001 hourly minimum wage evaluated in constant units) (%)				
	2001	2002	2004	2006	2010	2001	2002	2004	2006	2010
Informal	17.5	25.9	19.2	17.5	13.9	58.0	59.8	56.7	58.2	60.5
Formal private	4.9	10.5	7.1	6.7	7.9	40.6	39.4	35.2	38.3	40.7
Public	10.5	13.6	11.1	11.6	11.6	6.8	9.2	6.0	10.2	11.3
Total	12.2	20.1	14.6	13.4	12.1	46.3	48.1	44.7	47.3	51.5

Source: *I-2-3 Surveys*, phase 1 “Employment”, 2001-2010, INSTAT/DIAL, authors’ calculations. The deflator used is the consumer price index for Antananarivo (18.7% from 2001 to 2002, 15.3% from 2002 to 2004, 23.7% from 2004 to 2006, and 39.9% from 2006 to 2010).

The combination of the three measures of underemployment (unemployment, time-related underemployment and inadequate employment situations) brings the total percentage of

underemployment from 65.9% up to 70.4% in a stark demonstration of the extent of the employment crisis.

... And a massive informalisation of the economy.

The increase in the numbers of employed workers, despite the crisis, mainly concerns the informal sector, which has created over 116,000 jobs during this period. It hence accounts for an all-time record 65.1% of jobs in 2010. Even during the severe crisis of 2002, the informal sector only represented 59.8% of jobs despite widespread business closures. Compared with 2001, the informal sector's share has risen 12 percentage points, capturing entire sections of the labour market.

Conversely, **the formal private sector has seen a 4% downturn in its numbers due to massive job cuts in the export processing zone (-16,000 jobs).** The export processing zone, which was a model of economic success in the 1990s and struggled to recover from the severe blow dealt by the 2002 crisis,⁶ is now an endangered species. It has nose-dived to a mere 4.8% of jobs.

The downturn in employment in the formal private sector has also gone hand in hand with a structural change, as the modern industrial sector's share of employment has plummeted. Whereas 44.8% of formal sector workers worked in industry in 2006, only 38.2% are still in industry in 2010. The public sector (administration and public enterprises) has maintained, if not slightly increased, its staff numbers from 2006 to 2010. However, the low level of recruitment can be seen from the steady slide in

⁶ Cling J.-P, Razafindrakoto M. and Roubaud F.(2005), "Export Processing Zones in Madagascar: a Success Story under Threat?", *World Development*, Vol. 33, No. 5, pp. 785-803.

its share of total employment since the early 2000s: 11.2% in 2002, 10.5% in 2004, 8.8% in 2006 and 7.8% in 2010.

Table 2: Change in the structure of jobs per institutional sector 2001-2010 (worker numbers in thousands)

Institutional sector	2001		2002		2004		2006		2010	
	Number	%	Number	%	Number	%	Number	%	Number	%
Public administration	44.1	8.2	45.4	8.4	49.9	8.3	48.5	7.6	49.8	6.7
Public enterprises	13.5	2.5	15.1	2.8	13.2	2.2	8	1.2	8.2	1.1
Formal private businesses	187.4	34.7	143.7	26.7	181.3	30.0	200.0	31.5	191.9	25.7
- of which export processing zone	54.8	10.1	21.6	4.0	54.2	9.0	51.2	8.1	35.6	4.8
Informal businesses	287.3	53.1	321.7	59.8	353.2	58.4	368.7	58.0	485.5	65.1
Associations	7.9	1.5	11.8	2.3	6.8	1.1	10.8	1.7	10.8	1.4
Total	540.2	100	537.7	100	604.4	100	636.0	100	746.3	100

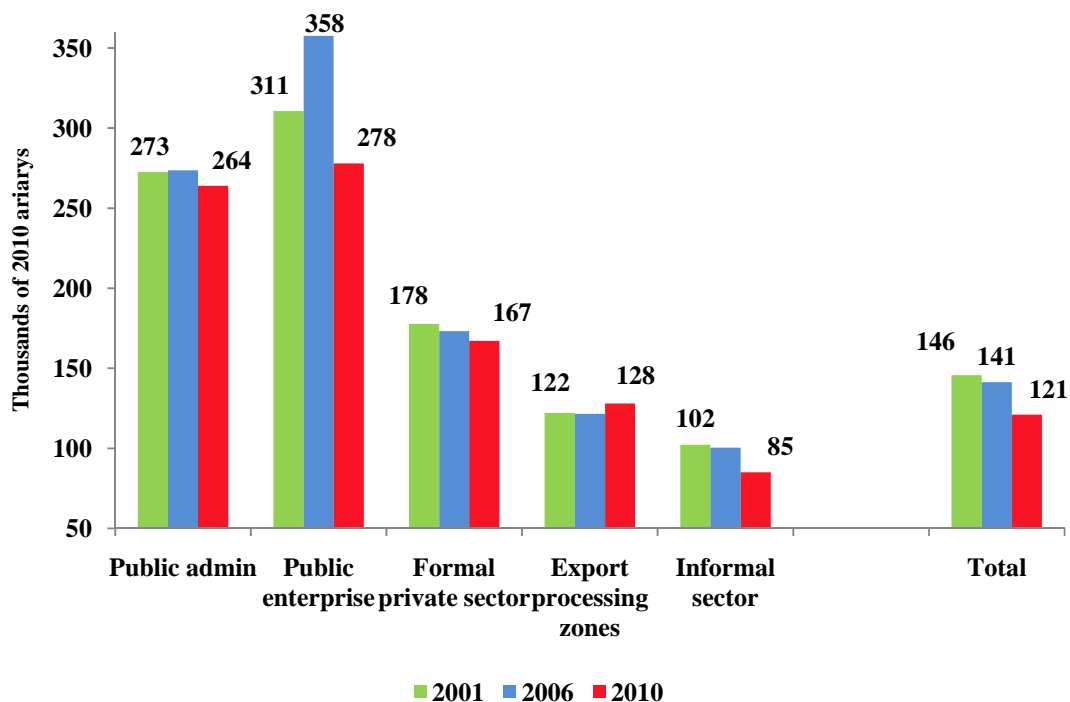
Source: 1-2-3 Surveys, phase 1 “Employment”, 2001-2010, INSTAT/DIAL, authors’ calculations

The boom in the informal sector has come with a sharp decrease in the purchasing power of earnings and a further deepening of inequalities

Workers across the board have seen their purchasing power fall yet again in 2010, with average monthly earnings falling 3.8% per year, in real terms, from 2006 to 2010. The average purchasing power of labour has therefore been squeezed by nearly 15% over the period. Unfortunately, this average finding is a minimal measure of the actual drop suffered this year compared with last year. The years following the 2006 survey were good years in

macroeconomic terms. So assuming that the GDP growth observed from 2005 to 2008 was entirely passed on to earned income, **the drop in purchasing power from the first quarter of 2009 to the first quarter of 2010 could actually be more than 30%.**

Chart 3: Growth in real average earned income by institutional sector from 2001 to 2010



Source: *I-2-3 Surveys*, phase 1 “Employment”, 2001-2010, INSTAT/DIAL, authors’ calculations. The deflator used is the consumer price index for Antananarivo (69.3% from 2001 to 2006 and 39.9% from 2006 to 2010). 2,700 ariarys = approximately 1 euro.

With the exception of export processing businesses, whose increase in average earnings is due in good part to the massive layoffs of low-wage workers (the most vulnerable), this new drop in purchasing power has hit all the institutional sectors. However, public enterprise employees (1.1% of employed workers) have suffered the sharpest drop (6.1% per year, which is 22% of the

cumulative drop from 2006 to 2010). They are followed by informal sector workers, with a drop of 4.1% per year.

There is no secret about the mechanisms behind the sharp drop in informal earnings. On the supply side, there has been a massive influx of workers laid off by the formal sector and new labour market entrants. On the demand side, demand for informal goods and services has suffered from the slump in demand as a whole, especially demand from formal sector workers who massively shop in the informal sector. In this environment, the only positive effect comes from the partial swing of part of household consumption from the formal sector to the cheaper informal sector; but this effect is limited.⁷

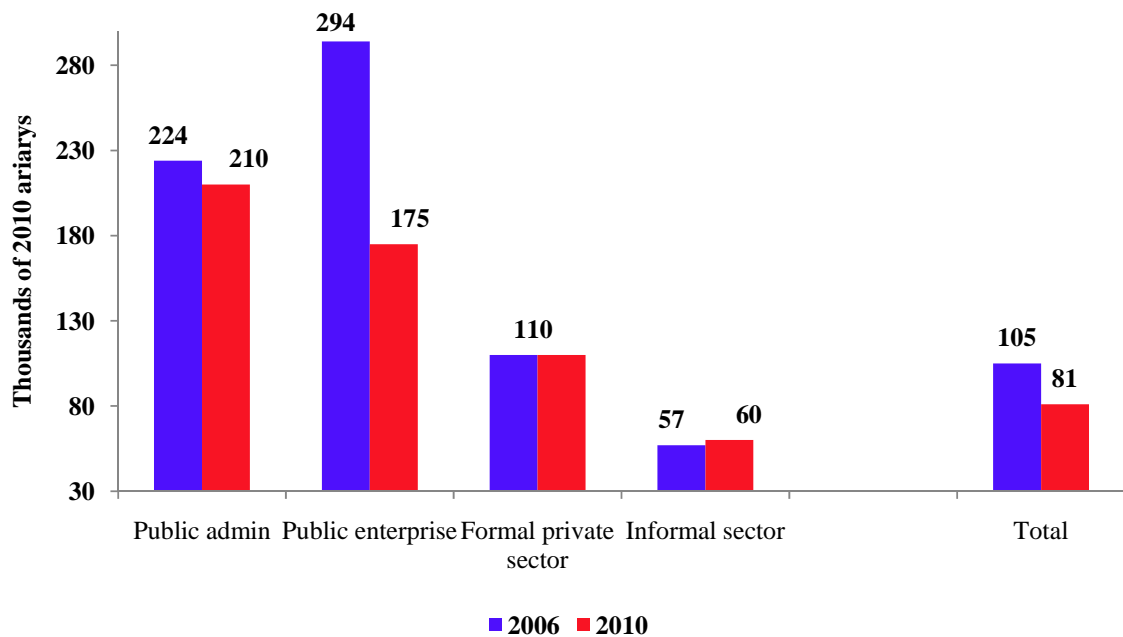
The squeeze on earnings has also hit low incomes harder, intensifying the trend of deepening inequalities observed in the previous period. From 2006 to 2010, the real median income has fallen 6.2% per year. This deepening of inequalities is essentially a mark of formal sector workers becoming poorer in relation to workers in the other institutional sectors and the swelling of numbers in this structurally less well-paid sector.

However, inequalities within each sector (approximated by the ratio of average income to median income) are less substantial. Excluding public enterprises in which inequalities have deepened considerably (the real median wage has plummeted by over 12%), the lowest paid earnings in the other sectors have not shown any marked deterioration. In the formal sector, the real median wage has remained at its 2006 level. In the informal sector, remuneration inequalities have even narrowed between the

⁷ Razafindrakoto M. and Roubaud F. (2010), "La pauvreté urbaine à Madagascar: dynamique, déterminants et politiques", in Gastineau B., Gubert F., Robilliard A.-S. and Roubaud F. (eds.), **Madagascar sur le chemin des OMD ?**, Editions de l'IRD, Paris.

upper and lower brackets as the real median income has increased 1.1% per year over this period while the real average income has fallen 4.1% per year. Workers' earnings in this sector have therefore levelled down due to the crisis.

Chart 4: Growth in real median incomes by institutional sector (from 2006 to 2010)



Source: *1-2-3 Surveys*, phase 1 “Employment”, 2001-2010, INSTAT/DIAL, authors’ calculations.

The political crisis that broke out at the end of 2008 (combined with the international financial crisis) stopped economic growth in its tracks, prompting a marked deterioration in the urban labour market. Unemployment and underemployment have spread, jobs have been squeezed in the formal private sector, industry's share of employment has plummeted and informal employment has shot up.

The switch to informal jobs has somewhat softened the blow of the crisis since it has mopped up some of the overflow. Nevertheless, job creations in the informal sector are more of a form of job and earnings sharing than any real creation of value. In terms of the earnings they procure, jobs, particularly in this sector, have suffered a marked downturn in quality. This has further deepened inequalities, mainly at the expense of informal sector workers, which has exacerbated the trend already observed in this area in the previous period.

These developments obviously weigh on both the stability of society and its development prospects. To take just one example in the form of investment in human capital, although households still post a high level of school enrolment for their youngest children, the number of 10-19 year olds in school fell further in 2010 with 9% of children in this age bracket no longer enrolled in school as opposed to 8% in 2006 and 5% in 2004.

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