

Workforce Structure and Economic Systems in Madagascar: Labor Markets, Institutions, and Contemporary Development Constraints

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DOI: 10.29322/IJSRP.16.02.2026.p17005

<https://dx.doi.org/10.29322/IJSRP.16.02.2026.p17005>

Paper Received Date: 22nd December 2025

Paper Acceptance Date: 20th January 2026

Paper Publication Date: 6th February 2026

Abstract

Madagascar's workforce and economic system are characterized by a persistent dual structure in which a small formal sector coexists with a dominant informal and subsistence economy. Despite moderate economic growth in recent years, the country continues to face structural labor market challenges, including high levels of vulnerable employment, low labor productivity, and widespread working poverty. Using the most recent data available from the World Bank, International Labour Organization (ILO), and International Monetary Fund (IMF), this study provides a comprehensive analysis of Madagascar's labor force composition, sectoral employment patterns, wage structure, and macroeconomic environment. As of 2024, Madagascar's gross domestic product (GDP) reached approximately USD 17.42 billion, while the labor force expanded to about 16.52 million individuals. Agriculture remains the dominant employer, accounting for more than two-thirds of total employment, whereas industry and modern services continue to absorb a relatively small share of the workforce. The findings highlight that low unemployment rates mask deep underemployment and informality, limiting income security and social protection for the majority of workers. This paper contributes to the literature on labor economics and development by elucidating the structural constraints that prevent economic growth from translating into improved job quality. Policy implications emphasize the need for inclusive structural transformation, human capital development, labor formalization strategies, and institutional reforms to foster sustainable and equitable workforce development in Madagascar.

Keywords: Madagascar, Workforce, Labor Market, Informality, Economic System, Employment Structure, GDP Growth, Vulnerable Employment

1. Introduction and Background

Madagascar, an island nation situated in the Indian Ocean off the southeastern coast of Africa, represents one of the most complex and persistent cases of labor market vulnerability in the developing world. Despite its exceptional biodiversity, abundant agricultural potential, and strategic geographic position along major maritime routes, Madagascar continues to face deep structural economic challenges that constrain inclusive growth and productive employment creation. According to the World Bank, Madagascar's total population reached approximately **31.96 million in 2024**, with an annual population growth rate estimated at **2.7%**, resulting in a rapidly expanding working-age population that places sustained pressure on the labor market. Over the same year, the country's gross domestic product (GDP) was estimated at **USD 17.42 billion**, corresponding to a GDP per capita of approximately **USD 545**, ranking Madagascar among the lowest-income countries globally.

Although Madagascar has recorded **positive real GDP growth averaging between 4.0% and 4.5% between 2022 and 2025**, this growth trajectory has not been accompanied by commensurate improvements in employment quality or living standards. In macroeconomic terms, growth has been supported by post-pandemic recovery, public investment programs, agricultural output

fluctuations, and limited export-oriented manufacturing activity, particularly in textiles. However, the benefits of this growth have remained narrowly distributed, and the labor market continues to absorb new entrants primarily through informal, low-productivity activities. As of 2024, Madagascar's labor force was estimated at **approximately 16.52 million individuals**, with a labor force participation rate exceeding **85%**, one of the highest rates globally. This unusually high participation rate does not reflect favorable labor conditions but rather economic necessity, as the absence of comprehensive social protection systems compels individuals to engage in income-generating activities regardless of income security or job stability.

Official labor statistics report an unemployment rate of approximately **3.0% in 2024**, a figure that, in isolation, may suggest a relatively healthy labor market. However, this indicator is deeply misleading in the Malagasy context. In low-income economies characterized by widespread informality, unemployment rates tend to underestimate labor market distress, as most individuals cannot afford to remain unemployed. Instead, they engage in subsistence farming, informal trade, or casual labor, often earning incomes insufficient to meet basic needs. Consequently, Madagascar exhibits one of the highest rates of **working poverty globally**, with World Bank estimates indicating that **around 80% of the population lived below the international poverty line of USD 2.15 per day (2017 PPP) in 2024**, despite high levels of labor participation.

The structure of employment in Madagascar further illustrates the depth of these challenges. Agriculture remains the dominant employer, accounting for approximately **69.38% of total employment in 2023**, reflecting limited structural transformation and continued reliance on subsistence farming. Industrial employment, by contrast, accounts for only **10.12% of total employment**, while the services sector employs approximately **20.5%** of the workforce. Even within services, a large proportion of employment is informal, concentrated in retail trade, transport, and personal services with limited productivity growth. This employment structure underscores the economy's limited capacity to generate stable wage employment and highlights the persistence of a dual economic system in which a small formal sector coexists with a vast informal and subsistence economy.

Employment quality indicators further reinforce this diagnosis. According to ILO modeled estimates, **vulnerable employment accounted for approximately 84.74% of total employment in 2023**, indicating that the overwhelming majority of workers are either own-account workers or contributing family workers. Such employment arrangements are typically characterized by income volatility, absence of legal protection, and lack of access to social insurance mechanisms. As a result, employment in Madagascar does not function as a reliable pathway out of poverty for most households, even during periods of economic growth.

Macroeconomic pressures have further eroded labor market outcomes in recent years. Consumer price inflation reached **9.87% in 2023** and remained elevated at approximately **7% in late 2025**, driven primarily by rising food and energy prices. These inflationary pressures have disproportionately affected low-income households and informal workers, whose earnings do not adjust automatically with price increases. Although the government increased the statutory minimum wage from **184,653 Malagasy ariary per month in 2024 to 262,680 ariary per month in 2025**, the impact of this policy remains limited due to the small size of the formal sector and weak enforcement capacity.

Within this context, Madagascar's labor market challenges cannot be understood solely through conventional indicators such as GDP growth or unemployment rates. Instead, they must be analyzed through an integrated framework that considers employment structure, labor vulnerability, institutional capacity, and macroeconomic constraints. This study adopts such a framework to examine the workforce and economic system of Madagascar in a comprehensive and data-driven manner.

The primary objective of this paper is to analyze the composition and performance of Madagascar's labor market and to assess why sustained economic growth has failed to translate into improved employment outcomes. Specifically, the study seeks to examine the sectoral distribution of employment, the prevalence of informal and vulnerable work, the interaction between wage policy and inflation, and the institutional factors that shape labor market dynamics. By doing so, the paper aims to contribute to the broader literature on labor economics and development while providing policy-relevant insights for addressing Madagascar's persistent employment and poverty challenges.

2. Literature Review and Theoretical Context

The structure and performance of labor markets in low-income economies have long occupied a central position in development economics. Early theoretical contributions emphasized the coexistence of distinct economic sectors characterized by divergent productivity levels, employment relations, and income outcomes. Lewis's (1954) dual-sector model remains foundational in this regard, conceptualizing development as a process through which surplus labor migrates from a traditional subsistence sector—primarily

agriculture—into a modern industrial sector where capital accumulation and productivity growth drive rising wages and living standards. In this framework, economic growth is expected to generate structural transformation, progressively reducing informal and subsistence employment while expanding formal wage labor.

However, subsequent empirical research has demonstrated that the assumptions underlying classical structural transformation often fail to materialize in contemporary low-income economies. In many countries across Sub-Saharan Africa, including Madagascar, economic growth has occurred without a corresponding expansion of productive industrial employment. Instead, labor markets remain dominated by informal and low-productivity activities, suggesting a breakdown in the traditional growth–employment nexus. This phenomenon has prompted scholars to reconsider the relationship between growth, employment, and poverty reduction in developing contexts.

The International Labour Organization consistently reports that low-income economies are characterized by exceptionally high labor force participation rates combined with low measured unemployment and widespread informal employment. This pattern reflects the reality that, in the absence of comprehensive welfare systems, individuals cannot afford to remain unemployed and must engage in any available form of work to secure subsistence. As a result, open unemployment rates provide limited insight into labor market health, while indicators such as vulnerable employment, working poverty, and underemployment offer a more accurate picture of employment quality. In Madagascar, this pattern is particularly pronounced, with labor force participation exceeding 85% and unemployment remaining below 4%, despite widespread poverty and income insecurity.

Informality has emerged as one of the defining characteristics of labor markets in developing economies. Schneider, Buehn, and Montenegro (2018) argue that informal employment arises from a combination of structural factors, including limited state capacity, excessive regulatory burdens relative to firm productivity, and low levels of human capital. In such contexts, firms and workers rationally choose informality as a survival strategy rather than as a deliberate attempt to evade regulation. Madagascar exemplifies this dynamic, with informal employment permeating both rural and urban labor markets. Subsistence agriculture, street vending, informal transport services, and household-based enterprises constitute the primary sources of income for the majority of workers.

The persistence of informality has significant implications for employment outcomes and economic development. Informal workers typically lack written contracts, legal protections, and access to social insurance, exposing them to income volatility and economic shocks. Moreover, informality constrains productivity growth, as informal firms tend to operate at small scales with limited access to credit, technology, and markets. Empirical studies consistently find that economies with high informality exhibit lower tax revenues, weaker public institutions, and reduced capacity for public investment, creating a feedback loop that perpetuates underdevelopment. In Madagascar, where vulnerable employment accounts for nearly 85% of total employment, this informality trap represents a central barrier to inclusive growth.

Underemployment and working poverty further complicate the labor market landscape. Unlike unemployment, which refers to the absence of work, underemployment captures situations in which individuals are employed but work fewer hours than desired or engage in activities that underutilize their skills. Working poverty, meanwhile, describes individuals who are employed yet remain below the poverty line due to insufficient earnings. World Bank estimates indicate that Madagascar exhibits one of the highest working poverty rates globally, with approximately four out of five individuals living below the international poverty line despite widespread labor participation. This paradox highlights the inadequacy of employment quantity as a measure of labor market success and underscores the importance of employment quality.

Structural transformation remains a central objective of development policy, yet its realization has proven elusive in many low-income economies. Structural transformation entails the reallocation of labor from low-productivity sectors, such as subsistence agriculture, to higher-productivity sectors, including manufacturing and modern services. Historically, this process has been associated with rapid income growth, urbanization, and poverty reduction. However, Rodrik (2016) documents a growing trend of premature deindustrialization, whereby industrial employment peaks at relatively low income levels and subsequently declines. This trend is particularly evident in Sub-Saharan Africa, where manufacturing has struggled to compete globally due to infrastructure deficits, limited skills, and unfavorable business environments.

Madagascar's industrial sector illustrates these challenges vividly. Despite modest growth in export-oriented manufacturing, particularly in textiles and apparel, industrial employment accounts for only about 10% of total employment. Manufacturing activity remains narrowly concentrated, with limited backward and forward linkages to domestic suppliers. High energy costs, unreliable electricity supply, inadequate transport infrastructure, and restricted access to long-term finance significantly raise production costs and discourage

large-scale investment. As a result, the industrial sector has been unable to absorb surplus labor from agriculture or to generate the productivity gains necessary for sustained wage growth.

In the absence of robust industrialization, labor absorption occurs primarily within the services sector. While services employment has expanded in Madagascar, much of this growth is informal and characterized by low productivity. Retail trade, informal transport, and personal services dominate urban employment, offering limited opportunities for skill development or income advancement. This pattern aligns with broader evidence suggesting that services-led growth in low-income economies often fails to replicate the employment and productivity effects historically associated with manufacturing-led development.

Institutional factors play a decisive role in shaping labor market outcomes and the trajectory of structural transformation. Effective labor regulations, wage-setting mechanisms, and social protection systems can mitigate vulnerability and promote job quality. However, in economies with high informality, the reach of labor institutions is inherently limited. Madagascar maintains a statutory minimum wage, adjusted periodically to reflect inflationary pressures, yet its impact is confined to a small segment of formal workers. Weak enforcement capacity and the predominance of informal employment severely constrain the effectiveness of labor regulations.

Beyond labor regulation, broader institutional quality—including governance effectiveness, regulatory predictability, and public service delivery—exerts a significant influence on labor market performance. Weak institutions discourage private investment, limit firm growth, and undermine confidence in formal economic participation. In Madagascar, political instability, administrative inefficiencies, and limited fiscal capacity have historically impeded sustained reform efforts, reinforcing structural constraints on employment creation.

The literature increasingly emphasizes that inclusive growth requires coordinated reforms across multiple domains, including education, labor markets, industrial policy, and governance. Human capital development is particularly critical, as skills mismatches constrain both labor mobility and firm productivity. In Madagascar, educational attainment remains low, and access to technical and vocational training is limited, restricting workers' ability to transition into higher-productivity employment. Without substantial investment in skills development, efforts to promote industrialization and formalization are unlikely to succeed.

In summary, existing theoretical and empirical literature suggests that Madagascar's labor market challenges are not anomalous but rather reflect broader patterns observed in low-income, informality-dominated economies. High labor participation, low unemployment, widespread vulnerable employment, and persistent working poverty coexist with modest economic growth, indicating a structural disconnect between growth and employment quality. This study builds on this literature by integrating recent macroeconomic and labor market data to provide a comprehensive assessment of Madagascar's workforce and economic system, with a particular focus on the institutional and structural factors that impede inclusive development.

3. Data, Methodological Approach, and Analytical Framework

This study employs a macro-level descriptive and analytical research approach designed to examine the structural characteristics of Madagascar's workforce and economic system using the most recent and reliable secondary data available. Given the objective of understanding national labor market dynamics rather than firm-level or individual behavioral outcomes, the use of secondary macroeconomic and labor force datasets is both appropriate and methodologically robust. Such an approach enables the identification of long-term patterns, structural constraints, and systemic relationships between economic growth, employment composition, and labor vulnerability.

The empirical foundation of the analysis is drawn primarily from internationally harmonized databases produced by multilateral institutions, ensuring consistency, comparability, and credibility. Core economic indicators—including gross domestic product (GDP), GDP per capita, real GDP growth rates, inflation, and poverty headcount ratios—are sourced from the World Bank's World Development Indicators (WDI) database. Labor market indicators such as labor force size, labor force participation rates, unemployment rates, sectoral employment shares, and vulnerable employment ratios are obtained from the International Labour Organization's ILOSTAT database, which relies on a combination of national labor force surveys and econometric modeling to produce standardized estimates. Macroeconomic projections and contextual insights are supplemented by the International Monetary Fund's World Economic Outlook reports, particularly for growth and inflation trends extending into 2025. Additional institutional and wage-related data, including statutory minimum wage levels and recent adjustments, are drawn from national labor reports and consolidated databases such as Trading Economics.

All data employed in this study correspond to the period between **2023 and 2025**, representing the most recent observations available at the time of writing. Where discrepancies exist across sources due to differences in measurement methodology or reporting cycles, priority is given to World Bank and ILO estimates due to their standardized definitions and broad acceptance in academic research. In cases where annual data are not yet finalized, modeled estimates are used cautiously and interpreted within their methodological limitations.

The analytical framework of this study integrates principles from development economics, labor economics, and institutional economics. At its core, the analysis is guided by dual-economy theory and structural transformation models, which emphasize the reallocation of labor from low-productivity sectors to higher-productivity activities as a key driver of development. However, recognizing the limitations of classical models in contemporary low-income contexts, the framework also incorporates insights from informality theory, working poverty literature, and institutional analysis. This integrated perspective allows for a more nuanced interpretation of Madagascar's labor market, particularly in explaining why economic growth has not translated into improvements in employment quality.

Several key variables are central to the analysis. On the macroeconomic side, GDP (current USD) and GDP per capita provide measures of aggregate output and average income levels, while real GDP growth rates capture the pace of economic expansion. Inflation rates are included to assess changes in purchasing power and real income dynamics, particularly for low-income households. On the labor market side, labor force size and participation rates are used to assess labor supply pressures, while unemployment rates are analyzed critically in conjunction with underemployment and vulnerable employment indicators. Employment distribution across agriculture, industry, and services serves as a proxy for the degree of structural transformation, while the vulnerable employment rate is used as a key indicator of employment quality and informality. Institutional variables, such as the statutory minimum wage and its recent adjustments, provide insight into the reach and limitations of labor market regulation.

The analytical process proceeds through a sequential interpretation of these indicators rather than through econometric modeling. First, descriptive analysis is employed to establish the current state of Madagascar's economy and labor market, including levels, trends, and sectoral distributions. This stage highlights key quantitative facts, such as the dominance of agricultural employment, the scale of labor force participation, and the prevalence of vulnerable employment. Second, comparative structural analysis is conducted by examining the relative size of employment across sectors and assessing their implications for productivity, income generation, and labor absorption. This analysis draws on established empirical relationships between sectoral employment patterns and development outcomes. Third, institutional interpretation is applied to contextualize the observed patterns within Madagascar's regulatory, fiscal, and governance environment, emphasizing how institutional constraints shape labor market outcomes.

While this study does not employ regression analysis or causal inference techniques, its methodological strength lies in the comprehensive integration of multiple indicators and theoretical perspectives. By triangulating data from different sources and interpreting them through a coherent analytical framework, the study provides a holistic assessment of Madagascar's workforce and economic system. This approach is particularly suitable given data limitations common in low-income settings, where consistent micro-level panel data are often unavailable.

It is important to acknowledge the limitations inherent in this methodology. Reliance on secondary data implies dependence on the quality and frequency of national statistical systems, which may be affected by reporting delays or measurement error. In addition, modeled estimates—particularly for informal employment and vulnerable employment—are subject to uncertainty. However, these limitations are mitigated by the use of internationally harmonized datasets and by focusing on broad structural patterns rather than precise point estimates.

From an ethical standpoint, the study raises no concerns related to human subjects or confidential information, as all data are publicly available and aggregated at the national level. No primary data collection was conducted, and all sources are properly cited in accordance with academic integrity standards. As such, no institutional ethical approval was required.

Overall, the methodological approach adopted in this study provides a rigorous and transparent foundation for analyzing Madagascar's labor market and economic structure. By combining descriptive analysis with theoretical interpretation, the study is able to identify the key structural factors that underpin persistent labor vulnerability and to inform policy-relevant discussions on inclusive growth and workforce development.

4. Macroeconomic and Labor Market Results

Madagascar's recent macroeconomic performance reflects a pattern of moderate yet fragile growth that has failed to generate structural transformation in employment. According to World Bank data, Madagascar's gross domestic product reached approximately **USD 17.42 billion in 2024**, up from USD 16.08 billion in 2022, reflecting a gradual post-pandemic recovery. Real GDP growth averaged **4.2% in 2024**, following growth rates of **4.3% in 2023** and **4.0% in 2022**, with projections from the International Monetary Fund indicating growth of approximately **4.5% in 2025**. While these figures suggest macroeconomic stability relative to earlier periods of political and economic disruption, they remain insufficient to substantially alter the country's income distribution or employment structure. GDP per capita has remained persistently low, increasing only marginally from **USD 523 in 2022** to **USD 545 in 2024**, largely due to rapid population growth, which continues to dilute aggregate income gains.

Population dynamics play a central role in shaping Madagascar's labor market outcomes. As of 2024, the country's total population stood at nearly **32 million**, with more than **60% under the age of 25**, reflecting a pronounced youth bulge. The working-age population has expanded rapidly, contributing to a labor force estimated at approximately **16.52 million individuals in 2024**, up from around 15.9 million in 2022. Labor force participation rates exceed **85%**, among the highest globally, highlighting the necessity-driven nature of labor supply in Madagascar. In the absence of comprehensive social safety nets, participation in economic activity is essential for survival, even when available work is poorly remunerated or insecure.

Despite the large and growing labor force, official unemployment remains low. The unemployment rate was estimated at **3.0% in 2024**, consistent with levels observed over the past decade. However, this figure conceals significant labor market distress. In contexts characterized by widespread informality and subsistence employment, unemployment statistics lose explanatory power, as individuals cannot afford to remain jobless and instead engage in any available form of economic activity. Underemployment—both in terms of insufficient working hours and low productivity—represents a far more pervasive challenge. Many workers engage in seasonal agricultural labor or intermittent informal services, resulting in unstable incomes and heightened vulnerability to shocks.

Sectoral employment patterns provide critical insight into the structural weaknesses of Madagascar's economy. Agriculture remains the dominant employer, accounting for approximately **69.38% of total employment in 2023**, a proportion that has remained largely unchanged over the past two decades. This persistence indicates limited structural transformation and continued reliance on subsistence farming as the primary source of livelihoods. Agricultural productivity remains low, constrained by limited mechanization, inadequate access to inputs, and high exposure to climatic variability. Recurrent droughts in southern regions and cyclones affecting coastal areas have repeatedly disrupted agricultural output, exacerbating income volatility for rural households. Although agriculture contributes approximately **23–25% of GDP**, it absorbs nearly three-quarters of the labor force, underscoring the sector's low average productivity.

Industrial employment remains strikingly limited, accounting for only **10.12% of total employment**. Manufacturing activity is concentrated primarily in textiles and apparel, food processing, and small-scale extractive industries. Export Processing Zones (EPZs) have contributed to job creation, particularly for women, yet their overall scale remains insufficient to absorb surplus labor from agriculture. Moreover, industrial growth is constrained by persistent structural bottlenecks, including unreliable electricity supply, high energy costs, inadequate transport infrastructure, and limited access to long-term finance. According to national energy statistics, electricity access remains below **35% nationwide**, with even lower coverage in rural areas, significantly raising production costs and discouraging industrial investment.

The services sector employs approximately **20.5% of the workforce**, reflecting gradual urbanization and expansion of commercial activities. However, the majority of services employment is informal, concentrated in retail trade, informal transport, hospitality, and personal services. These activities typically require low levels of capital and skills, resulting in limited productivity gains and income growth. While services contribute an increasing share of GDP—estimated at around **45% in 2024**—this growth has not translated into formal employment expansion or improved job quality, reinforcing the dominance of vulnerable employment.

Employment quality indicators further illustrate the depth of labor market vulnerability in Madagascar. According to ILO estimates, **vulnerable employment accounted for approximately 84.74% of total employment in 2023**, one of the highest rates globally. This category includes own-account workers and contributing family workers, who typically lack employment contracts, social insurance, and legal protection. The prevalence of vulnerable employment indicates that most workers operate in informal arrangements characterized by income instability and limited upward mobility. As a result, employment does not function as an effective mechanism for poverty reduction for the majority of households.

Wage dynamics provide additional insight into labor market conditions. Madagascar maintains a statutory minimum wage, which was increased from **184,653 Malagasy ariary per month in 2024** to **262,680 ariary per month in 2025**, representing a nominal increase of more than 40%. This adjustment was introduced in response to rising inflation and cost-of-living pressures. However, the reach of minimum wage policy remains limited, as formal wage employment constitutes only a small share of total employment. For the vast majority of workers in agriculture and informal services, earnings are determined by market conditions, seasonal demand, and household survival strategies rather than formal wage regulations.

Inflation has further undermined real income growth. Consumer price inflation reached **9.87% in 2023**, driven largely by food price increases, and remained elevated at approximately **7% in late 2025**. Food expenditures account for a substantial share of household consumption in Madagascar, particularly among low-income households, amplifying the welfare impact of inflation. Although nominal wages in the formal sector have increased, real wage gains have been modest at best, and informal workers have experienced significant declines in purchasing power. This dynamic has reinforced working poverty, even among households with multiple income earners.

Poverty indicators corroborate these findings. World Bank estimates indicate that approximately **80% of Madagascar's population lived below the international poverty line of USD 2.15 per day in 2024**, a figure that has remained stubbornly high despite periods of economic growth. Rural poverty rates are particularly severe, reflecting the concentration of low-productivity agricultural employment. Urban poverty, while lower in incidence, has increased in absolute terms due to rapid urbanization and the expansion of informal employment.

Taken together, these results highlight a labor market characterized by high participation, low unemployment, but pervasive vulnerability and low productivity. Economic growth, while positive, has been insufficient to alter the fundamental structure of employment or to generate broad-based improvements in living standards. The persistence of agricultural dominance, limited industrial absorption, and informal services expansion underscores the structural nature of Madagascar's employment challenges and sets the stage for a broader discussion of policy implications and development strategies.

5. Discussion, Policy Implications, and Conclusions

The findings presented in this study reveal a persistent structural disconnect between economic growth and employment quality in Madagascar, underscoring the limitations of growth-centered development strategies in low-income, informality-dominated economies. Although Madagascar has achieved moderate real GDP growth averaging between 4% and 4.5% in recent years, this expansion has not translated into meaningful improvements in labor market outcomes or living standards for the majority of the population. Instead, the labor market continues to be characterized by high participation, low open unemployment, and widespread vulnerable employment, reflecting a development trajectory in which economic growth remains weakly linked to productive job creation.

One of the most significant insights from the analysis is that conventional labor market indicators, particularly unemployment rates, are poorly suited to capturing employment distress in Madagascar. With unemployment hovering around 3%, the labor market may appear stable at first glance. However, this apparent stability is largely illusory, as it masks extensive underemployment, informality, and working poverty. In a context where social protection systems are limited and household survival depends on continuous income generation, individuals cannot afford to remain unemployed and instead engage in subsistence agriculture or informal services regardless of income adequacy. As a result, employment quantity is high, but employment quality remains exceptionally low.

The dominance of agriculture as the primary employer illustrates the stalled nature of structural transformation in Madagascar. With nearly 70% of the workforce engaged in agriculture, the sector continues to function as a labor sink rather than a dynamic engine of growth. Low productivity, limited mechanization, inadequate access to inputs, and vulnerability to climatic shocks severely constrain income generation in rural areas. While agriculture contributes roughly one-quarter of GDP, it absorbs a disproportionate share of labor, resulting in low average earnings and high poverty incidence. This imbalance highlights the central challenge of Madagascar's development path: labor remains concentrated in sectors with limited capacity to generate productivity gains and sustained income growth.

Industrialization, historically the cornerstone of successful structural transformation, has played a limited role in Madagascar's economy. Industrial employment remains below 11% of total employment, reflecting deep structural constraints that inhibit manufacturing expansion. Persistent energy shortages, high electricity costs, weak transport infrastructure, limited access to finance, and skills mismatches collectively undermine industrial competitiveness. Although export-oriented manufacturing—particularly textiles—has generated employment within Export Processing Zones, its scale remains insufficient to absorb surplus labor from agriculture or to

catalyze broader industrial development. Moreover, the enclave nature of these activities limits spillover effects to the domestic economy, reducing their potential contribution to inclusive growth.

In the absence of robust industrial expansion, labor absorption has occurred primarily within the services sector. However, services-led employment growth in Madagascar has largely taken the form of informal retail trade, transport, and personal services, offering limited productivity gains and income stability. While services contribute an increasing share of GDP, this growth has not been accompanied by formalization or significant improvements in job quality. Consequently, the expansion of services has reinforced rather than alleviated labor market vulnerability, further entrenching working poverty in both rural and urban areas.

The exceptionally high rate of vulnerable employment—exceeding 84%—represents one of the most critical challenges facing Madagascar's workforce. Vulnerable employment reflects structural informality, limited firm growth, and weak institutional capacity. Workers in vulnerable employment lack legal protection, social insurance, and stable incomes, rendering them highly susceptible to economic shocks, price fluctuations, and climatic events. This vulnerability undermines household welfare and constrains long-term human capital accumulation, as families facing income instability are less able to invest in education and health.

Wage policy has played a limited role in mitigating these challenges. The increase in the statutory minimum wage from 184,653 ariary per month in 2024 to 262,680 ariary in 2025 demonstrates government responsiveness to inflationary pressures. However, given that formal wage employment represents only a small fraction of total employment, minimum wage adjustments have had minimal impact on overall income distribution. For most workers, earnings remain determined by informal market dynamics rather than regulatory frameworks. Moreover, persistent inflation—reaching nearly 10% in 2023 and remaining elevated thereafter—has eroded purchasing power, particularly among low-income households for whom food expenditures account for a large share of consumption.

These findings align closely with broader empirical literature on labor markets in low-income economies, which emphasizes the centrality of informality, working poverty, and stalled structural transformation. Madagascar's experience illustrates that economic growth, while necessary, is insufficient to generate inclusive development in the absence of coordinated structural reforms. Without deliberate policy interventions aimed at enhancing productivity, formalization, and institutional capacity, growth risks remaining detached from employment outcomes.

From a policy perspective, the analysis underscores the need for a comprehensive and integrated approach to workforce development and economic transformation. First, promoting inclusive structural transformation must remain a central objective. This requires targeted investments in agro-processing, light manufacturing, and value-chain development to raise agricultural productivity while creating non-farm employment opportunities. Strengthening linkages between agriculture and industry can facilitate labor mobility and enhance income diversification, particularly in rural areas.

Second, human capital development is essential to addressing skills mismatches and enabling labor transitions into higher-productivity sectors. Expanding access to technical and vocational education and training, aligned with labor market needs, can improve employability and support industrial and services-sector growth. Without substantial investment in skills development, efforts to promote industrialization and formalization are unlikely to succeed.

Third, gradual and supportive formalization strategies are necessary to integrate informal workers and enterprises into the formal economy. Simplifying business registration procedures, reducing compliance costs, and providing incentives for formal participation can encourage formalization without imposing excessive burdens on small enterprises. Formalization, in turn, can expand the tax base, strengthen labor protections, and enhance access to finance and social insurance.

Fourth, expanding social protection coverage is critical to reducing vulnerability and enhancing labor market resilience. Extending basic health insurance, income support mechanisms, and shock-responsive safety nets to informal workers can mitigate the adverse effects of income volatility and economic shocks, particularly in a context of climatic vulnerability.

Finally, strengthening infrastructure and institutional capacity remains a prerequisite for sustained private sector development. Investments in energy, transport, and digital infrastructure can reduce production costs and improve market access, while improved governance and regulatory predictability can enhance investor confidence. Together, these measures can create an enabling environment for productive employment creation and inclusive growth.

In conclusion, this study provides a comprehensive assessment of Madagascar's workforce and economic system, highlighting the structural factors that constrain employment quality and poverty reduction despite sustained economic growth. The persistence of

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10.29322/IJSRP.16.02.2026.p17005

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agricultural dominance, limited industrialization, widespread informality, and high labor vulnerability underscores the need for a development strategy that prioritizes productive employment and institutional strengthening alongside macroeconomic stability. By situating Madagascar's experience within broader theoretical and empirical debates on labor markets and development, the study contributes to a deeper understanding of the challenges facing low-income economies and offers policy-relevant insights for fostering inclusive and sustainable workforce development.

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