The World Bank interviewed a representative sample of the private sector in 8 of the most active economic regions in Madagascar. The sample consisted of 532 business establishments surveyed from October 2013 through May 2014. The Enterprise Survey covers several aspects of the business environment as well as performance measures for each firm. Below are the main highlights from the survey.

**Firms in Madagascar report weak growth and capacity utilization**

The dramatic change of Madagascar’s government occurred in February 2009 and disrupted the positive growth trajectory and economic reforms adopted in the preceding years. Private sector firms experienced these changes as well, registering weak performance over the fiscal years 2010 through 2012. Real annual sales growth rate was at a low 2.3%, compared to 9.3% in countries with a similar level of income, and the overall employment growth rate was effectively zero. As of the end of fiscal year 2012, businesses in Madagascar were operating well below full capacity (63%) and lower than the average in other countries in Africa (70%) and in low income countries (almost 72%). However, steady, moderate growth in annual labor productivity highlights some positive signs for the future performance of Madagascar’s private sector.

**Bank financing shows a significant variation across firms’ size**

The use of financial services by firms in Madagascar, both on the deposit and credit sides, varies significantly across firms’ size. While medium and large firms exhibit relatively good access to financial services, access to credit through banks is almost unheard of for small firms. Less than 4% of small firms report having a bank loan, compared with over 30% for medium and large firms; in addition, less than 1% of fixed investments made by the small firms are financed by banks compared to 7% for medium and large firms. The usage of deposits is also less common among small firms. Only about 70% of small firms have a checking or savings account compared to 89% of medium and 97% of large firms.

**The reliability of electricity and water is good by international standards**

Firms were asked about their experiences with Madagascar’s infrastructure. Outages of electricity are infrequent compared to other low income countries. The cumulative duration of power outages each month (number of power outages in a typical month times the average duration of these outages) is roughly one-third the average for Africa and for low income countries. The reliability of electricity is reflected in the fact that Malagasy firms are much less likely to own and use generators than firms in other African countries. This foregone capital expense is a potential competitive blessing. Additionally, the time required to obtain an electrical connection is 30% shorter compared to the Africa region and over 50% shorter when compared to the average for low income countries.
Firms in Madagascar are more likely to experience bribe requests compared to other African countries

One out of every three firms in Madagascar experienced a bribe payment request in at least one of six regulatory and utility transactions (Bribery Incidence rate). Malagasy firms are about 33% more likely to experience at least one bribe request compared to other firms in African countries. Bribery Depth index, the percentage of these transactions involving a bribe request, also indicates more corruption in Madagascar than elsewhere in Africa. A gift or informal payment was requested for more than 30% of public transaction in Madagascar compared to an average of 18% in Africa. For example, 46% of businesses were expected to give a gift or informal payment when requesting an operating license compared to 21% elsewhere in Africa.

Madagascar performs well in female participation at the upper levels of decision making

Women make up a substantial portion of the workforce at all levels within Malagasy businesses. One out of three workers employed in the private sector is a woman. Interestingly, the proportion of women in the private sector workforce holding top managerial positions is also very high by international standards. The rate, at 28%, is nearly twice as high in Madagascar compared to Africa and low income comparator countries, which are at less than 16 percent. However there is a remarkable variation across firms’ size: only 9% of the managers among large firms are women compared with 28 among medium firms and 33% in small firms.

Businesses overwhelmingly cite political instability as the biggest obstacle for their daily operation

Among 15 areas of the business environment, firms in Madagascar are most likely to rate political instability as the biggest obstacle for their daily operations. This reflects the fact that Madagascar is only now slowly emerging from economic stagnation following five years of political turbulence. Achieving political stability will be an important element for improving the outlook for the private sector. Firms mention poor electricity as the second biggest obstacle despite the relative scarcity of power outages shown above. Only a small percentage of firms in Madagascar see corruption as the biggest obstacle. Corruption appears to be a routine cost of doing business for the private sector.