Madagascar National AGOA Strategy

(2022-2025)

REPOBLIKAN'I MADAGASIKARA
Fitiavana - Tanindrazana - Fandrosoana

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Lexicon of Abbreviations

AAFA	American Apparel and Footwear Association
AfCFTA	African Continental Free Trade Area
AGOA	African Growth And Opportunity Act
AMCHAM	American Chamber of Commerce
APHIS	Animal and Plant Health Inspection Service
CBP	Customs and Border Protection
CITES	Convention on International Trade in Endangered Species
CMT	Cut, Make and Trim
COMESA	Common Market for Eastern and Southern Africa
CSR	Corporate Social Responsibility
C-TPAT	Customs-Trade Partnership Against Terrorism
CVS	Chief Value Synthetic
EATIH	East Africa Trade and Investment Hub
EDBM	Economic Development Board of Madagascar
EPA	Economic Partnership Agreement
EPZ	Export Processing Zone
FDA	Food and Drug Administration
FDI	Foreign Direct Investment
FSMA	Food Safety Modernization Act
GEFP	Madagascar Export Processing Companies and Partners Association
GSP	Generalized System of Preferences
HACCP	Hazard Analysis and Critical Control Point
HTS	Harmonized Tariff Schedules
ITC	International Trade Centre
MFN	Most Favored Nation
OTEXA	Office of Textiles and Apparel/U.S. Department of Commerce
PPE	Personal Protective Equipment
SADC	Southern African Development Community
SWOT	Strengths, Weaknesses, Opportunities, Threats
TFTA	Tripartite Free Trade Area
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
USITC	U.S. International Trade Commission
WRAP	Worldwide Responsible Accredited Production
WTO	World Trade Organization

Introduction

Scope

The Madagascar National AGOA Strategy covers all aspects of analysis and design necessary for the formulation of a post-COVID plan and an update of the previous National AGOA Strategy. As such, the Strategy consists of two primary components.

- ❖ First is an assessment of the COVID-19 impact on Madagascar and AGOA-related sectors. Contingency plans are offered for companies to navigate the COVID-19 shock and attendant challenges to industries in Madagascar, to remain viable in the short-term, and to maintain their competitiveness in order to ensure sustainable trade with the United States under AGOA and beyond. The COVID-19 assessment is a foundational document to the AGOA Strategy update.

The analysis identifies supply and demand shocks due to the pandemic as well as public policies implemented in Madagascar and in destination markets affecting operations, survival and growth of the AGOA priority sectors; assesses the impact of the pandemic on value chain disruptions, access to inputs, changes in buyers' market conditions, and other factors that affect operations, survival and growth of the AGOA priority sectors; and analyzes the potential for a sustainable diversification of production in Madagascar, including towards personal protective equipment (PPE).

- ❖ Second is an update of Madagascar's AGOA strategy, with the goal of developing a road map for the Government of Madagascar to maximize the benefits under AGOA and to implement this strategy to penetrate the U.S. market. The AGOA Strategy identifies the key gaps in private sector comprehension of the AGOA mechanism and U.S. market trends, and formulates plans to correct these deficiencies.

The AGOA Strategy consists of a selection of sectors and products with the greatest market potential in the United States. When considering viability for the AGOA market, attention was given to regulatory requirements, standards and related certifications that are needed to enter the U.S. market and highlights the steps necessary for current and potential manufacturers to meet the relevant rules of origin and market-entry requirements.

A review of lessons-learned from other countries that have successfully taken advantage of AGOA was also analyzed for benchmarking purposes. The AGOA Strategy looks at best practices and underscores key success factors to be considered and implemented.

Finally, and most critically, the AGOA Strategy outlines how Madagascar must position itself in the next 3 years to build its competitiveness in preparation for a possible post-AGOA trade environment.

Methodology

The methodology employed in this study included:

- ❖ Comprehensive desk research of secondary information and reports, including review of latest sector studies, government pronouncements, policy guidelines and current trade literature;

- ❖ Analysis of current economic and trade figures and trends;

- ❖ Mapping of key AGOA stakeholders, including those that will drive the strategy; and

- ❖ Interviews of AGOA stakeholders, including exporters, importers, government officials, relevant trade institutions and associations, development partners, and service providers.

Background

The African Growth and Opportunity Act (AGOA) is the single most impactful trade agreement in Sub-Saharan Africa. AGOA, a U.S. law enacted in 2000, is a non-reciprocal trade preference program available to eligible African countries. AGOA expanded the product coverage of the Generalized System of Preferences (GSP) by an additional 1,500 product categories, most notably textiles and apparel. AGOA has had several extensions, most recently in 2015 when it was extended for 10 years, until 2025.

Madagascar was an early recipient of AGOA, which led to impressive growth in its exports to the United States. From 2000 to 2009, Madagascar was one of the major exporters of apparel to the United States, along with Lesotho, Kenya and Mauritius. The negative impact of the end of the Multi-Fiber Agreement in 2005 - which eliminated quotas on textiles and apparel products worldwide - on Madagascar's exports of apparel to the United States was mitigated by the fact that several firms gained preferred supplier status with major U.S. brands and retailers. As a result, Madagascar became the second largest supplier of apparel under AGOA behind Lesotho. In 2007, 99% of Madagascar's total exports under AGOA were composed of articles of apparel.

Unfortunately, due to political turmoil unleashed by a coup in Madagascar in 2009, the country lost its AGOA eligibility in 2010. Madagascar's suspension from AGOA had an immediate and destructive impact on the textile and apparel industry. It is estimated that 30,000 formal jobs were lost. However, many apparel companies were able to maintain access to other markets such as South Africa and the European Union.

After political reforms and a return to a more stable political environment, Madagascar regained its AGOA eligibility in 2014. During the 4-year hiatus, Madagascar's textile and apparel exports to the United States dropped appreciably. Since 2014, Madagascar's textile and apparel exports under AGOA rose steadily until 2020, when COVID-19 ground exports to a halt. The country experienced a significant slowdown in economic growth in the immediate aftermath of the COVIS-19 related shutdown but has since recovered somewhat. But Madagascar urgently needs assistance to help these sectors plan for their long-term recovery from the COVID-19 crisis.

Madagascar also needs to maintain a positive trajectory on AGOA eligibility rules in order to keep qualifying each year for AGOA privileges. Countries are reviewed annually and in certain cases have been placed on watchlists ahead of losing eligibility. Ethiopia's recent exclusion from the list of AGOA-eligible countries highlights the need for each country to establish, or show they are making continual progress toward establishing the following: market-based economies; the rule of law and political pluralism; elimination of barriers to U.S. trade and investment; protection of intellectual property; efforts to combat corruption; policies to reduce poverty, increasing availability of health care and educational opportunities; protection of human rights and worker rights; and elimination of certain child labor practices.

Current Context: A New AGOA Strategy

In preparation for Madagascar's regaining AGOA eligibility, the government in 2013 commissioned the development of a National AGOA Strategy. With the objective of supporting the ability of Madagascar's firms to successfully sell into the U.S. market, leveraging every opportunity that AGOA provides, the strategy explored the country's competitive advantages vis-à-vis the U.S. market in specific sectors and product categories.

Now 8 years old, the current Madagascar AGOA Strategy needs to be renewed to reflect new dynamics, including impacts from COVID-19, a changed global competitive landscape and, perhaps most importantly, to prepare for a post-AGOA trade environment.

Assessing the COVID-19 Impact

The AGOA Strategy first needs to address the new realities of the COVID-19 pandemic on the country's economy, as well as ramifications of the changing global landscape on key AGOA priority sectors, including textiles and apparel. Companies need to be able to navigate the COVID-19 shock and attendant challenges to industries in Madagascar, to remain viable in the short-term, and to maintain their competitiveness in order to ensure sustainable trade with the United States under AGOA and beyond.

There can be no discussion of a way forward under AGOA without considering the considerable challenges being imposed by the current COVID-19 crisis, which hit the apparel sector particularly hard globally**.** Indeed, rapidly changing dynamics have occurred within the global apparel sector as a result of the pandemic. Facing the massive economic impact of partially closed economies in many parts of the world - most pronounced in the United States - many leading brands and retailers, including those with significant sourcing from Madagascar, canceled or delayed orders.

As Chinese factories began to close in early 2020, there was an inevitable ripple effect among major apparel supplier countries. It is to be noted that Madagascar relies heavily on raw material imports from China. One industry leader estimates that apparel manufacturers in Madagascar import 90% of their inputs from China. Concurrently, as demand in the United States slumped and amid retail shutdowns due to a rapid spread of the coronavirus, many factories in apparel producing countries, Madagascar included, announced temporary factory closures.

Beginning in early 2020, the declines in worldwide apparel exports were acute. According to the U.S. Department of Commerce's Office of Textiles and Apparel, total U.S. apparel imports from the world declined by 60% in May 2020 versus the same month in the previous year.

For the full year 2020, Madagascar's apparel exports to the United States dropped by 18%.

Country	Jan-Dec 2019		Jan-Dec 2020		% Growth	
	MSME	**$ million**	MSME	**$ million**	MSME	**$ million**
Ethiopia	81.979	$210.847	87.454	$223.063	6.68%	5.79%
Ghana	6.386	$17.327	3.370	$9.631	-47.23%	-44.42%
Kenya	114.67	$453.725	102.843	$385.008	-10.31%	-15.15%
Lesotho	65.377	$303.416	54.843	$257.517	-16.11%	-15.13%
Madagascar	64.256	$243.316	53.987	$199.773	-15.98%	-17.90%
Mauritius	17.989	$139.882	11.251	$88.283	-37.46%	-36.89%
South Africa	1.148	$8.574	0.993	$7.674	-13.50%	-10.50%
Tanzania	19.191	$52.236	14.418	$39.519	-24.87%	-24.35%
Subtotal of 8 Visa Countries	**370.996**	**$1,429.323**	**329.159**	**$1,210.468**	**-11.28%**	**-15.31%**
Rest of Africa	**1.878**	**$5.607**	**1.605**	**$5.876**	**-14.54%**	**4.80%**
Total	**372.874**	**$1,434.930**	**330.764**	**$1,216.344**	**-11.29%**	**-15.23%**

Source: African Coalition for Trade (ACT), March 1, 2021

As dramatic as these drops were, it bears noting that the losses flattened out in Q4 2020, and in the first quarter of 2022 apparel exports have surpassed the pre-pandemic levels of Q1 2020 by over 50 percent. Still the bounce back has been uneven, with some companies able to navigate the uncertainties better than others.

It is an open question as to when the global sector will begin to normalize, and how long it will take for the industry to return to pre-pandemic levels. The COVID-19 shock is unprecedented. According to the American Apparel and Footwear Association (AAFA), retail sales in the United States at the height of the pandemic in 2020 were down appreciably - nearly 84% in April, 62% in May and 25% in June.

For many countries, production of personal protective equipment (PPE), especially masks and medical gowns, has provided a buffer to the COVID-19 shock. Many U.S. textile and apparel companies pivoted into PPE, creating new product opportunities.

At the outset of the pandemic, curfews were in place in Madagascar, but there were no factory closures. Some factories interviewed did close for 1-2 weeks however, to come to grips with the situation and organize themselves. Other factories in Madagascar remained closed longer. One company received a permit from the government to supply masks locally and reopened after one week.

The country was effectively in lockdown for over a year from Q2, 2020, with no public transport operating. Some factories were able to provide private transportation, but this was limited in scope. As a result, factories faced high absenteeism. Some apparel manufacturers complained about the limited scope of government assistance to help them survive the pandemic, beyond offering temporary tax abatements and access to lenders. Early on in the pandemic, companies reported that getting new orders from buyers was challenging, while in many cases existing orders faced the possibility of cancellation (particularly over a 2-month period in early 2020). In some cases, suppliers had to negotiate payment terms and rescheduling shipments, particularly with U.S. customers. Several companies complained about excessive payment delays (even no payment until the end of 2020) by some U.S. buyers which caused problems in meeting Madagascar's foreign exchange repatriation rules.

While sourcing of trims and other inputs was a challenge in 2020 – approximately half of Madagascar's imports in the textiles and apparel sector are from China - normalization in China ensured that this was a short-term phenomenon.

Madagascar: Country Source of Imports in Textiles and Apparel Sector

	2019	2020	2021
China	50.4%	47.3%	47.9%
Mauritius	12.5%	15.9%	16.1%
EU	10.3%	8.7%	9.2%
India	5.8%	5.9%	5.7%

France	3.1%	4.1%	3.2%
Italy	2.5%	3.2%	2.0%
Taiwan	2.6%	2.1%	1.9%
Pakistan	2.8%	2.1%	3.4%
Belgium	1.2%	1.6%	1.4%
S. Korea	0.7%	1.3%	1.8%
Other	8.2%	7.8%	8.4%
Total	100.0%	100.0%	100.0%

Source: Madagascar Customs

Still, logistics difficulties became a major issue, with small volumes necessarily going via air instead of sea, a more costly option that was also challenged by the reduced number of flights at the height of the pandemic**.**

Imports of yarns and fabrics dropped appreciably during the first-half of 2020 as a result of global supply chain disruptions. Imports of fabrics that are critical to cut, make and trim (CMT) operations in Madagascar fell by over half.

Madagascar Yarn and Fabric Imports (figures in $ thousands)

YARNS	2017	2018	2019	2020 (Jan – June)
Total exports	35	27	50	22
Total imports	22,755	21,392	16,276	6,397

FABRICS	2017	2018	2019	2020 (Jan – June)
Total exports	1,154	986	820	227
Total imports	77,738	89,783	87,830	40,851

Source: Madagascar Customs

The operating environment that was already difficult before the pandemic has become even more complicated. In spite of this, factories are adapting: adjusting operations, mandating masks for employees, and enforcing social distancing measures. However, the biggest shock is the global market hit, compounded by the uncertainty around if and when demand and business will normalize.

Some companies in Madagascar are open to shifting to PPE production, but the non-woven fabrics required for PPE must be imported from China, which presents logistical challenges. For many, the need to import fabric means investments would be required to expand into the PPE business and the risk-reward ratio in Madagascar is too high for their comfort. The question companies are grappling with is: how solid is demand for PPE products?

The estimated demand for disposable masks in the United States alone is over $1 billion per year (3 million masks/day at $1/mask). The global PPE market was valued at more than $30 billion in 2018 and is projected to double – to over $65 billion - by 2024.[1] In the United States alone, the facemask market is expected to reach over $556 million by 2024.[2]

Besides masks, companies will need to make adjustments to their machines to enter into PPE production. Companies that are producing woven products can shift to washable PPE (coveralls, blouses, scrubs). Other factories will only be able to do masks if they make substantial investments in machinery. The question these companies face is this: does the demand for PPE justify these investments? It is an open question as to how long this surge in demand for PPE is likely to last. Then the question becomes: If this is a short-term

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[1] *" Worldwide Personal Protective Equipment Market (2019 to 2024) - Mergers, Acquisitions, Agreements and Collaborations", Globe Newswire, April 28, 2020 https://finance.yahoo.com/news/worldwide-personal-protective-equipment-market-095858521.html*

[2] *US Face Mask (Surgical, Protective/N95, Dust) Market: Insights & Forecast with Potential Impact of COVID-19 (2020-2024), Koncept Analytics, April 2020*

phenomenon, will the demand still be there by the time these companies adapt their equipment and product lines? And can Malagasy companies compete head-to-head with Asian suppliers of PPE?

The other strategy, one employed by several companies interviewed for this study, is to rationalize operations and ride out the crisis with current buyers, until such time as conditions normalize.

Companies in Madagascar are monitoring the long-term prospects for PPE, but at the same time they must take into consideration the growth prospects via-a-vis other traditional products. Switching over to PPE is not a simple exercise, it takes strategic planning, new investments, dedication of existing factory capacity, and sustainable and secure business relationships with buyers to ensure profitability. So, this ultimately involves a choice based on opportunity and cost at the factory level.

The new challenges brought about by the COVID-19 pandemic to companies operating within the sector include significant disruptions in the global supply chain. Slowing demand for apparel in export markets, especially the United States, has forced companies to rationalize production. Factories also do not have experience in sourcing the necessary raw materials and equipment for PPE, and there is a lack of information on demand for PPEs, so manufacturers are unable to gauge appropriate resources and capacity needed for production. Finally, the global economic downturn has resulted in a liquidity crisis that has hindered factories' ability to "retool" for PPE production.

Beyond PPE and more broadly, the adverse effects of a depressed retail environment and reduced consumer demand within the sector globally cannot be overstated. A report by McKinsey & Company[3] found that two-thirds of sourcing executives expected a cut in sourcing by at least 20% in the second quarter of 2020, while nearly a quarter expected their sourcing volumes to be slashed by nearly half. It is important to note that this was a survey of companies in real time during the height of the pandemic, reflecting a projection of future sourcing. Year-end 2020 figures suggest that this outlook was perhaps overly pessimistic, as U.S. apparel imports worldwide did begin to show normalization going into 2021.

The study also found that 11% of buyers in the United States canceled more than half of their orders. On the flip side, they reported that their suppliers had difficulty meeting their orders: more than half reported that their suppliers were only able to partially deliver orders, while 7% were not able to supply at all. The situation led to delays, causing an overwhelming majority (90%) of buyers to accept shipping delays on some of their orders.

While the current crisis necessarily focuses companies on survival in the immediate term, it is also forcing retailers and brands to rethink their business models and strategies. With supply chain disruptions and increased lead times, especially from China, the McKinsey

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[3] *"Time for Change: How to Use the Crisis to Make Fashion Sourcing More Agile and Sustainable", McKinsey & Company, May 2020*

study found that sourcing executives are increasingly looking closer to home for their sourcing needs. Indeed, nearly half of the sourcing executives expected this *nearshoring* trend to increase in the next year. Nearshoring allows for speed to market, flexibility, and smaller orders that are effectively demand-driven. This requires countries to be nimbler and have more integrated value chains.

A recent *Sourcing Journal* article[4] argues that the current crisis offers an opportunity for the sector to change for the better. "Fashion, like the disposable $1 face mask, is reliant on countries with low cost and low-tech factories. The system goal is efficiency, built on lowest-cost labor and materials to absorb extreme uncertainty in timing, pricing, discounting and cycling volume inventory." The argument is that the COVID-19 crisis has magnified this outdated model, and perhaps as we emerge from it so too will a new paradigm for the sector. In effect, low cost is replaced by flexibility, adaptability and speed to market as the prime driver of the industry moving forward. "Industry upside is upstream; that is, untapped value is in the 'first mile' closest to factories, materials and workers. It is where levers for speed and flexibility deploy to significantly reduce risk and uncertainty."

Possible longer-term trends that can be anticipated include**:**

- ❖ Buyers will increasingly value having fabric and garments in the same country. As a result, vertically integrated companies will fare best;
- ❖ There will be a trend to simplify logistics. The move away from China will continue as buyers look to lessen their dependence on Chinese suppliers;
- ❖ On-line sales will grow. As consumer mindsets and shopping habits change, the shift to Internet shopping will intensify;
- ❖ Production will adapt to meet new realities (masking and social distancing of workers), and there will be new ways of working, including less travel and more processes on-line.

There appears to be good recognition of these trends on the part of companies in Madagascar. The question is: can Madagascar adequately adapt to these new realities and compete in this new environment. Of positive note is that several manufacturers in Madagascar interviewed for this study have invested in modern equipment, even during

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[4] *"Can Fashion Finally Break Up With its Low-Cost Addiction and Reboot for an Agile Future?", Sourcing Journal, April 22, 2020*

the lockdown, to increase their capacity and prepare themselves for a post-COVID competitive landscape.

AGOA Strategy

Country Overview

Madagascar is a large island nation in the Indian Ocean. Despite having considerable natural resources, it is one of the world's poorest countries. Madagascar has a population of approximately 27 million, more than two thirds of which is under the age of 25.

Successful elections in late 2013 led to the formation of Madagascar's first democratic government since a coup in 2009. Subsequently, the United States took steps to normalize relations with Madagascar, lifting all coup-related restrictions on direct assistance to the Government of Madagascar.

Madagascar's AGOA eligibility, removed in 2010, was also reinstated. That decision recognized the nation's return to democratic rule and its commitment to promote transparency, combat corruption, and rebuild Madagascar's economy.

President Andry Rajoelina was elected in November 2018 and took office in January 2019, notably marking the first consecutive democratic handover of political power in the country's history.

Economy

After discarding socialist economic policies in the mid-1990s, Madagascar followed a World Bank- and IMF-led policy of privatization and liberalization. This strategy placed the country on a slow and steady growth path from an extremely low level of development. Agriculture, including fishing and forestry, is a mainstay of the economy, accounting for more than one-fourth of GDP and employing 80% of the population[5]. Overall, economic growth in Madagascar since independence in 1960 has not been able to keep pace with population growth. As a result, real GDP per capita has progressively fallen since independence. The World Bank estimates that the average Malagasy is 41 percent poorer today than in 1961.

A return to political stability has been instrumental to Madagascar's economic revival over the past several years. Indeed, prior to the COVID-19 pandemic, Madagascar was on an upward growth trajectory. Following a prolonged period of political instability and economic stagnation, growth accelerated to reach an estimated 4.4% in 2019 according to the World Bank, its fastest pace in over a decade.

Unfortunately, the impact of the COVID-19 pandemic resulted in a recession in 2020, one comparable to that experienced during the political crisis in 2009, reversing close to a decade of growth and poverty reduction.

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[5] *www.agoa.info, Madagascar Profile*

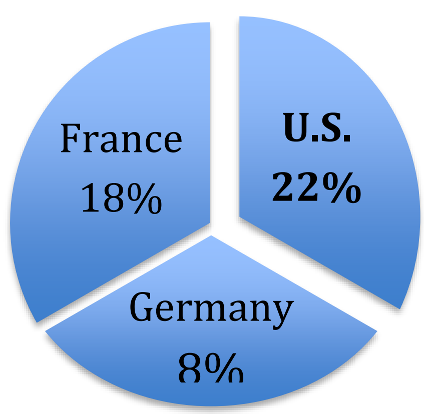
The pandemic caused travel disruptions and dislocation of global trade, which severely impacted previously high-performing sectors in Madagascar. This is reflected in a sharp contraction in export revenues, particularly in apparel, mining, and tourism, which prior to the crisis were key growth sectors in the economy.

The World Bank estimates that GDP contracted by 4.3% in 2020 (compared to an estimated growth rate of 5.2% just prior to the outbreak). According to the World Bank, 1.38 million people were pushed into extreme poverty due to COVID-19 related job losses in key manufacturing and service sectors, exacerbated by lockdowns in major cities that led to loss of income for informal workers. The economy rebounded partially in 2021 and exports in several sectors returned to pre-pandemic levels and beyond.

As an island nation, international trade is critical to Madagascar's economy. Indeed, export-oriented sectors such as mining and those located in export processing zones – most notably textiles and apparel – are important contributors to the country's economy. According to the World Bank, Madagascar's exports increased from 22 percent of GDP in 2009 to 35 percent of GDP in 2017. These sectors are also the key drivers of job creation – in the case of textiles and apparel sector, particularly in the urban areas.

Prior to 2009, Madagascar's overall exports were largely destined for the EU and the United States. As access to the United States was interrupted between 2010 and 2014 due to loss of AGOA eligibility, companies - especially in the textiles and apparel sector - adapted by diversifying their export bases. While new export destinations included South Africa, India and Japan, the EU and United States still dominate Madagascar's export markets.

Top Export Markets



Source: Atlas of Economic Complexity, Harvard University

Exports of apparel boomed primarily due to duty-free access to the United States afforded by AGOA. While exports dropped appreciably starting in 2010, a number of factories were able to survive after obtaining contracts with buyers from elsewhere, notably Europe, Canada, and South Africa. AGOA reinstatement in 2014 resulted in steady and impressive growth of apparel exports following progressive reopening of factories. This resulted in a new distribution of market share, defined by rapid growth of exports to the United States. In 2018, the United States became the single largest export market for apparel (as well as total exports), but the EU is still the largest collective market for Madagascar's apparel exports (over 50% of total apparel exports through 2020).

The political crisis from 2009 to 2014 resulted in a lack of strategic orientation and investment in Madagascar. Few new policies and strategies were formulated and published in the aftermath. In the last two years, the government has promoted the development of industrial zones and regional industrialization through the One District One Factory strategy and the development of the handicraft sector as part of Madagascar's overall development strategy.

One planned project in the textiles and apparel sector includes creation of a new export processing zone, Antsiranana EPZ, located in the province of Antsiranana at the Northeastern tip of the island. The government acquired 2,000 hectares of land and upon completion is expected to employ up to 200,000 people. It must be noted that there is no readily available electricity in this part of the country, the roads are in disrepair, and while there is a small seaport, it is currently not accessible to container vessels. As such, the Antsiranana EPZ is considered a long-term project.

The government is instead prioritizing the Moramanga textile industrial park in the east, 160 miles from the port of Toamasina (formerly known as Tamatave). This "Textile City" in Moramanga - sixty miles east of Antananarivo on the road to Toamasina, the main container port in Madagascar[6] - is being developed with the Government of Mauritius as a strategic partner[7]. That said, while some preliminary work on this project has commenced, the major infrastructure investments in water and electricity to supply the industrial park tenants are still pending. An MOU was signed between the governments of Madagascar and Mauritius in 2019. The latter will develop 80ha (nearly 200 acres) within the park. Project planners hope that work can be completed within two years following the securing of land and water, electricity and sewage services. The Ministry of Industry, Commerce and Consumption (MICC) remains the project leader (unless the administration makes a change), the Economic Development Board of Madagascar (EDBM) is the technical lead, and SONAPAR, the national shareholding company, is the exploiting entity since its appointment in February 2021. To date, few expressions of interests have been obtained to establish the electricity and water parts of the project. The project leader prefers clean energy should an opportunity arise. The Madagascar side is actively looking for other developers to build out the remaining plot in the park. The government has expressed confidence in its 2023 completion target, despite slow decision-making hindering progress and increasing private sector skepticism.

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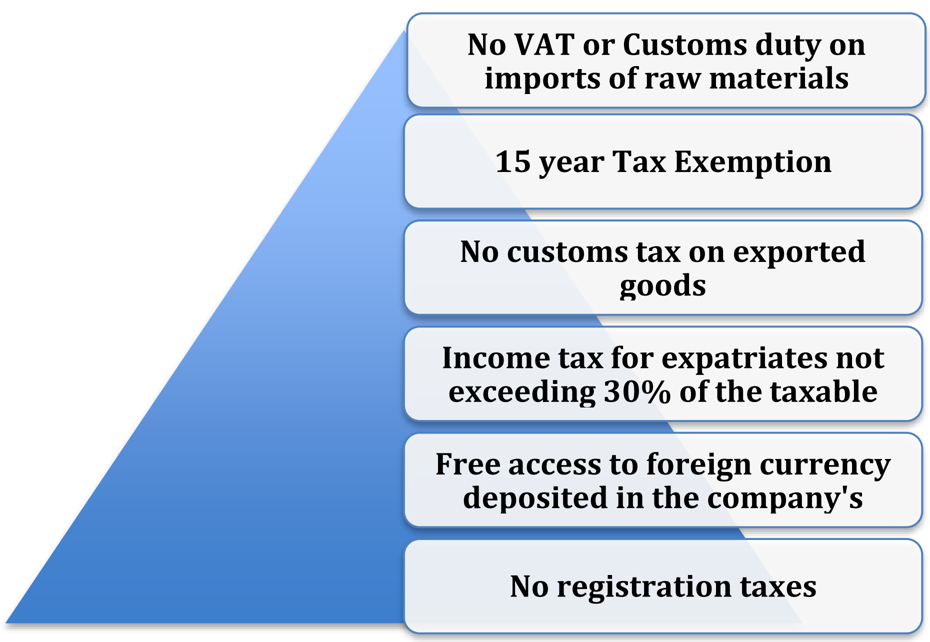
[6] *Fort-Dauphin (Taolagnaro) and Majunga are the other container ports*

[7] *Mauritius is the first to express interest as a developer but the Malagasy government hopes other developers, either private or public, to contribute.*

Madagascar's main port Toamasina handles all of the country's container traffic. It is connected to the capital Antananarivo via a national two-lane 352 km road and by rail. On average, it takes eight hours to drive from Antananarivo to Toamasina and this is a hurdle for exporters in terms of the time and cost from factory to port – specifically, longer lead times both in terms of exporting and importing inputs, resulting in lower efficiencies and higher costs. The government has announced it will build a highway to reduce the costs, but this promise has not yet been fulfilled. Fixing this issue is imperative given the importance of the port to Madagascar's exports. The port's global traffic is estimated to be 1.7 million tons per year, of which 70% is containerized. Since 2005, the container terminal has been operated by private operator MICTSL (Madagascar International Container Terminal Services Ltd.).

A Toamasina port expansion project funded by the Japan International Cooperation Agency (JICA) currently underway will allow the berthing of bigger vessels so that the country can compete more effectively with Port Louis (Mauritius) as a main Indian Ocean port hub. When completed, the port expansion is estimated to reduce transit times by at least 48-72 hours for imports and exports. Projected deadlines (year in parentheses) are as follows: development of three container storage areas with a total area of 19ha (2022); extension of the breakwater (2023); construction of a new container dock of 470m length and 16m draft (2024); deepening of three existing quays to 14m to 16m draft (2026).

EPZ Regulations (Zone Franche). Madagascar's EPZ law was enacted in 2007 and is under the jurisdiction of the EDBM. The following advantages and tax incentives are granted to EPZ companies:



The government also allows EPZ operators to sell up to 5% of their production in the local market.

Other Trade Agreements

COMESA. Madagascar is a member of the Common Market for Eastern and Southern Africa (COMESA), a regional free trade area comprising 21 countries. COMESA as a regional bloc maintains a bilateral agreement with the United States to develop trade and investment relations.

Tripartite Free Trade Area Agreement. In 2017, Madagascar signed the Tripartite Free Trade Area Agreement (TFFA), which effectively links three regional economic blocs, the East African Community (EAC), COMESA, and the Southern African Development Community (SADC).

African Continental Free Trade Area. Madagascar is a signatory to the African Continental Free Trade Area (AfCFTA), a continent-wide free trade area that will come into effect when all 55 African countries ratify the agreement. As of early 2021, Madagascar was not among the 36 countries that have deposited their instruments of ratification. However, the trading under the AfCFTA agreement began on January 1, 2021.

Economic Partnership Agreement. Madagascar has an Economic Partnership Agreement (EPA) with the EU that allows for duty-free entry of products from Madagascar to the EU market.

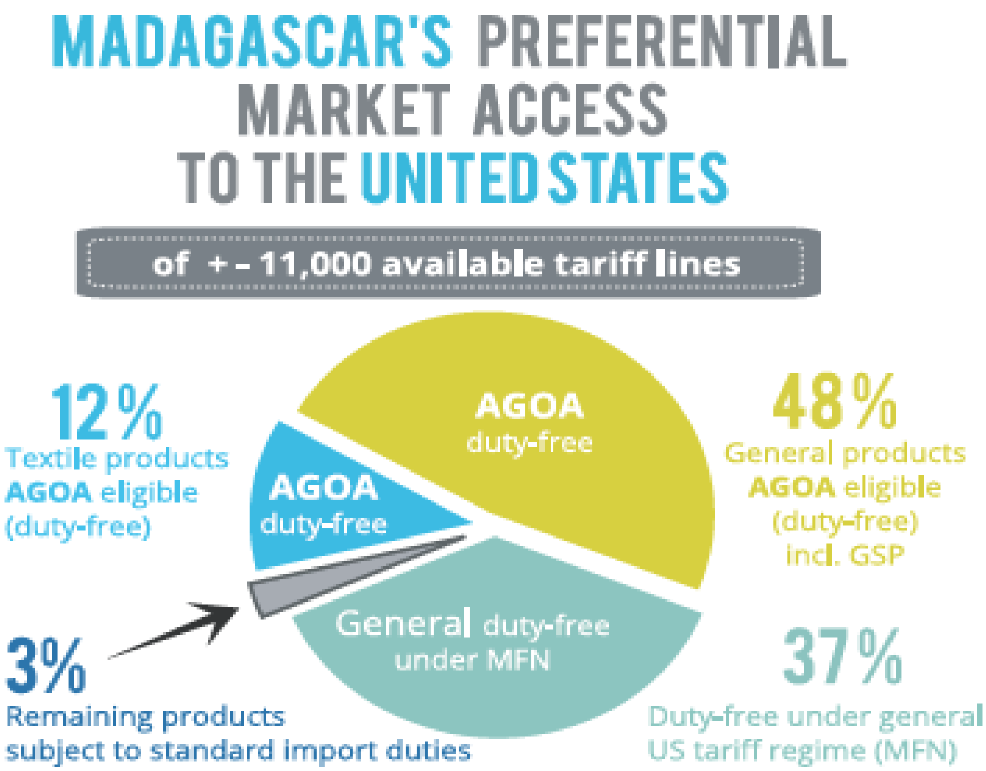
Generalized System of Preferences (GSP)

The Generalized System of Preferences (GSP), established by the Trade Act of 1974, is the oldest and most comprehensive U.S. trade preference program. As such, it pre-dates AGOA. GSP eliminates duties on thousands of products when imported from a designated beneficiary country. GSP allows duty-free entry into the United States for approximately 5,000 products. GSP eligible countries receive the same treatment, e.g., if countries A and B are GSP eligible, vanilla from country A does not get preferential treatment over vanilla from country B – both get duty-free benefits.

AGOA adds an additional 1,500 products to the existing GSP list, most notably textiles and apparel articles, but also including items such as luggage, footwear, handbags, watches, automotive components, etc. As such, AGOA is often referred to as GSP+. All AGOA-eligible countries are also GSP eligible. Hence, all AGOA-eligible countries can export 6,500 products to the United States duty-free. Indeed, virtually all exportable products from Madagascar can enter the United States duty-free, either via GSP or AGOA.

When looking up a specific product in the U.S. Harmonized Tariff Schedule (HTS), the code "A" in the "Special" tariff column identifies articles that are GSP eligible. "A+" indicates products eligible for least developed beneficiary developing countries under GSP. And "D" indicates AGOA eligibility. Sometimes the HTS can lead to confusion among exporters. It is important to note that an item indicated as "not eligible" for AGOA is still exempt from import duty if it is indicated as "eligible" under GSP (or alternatively the import duty is already zero under the so called most favored nation principle (MFN) under the WTO). Stated more clearly, the product in this example may be listed as “ineligible” for AGOA because it already attracts a zero-duty rate; bottom line is that it enters the U.S duty-free.

With respect to Madagascar, items like vanilla, agricultural, and mining products enter the United States under GSP, whereas textiles and apparel articles comes in under AGOA.



Source: www.agoa.info

Because the majority of Madagascar’s AGOA exports consist of apparel, those products would no longer benefit from duty-free entry into the United States were AGOA to lapse.

African Growth and Opportunity Act (AGOA)

The African Growth and Opportunity Act is a U.S. law enacted in 2000 that allows for duty-free export to the United States of a wide range of products, including textiles and apparel, from eligible African countries. As mentioned above, AGOA built upon the previous GSP program, by adding more product categories (most notably apparel) that can enter the

United States duty-free. As such, GSP and AGOA are complementary. Just as the loss of AGOA would be detrimental to Madagascar, so too would the loss of GSP.

Since enactment, there have been 4 extensions of the AGOA legislation. Currently, AGOA is in effect until September 2025.

Date	AGOA act	Summary
2000	AGOA	Provided beneficiary countries in Sub-Saharan Africa with the most liberal access to the U.S market available to any country or region with which the United States does not have a free trade agreement. Madagascar was eligible as of 2000
2002	AGOA II	Additional textile provisions
2004	AGOA III	Extended AGOA until Sept. 2015 and the third country fabric provision until Sept. 2007; increased emphasis on US technical assistance in agriculture
2006	AGOA IV	Extended third country fabric provision until 2012 and adds abundant supply provisions
2010		January 1, Madagascar is removed from AGOA
2012	AGOA IV (cont'd)	Extended third country fabric provision until September 2015
2014		June 26, Madagascar is reinstated as an AGOA eligible country
2015		Extended AGOA for an additional 10 years, until 2025

Rules of Origin

AGOA is a unilateral and non-reciprocal trade preference program. As such, the terms to receive AGOA's duty-free benefits are not onerous, and its rules of origin requirements are quite liberal. There is a 35% local content requirement for all non-textiles and apparel products entering the United States under AGOA.

Textiles and apparel products are treated differently under AGOA and have separate rules of origin requirements. Rules of origin for apparel exports allow for importation of fabrics from anywhere in the world - the so called *"third country fabric provision"* - which can then be transformed into garments and other finished products and imported into the United

States duty-free under AGOA. (See Annex for a more detailed description of the: 1) general (non-textile and apparel) and 2) textiles and apparel rules of origin requirements.)

AGOA-eligible countries must also achieve specific textile and apparel eligibility in order to be able to export these products duty-free. A country achieves this through the establishment of a visa system that effectively guards against trans-shipment. Madagascar is one of the early countries to be granted textiles and apparel eligibility under AGOA.

Madagascar and AGOA

Madagascar was designated an AGOA beneficiary country on October 2, 2000. AGOA benefits were subsequently granted in 2001 to Madagascar's textiles and apparel sector upon completion of an effective visa system to guard against trans-shipment.[8]

Madagascar was an early recipient of AGOA, which led to impressive growth in its exports to the United States. From 2000 to 2009, Madagascar was one of the major exporters of apparel to the United States, along with Lesotho, Kenya and Mauritius. The end of the Multi-Fiber Agreement in 2005 - which eliminated quotas on textiles and apparel products worldwide – had an adverse impact on Madagascar's exports of apparel to the United States, as it did on most apparel exporting countries outside of China. When quotas were removed, China - no longer restricted by an export volume ceiling - flooded the market with apparel, squeezing other countries with its massive supply capacity. This effect was however mitigated by the fact that several firms gained preferred supplier status with some major U.S. brands and retailers. As a result, Madagascar became the second largest supplier of apparel under AGOA behind Lesotho. In 2007, 99% of Madagascar's total exports under AGOA were composed of articles of apparel.

Export Performance Under AGOA

As shown below, Madagascar's exports to the United States declined sharply when it was suspended from AGOA preferences in 2010, but exports have increased significantly since reinstatement in 2014.

Since the resumption of AGOA benefits, Madagascar's exports to the United States doubled between 2015 and 2016 and increased by nearly 60% between 2016 and 2017. Exports to the United States increased further by 20 percent in 2018 before dipping slightly in 2019. The shutdown and trade disruptions of 2020 took a toll which saw exports decline sharply by 27.4 percent before rebounding slightly in 2021.

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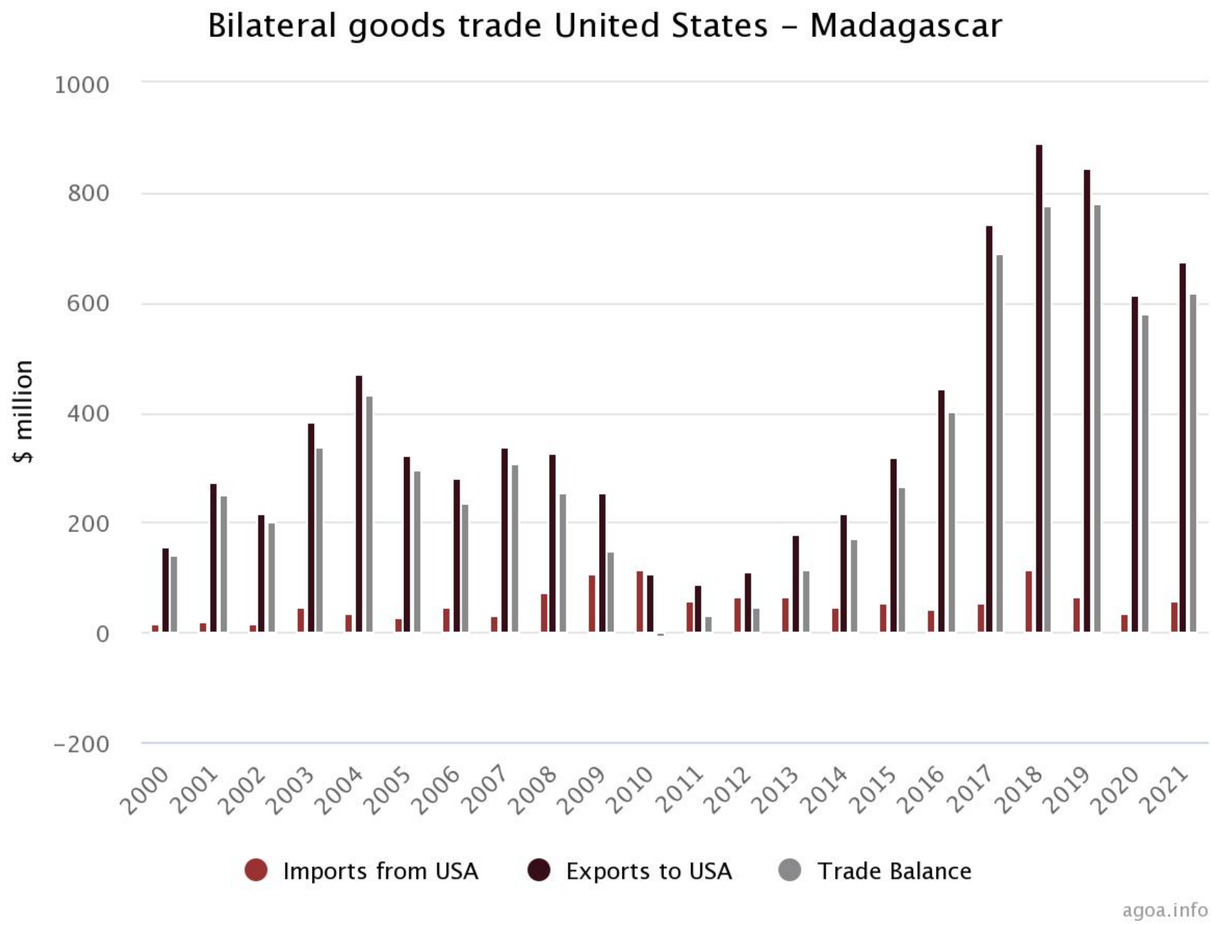
[8] *For example, an export from China (which does not have a duty-free preference program with the U.S.) that is destined for the U.S. but is "transshipped" through Madagascar in an effort to fraudulently claim status as an export from Madagascar and thereby benefit from Madagascar's duty-free preference with the U.S. under AGOA would be illegal.*



U.S. imports under AGOA (excluding GSP), by leading source market, 2016–21

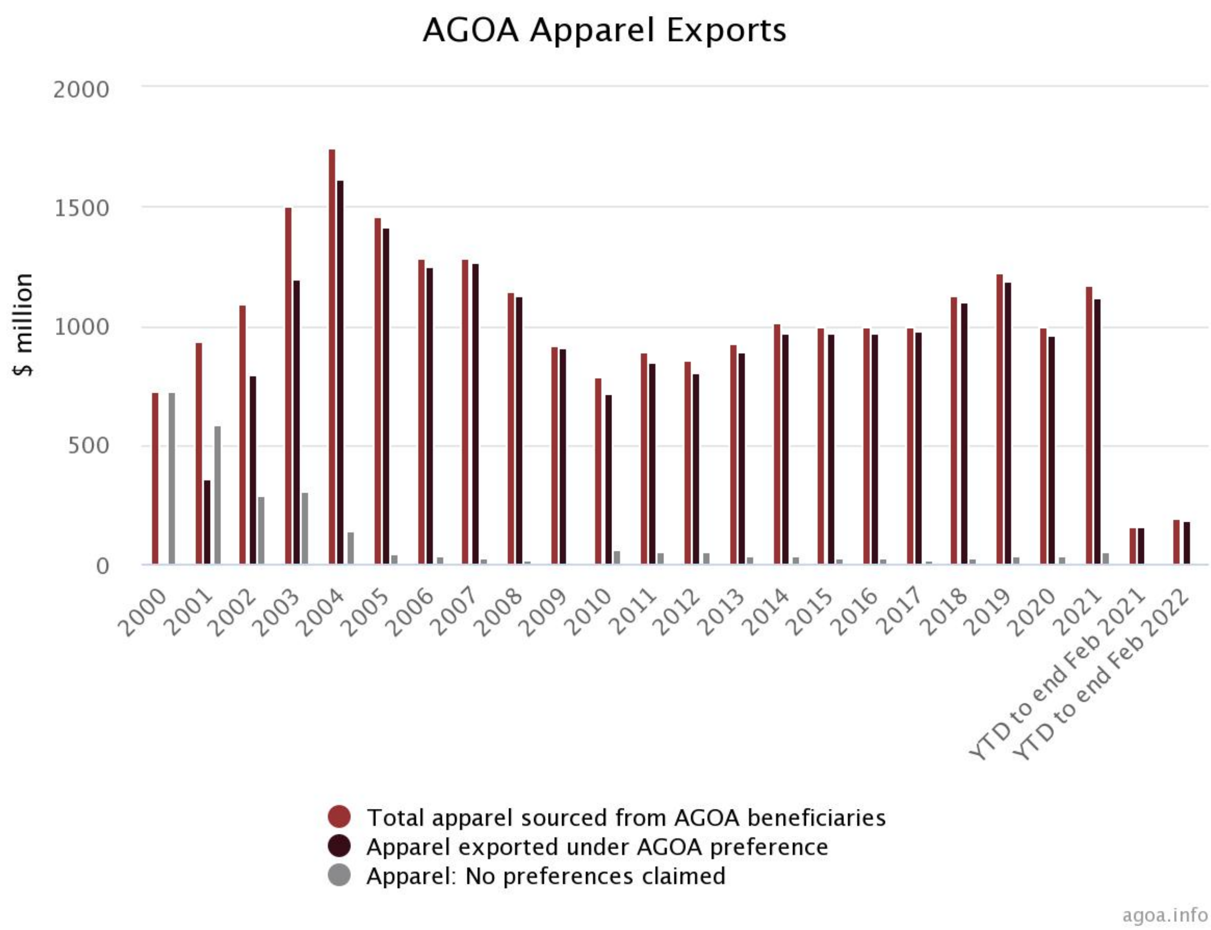
Country	$ Million								Annualized percentage share		
	2016	2017	2018	2019	2020	2021	Q1 2021	Q1 2022	2016-2018	2018-2020	Q1 2021-Q1 2022
Nigeria	3,181	5,808	4,359	3,167	477	1,362	144	432	17%	-67%	201%
Kenya	392	403	466	512	429	511	118	118	9%	-4%	0%
Ghana	30	312	331	417	107	302	8	219	234%	-43%	2618%
Angola	1,998	2,271	1,950	543	144	300	70	140	-1%	-73%	100%
Lesotho	295	290	320	302	253	289	56	74	4%	-11%	31%
Madagascar	94	151	190	234	195	275	56	82	42%	1%	48%
Ethiopia	62	87	154	240	238	271	61	0	58%	24%	-100%
All Other SSA (excluding S Africa)	1,230	1,096	1,549	713	222	584	49	138	12%	-62%	181%

Total	7,282	10,416	9,319	6,128	2,066	3,894	561	1,203	13%	-53%	114%

Source: USITC DataWeb/USDOC

Through late 2021, Madagascar was amongst the largest non-oil exporters to the United States under AGOA.

In terms of non-oil exports, while there is some diversification among AGOA-eligible countries, exports from leading AGOA countries consist mostly of apparel.



Otherwise, the two largest non-oil export sectors under AGOA are primary metals and transportation equipment (motor vehicles and parts). The remainder consists mainly of chemicals and related products, food products, agricultural products and machinery.

Sector/Product Mix

Approximately half of Madagascar's exports to the United States consist of vanilla, which is classified under GSP. Otherwise, AGOA exports are dominated by apparel.

Madagascar's top three exports to the United States are:

- Coffee, tea & spices (largely vanilla beans)
- Woven apparel
- Knit apparel

Listed below are Madagascar's top AGOA exports (AGOA + GSP) by two-digit HS code (USD Millions):

Product Code	Product label	United States of America's imports from Madagascar			
		Value in 2018	Value in 2019	Value in 2020	Value in 2021
TOTAL	All Products	891	848	611	677
09	Coffee, tea, maté and spices	522	419	289	256
62	Articles of apparel and clothing accessories, not knitted or crocheted	126	155	119	160
61	Articles of apparel and clothing accessories, knitted or crocheted	73	90	82	124
26	Ores, slag and ash	33	52	52	66
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad ...	19	34	23	27
81	Other base metals; cermets; articles thereof	65	57	14	7
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	4	4	4	6
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	6	6	9	5
18	Cocoa and cocoa preparations	2	3	3	3
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles ...	0	1	3	3
07	Edible vegetables and certain roots and tubers	1	3	3	3
29	Organic chemicals	0	2	1	1

Source: ITC TradeMap

Priority Sector Analysis

An approach to the U.S. market requires an identification of priority sectors to develop and support. Madagascar should concentrate on sectors where it has had previous success in exporting to the United States under AGOA, sectors where it has identifiable competitive advantages, and where there exists new opportunities that can be exploited.

Based on this analysis, 4 sectors were identified as priority sectors for Madagascar under AGOA:

- Textiles and apparel
- Specialty foods/spices
- Home décor and fashion accessories
- Essential oils

TEXTILES AND APPAREL

The textiles and apparel sector employs approximately 200,000 formal employees, more than 60% of whom are women. Each free zone enterprise in the textiles and apparel sector employs 800 to 1,200 people on average versus 100 for the agribusiness sector. Of the 225 companies currently benefitting from the free trade zone incentive scheme, 46 percent are in the textile sector according to the U.S. Department of State.

Madagascar is among the top 5 exporters of apparel under AGOA. In 2020 and through the first quarter of 2021, the country was the fourth largest apparel exporter to the United States from Sub-Saharan Africa, after Kenya, Ethiopia and Lesotho.

Top AGOA Apparel Exporters (in $ thousands)

Country	AGOA Exports including GSP 2020	AGOA Exports including GSP 2021)
Kenya	385,274	448,999
Lesotho	257,728	293,768
Madagascar	200,760	283,477
Ethiopia	222,480	259,791

Source: U.S. ITC / U.S. Department of Commerce

Madagascar exports a higher percentage of woven apparel than knitted apparel and increased its exports in these product categories in percentage terms over the five-year period from 2015 to 2021.

HS Code	Product	Exported value in 2015	Exported value in 2021	Annual growth in exports between 2015-2021, % per annum
62	Articles of apparel and clothing accessories, not knitted or crocheted	$25,977	$159, 633	35%
61	Articles of apparel and clothing accessories, knitted or crocheted	$25,120	$123, 731	33%

Source: ITC TradeMap

Madagascar's biggest categories of apparel exports under AGOA are:

- Men's wovens (jeans, trousers, jackets and shirts)
- Women's wovens (dresses, skirts, trousers)
- Women's knitted (jerseys, t-shirts and pullovers)

Madagascar Apparel Exports to United States

HS 62: Articles of apparel and clothing accessories, not knitted or crocheted ($ Thousands)

Product code	Product label	United States of America's imports from Madagascar			
		Value in 2018	Value in 2019	Value in 2020	Value in 2021
6203	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches ...	31,532	44,947	46,512	73,089
6204	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, ...	43,516	42,948	33,190	38,155
6205	Men's or boys' shirts (excluding knitted or crocheted, nightshirts, singlets and other vests)	32,065,	43,936	25,592	31,841
6211	Tracksuits, ski suits, swimwear and other garments, (excluding knitted or crocheted)	6,663	8,115	6,445	8,527
6206	Women's or girls' blouses, shirts and shirt-blouses (excluding knitted or crocheted and vests)	8,608	10,784	4,012	4,477

6209	Babies' garments and clothing accessories of textile materials (excluding knitted or crocheted . . .	1,180	1,307	1,304	1,286
6212	Brassieres, girdles, corsets, braces, suspenders, garters and similar articles and parts thereof, . . .	1,409	1,196	1,071	1,618

Source: ITC TradeMap

HS 61: Articles of apparel and clothing accessories, knitted or crocheted ($ Thousands)

Product code	Product label	United States of America's imports from Madagascar			
		Value in 2018	Value in 2019	Value in 2020	Value in 2021
6110	Jerseys, pullovers, cardigans, waistcoats and similar articles, knitted or crocheted (excluding . . .	26,609	27,716	26,444	36,397
6105	Men's or boys' shirts, knitted or crocheted (excluding nightshirts, T-shirts, singlets and . . .	11,153	24,636	18,082	22,433
6109	T-shirts, singlets and other vests, knitted or crocheted	20,299	17,172	16,514	37,122
6104	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, . . .	4,481	7,316	8,408	12,791
6103	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches . . .	5,768	5,011	4,937	6,326
6107	Men's or boys' underpants, briefs, nightshirts, pajamas, bathrobes, dressing gowns and similar . . .	311	2,982	2,979	3,856
6106	Women's or girls' blouses, shirts and shirt-blouses, knitted or crocheted (excluding T-shirts . . .	1,530	2,592	2,792	3,056

Source: ITC TradeMap

In terms of specific product breakdowns, the largest category of Madagascar's apparel exports include:

- ❖ Women's suits and pants
- ❖ Men's suits and pants
- ❖ Men's shirts
- ❖ Sweaters, pullovers and sweatshirts.

Apparel: Madagascar's Exports to the United States (2019)

Source: Atlas of Economic Complexity, Harvard University

Having built a solid business in these product lines, Madagascar should continue to exploit opportunities in these areas. This is particularly true given that factories were able to successfully regain accounts lost during the political crisis and subsequent loss of AGOA eligibility.

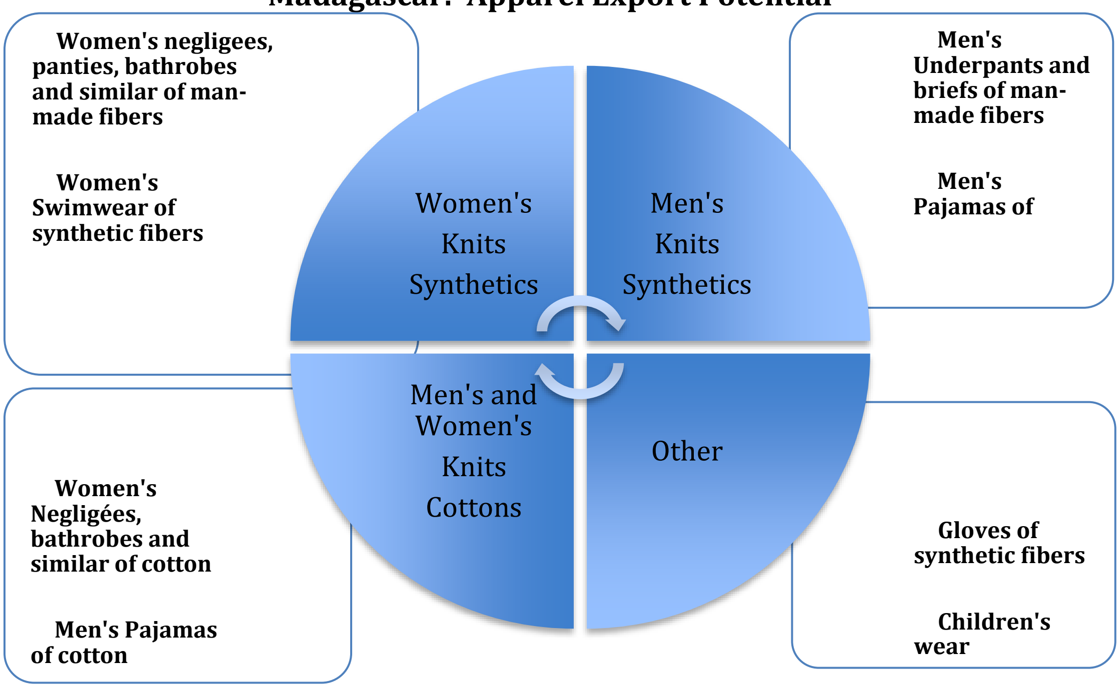
As noted, the global apparel market is in the midst of a significant shift brought about by the COVID-19 pandemic. A depressed consumer market has presented factories in Madagascar, particularly those that rely on the U.S. market, with unprecedented challenges. **With the pandemic pressures on the industry and changing global dynamics of the sector, many factories are sensibly taking a cautious approach: service current accounts with U.S. buyers and maintain the trust and business relationships with key buyers until the demand side improves.**

Longer-term, beyond a recovery from the COVID-19 pandemic, Madagascar should look to other niche product areas for possible growth. As we have seen, some companies are exploring the PPE market for longer-term development. But as we explored earlier in this report, this requires investment in new machinery and different sourcing of inputs. Madagascar can also seek to market itself as a new sourcing destination for U.S. buyers that have historically imported from production facilities in South and East Asia. Local factories can also seek direct linkages with U.S. buyers, bypassing Mauritian intermediaries.

An analysis of the ITC's *Export Potential Map* for Madagascar shows that apparel, along with spices, have the highest potential given both current demand in the United States and existing supply capacities of Madagascar.

Specific apparel product categories that could be exploited are shown below. (See Annex for full product export potential graphic.)   The products below represent those that are outside Madagascar's main offerings but represent good opportunities to diversify beyond the staple apparel products on which Madagascar has relied. These products are identified as having the best potential for diversification based on supply, demand and market access conditions.

Madagascar: Apparel Export Potential



Key Apparel Products		
HTS CODE HEADING	**DUTY SAVINGS**	**DESCRIPTION**
6105.10	19.7%	Men & Boys, Shirts, Knitted, of Cotton
6105.20	32%	Men & Boys, Shirts, Knitted, of Synthetic
6106.10	19.7%	Women & Girls, Shirts, Knitted, of Cotton
6106.20	32%	Women & Girls, Shirts, Knitted, of Synthetic
6109.10	16.5%	T-shirts, Knitted, of Cotton
6109.90	32%	T-shirts, Knitted, of Synthetic
6110.20	16.5%	Sweaters (pullovers & cardigans), of Cotton
6110.30	32%	Sweaters (pullovers & cardigans), of Synthetic
6201.92	6.2-9.4%	Men & Boys, Jackets/Outerwear, of Cotton
6201.93	7.1-27.7%	Men & Boys, Jackets /Outerwear, of Synthetic
6202.92	6.2-8.9%	Women & Girls, Jackets /Outerwear, of Cotton
6202.93	7.1-27.7%	Women & Girls, Jackets /Outerwear, of Synthetic
6203.42	16.6%	Men & Boys, Trousers/Shorts, Woven, of Cotton
6203.43	27.9%	Men & Boys, Trousers/Shorts, Woven, of Synthetic
6204.62	16.6%	Women & Girls, Shorts & Trousers, Woven, of Cotton
6204.63	28.6%	Women/Girls, Shorts & Trousers, Woven, of Synthetic
6205.20	19.7%	Men & Boys, Shirts, Woven, of Cotton
6205.30	25.9%+29.1cents/kg	Men & Boys, Shirts, Woven, of Synthetic
6206.30	15.4%	Women & Girls, Shirts, Woven, of Cotton
6206.40	26.9%	Women & Girls, Shirts, Woven, of Synthetic
6104.42	11.5%	Women & Girls, Dresses, Knitted, of Cotton
6104.43	14.9%	Women & Girls, Dresses, Knitted, of Synthetic

6204.42	8.4%	Women & Girls, Dresses, Woven, of Cotton
6204.43	16.0%	Women & Girls, Dresses, Woven, of Synthetic

Madagascar has a history of proficiency in handmade embroidery and fine needlework, which makes the children's wear category attractive as well. Beyond apparel, synthetic gloves also hold potential.

Below is a breakdown of key product categories and respective duty savings under AGOA:

Madagascar and other AGOA-eligible countries have the highest tariff advantage in products made of synthetics and blended products with more synthetic than cotton, so-called Chief Value Synthetic (CVS) products. When a garment is made of more than 50% synthetic fibers like polyester, rayon viscose, or polyamide (nylon), the applicable U.S. tariff rate can go up to more than 30%, providing a **significant competitive advantage vis-à-vis countries without a preference program**.

Polyester/cotton products in the uniform industry and tri-blends (polyester/rayon/cotton) in the women's fashion sector are examples of products in demand in the United States that also provide Madagascar with a greater duty advantage.

An analysis of products where Madagascar is currently strong and exports in significant volumes, blended with market potential and areas for diversification, identified the following areas for priority development under AGOA:

HS 61 Knits -

Jerseys, pullovers and similar of cashmere, knit

Jerseys, pullovers and similar of wool, knit

HS 61 Knits

Jerseys and similar of man-made fibers

Women's blouses and shirts of cotton, T-shirts and vests of cotton

Men's shirts of man-made fibers,

Men's shirts of cotton

Jerseys and similar

Jerseys and similar of cotton

HS 62 Wovens

Men's shirts of cotton

Men's trousers and shorts

Women’s trousers and shorts of cotton

Babies' garments and accessories of cotton

Compliance Regulations

AGOA visa stamp. Rules of origin for apparel entering the United States under AGOA are liberal: they require simple transformation from yarns and fabrics that can be imported from non-AGOA countries, i.e., from anywhere in the world. This is the so called *"third country fabric provision"*. Practically speaking, each apparel shipment under AGOA must be accompanied by a visa stamp that certifies that the products were manufactured in Madagascar. While the AGOA visa process itself should be straightforward, there have been complaints about a lack of transparency, including visa stamps being withheld by authorities unnecessarily. Companies operating in free trade zones can also import yarns and fabrics duty-free as part of the free trade zone regime, providing for additional cost savings.

Buyer compliance. Apparel companies in Madagascar wishing to do business with large retailers and brands must generally adhere to company-specific specifications and requirements. Most brands conduct their own compliance audits, and effectively factories in Madagascar cannot supply to buyers until these conditions are met. Indeed, these certifications are generally required by buyers to initiate a relationship with a factory and must be maintained to continue such business.

There are other certification programs that are voluntary but important for export to the U.S. market as they provide added levels of assurance. These include WRAP and C-TPAT:

Worldwide Responsible Accredited Production (WRAP). Buyers have become increasingly interested in sourcing from factories that meet certain minimum standards in terms of social, labor and safety compliance. Consequently, many apparel companies operating in Madagascar are certified by or are pursuing WRAP certification. Indeed, many of the large EPZ factories are either certified currently or pursuing certification.

WRAP is a non-profit team of global social compliance experts dedicated to promoting safe, lawful, humane, and ethical manufacturing around the world. It independently audits and certifies companies based on 12 principals.[9] If audits reveal problem areas, companies are given advice and guidance on how to become compliant and ultimately receive certification.

Factories in Madagascar are generally well regarded in terms of adherence to social, labor and safety requirements, providing an added level of comfort to buyers. On the environmental compliance side, WRAP-certified companies are also certified that they will ensure compliance with all applicable legally mandated environmental standards, and demonstrate a commitment to protecting the environment by actively monitoring their environmental practices. In particular, the facilities must ensure proper waste management, including monitoring the disposal of any waste material - whether solid, liquid or gaseous - to ensure such disposal is done safely and in a manner consistent with all relevant laws. This is particularly relevant to textile companies, as well as large apparel factories that do significant washing, of denims for instance.

[9] See *www.wrapcompliance.org for more information on WRAP principals*

Custom-Trade Partnership Against Terrorism (C-TPAT). Many factories, especially those operating in the EPZs, are also C-TPAT certified. C-TPAT is a supply chain security program led by U.S. Customs and Border Protection (CBP) focused on improving the security of private companies' supply chains with respect to terrorism. When a company joins C-TPAT, an agreement is entered to work with CBP to protect the supply chain, identify security gaps, and implement specific security measures and best practices. C-TPAT members are considered to be of low risk and are therefore less likely to be examined at a U.S. port of entry.

Sector Challenges

As part of the stakeholder engagement process towards the development of this strategy, we also spoke with a number of actors outside of the country, including importers, quality assurance agents and apparel producers that have factories in Madagascar and other countries. These stakeholders provided their own unique perspectives.

Two areas in particular that have hindered the sector were highlighted:

- ❖ Cost of importing inputs, which has increased exponentially over the past year.
- ❖ Electricity constraints, including frequent outages and cost increases.

Given the prevalence of the CMT model whereby most textiles are imported by apparel factories in Madagascar, the sector relies on inexpensive and efficient importation of inputs. Import costs for companies operating within the sector have increased appreciably over the past year, exacerbated by the pandemic. Whereas the average cost of a container from Shanghai to Toamasina is $2,500, these rates have been upwards of $6,500 in 2020, in some case reaching $10,000 according to some factories. This is largely a function of supply and demand: large numbers of containers that went to the West from China at the height of the pandemic in early to mid-2020 did not return. Backups at U.S. port terminals in the last year have also contributed to the shortage of containers and increased costs.

While this situation is no doubt a short-term phenomenon that will normalize at some point, there is another trend at play: China is increasingly looking inward, with more of an emphasis on supplying its domestic market. This trend, if it were to persist, has the potential to be more impactful on Madagascar, and is certainly of concern to the industry given its reliance on China for its import needs. In order to ameliorate exposure to future supply chain disruptions, it would benefit Madagascar to diversify the geography of its input sourcing.

Lack of access to reliable electricity at predicable costs is the other major hurdle. Energy problems in Madagascar have been an ongoing issue for decades. Manufacturers complain about the frequent electrical outages, brownouts, and increasing electrical bills as major factors that hobble production. As a result, the high cost of doing business has inhibited major expansion plans for many companies.
While there had been very little progress in rationalizing the sector or bringing costs down to sustainable levels until the end of 2020, the government has started taking incremental steps. In May 2021, the government started using the World Bank-backed Optima system to improve and

rationalize billing and in November 2021, signed a power purchase agreement (PPA) for the 200-megawatt Sahofika hydroelectric project which is expected to increase electricity availability by 50 percent to Madagascar's major cities.

One company indicated that it had increased its production in Bangladesh recently. The primary reason was very low energy costs as a result of government subsidies. **A commitment by the government to bring electricity costs down for export-oriented companies would go a long way to improving the business operating environment**, thereby retaining production in the country and increasing investment. The government should consider long-term tax breaks or other incentives for companies that invest in green energy solutions that are not dependent on JIRAMA.

Another issue that several companies talked about is the government's foreign exchange policy. In late 2020, a government decree ordered that any company operating in an EPZ must repatriate 80 percent of its current account in foreign exchange within 90 days. This was done despite intensive lobbying by the private sector against the measure. And while this particular decree affecting EPZ companies was eventually lifted, it highlights a persistent complaint by the private sector: that lack of government support coupled with ad hoc regulations inhibit exports.

Excessive paperwork and unnecessary bureaucracy continue to mire the sector in inefficiencies. This has been a constant complaint of exporters, especially high-volume apparel companies operating in EPZs. The lack of streamlined and efficient procedures increases the time and cost of doing business, and also increases the opportunities for graft.

The major hurdles faced by companies within the sector are summarized below:

Constraint	**Why It Persists**
Government capacity and bureaucracy	• Weak capacity • Corruption • Too many administrative procedures and excessive paperwork • Lack of strategic vision • Lack of actionable programs to support the sector • Poor country marketing jeopardizes its visibility
Limited access to finance	• Restrictive lending terms of local banks • High interest rates
Limited labor skills	• Lack of standardized training for textile and apparel sector
Poor infrastructure	• Insufficient investment • Lack of strategic planning

Unreliable supply of energy/high costs	• Under-developed power infrastructure • Poor energy transmission and distribution, leading to power outages and down-time in factories • Lack of access to water (critical for textiles production, especially denim)
Lack of investment, especially in textiles	• Lack of government effort and incentives to attract FDI • No institutional support or dedicated research and development to assist the textile sector
Slow speed to market	• Port inefficiencies • Geographic distance to market • Lack of fabric capacity in country
Lack of local fabric supply	• Industry has focused on CMT and export-oriented production • Government has not sought to bolster the entire value chain in country
Outdated machinery/equipment	• Lack of access to finance

Suggestions For Exporters

It has been noted that Wal-Mart, which sources a large percentage of its apparel indirectly - through supply chain intermediaries such as Li & Fung in Hong Kong - rather than directly from factories, is seeking to do more direct sourcing over the next several years. Given the massive purchasing power of Wal-Mart within the global industry, this has the potential to be very impactful - and a potential opportunity for factories in Madagascar. To capitalize, factories in Madagascar will need to establish their credentials as reliable partners.

When we look at the COVID-19 pandemic-related effects on the sector, it is clear that the vertically integrated factories fared best. This is not surprising given that these companies largely provide their own fabrics and/or are able to source them locally, for e.g., from Mauritius, and hence did not experience the same logistical problems that companies importing from China have.

Madagascar would benefit from a less fragmented apparel sector with more vertically integrated factories. More textile production in country would strengthen Madagascar as a reliable sourcing partner. Investment in textile mills requires significant capital so the investment climate must be conducive. The government's role in this case needs to be proactive, requiring a commitment to identify, attract, and work hand-in-hand with the right investors.

One investor suggested following the model espoused by Ethiopia, which successfully brought large new investments to the country through a strategic and sustained commitment to build the sector through investment. A more complete value chain, developed through smart attraction of foreign direct investment, is critical if Madagascar is going to successfully meet the evolving demands of the global economy.

Ministry of Industry, Trade, and Consumption and Private Sector Recommendations:

Facilitate the transfers of knowledge and skills between Mauritius and Madagascar, already initiated by the private sector. Madagascar should acquire creation and design skills and not be limited to production only.

Encourage discussion between the private sector, the Government, and donors (IFC from the World Bank) to talk about the real potential and the need to have a clear vision for the sector to make the country a reference of the textile industry in Africa. As of now, the importance and the general orientation of the sector remain uncertain and blurred, leading to a lack of visibility on investment for the private sector.

Communicate positively about the textile industry so that it has the appropriate place it deserves in the economy. The lack of visibility and support hamper the development of the sector.

Promote the Indian Ocean Sub-Region: The presence of the authorities of both countries (Mauritius and Madagascar) at the MAGIC Trade Show in August 2023 will give an upstream boost to this strategy. The synergy between the public sector as well as between the private sector of the two countries through the adoption of a common strategy within the framework of the negotiation of the renewal of AGOA will give an image of confidence and will promote the sub-region in the eyes of investors. As Mauritius does not benefit from AGOA, there is a need to support the private sector for a common strategy to sell the "Indian Ocean" region to negotiate the renewal of AGOA and to attract customers sending their orders to the region.

Protect the Export Processing Zone (EPZ) regime and improve it to make investment in the textile and other sectors more attractive. This requires a transparency of governance in general.

Include creation and design skills in higher education training policy. The objective is to have highly skilled workers in the long run activities within the sector.

Invite U.S. Congressional Delegations to visit many AGOA eligible countries in 2023. By considering the good performance of exports to the United States, the Government should invite the delegation to come to Madagascar to visit Malagasy factories. This initiative is critical to the renewal of AGOA.

SPECIALTY FOODS/SPICES

Agriculture is a mainstay of Madagascar's economy and critical to its development. It accounts for around 30 percent of Madagascar's GDP, 40 percent of its export earnings, and 70 percent of the country's labor force.

Madagascar is the largest producer of vanilla in the world, accounting for an estimated 80 percent of global production. Vanilla is exported in large volumes to the United States under GSP, accounting for approximately half of Madagascar's U.S. exports and 98 percent of its U.S. food exports. The exports are largely of bulk vanilla beans, with little value-added. According to the ITC, Madagascar has approximately $238 million in untapped potential, i.e., capacity to meet further demand in the U.S. market. Madagascar should capitalize on its organic potential by opting out of raw exports in favor of more value-added products, such as vanilla extract.

Madagascar is also well known for its high-end spices. Black pepper from Madagascar is recognized as being among the highest quality worldwide. While there are some producers exporting to the U.S., spices have not realized their full potential.

Leaving aside vanilla, spices such as cloves, cinnamon, pepper and other mixed spices (such as ginger, saffron, turmeric, thyme, bay leaves, curry and other spices) make up the rest of Madagascar's spice exports to the United States. However, as can be seen in the table below, exports of these spices are minimal. For instance, while total U.S. imports of pepper worldwide was approximately $650 million in 2020, imports of pepper from Madagascar totaled only $18,000.

Madagascar Spice Exports ($ thousands)

Product code	Product label	United States of America's imports from Madagascar			United States of America's imports from world		
		2019	2020	2021	2019	2020	2021
0905	Vanilla	418,118	287,231	254,347	521,904	367,883	322.396
0907	Cloves, whole fruit, cloves and stems	860	1,417	1,126	13,765	14,858	14,248
0906	Cinnamon and cinnamon-tree flowers	40	166	214	126,103	149,854	177,291

0910	Ginger, saffron, turmeric "curcuma", thyme, bay leaves, curry and other spices (excluding pepper . . .	28	35	29	277,273	361,205	391,882
0904	Pepper of the genus Piper; dried or crushed or ground fruits of the genus Capsicum or of the . . .	6	17	180	601,796	618,767	793,344

Source: ITC TradeMap

Connecting with buyers and navigating the complex U.S. market has been challenging for the sector. For instance, Whole Foods has previously explored importing spices in large volumes from Madagascar, but to date has not pursued long-term contracts with exporters.

The specialty foods market can be viewed through two lenses: processed food products that will be sold in U.S. supermarkets, and products that are unique to a particular country or culture. In some cases these areas converge, creating a strong country identity for a product.

The primary challenge with the specialty foods sector is the complexity of the multi-layered distribution channels in the United States. Consequently, a thorough understanding of each layer of the industry is essential, as is a defined strategy on how to approach the market.

The other aspect is the deeply competitive nature of the food retail market in the United States. Companies have to work hard to get products "slotted" on supermarket shelves, and often these products have to be backed with significant marketing to build consumer awareness.

Regulatory requirements. The final piece is the regulatory requirements that products must meet to satisfy U.S. concerns over food safety. In the United States, the U.S. Department of Agriculture (USDA) is responsible for the safety of meat, poultry and egg products, while the Food and Drug Administration (FDA) oversees all other food products.

In the United States, food safety became a more significant issue after the events of 9/11. As a result of the Bio-Terrorism Act in 2002, inspections of food imports and food producers exporting to the United States became more pronounced. Since that time, the **FDA requires that all food producing plants, both foreign and domestic, register with the FDA**. This allows the FDA to electronically identify the manufacturer of a particular food item before it enters the United States, a process called "Prior Notice". Registration with the FDA is self-initiated by a factory, completed on the FDA website, and is free and not onerous.

The main safety issues in the United States are otherwise addressed via the Food Safety Modernization Act (FSMA), enacted in 2011. Essentially, FSMA encapsulates the previously existing HACCP (hazard analysis and critical control point) program, which is an internationally recognized system for producers to monitor and help reduce the likelihood of customer complaints or recalls by identifying and controlling potential hazards which may come from raw materials, facility processes, and human error. FSMA ensures that the U.S. food supply remains safe by focusing on prevention rather than just responding to contamination issues. (For further information, see following link: www.fda.gov/food/guidance-regulation-food-and-dietary-supplements/food-safety-modernization-act-fsma).

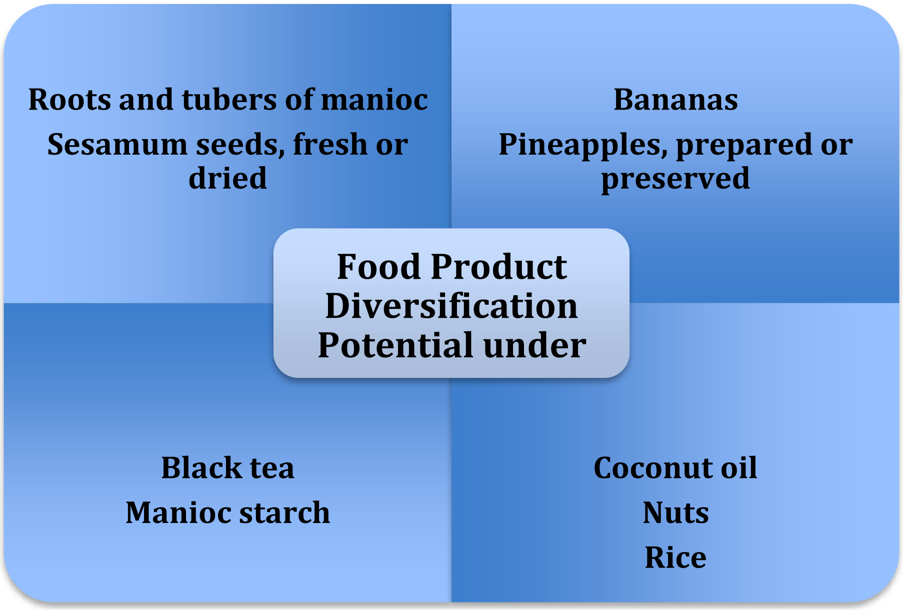
Food products Madagascar currently exports, along with their respective estimated market potential in the U.S. include:

Food Exports to the U.S and Market Potential
($ thousands)

Product	Export Potential	Untapped Potential
Vanilla	$560.4	$238.3
Shrimps and prawns, frozen	$24.8	$24.5
Vegetable saps and extracts	$10.6	$8.0
Cocoa beans	$3.1	$729,300

Source: data generated from ITC Export Potential Map

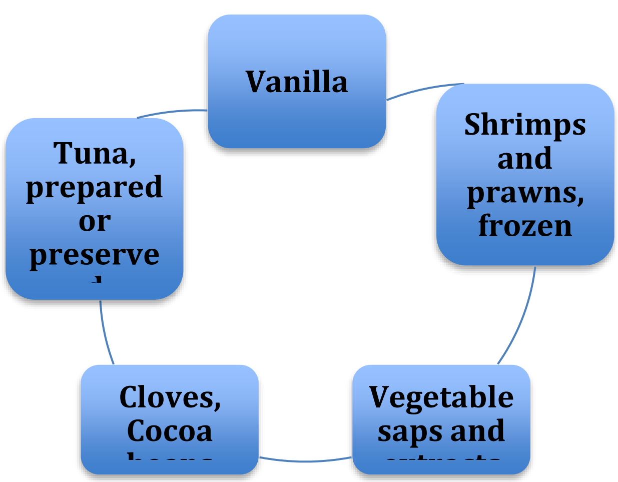
Beyond maintaining the vanilla market and growing other smaller product categories where Madagascar currently exports to the United States , focus should be on gaining a market presence in other product categories. An analysis of the ITC's *Export Potential Map* shows products that are good candidates for diversification, summarized below.



However, export of agricultural products brings unique challenges, including lack of speed to market for fresh fruits and vegetables and intense competition from markets nearer to the United States. Therefore, processed foods have the best potential. Other products that Madagascar currently produces and have potential in the United States. include black pepper, purees (e.g., organic pineapple puree).

An analysis of the universe of Madagascar's current food product exports to the United States blended with market potential reveals the following top export prospects, which should be priority products for market development under AGOA.

Priority Food Products for Export under AGOA



Sector Challenges

There are some challenges unique to the sector. These include:

- Boom and bust price cycle and lack of effective measures to smooth the supply side and protect producers.

- **Lack of transparency of laws and regulations**. Along the value chain, arbitrary and unpredictable changes in regulations, fees, and other legal requirements and uneven application of laws and licensing requirements disadvantage operators.

- **Disjointed value chain**. The number of intermediaries operating within the sector has increased over the past several years, as has the number of informal operators who have engaged in unhealthy speculation. These patterns have disrupted the value chain.

- **Exploitation of land.** Spices in particular can bring higher prices to farmers, who in recent years have sought to profit but in doing so have over-extended the capacity of their land. This has also brought the problem of aging plants. Lack of crop rotation and good agricultural practices, e.g., regeneration to reduce pressure on the land, risks degradation and loss of these markets in the future.

Suggestions For Exporters

Some practical steps companies operating in this sector can take include:

- Register with FDA
- Have a HACCP program in place
- Provide for third-party audits
- Test export market through sampling of products with select buyers
- Develop relationships and/or contracts with farmer collectives to ensure traceability, transparency, and safety-net for farmers
- Develop relationships with intermediaries, e.g. import brokers, to help navigate the distribution channels in the United States

Ministry of Industry, Trade, and Consumption and Private Sector Recommendations:

Improve agricultural techniques with innovative methods to increase yields and to protect the ecosystem.

Diversify plants to cultivate and by considering local and international market needs.

Ensure the traceability of the entire value-chain: this helps to facilitate the respect of the standards required to the obtain required certificates for export.

On vanilla: small farmers who are denied export licenses should be given a special export authorization.

On cocoa: provide technical support and equipment to the operators to help them transforming their products. For instance, by providing equipment to transform cocoa to powder with the appropriate quality corresponding to the conditions of the importers.

Make regulation and procedures on exports more transparent

Information and AGOA training: the Ministry of Commerce should carry out an awareness raising campaign on information and offer training to cooperatives on the U.S. market and the export process to the United States.

HOME DÉCOR AND FASHION ACCESSORIES

Madagascar has a rich history in design and creating products that reflect its unique culture. This sector has evolved over the past decade, from traditional handicrafts, including basketry, artwork and other items targeting the tourism industry, to more modern, sophisticated product offerings that include fashion and items of home décor.

Madagascar also benefits from access to inputs for the production of niche products, including those made of rafia, sisal, and banana leaves.

Products exported from Madagascar include baskets; tote bags and clutches; hats; rugs; decorative boxes for the kitchen and bathroom; runners; hand woven wool; pillow covers; bed sheets, curtains; silk embroidery; and scarves.

This sector is broad and encompasses a number of smaller sub-sectors that are necessary to define. Key home décor and fashion accessories product categories are:

HS Chapter	Description	Specific exports from Madagascar and potential new products
42	Articles of leather, harness, travel goods, etc.	Handbags, totes, travel luggage, wallets, leather accessories, belts, small leather goods
44	Articles of wood	Olive wood bowls, serving utensils, salad servers, wood carvings, walking sticks, small furniture items, collectables, statues

46	Manufactures of plaiting material, basketwork, etc.	Sisal rugs, baskets, organizers, desk accessories, wall hangings
63	Other made textile articles, sets, etc.	Home textiles-pillows, tabletop, runners, placemats, napkins, throws
71	Jewelry, precious stones, metals, coins, etc.	Gold, Ruby, Emerald, Zoisite, Green Garnet, brass, glass beads, ceramic beads
97	Works of art, collector's pieces and antiques	Mostly art, soapstone carvings

In 2019, U.S. imports worldwide in these product categories totaled approximately $120 billion. The United States is an important market and significant importer of these categories of products vis-a-vis other importing countries. In fact, outside of jewelry and articles of wood, the United States is the top importer worldwide.

U.S. Imports Worldwide of Home Décor and Fashion Accessories

Code	Product label	Imported value 2019 ($ thousands)	Annual growth in value between 2015-2019 (%, p.a.)	U.S. share of world imports
42	Articles of leather, harness, travel goods	$13,288,145	-1%	16%
63	Other made textile articles, sets	$16,870,810	4%	27%
71	Jewelry, precious stones, metals, coins, etc.	$58,072,472	-2%	9%
44	Article of wood	$19,305,361	3%	14%
46	Manufacture of plaiting material, basketwork, etc.	$640,192	3%	31%
97	Works of art, collectors' pieces and antiques	$11,803,588	2%	39%

	Total:	$119,980,568

Source: ITC TradeMap

Madagascar exported a total of $27.5 million in home décor and fashion accessories products to the United States in 2020. Of this total, jewelry and precious stones accounted for the majority ($22.5 million).

Article of leather, including handbags, showed the largest 5-year growth rate, growing by 50% between 2015 and 2019.

Madagascar Exports of Home Décor and Fashion Accessories to the United States

HS Code	Product Description	Value in 2019 ($ thousands)	Annual growth in value between 2015-2019 (%, p.a.)	Value in 2020 ($ thousands)
TOTAL	All products	$35,143		$27,580
46	Manufactures of straw, of esparto or of other plaiting materials; basket ware and wickerwork	$1,039	18%	$1,168
44	Articles of wood	$6	10%	$0
97	Works of art, collectors' pieces and antiques	$776	-5%	$771
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles	$948	50%	$2,749
63	Other made-up textile articles; sets;	$223	9%	$317
71	Jewelry, precious stones, metals, coins, etc.	$32,151	15%	$22,575

Source: ITC TradeMap

Home décor and fashion accessories is a developing sector in Madagascar. Historically, this sector has been made up of small family-based artisans working in the informal sector. Although the informal sector is made up of many talented artisans, Madagascar lacks the infrastructure for supply chain management to manufacture export quality items. That said, a new generation of SME exporters are emerging in Madagascar with enhanced quality and market knowledge. Although export volumes to the United States currently remain small, the sector's diversity offers a unique opportunity for growth with the ability to serve multiple niche U.S. market segments. However, artisans complain of unfair competition from China, where manufacturers use bulk raw materials from Madagascar to make high-end finished products which are then exported to the U.S. market.

Distribution Channels

The chart below defines key U.S. distribution channels for the U.S. market. Various channels are accessible based on the product type, price point and level of service a Malagasy exporter can provide. For example, mass-market discount chains like TJ Maxx have imported traditional decorative and gift products from Madagascar. This is a relatively low value category with low price points, but historically the reorder volumes have been a constraint for both the buyer and seller.

For niche design products, exporters from Madagascar may find opportunities with lifestyle brands and specialty retailers interested in artisan handmade products. These buyers require significant customer service and high levels of communication.

Key U.S. Distribution Channels			
Channel Type	**Method**	**Characteristics**	**U.S. Examples**
Discount/Mass-Market Chain	Import merchandise directly through their own sourcing agents and from exclusive overseas production facilities	1. High volume 2. Low Price 3. High turnover 4. Strict shipping 5. Strict charge back policies	Wal-Mart Target TJ Maxx Sam's Club K Mart
Lifestyle Brands	Mixed import sourcing model- wholesalers, distributors, direct importing	1. Higher price 2. Better seller margins 3. Affluent customer 4. Direct to consumer marketing 5. More flexible terms 6. Looking for unique product	Crate & Barrel Pottery Barn Bed Bath & Beyond Anthropologie West Elm

Catalogue	Mixed import sourcing model- wholesalers, distributors, direct importing with agents or export reps	1. Greater flexibility 2. Smaller more frequent orders 3. Flexible terms 4. Need specialty products	Sundance Smith & Hawken L.L. Bean Horchow Gump's
Department Stores	Mixed import sourcing model- wholesalers, distributors, direct importing with agents or export reps	1. Larger volume, program order 2. Lower price points 3. Competes with mass chain at higher price 4. In need of product differentiation to compete	Nordstrom Macy's Bloomingdales, Neiman-Marcus
Alternative trade organizations/ Fair trade	Direct relationship with manufactures, artisan groups	1. Trade for economic development 2. Lower price points 3. Mid-level volumes mix of container and air shipment 4. Payment advances/ finance production	Ethical Fashion Fashion revolution Ten Thousand Villages People Tree Equal Exchange
Specialty retailers	Work through wholesalers/ Prefer landed goods	1. Pays in margin to not hold inventory 2. Require domestic shipping 3. Replenish often 4. Long term relationships with established wholesalers	Smaller size organizations

Source: Home Décor U.S. End-Market Analysis, Llenay Ferretti, 2017

Sector Challenges

The sector faces specific challenges, chief among them including:

- **Limited Capacity**. Production capacities are limited as most exporters consist of SMEs that have difficulty accessing financing for expansion. As a result, orders are on the smaller side as exporters often cannot meet quantity demands of U.S. buyers.

- **Access to inputs**. Although endowed with abundant natural resources, exporters often have difficulty sourcing raw materials needed for their products, especially in the niche design markets where quality standards are high.

- ❖ **Institutional support**. The sector - perhaps not surprising given that it is a very small contributor to Madagascar's overall exports - requires additional support from the government, industry associations, and donors to ensure balance between environmental protection and sustainable use of natural resources.

Suggestions For Exporters

Practical steps exporters in this sector can take include:

- Collaborate with MICC's Handicraft Department to ensure products are exportable under Madagascar law.
- Build a relationship with a buyer. This sector has demonstrated that buyers are willing to take the time to build business over time, starting small and increasing as capacities grow.
- Stay attuned to shifting design and color trends in the U.S. market.
- Determine the positioning and price point for your product.
- Communicate early and often with buyers.

Ministry of Industry, Trade, and Consumption and Private Sector Recommendations:

Encourage craftsmen to produce luxury goods while ensuring quality and their availability.

Capacity building: reinforce the capabilities of the craftsmen in terms of technique and production processes to improve the quality of their products.

Information and training on AGOA: the Ministry of Commerce should carry out an awareness raising campaign on AGOA and offer some training to several entities about the U.S. market and exports process to the United States.

Provide information on the export process in French and Malagasy language.

On raw materials: limit exports of high quality of raw materials such as Raphia and reserve them to the benefit of the Malagasy craftsmen to ensure the quality of their products.

Make regulations and export procedures more transparent.

On wooden products: to implement a better coordination between Departments regarding the procedures of exports of products made of precious and non-precious woods which are highly demanded in the global market.

Marketing: use social media to have better visibility from local and foreign buyers, using English language mostly.

Reinforce the role of the Ministry of Commerce as commercial defender of all sectors to promote exports especially for crafts.

RIAM project: support this project initiated by the Ministry of Crafts aimed to improve the quality of the Malagasy products entering the U.S. market.

Essential Oils

Essential oils are concentrated plant extracts that retain their natural smell and flavor, whereby the oils are inhaled, or in some cases diluted and applied to the skin. They are believed to be the "essence" or source of the plant, hence essential oils. These products are most commonly used in aromatherapy and are believed by users to contribute to overall wellness and health. Due to its unique geography and climate, Madagascar is home to many plants from which oils can be extracted. It is estimated that more than 35 varieties of plants are used for the extraction of oils in the country.

The ten most popular essential oils include: peppermint; lavender; sandalwood; bergamot; rose; chamomile; ylang-ylang; tea tree; jasmine; and lemon. While Madagascar is known for traditional essential oils such as ylang-ylang, clove and palmarosa, it has begun developing newer products such as geranium, helichryse and niaouli.

Essential oils have uses beyond aromatherapy, including as scents used in the home and industrially in pharmaceuticals and the manufacture of cosmetics.

The essential oils market, while small, holds promise for Madagascar. There are several companies in the country producing products that are used in the wellness and cosmetics industries. But essential oils represent less than one percent of Madagascar's total exports to the United States.

Most of the exports are in raw form due to a lack of capacity for value-added production for the cosmetics and aromatherapy industries. Companies in Madagascar also export raw plant materials used in the edibles market, specifically for nutritional supplements. For instance, an FDA-certified company exports its raw aloe in bulk to nutritional supplement manufacturers in the U.S. Another company produces moringa oil for the cosmetics sector. Its cold-pressed technology gives it competitive advantages in terms of quality over companies in India and other markets in Asia. It is relatively new to the U.S. market but sees good opportunities for exports, especially as it is already exporting to markets in the EU.

Regulatory Requirements

As with the specialty foods sector, companies exporting plant-based products such as essential oils must be FDA-certified. This is a simple on-line certification process completed by the company.

Other regulatory requirements, depending upon the specific product, can include the need to meet phytosanitary guidelines for entry to the United States. The U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) issue phytosanitary certificates.

In some cases, exporters must also meet requirements under the Convention on International Trade in Endangered Species (CITES). CITES, which is often most associated with the protection of endangered wild animals, also protects and seeks to promote the sustainability of endangered flora/plants.

Exports to the United States

The United States imported approximately $14.5 billion in essential oils, resinoids and perfumery in 2019. The top 5 exporters to the United States are: Ireland, France, Canada, China and Mexico.

Madagascar's export market for essential oils is also small relative to other product categories. Exports of essential oils to the United States from Madagascar totaled nearly $4 million in 2019.

Madagascar Exports of Essential Oils to the United States

HS Code	Product	Exported value in 2019	Annual growth in exports between 2015-2019, % per annum
33	Essential oils and resinoids	3,772	22%

A growth rate of 22% between 2015 and 2019 does demonstrate the sector's potential to increase its export base under AGOA.

According to the ITC, Madagascar's export potential of essential oils is $16.7 million, and its untapped potential is $13.3 million. Indeed, essential oils are considered among the top product categories for potential export growth, albeit from a small base. Opportunities exist for export of artisanal essential oils and end products to specialized/niche stores and on-line retailers.

Sector Challenges

Some key supply-side challenges have served to inhibit further growth of this sector. Chief among these are:

- **Disjointed market structure**. The sector is dominated by informal operators and intermediaries, leading to disorganized markets.

- **Capacity constraints**. Farmers are incapable of providing the quantity and quality demanded by export markets, leading to irregular production. Weak development of contract farming deprives the country of economies of scale, particularly for several export-oriented crops such as cloves.

- ❖ **Limited planting areas**. Production of essential oils in a non-traditional activity for farmers. As with spices, some plants are under threat due to a lack of regeneration practices on farms to ensure sustainability.

- ❖ **Environmental sustainability**. Essential oils and other processed items require firewood which leads to deforestation as Madagascar does not have a sustainable supply of firewood.

- ❖ **Lack of access to market information**. Exporters lack information on end markets, demand, etc.

- ❖ **Lack of government support**. Due to its less formal structure, historically the sector has not benefited from government support programs, such as capacity building, skills development and access to financing.

Additionally, operators within this sector identified red-tape/multiple bureaucratic requirements as a continuing hindrance to their business. Some companies spoke of inefficient processes such as the need for multiple permits– a process which often involves going to the same place many times in succession to collect the required permits for exportation. Each permit can often take up to two weeks. A more transparent and streamlined system would reduce the time and cost of companies operating in the sector.

Due to high shipping costs, volumes in this sector generally need to be high in order to be cost effective. For instance, one producer of essential oils estimates that a shipment to the United States must be a minimum of 400 kilos to offset the higher shipping costs in relation to its competitors. Existing companies with logistics and supply chain infrastructure could develop high volume exports to the United States via sales to wholesalers.

Suggestions For Exporters

As with the home décor sector, SME and artisanal exporters in this sector should seek to build relationships with buyers, starting with product sampling to test the market. Companies can also explore working together to service larger orders from U.S. buyers.

Some steps exporters in this sector can take include:

- o Ensure product compliance with U.S. regulatory requirements (FDA, APHIS, CITES)
- o Particularly for large volume producers, develop relationships with wholesalers
- o Consider targeted trade shows or B2B events to learn more about the competitive landscape of the sector in the United States

Ministry of Industry, Trade, and Consumption and Private Sector Recommendations:

Traceability and sustainability of the sector: encourage and sensitize operators/exporters to work with actors involved in the value-chain (farmers, collectors, distillers, formal and chartered transformers) to ensure the traceability of the products and the reforestation commitment. Each region should elaborate a manual of procedure.

Judicial framework of the APA (Shared access to Benefit): Finalize the judicial framework of the APA application in Madagascar. The legal vagueness of the application creates uneasiness among importers which is harmful to the sector.

A manual of procedure, created by the project BioInnovation Africa (BIC) sponsored by GIZ and the Ministry of Environment, is available. However, most importer countries are not aware of its existence. In addition, it contains unfamiliar and difficult technical terms for everyone. Therefore, it is recommended to familiarize exporters and importers with the manual through the organization of informative workshops with the participation of all stakeholders (community, farmers, collectors, producers, exporters, and importers representatives).

Long term ecological transition: exploit alternatives to wood for distillation to slow deforestation and to adhere to sustainable development and the preservation of the environment. It is recommended to conduct research on wood alternatives that will not affect the quality of the product.

Information and training on AGOA: the Ministry of Commerce should carry out an awareness raising campaign on AGOA and offer some training to several entities about the US market and exports process to the United States. Provide information on the export process in Malagasy language.

Tax policy: review and make taxes uniform across the regions to stabilize prices and make goods competitive on the global market.

Marketing: promoting a positive image of American buyers through social media and different commercial events.

U.S. Market Trends

Some key market trends in the United States over the past several years have gradually changed the behaviors of both consumers and sourcing companies. These include:

E-commerce has become more pronounced. More brick-and-mortar-focused retailers are increasing their on-line presence to increase the percentage of their sales from this channel. As a result, many home décor and fashion accessories products are increasingly sold online. The COVID-19 pandemic has intensified this trend.

Increasing reliance on just-in-time inventory. With lengthy commercial shutdowns and uncertainty about future sales, businesses are less inclined to keep a large inventory. More and more businesses are looking to a just-in-time inventory model, which requires nimble operations throughout the supply chain.

Direct-to-consumer, digital-only companies are growing in significance. These companies are growing their share in the U.S. market by building platforms within mobile consumer channels, marketing and advertising solely via social media. These retailers distinguish themselves by their well-defined niches and clever promotional strategies. Their ability to build a base focused on a direct-to-customer relationship protects their profit margins and guards against new competition through strong customer loyalty[10]. Top web platforms include Etsy, Novica, Consumercrafts, Shopify, Ebay and Amazon.

Brick–and-mortar stores are getting smaller. Retail foot traffic has been on the decline in the United States, a trend that has only intensified due to the COVID-19 pandemic. Retail and consumer dynamics will continue to evolve, including greater use of digital technologies to achieve more efficiencies, and more consumers buying outside the retail store setting[11].

The continued importance of Corporate Social Responsibility (CSR). Global brands are embracing social issues to build loyalty and deliver on the demands of their consumer base. Companies understand that in today's business environment, their customers choose brands not solely on price and features but also based on social and environmental issues[12]. CSR messaging can help to differentiate companies, allowing for more dynamic social media campaigns. Women's empowerment through sourcing is an important component of a CSR program.

Increasing importance of sustainability. Consumers increasingly care about how the products they purchase are produced, that they are made in an ethical and sustainable fashion, without an adverse impact on the planet. Tied in with sustainability is traceability: that these values are intrinsically connected to the product rather than just a marketing gimmick. Hence, consumers are increasingly demanding traceability back to the products, essentially proof of the products'

[10] *National Retail Federation, www.nrf.com*
[11] *National Retail Federation, www.nrf.com*
[12] *National Retail Federation, www.nrf.com*

adherence to sustainability. Sustainability and traceability can often bringer a higher retail cost, which consumers have shown a willingness to pay, especially for some niche products.

Approaching the U.S. Market

Since the United States is a large and competitive retail environment, exporters in Madagascar need to clearly define the market they can best serve based on consumer target criteria.

This begins with cultivating business relationships and building trust with buyers. It is an ongoing activity that requires considerable time and effort, which is especially true for exporters that are new to the market. The best strategy is to provide realistic expectations of quality and volume for buyers. Of critical importance is being realistic about capacity to deliver on quantities and quality. Over-promising and under-delivering to U.S. buyers is incredibly damaging to an exporter's reputation, one that is often difficult to overcome. Many U.S. buyers are not generally attuned to AGOA or products available from Madagascar, so patience and clear communication on both sides is essential. That said, most buyers are willing to work with exporters based on mutual trust and in an effort to build long-term relationships.

U.S. Resources

There are many resources available to companies interested in developing business under AGOA. Prosper Africa, a United States Government initiative that increases trade and investment between Africa and the United States, brings together the services and resources of 17 U.S. Government agencies.

The resources under Prosper Africa are designed to help businesses in Africa tap into the U.S. market, including matchmaking, due diligence, and support in meeting international quality standards and certification requirements. Detailed information on all of the resources available can be found at: www.prosperafrica.dfc.gov/toolkit.

Some of the relevant resources for companies interested in exporting under AGOA include:

U.S. Customs and Border Protection (CBP): www.cbp.gov/trade

Provides detailed information on U.S. entry requirements and information resources under "Tips for New Importers and Exporters".

U.S. Department of Agriculture/Animal and Plant Health Inspection Service (APHIS): www.aphis.usda.gov/aphis/ourfocus/importexport

APHIS ensures that all agricultural products shipped to the United States meet the Agency's entry requirements to exclude pests and agricultural diseases.

AGOA information portal: www.agoa.info

Provides information resources, including an AGOA Toolkit, market information and trade statistics.

Practical Steps to Exporting Under AGOA

The prospect of exporting to the United States, especially for an SME or exporter new to the market, can be daunting. The market is large and fragmented, is far away, and requires a commitment of time and resources. This section is meant to be a brief primer on how to begin the process of exporting under AGOA.

Step 1: **First and foremost, as an exporter you must do your market research.** The very first question you must answer, as basic as it sounds, is: Is there demand for your product in the United States?

There are many excellent on-line resources, including www.agoa.info, which is the U.S. Government's main repository for information on AGOA. In Madagascar, the AMCHAM's AGOA Resource Center also has a lot of information and tools to assist exporters.

Step 2: Once you have determined that there is a market for your product, as a company you must **undertake an assessment of your own capabilities and readiness to export**. Some areas to explore and questions you can ask of your company include:

Preparatory Work/Scoping
- Has your company participated in any export-related workshops, training programs, conferences, trade shows or missions?

Proven business model
- Is your company successfully operating in its home market?

Exporting Experience
- Does your company have, at the very least, some experience in fulfilling orders in a market outside its own?

Export Budget
- Does your company have a separate or line-item budget for exporting?

Strategic Vision/Export Strategy
- Does your company have a strategic vision or plan for exporting?
- Are export objectives clearly stated?

Human Resources
- Does your company have an existing contact person or team dedicated to exporting?

Competitive Edge
- Does your company produce a unique product or service?

- Does your company possess the ability to modify the product(s) to meet market requirements or demand?

Production Capacity
- Does your company have sufficient capacity currently?
- Does your company have the means to expand production quickly to meet export orders?

Certifications (e.g., International Standards Organization, Fair Trade) or applicable registrations (e.g., USFDA)
- Does your company possess relevant international or target market certifications to meet regulatory requirements?

Product Quality
- Does your company have a quality product, including quality packaging and labeling?
- Are quality control processes in place to ensure consistency?

Communications/IT/E-mail
- Is relevant staff proficient in communicating with buyers and contacts in export markets?

Management Expertise
- Are key personnel trained or experienced in the logistics of exporting?

Commitment
- Is exporting considered a core business activity that will receive the requisite attention and resources?

Finance
- Does your company have sufficient financial strength and resources to develop new markets?
- Can initial expenditures be adequately absorbed for activities such as advertising, promotional material, and the cost of market visits?
- Does your company have sufficient cash flow or access to credit/working capital?

Marketing
- Does your company have a marketing strategy for the export market?
- Does your company have adequate marketing/promotional materials in place (e.g., brochures, catalogues, and websites)?

Speed to Market
- Can your company react quickly to market opportunities and deliver on time/as promised?

Efficient Transport
- Can your company deliver to market in a timely and efficient manner and still export profitably?

Step 3: The next step involves **gaining a clear understanding of the U.S. market structure and differences between the various sales channels to be utilized.** Short of maintaining a physical presence or direct link in the export market via sales offices or stock warehouses, an exporter generally has the following sales methods from which to choose at the outset:

Direct to Consumer. The product is sold directly to the ultimate consumer, utilizing no intermediary in the transaction. This is commonly done in very small-size and dollar-value transactions, such as in handicrafts and home accessories.

Sale through Agent. Your product is generally sold on your behalf by an agent, and you pay him/her a commission based on sales made.

Sale to Distributor. Your product is sold to a distributor (or wholesaler, importer), who takes legal possession of the products and then re-sells them to another buyer along the sales chain.

Sale to Retailer. Your product is sold directly to the retail outlet (e.g., "big box" stores such as Wal-Mart, Costco) that imports products in large quantities or to smaller retail stores.

There are often misconceptions on the part of exporters about the above sales channels and the roles therein. "Agents" and "Distributors" in particular are frequently confused with each other. Nevertheless, there are important differences that need to be understood. A key difference is that a distributor takes legal possession of the goods, whereas an agent does not. Agents are generally paid a commission, retainer, or salary, for which they then facilitate the sale of your product in the target market. This might include finding potential customers or promoting your products.

Distributors generally buy in bulk and maintain physical stocks of the products, which they then re-sell to retailers or end-use consumers. Wholesalers, like distributors, generally take legal possession, and buy in bulk quantities, which they then re-sell to distributors and/or retailers. When sales are done through an agent arrangement, the exporter's company/brand name is maintained, whereas distributors, who have taken legal possession of the goods, will often sell them under a different name.

In either case, it is advisable to have written agreements in place with your agent or distributor that clearly and concisely outline the responsibilities of each party. Although there are broad and generally understood definitions of agents and distributors, it is important to note that as an exporter, your particular business arrangement is governed by the specific terms of the agreement that you sign.
Some successful AGOA exporters, particularly those with smaller capacity, have found that they were able to move up the chain, from selling in small quantities at first – either direct to consumer or retailer – to more advanced business relationships where, for instance, the business partner is able to market its product and gain incremental new buyers, in line with its production capacity. **Time** and comfort with the market can also be a factor, which often argues for a staggered approach to market penetration, particularly for new-to-market firms.

<u>Step 4</u>: The next step is **proactive networking** (note: step 1 consisted of scoping). Participating in trade shows and other means of connecting with potential business partners is essential. B2B events are a proven strategy for making valuable contacts, developing sales leads, learning about the dynamics of the market, as well as the competition within your product range. Regular

participation is crucial, both for follow-up and developing communication and trust with potential buyers.

It is also important to devote time and attention to "the story" of your particular company, product, or brand. Telling your company's unique story, especially in smaller cottage industries, has become an increasingly important marketing tool. This is particularly true in recent years, as buyers of African products – from large retailers to small boutique shops – have sought to satisfy both their own socially conscious purchasing practices as well as those of their increasingly discerning customers.

Maintain, at a minimum, some level of online presence, i.e., a company website. Many potential business partners or buyers will seek out a supplier's website on the first encounter. Lack of such a presence can cause interested business entities to lose interest at the outset. Aligning with online retailers and/or websites of other business partners can also serve as a useful outlet to further market your product.

Key Cross-Sectoral Challenges

President Andry Rajoelina's Plan d'Emergence (PEM), released in 2019, is the Government of Madagascar's economic blueprint for growth. The pillars of this strategy include investment in infrastructure, combatting corruption, improving the investment climate, and growing exports.

Corruption in Madagascar is endemic. High-level corruption and alleged collusion between business and political elites have been a recurring issue in Madagascar for decades. In its most recent *Corruption Perceptions Index (2019)*, Transparency International ranked Madagascar 158 out of 180 countries. With a rank of 24/100, with 0 being most corrupt and 100 being "clean", Madagascar is considered a highly corrupt country.

Coupled with corruption, political instability since independence has been a recurring issue. Madagascar's history of cyclical political crises have led to extended periods of economic downturn. Insecurity throughout the country, characterized by looting, strikes and clashes with security forces have adversely affected the business environment and hindered the country's ability to maintain sustained economic growth.

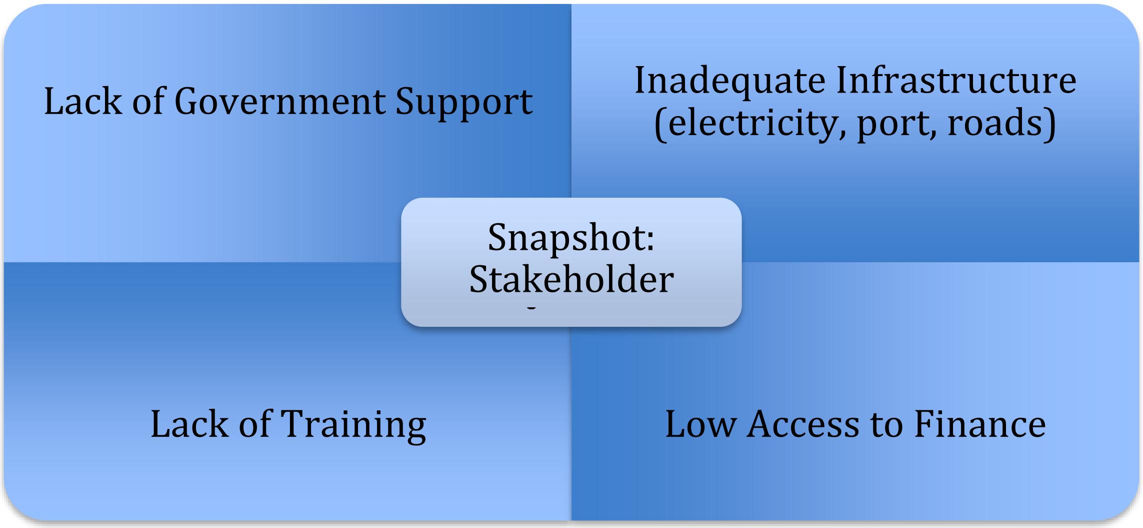
Questions about Madagascar's ability to change and carry out the reforms necessary to improve the business-operating environment, a general lack of faith in government institutions, and a weak framework for public-private dialogue have stymied the implementation of policy recommendations and reduced investment.

Madagascar historically ranks very low in the World Bank's *Ease of Doing Business* annual rankings. In 2020, Madagascar ranked 161 out of 190 countries.

Madagascar also fares poorly in world competitiveness rankings. The World Economic Forum's most recent *Global Competitiveness Report (2018)* ranked Madagascar 132 out of 140 economies.

Engagement with stakeholders across sectors revealed some common themes, much of it centered on a lack of government support. The government is not seen as a proactive actor or one that is attuned to the needs of industry. The government's lack of focus on economic assistance to the private sector to save jobs and keep economic activity going during the shutdown is a case in point, resulting in a poor use of COVID donor assistance.

The private sector has very little confidence in the government's willingness or ability to address constraints faced by the business community. Good intentions may exist, but strategic implementation is lacking



Key Stakeholder Findings

Issue/Constraint	**Stakeholder Type**
Unreliable Energy supply/High Costs	ALL
Corruption	ALL
Low Access to Finance	ALL
Labor Skills/Limited Workforce Training	ALL
Lack of Investment in Value Chain (especially textiles)	ALL
Lack of Government Support/Action	ALL
Lack of Local Inputs	ALL, especially apparel manufacturers
Poor Infrastructure (port, roads)	ALL

Speed to market is an issue given Madagascar's geographic location. Some of the supply chain inputs (such as trims for the apparel sector) can be found in country, which cuts down on lead times. For instance, a fully-integrated textiles and apparel factory can turn goods around from order to delivery in 45 days, and the company can do smaller units and shorter deliveries - something more companies are keen to do as they seek to deliver varied product offerings to a more demanding consumer. The company sources the bulk of its trims locally, which serves to save time in the supply chain, and much of its cotton comes from neighboring Mauritius.

Lack of capacity at the main port has also led to high shipping costs. Operators explain that the port is not on the main shipping line. As a result, boats and scheduled shipping times change frequently. Often larger boats are replaced with smaller ones, and increased lead times lead to higher costs incurred.

The lack of formalized training and workforce development programs is a critical constraint to companies operating in Madagascar. The country lacks technical training and basic education required by the industry. Consequently, most operators provide their own training and education. There is very little information available on skills development required in Madagascar, and no comprehensive needs assessments has been undertaken.

In general, labor retention rates are quite good. Apparel companies that invest in their workers and provide career-progression opportunities face very high retention rates, while the ones that don't experience significant turnover.

Effective training of operators, middle management and technicians, is not adequately provided by the public sector. Most training is undertaken by companies in-house. It must be underscored that these company-initiated training programs are limited and will not solve the larger skills gap facing the sector across the board. The need for training programs to fill this gap is critical.

Access to finance is severely lacking in Madagascar. Official financing through commercial banks is prohibitive given high interest rates and restrictive lending practices. The lack of financing is systemic, affecting all stakeholders. Women and SMEs, who do not have access to offshore financing, are particularly affected by the lack of access to finance.

The World Bank's Ease of Doing Business Report (2020) ranks Madagascar 142 of 190 countries in terms of ease of getting credit. This places Madagascar below the average for Sub-Saharan African countries, and significantly behind neighboring countries such as Mauritius (67) and Kenya (4).

Interest rates on loans are also prohibitively high, ranging from 18-20%.

The poor state of infrastructure in Madagascar is a key concern. Many producers spoke about limitations at the Port of Toamasina, including long delays due to administrative inefficiencies, as well as poor customs administration. The main road between Antananarivo and Toamasina is also in disrepair.

Energy sector is under-developed. Power is unreliable and expensive. There are frequent outages as well as scheduled blackouts, which lead to long periods of down time in factories. This raises the operating costs and cuts down on productivity. Several stakeholders mentioned their desire to explore alternative sources of energy to circumvent the high cost and unreliability of electrical power. The utilization of solar energy, for instance, would be a good way for factories to address these energy constraints.

Outdated machinery and equipment are key constraints inhibiting growth. Many apparel companies expressed the need for new equipment, stating that the older machinery is holding them back, not allowing them to innovate and keep up with industry standards. Quite a few companies are interested in upgrading their machines but hesitate due to lack of access to finance and energy. The types of machines mentioned were those that utilize new technologies, such as those that are IT-driven, e.g., CAD/CAM technologies that allow for computer-aided design and manufacturing across the apparel production process. These technologically advanced machines will help companies meet the demands of higher value chain/quick turnaround time production.

Madagascar suffers from inefficient and overly bureaucratic trade facilitation measures. Duplicative processes, poor record-keeping, corruption, and bureaucracy increases both the time and the cost of doing business. For example, one Ministry currently requires that companies fill out and file a form in order to receive authorization to export. Yet this requirement is already met by companies through their adherence to the free trade zone agreement overseen by EDBM. Effectively, companies are being required to obtain the same authorization by two different entities, which is costly and inefficient. This operating hurdle is particularly challenging for export-oriented sectors like textiles and apparel, which also rely heavily on importation of inputs; effectively, inefficiencies impact operations in both directions of international trade.

The World Bank's 2020 *Ease of Doing Business* report highlights the problems faced by operators in Madagascar. The survey records the time and cost associated with the logistical process of exporting and importing goods and measures the time and cost (excluding tariffs) 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.

Madagascar fares poorly in comparison to other OECD high-income countries in terms of logistical time and cost. And while it ranks slightly better than the average for Sub-Saharan Africa on some indicators, it ranks below other African countries in the East Africa region that are also major AGOA exporters, such as Mauritius and Kenya.

Madagascar: Ease of Doing Business Key Indicators

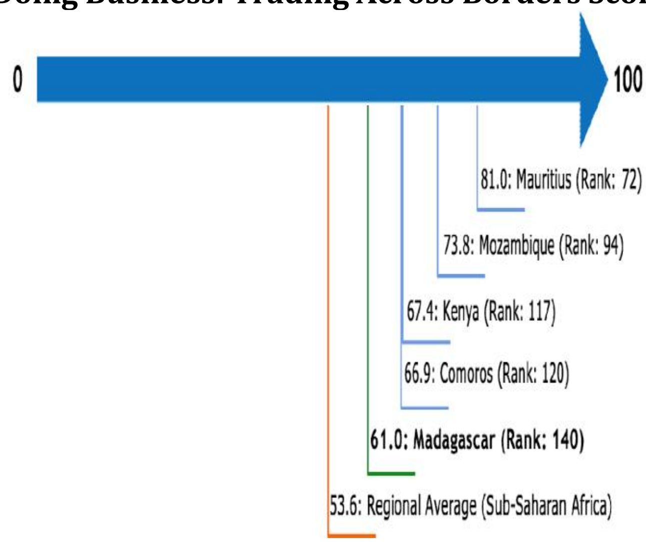
Indicator	Madagascar	Sub-Saharan Africa	OECD high income
Time to export: Border compliance (hours)	70	97.1	12.7
Cost to export: Border compliance (USD)	868	603.1	136.8

Time to export: Documentary compliance (hours)	49	71.9	2.3
Cost to export: Documentary compliance (USD)	117	172.5	33.4
Time to import: Border compliance (hours)	99	126.2	8.5
Cost to import: Border compliance (USD)	595	690.6	98.1
Time to import: Documentary compliance (hours)	58	96.1	3.4
Cost to import: Documentary compliance (USD)	150	287.2	23.5

Source: World Bank 2020 Ease of Doing Business Report

Madagascar also fares poorly when measured against other African developing countries that are not major exporters under AGOA, such as Mozambique and Comoros.

World Bank Doing Business: Trading Across Borders Score



Source: World Bank 2020 Ease of Doing Business Report

Buyer and importer perceptions of Madagascar were also sought. A commonly held view is that Madagascar as a sourcing location holds some level of risk given the country's recent history of political upheaval and instability. Aside from worries over political turmoil that could once again cause Madagascar to lose its AGOA eligibility in the future, importers also have concerns about instability causing delays and an overall deterioration of the business operating environment.

A company that expects its products on time and without complications can ill afford disruptions of the supply chain. So these issues do become part of the calculation when buyers consider from which country they choose to source their products.

What would cause (or has caused) buyers to source from Madagascar? The immediate answer is two-fold: 1) duty-free entry to the United States and 2) low labor costs. However, these same stakeholders note the fact that these cost savings are mitigated by high energy and transport costs, as well as inefficiencies that raise the overall cost of doing business. Then there are the longer lead times to the United States. Lead times and speed to market can of course be managed through proper logistics and supply chain planning, especially in high volume, repeat order business, but external disruptions can quickly erode this.

Many importers believe that Madagascar must evolve and establish itself as a differentiated source of production, moving to higher value-added production and into niche product categories. But these stakeholders believe that government has a critical role to play. How? Improve the business environment and remove obstacles that constrain operations through unnecessary bureaucracy and red tape. Several companies noted the proactive government engagement in other countries where they do business, in stark contrast to Madagascar where such engagement is lacking. Without such forward planning and implementation, any hope for future growth in exports to the United States under AGOA will remain predicated largely on the existence of duty-free market access, which is a tenuous position.

SWOT Analysis

Strengths	**Weaknesses**
❖ AGOA Duty-free access until 2025 ❖ Abundant, relatively low-cost labor ❖ Abundant land and natural resources ❖ Strong SME and entrepreneurial drive, especially in design-oriented sectors such as home décor and fashion accessories	❖ Distance to market, resulting in higher costs and longer lead-times ❖ Poor infrastructure (roads, energy, ports) ❖ Inefficient customs administration ❖ Endemic corruption ❖ Lack of transparency in laws and regulations and ad hoc rule changes ❖ Unskilled labor, lack of training support ❖ Non-diversified exports ❖ Low levels of investment ❖ Lack of access to finance ❖ Lack of strategic vision for private sector development
Opportunities ❖ Continued political stability leading to long-term economic growth ❖ Increased intra-regional trade ❖ Positioning of apparel sector in post-pandemic global economy ❖ Improved investment climate and renewed government efforts to attract FDI ❖ Diversification of exports	**Threats** ❖ Impending lapse of AGOA preference program ❖ Regional/international competition in key sectors such as apparel ❖ External threats (climate change, natural disasters, health pandemics) ❖ Political instability ❖ Transportation bottlenecks

Benchmarking

Other AGOA-eligible countries in Africa serve as good benchmarks for Madagascar. For purposes of this analysis, we have chosen two, Kenya and Ethiopia, as they closely match Madagascar in terms of size and positioning with the U.S. market, particularly in apparel. For comparison purposes we have added a third, non-African country, Haiti, a country for which apparel exports also dominate and which likewise has duty-free access to the U.S. market[13].

Apparel Exports to the United States (2020)

	Articles of Apparel, Knitted or Crocheted (HS 61)	Articles of Apparel, not Knitted or Crocheted (HS 62)	Total
Madagascar	**$84.7 million**	**$123.2 million**	**$207.9 million**
Kenya	$130.2 million	$264.5 million	$394.7 million
Ethiopia	$117.5 million	$110.6 million	$228.1 million
Haiti	$639.7 million	$115.2 million	$751.9 million

Source: ITC TradeMap

Kenya, Ethiopia and Haiti all have some interesting similarities to Madagascar in terms of the value chains, levels of development, importance of textiles and apparel to their economies, and drive to capture foreign direct investment to spur growth in the sector. Similarly, all four countries are heavily oriented towards the U.S. market via preference programs that allow duty-free entry.

Madagascar and Kenya are more heavily weighted in the production of woven apparel. Haiti's exports on the other hand are dominated by knitted apparel, while Ethiopia is evenly split between wovens and knits. That said, given Haiti's large base of apparel exports to the U.S., it still exports nearly the same volume of woven (non-knitted) apparel as Madagascar.

While Madagascar is heavily reliant on the U.S. market, it is perhaps less so than the other three countries as it has managed to develop and retain markets in the EU.

Kenya has an established industry and complete - though disjointed - value chain, dominated by apparel. The vast majority of apparel exported to the U.S. market comes from factories based in Export Processing Zones (EPZs). While the country does have textiles production, the mills are old and much of the production is for local and regional markets. As with most African apparel producers, the vast majority of fabrics are sourced

[13] *Via the CBTPA and HOPE/HELP preference programs*

from outside of Africa, mainly China. Because it is heavily reliant on the U.S. market and has not developed its value chain, lack of diversification could severely hinder the sector in Kenya in the event that its trade preference with the United States ends.[14]

Ethiopia is, like Madagascar, a low-cost producer. The country has low labor rates and one of the lowest energy costs in the world. It is also an emerging apparel producer, with impressive rates of growth in the past several years, driven by high levels of investment within the sector.

Haiti, like Madagascar, has experienced cycles of growth, from lows often brought on by external shocks or political instability, to rapid growth of production and exports. Haiti benefits from low-cost labor, proximity to the U.S. market, and preferential access to major consumer markets including the United States.

A comparison of key indicators follows below:

Comparison of Key Indicators

	Madagascar	**Kenya**	**Ethiopia**	**Haiti**
Monthly Wage	$66	$175	$65	$125
Weekly Working Hours	40	45	48	48
Electricity ($/kw)	$0.18	$0.18	$0.03	$0.30
% Sales loss in Power Outages/ Year	13.6	5.6	2.6	N/A
Water cost	$0.32	$0.55	$0.50	$0.90
Bank interest rate	18%	14%	12%	13%
Inflation rate	6.5%	8%	2.5%	20.1%
Work Permits for Expats (annual cost/	$100	$2,000	$200	45% of minimum wage for average working time

[14] *Kenya is currently negotiating a bilateral Free Trade Agreement (FTA) with the U.S., which will advance the two-way trade relationship beyond the unilateral AGOA preference program.*

permit)				over year; zero if the company applied for incentives
EPZ Rent cost (per sq m/year)	**$28-46**	$26-48	$24-48	$27-$32
World Bank Ease of Doing Business Rank (2020)	**161**	94	159	179

Sources: World Bank; IFC, Mapping and Analysis of the Textiles and Apparel Sector in Kenya

Madagascar's World Bank Ease of Doing Business ranking is quite low at 161 in 2020, comparable to Ethiopia (159). Haiti fares the worst at 179, while Kenya fares best at 94.

Labor is inexpensive in Madagascar, especially relative to major competitors. This is in line with its low-cost model of production. Madagascar's labor costs are similar to Ethiopia's, while monthly wages for a typical apparel worker is higher in both Kenya and Haiti.

While companies in Madagascar are generally pleased with the productivity rates of their employees, which are on par with the benchmarked countries, they still lag behind competitors in Bangladesh and other Asian countries. Malagasy workers are known for their dexterity. As such, they have innate machine operator skills that, if combined with more formalized training within the sector, would raise efficiency levels.

Electricity costs in Madagascar are still comparatively high and are a major factor in higher operating costs. Ethiopia on the other hand boasts some of the lowest electricity costs in the world.

Energy supply in Madagascar is uneven and unpredictable. Power outages are frequent, leading to factory downtime and lost productivity. It is estimated that Madagascar loses 13.6% in sales per year due to power outages, which is much higher than both of it its neighbors, Kenya and Ethiopia.

A critical factor is ability to attract investment. All four countries recognize the need to attract FDI to remain competitive, particularly in the textiles and apparel sector. As supply chain shortens and vertical operations become more important, countries are looking to attract investments in new plant capacity and greater textiles production to lessen dependence on imported inputs. Madagascar has struggled in this area, as have Kenya and Haiti. Ethiopia, on the other hand, has had success in bringing in FDI in recent years, which was key to its emergence as a new base for supply of apparel over a relatively short time period. (Note: Ethiopia lost its AGOA eligibility for 2022).

What are the lessons for Madagascar? Using Ethiopia's AGOA ramp-up as an example, first and foremost, the government needs to focus on investor needs. Ethiopia recognized that investors have choices, and that it was not necessarily the first country that came to mind as a place to, for instance, build a textile plant. So it revamped its investment promotion unit, focused on investor needs, and aggressively marketed its investment pitches to targeted investor groups. But it did not end there. The country provided land at extremely attractive rates and provided infrastructure for build out of several EPZ's. The result was the successful attraction of new investment, including from U.S. company PVH, which supported a new industrial park (and then became the anchor tenant, attracting many of the Asian companies within its supply chain to likewise set up operations there). New investments from companies across the value chain followed.

Of course, just as important as investment attraction is investment retention. Unlike capital-intensive textiles investments, apparel producers can move quite easily, and especially so if duty-free preference programs are no longer present. For Madagascar, this means that it needs to be strategic in its approach, with a long-term view as to how it will build its sector to be globally competitive.

While this largely requires government action, the private sector has a role to play. Companies can educate the government as to the needs of the sector from an investment standpoint, and push for more private sector-led initiatives to drive the sector forward, e.g., privately run industrial parks.

What stops Madagascar from achieving the volumes of a Haiti or Bangladesh? Haiti after all has achieved high volumes of exports to the United States based on the same two advantages that Madagascar has exploited (duty-free market access and low labor costs), yet at the same time is hindered by similar challenges (poor access and high cost of energy, poor business operating environment). Speed to market is of course a major advantage for Haiti. But so too is government action to support its priority sectors. In Haiti, large industrial parks catering to existing and new investors have been created, resulting in capacity expansion that has enabled Haiti to grow its export base over time.

To reach those same levels, Madagascar must strategically commit itself to expansion through investment, backed by policy implementation that convinces investors that Madagascar can be a new Hub for production.

AGOA Support Institutions

USAID Trade Hubs. Much of the AGOA support in Madagascar since 2003 has been provided by USAID's Regional Trade and Investment Hub for East Africa. The East Africa Trade and Investment Hub, based in Nairobi, Kenya, provided technical assistance to companies in Madagascar across sectors, provided market linkage opportunities through buyers' missions and trade shows, and worked with stakeholders to build the country's competitiveness to effectively take advantage of AGOA.

The Trade Hub held sensitization workshops for exporters and was also responsible for the production of Madagascar's first National AGOA Strategy. A new project under the United States Prosper Africa initiative will provide new resources for support to the private sector in Madagascar, especially in the areas of investment and exports under AGOA.

AMCHAM. The American Chamber of Commerce (AMCHAM) received a grant and technical assistance from USAID's East Africa Trade and Investment Hub to establish an *AGOA Resource Center*. This center provides exporters with information and tools to access the U.S. market. It also holds regular networking events, awareness workshops and other capacity building fora for the exporting community.

Economic Development Board of Madagascar (EDBM). EDBM is the entity charged with investment promotion and attracting foreign direct investment to the country. It also has a mandate to increase the competitiveness of all sectors in Madagascar and improve the business-operating environment for the private sector. EDBM also acts as the Technical Secretariat for the *Public-Private Sector Dialogue Forum*, and in this role identifies reforms that are needed to improve the business climate in the country.

AGOA Committee. Unlike in previous years when there was a politically-appointed AGOA Advisor reporting to the President, broad AGOA issues at the government level today are overseen by an AGOA Committee comprised of working level contacts from key Ministries, led by the MICC. But its role and functions are not clear, and to date the private sector has not had regular interaction with the Committee.

Madagascar Export Processing Companies and Partners Association (GEFP). GEFP, established in 1998, is a member organization representing the interests of companies operating in free trade zones. GEFP members come from 11 sectors, the largest of which is the textiles and apparel sector, which accounts for 50 percent of the companies and a large majority of the employees (approximately 134,000 employees). GEFP oversees the free trade zone regime in Madagascar, ensuring that exporting companies receive the appropriate incentives (and also advocates against the application to companies that are ineligible for such incentives). Because GEFP member companies are export-oriented and rely on duty-free access to the U.S. market, AGOA is critically important to them. GEFP therefore plays a vital advocacy role to the government on AGOA matters on behalf of the largest exporters.

Strategic Interventions

Lessons Learnt

The loss of AGOA benefits in 2010 was devastating for Madagascar. The lack of duty-free access to the United States crippled Madagascar's export business at a time when the country was a significant supplier of apparel to the United States under AGOA. Madagascar did not regain its AGOA eligibility for several years, during which time critical business with U.S. buyers was lost. And while business did gradually return, with Madagascar regaining its status as a top supplier of apparel under AGOA, the country did take a hit in terms of perception. When considering markets from which to source, buyers consider issues such as political stability and understandably ask the question: "Can Madagascar lose its AGOA eligibility again?" The short answer is yes. So obviously, retaining AGOA eligibility is critical.

Beyond that, the conclusion to be drawn from the period of AGOA ineligibility is that the key driver of Madagascar's export market in the United States is duty-free status. Without the benefit of duty-free entry to the U.S., buyers simply look elsewhere. In apparel, Madagascar's production can be easily replaced in other countries. Madagascar needs to differentiate itself, to grow beyond the high-volume, low-price model upon which duty-free access is dependent. The country needs to begin to redefine itself as an alternative sourcing market.

Madagascar must strategically commit itself to expansion through investment, backed by policy implementation that convinces investors that Madagascar can be a new Hub for production. Companies need to continue to build trust with buyers and deliver consistently, to build confidence in Madagascar as a reliable partner. Buyers who left Madagascar in 2010 ultimately came back, once again attracted to duty-free products. But long-term, sustainable business will be predicated on strategic partnerships.

Madagascar is in a critical period with respect to its trade relationship with the United States. While the AGOA preference program has been an unquestioned driver of growth in Madagascar and helped to build a solid textiles and apparel sector, the situation has also been a tenuous one. Political instability has led to on again-off again beneficiary status under AGOA. Weak rule of law, transparency and corruption are critical risk factors to Madagascar staying eligible under AGOA.

In addition, AGOA was never meant to be a permanent program. Preference programs by their very nature are meant to afford recipient countries a time period in which to become competitive, to a point where the preference is no longer needed. The question is: is Madagascar prepared for a post-AGOA environment, for the day when AGOA is no longer available?

Madagascar can remain competitive without the "crutch" of duty-free preferences in the future, but this requires a sustained effort to address structural issues that are

constraining growth. AGOA is now 20 years old, and with less than 5 years remaining, it is in its "sunset years", with no guarantee of what may be in place post-2025.

Madagascar needs to utilize this critical period of time, these next four years, to raise the competitiveness of its industries. In the apparel sector, this means continuing the trend towards greater value addition and production using more fully integrated and local supply chains to better respond to the changing dynamics of the industry.

It also means addressing governance matters, infrastructure deficiencies, and key business operating environment issues. A coherent government strategy and vision that is implemented through specific actions is needed.

Madagascar has navigated external shocks throughout its history, testing the resilience of its export sectors. The challenges presented by the COVID-19 pandemic are different and unprecedented given their global reach and impact. And while the crisis has forced the country – and the apparel sector in particular - to go into survival mode in the near-term, with longer-term ramifications unknown at this time, the potential to grow and evolve remains.

Madagascar can build on its strong base in textiles and apparel, through a focus on production efficiencies that will allow for more fully integrated services. This requires more foreign direct investment, workforce development, and an enhanced policy and business environment to support the sector. And of course, political stability and security are essential prerequisites.

A conducive business operating environment and an attractive climate for investment are critical. One might argue that a lack of certainty as to the future of AGOA – will it be extended, will there be something in its place when it lapses in 2025? – acts to discourage investment. Certainly this is a valid concern, after all the future of long-term duty-free access to the United States is in fact not known at this time. This raises the risk profile for any investor, which of course is only compounded by lack of certainty due to the pandemic.

And yet several existing companies have increased their investments through expansion recently. Many were initially attracted to Madagascar due to two primary advantages: low labor costs and duty-free access to the United States. Many survived the last period without AGOA benefits and have doubled down on their operations. Yet these same investors have lamented the increased levels of required documentation and audits of operations in recent years. Most share the view that the situation has gotten worse. More than one stated emphatically, "without AGOA, we would pack up and go".

Companies that have invested for the long-term could absorb the shock of lost duty savings if other operating environment costs and efficiencies could be improved, but this requires government support and action in close consultation with the private sector.

A Way Forward

Action Plan - Key Recommendations

The previous National AGOA Strategy (2015) highlighted priority areas of focus, which are summarized below. It is useful to review these issues, as many are still very much relevant moving forward.

<table>
<tr><th colspan="3">Madagascar National AGOA Strategy (2022)</th></tr>
<tr><td>Strategic Priority 1
Trade policy</td><td>Strategic Priority 2
Business support: U.S. market focused</td><td>Strategic Priority 3
Business support: General</td></tr>
<tr><td>● Support extension of AGOA beyond 2025</td><td>● Prioritize key initial focus sectors
● Compile actionable market analyses/ opportunity guides for priority sectors
● Participate in trade shows for priority sectors
● Ensure inward buyer visits for priority sectors and develop contact hubs
● Analyze feasibility of local textile sector
● Analyze transportation lead-times
● Develop training programs to address non-tariff barriers for priority exports
● Develop sector-specific strategies for priority sectors</td><td>● Lower transportation costs
● Address energy supply and pricing
● Streamline customs and trade regulations
● Skill-based Training programs to increase the pool of skilled labor</td></tr>
</table>

Source: Madagascar National AGOA Strategy, USAID, April 2015

As in 2015, there is a need to support an extension of AGOA beyond the current expiration date in 2025. Madagascar needs the duty-free access to the United States to afford it more time to develop its economy. As AGOA is a U.S. initiative, this effort is necessarily outside of Madagascar's direct control. That said, it is important for policy makers to underscore the importance of AGOA to Madagascar's economic development - as well as the ramifications should AGOA no longer be available to the country.

Otherwise, the previous strategy focused on key business support services that should be extended to the private sector (Strategic Priority 2) as well as main areas that need to be addressed to improve the overall business-operating environment (Strategic Priority 3) in the country.

Below is the 2021-2025 AGOA Action Plan, a summary matrix of identified challenges, strategic objectives and key actions necessary to address the challenges so that companies can take greater advantage of AGOA.

Organizationally, this Action Plan should be driven by the AGOA Committee under MICC and should be the basis of ongoing dialogue between the government, private sector and development partners.

AGOA Action Plan (2022-2025)

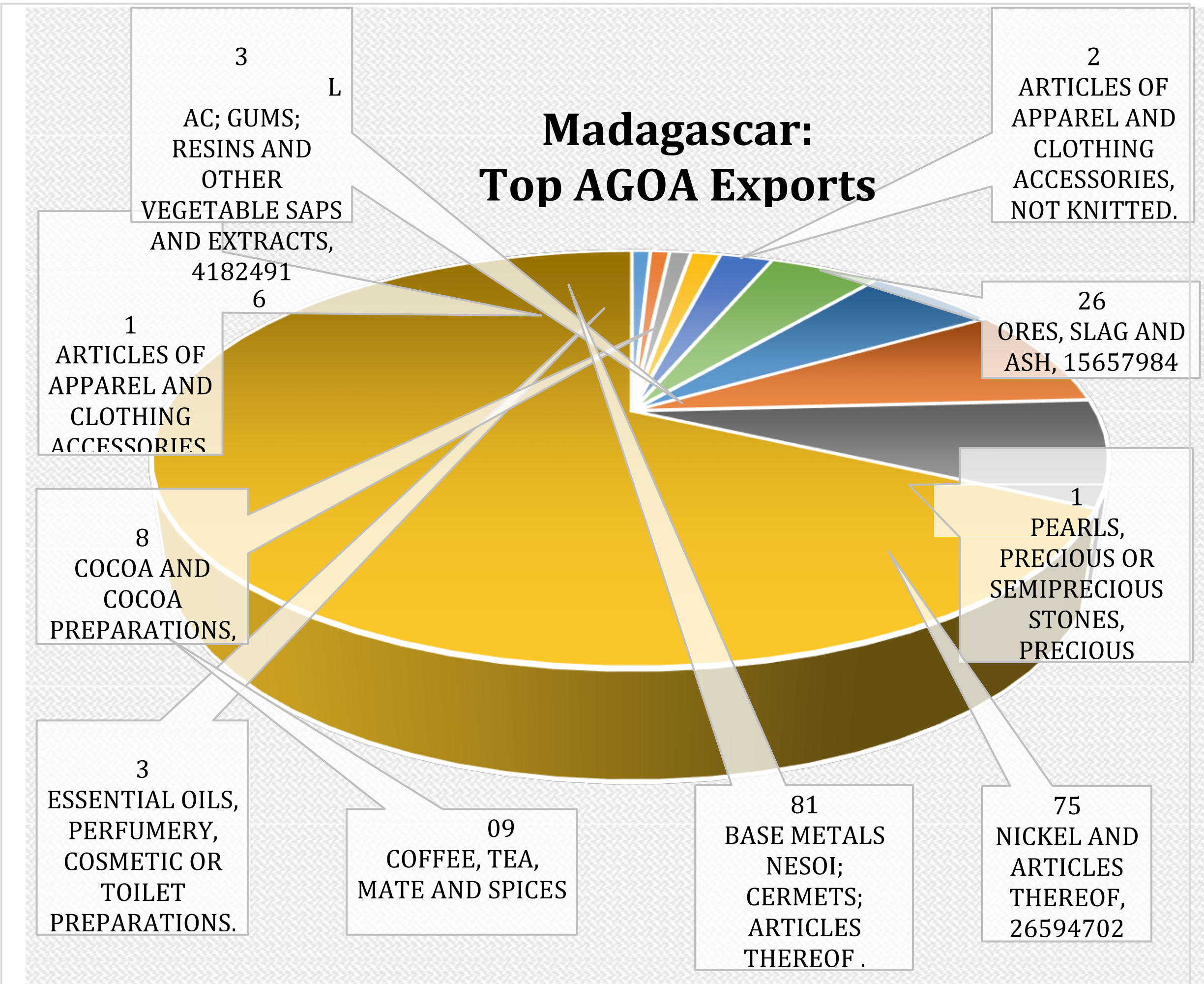
CHALLENGE	STRATEGIC OBJECTIVE	KEY ACTIONS REQUIRED	PROPOSED LEAD
DONORS/ DEVELOPMENT PARTNERS			
Lack of government funding for initiatives	Sustainable development	❖ **Improve donor coordination** ❖ **Better coordination between GOM and donors over development priorities** ❖ **Identify actionable initiatives** ❖ **Improve project-level funding and implementation**	Donor community, GOM
Lack of skilled workers	Increase skills development	❖ **Expand centralized training scheme** ❖ **Develop standardized training curricula, e.g., for textiles and apparel sector** ❖ **Bolster the existing training center and/or consider new centers to provide a steady supply of skilled workers to the sector**	GOM, Ministry of technical training, private sector, donors
GOVERNMENT			

Burdensome administrative procedures **Unpredictable fees**	Enhance trade facilitation measures	❖ **Harmonize fee structure and ensure consistency among regulatory agencies** ❖ **Reduce paperwork**	Relevant Ministries
Inefficient customs procedures **Lack of harmonization between government agencies at the borders**	Enhance trade facilitation measure, improve ease of doing business	❖ **Reduce steps and point of control** ❖ **Reduce customs clearance time** ❖ **Publish all procedures** ❖ **Ensure transparency and predictability of measures and procedures** ❖ **Increase automation** ❖ **Formal agreement on roles and responsibilities among agencies**	MCC, NTFC (customs + commerce)
Port inefficiencies **Port congestion**	Improve transit times	❖ **Continue current process of port improvement** ❖ **Seek better access from main shipping lines to reduce lead times**	Prime Minister's Office
Lack of access to finance **High cost of credit**	Increase access to finance	❖ **Increase numbers of actors in financial sector** ❖ **Expand activities of the banking sector** ❖ **Incentivize lending to poorly served communities, e.g., SMEs and women-owned businesses**	GOM, banking system
Unreliable energy, high cost of electricity	Improve business operating environment	❖ **Allow private company to produce and sell electricity to JIRAMA for distribution** ❖ **Promote and incentivize use of renewable energy, e.g., solar** ❖ **Encourage/incentivize textile sector participants to set up their own renewable energy power source to reduce dependence on JIRAMA**	GOM, JIRAMA

Lack of access to water	Improve business operating environment	❖ **Prioritize water access in sector development plans**	GOM
Underdeveloped telecommunication and ICT infrastructure	Improve business operating environment	❖ **Equip government agencies with telecommunication and ICT tools**	GOM
Lack of trust in political institutions	Increase public-private sector dialogue	❖ **Build capacity of the private sector for lobbying and advocacy efforts** ❖ **Deepen existing public-private sector framework to enhance dialogue**	GOM, Private sector
Bad governance **Lack of security** **Political instability**	Zero tolerance for corruption	❖ **Fight Corruption at all levels** ❖ **Increase transparency** ❖ **Widely disseminate information, laws and regulations** ❖ **Involve all stakeholders**	GOM - Ministry of Interior, Gendarme, Police, Ministry of Justice
Underdeveloped, fragmented value chains **Lack of access to local inputs**	Increase investment	❖ **Strengthen investment promotion** ❖ **Develop investment strategy for country and at sector level** ❖ **Prioritize investment attraction in priority value chains** ❖ **Target investment in textiles production to strengthen the textiles and apparel value chain** ❖ **Or alternatively, double down on the CMT model and seek new apparel investments**	MICC, EBDM, GEFP
Lack of export support capacity	Enhance institutional capacity to support exporters to utilize AGOA	❖ **Establish a strong institution to coordinate AGOA activities** ❖ **Strengthen the AGOA Committee**	MICC, AGOA Committee
PRIVATE SECTOR/ ASSOCATIONS/ DEVELOPMENT PARTNERS			

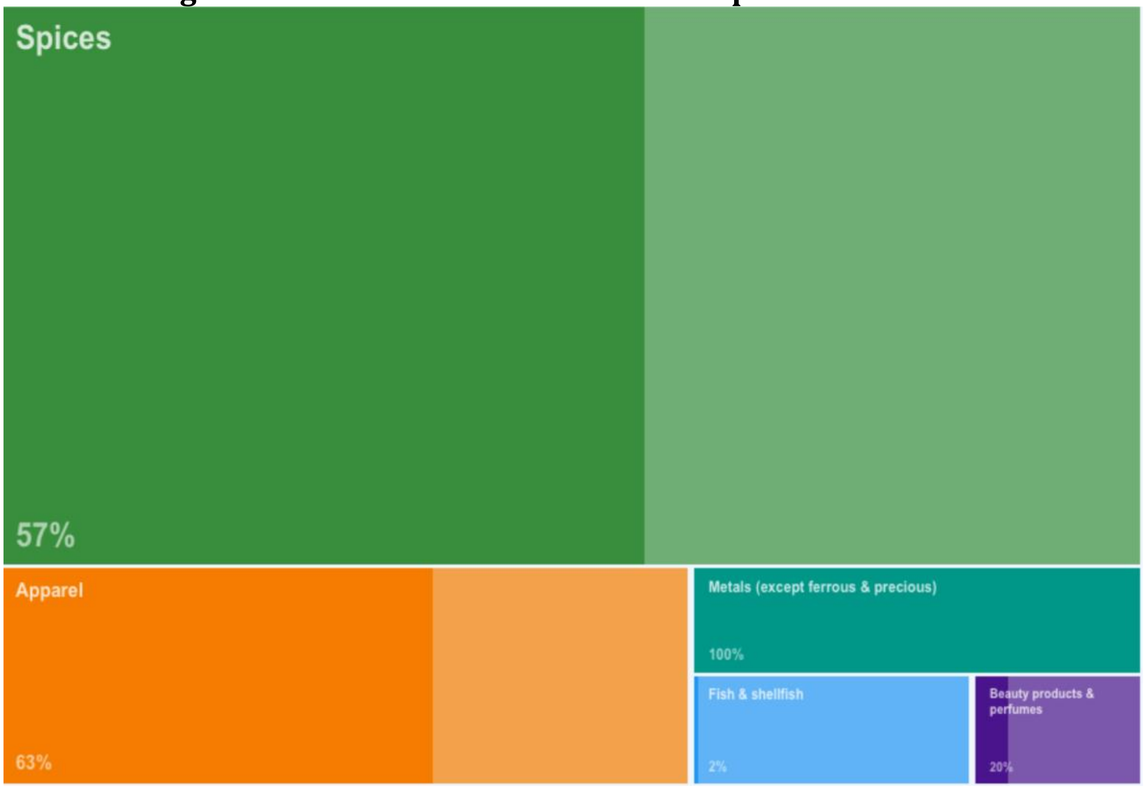
Lack of market information	Increase understanding of the U.S. market in targeted sectors	❖ **Conduct AGOA sensitization workshops** ❖ **Disseminate market information** ❖ **Industry Associations should seek out U.S. E-commerce institutions to pitch Madagascar's exports**	AMCHAM, AGOA Committee, Development partners, Industry Associations
Lack of contact with U.S. buyers	Increased export promotion	❖ **Promote participation in targeted trade shows** ❖ **Undertake Buyers Missions** ❖ **Organize matchmaking/B2B event** ❖ **Industry associations should build strong relationships with U.S. counterparts** ❖ **Keep abreast of U.S. industry developments through subscriptions to industry publications** ❖ **Industry associations to use virtual trade shows strategically and showcase Madagascar's products digitally**	
Lack of diversification	Broader AGOA utilization	❖ **Promote other sectors beyond textiles and apparel** ❖ **Provide technical assistance programs targeting SMEs, especially in home décor and fashion accessories, specialty foods and essential oils sectors**	MICC, associations, private sector
Lack of information on end market requirements	Enhance export development	❖ **Annual Training for exporters to meet SPS and FDA regulatory requirements** ❖ **Capacity building for institutions, e.g., train the trainer initiatives to empower local institutions to carry out training** ❖ **Information dissemination** ❖ **Convene Virtual exchanges for officials and private sector with U.S. counterparts**	MICC, AGOA Committee, AMCHAM

ANNEXES

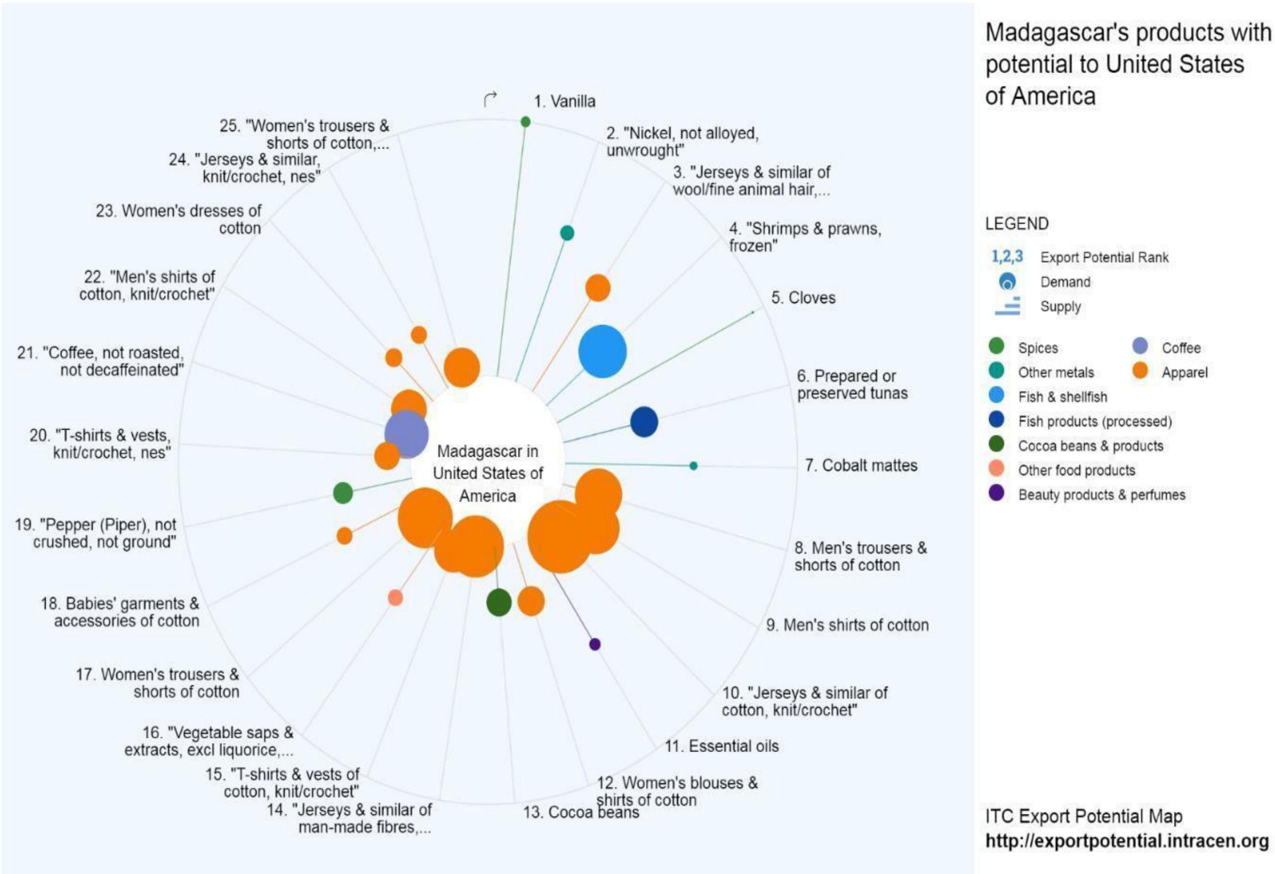


Source: ITC TradeMap

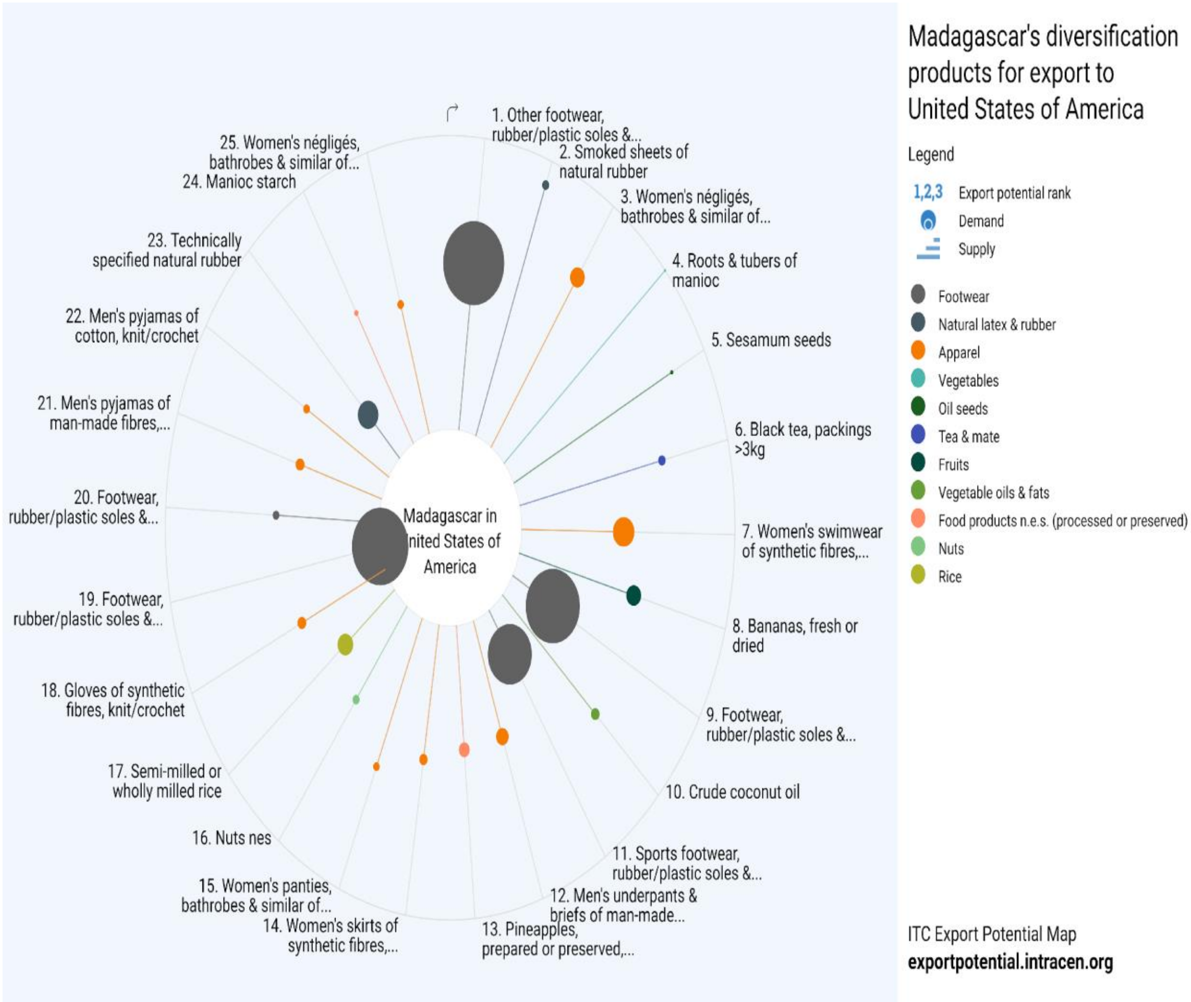
Madagascar: Products with Potential for Export to the United States



Source: ITC Export Potential Map



Madagascar's products with potential to United States of America
1. Vanilla
2. "Nickel, not alloyed, unwrought"
3. "Jerseys & similar of wool/fine animal hair,...
4. "Shrimps & prawns, frozen"
5. Cloves
6. Prepared or preserved tunas
7. Cobalt mattes
8. Men's trousers & shorts of cotton
9. Men's shirts of cotton
10. "Jerseys & similar of cotton, knit/crochet"
11. Essential oils
12. Women's blouses & shirts of cotton
13. Cocoa beans
14. "Jerseys & similar of man-made fibres,...
15. "T-shirts & vests of cotton, knit/crochet"
16. "Vegetable saps & extracts, excl liquorice,...
17. Women's trousers & shorts of cotton
18. Babies' garments & accessories of cotton
19. "Pepper (Piper), not crushed, not ground"
20. "T-shirts & vests, knit/crochet, nes"
21. "Coffee, not roasted, not decaffeinated"
22. "Men's shirts of cotton, knit/crochet"
23. Women's dresses of cotton
24. "Jerseys & similar, knit/crochet, nes"
25. "Women's trousers & shorts of cotton,...
Madagascar in United States of America
LEGEND
1,2,3 Export Potential Rank
Demand
Supply
Spices
Coffee
Other metals
Apparel
Fish & shellfish
Fish products (processed)
Cocoa beans & products
Other food products
Beauty products & perfumes
ITC Export Potential Map
http://exportpotential.intracen.org



Source: ITC TradeMap

Standards and Certifications for the Home Décor and Fashion Accessories Sector			
HS Code	Product Examples	Product Procedures for Imports	Product Standards & Certifications for Imports
HS Code 42: Articles of leather, harness, travel goods	Leather or simulated-leather trunks, suitcases, traveling bags, sample cases, instrument cases,	<u>If the product is derived from domesticated animals (cattle, pigs, sheep & goats)</u>: - USDA Requirements: Animal and Plant Health Inspection	Check with US Customs regarding: - Whether the product is subject to quarantine requirements. If yes, a permit is required, and reservations made for a quarantine facility; - Whether a permit is required. - What are the marking requirements; and - If there are any certification requirements.

	briefcases, ring binders, billfolds, wallets, key cases, coin purses, card cases, French purses, dressing cases, stud boxes, tie cases, jewel boxes, travel kits, gadget bags, camera bags, ladies' handbags, shoulder bags, purses, pocketbooks, footwear, belts (when not sold as part of a garment) and similar articles.	Service (APIHS) inspection at the port of arrival. - Port-of-entry must be at a USDA designated port. - Check with US Customs regarding standards. If the product includes textiles: - Compliance with US Customs, Department of Commerce (DOC), US Federal Trade Commission (FTC), & Consumer Safety Product Commission (CSPC) standards. If the product is derived from and endangered species or wildlife: - Compliance with the requirements of the US Fish and Wildlife Service (FWS). If the product is derived from exotic wildlife or endangered species: - Entry at a designated FWS port & compliance with the FWS & customs advance notification and port-of-entry inspection requirements.	Leather Products16 C.F.R. 24, Guides for Select Leather and Imitation Leather Products[15](Guide to the manufacture, sale, distribution, marketing, or advertising of all kinds or types of leather or simulated leather, including footwear.)

[15] *Leather Products 16 C,F.R. 24, Guides for Select Leather and Imitation Leather*

HS Code 46: Manufactures of plaiting material, basketwork, etc.[16]	Plaited articles in sheets: Mats, matting and screens. Basketwork and wickerwork. Other shaped plaited articles: Bags, handbags and luggage. Articles plaited in: Straw, Osier, Willow, Bamboos, Rushes, Reeds, Strips of wood, Raffia, Strips of other vegetable matter, Bark, Unspun natural textile fibers, Monofilament, strip and similar forms of plastic and paper strips.	Baskets and Wickerware: - Compliance with USDA random port-of-entry inspections, import restrictions and quarantines, and any other requirements. - Compliance with the Federal Plant Pest Act & Plant Quarantine Act. If the products **are not** derived from an endangered species: - Compliance with random USDA port-of-entry inspection based on country of origin, port of entry, and risk of contamination by the material. If the products **are** derived from an endangered species: - Compliance with the requirements of the US Fish and Wildlife Service (FWS) including license, permit, country-of-origin certificate, import documentation, and recordkeeping requirements.	- No permits or licenses needed to import baskets or wickerwork. - Random inspections by the USDA depending on the port-of-entry, country-of-origin, and risk of contamination of the product's material. - Most countries have domestic laws regarding the exporting of endangered species. Both the exporting country and US requirements must be met. Required Certifications: - Certificates of export, origin, sanitation, inspection, from the country of origin or export as required by Customs. - Copy of airway bill or bill of lading. - Copy of invoice. - Phytosanitary Certificate if importing rice straw baskets originating from North Korea or grapevine baskets. - If an endangered species, FWS Import Declaration Form 3-177 original and 3 copies and specific marking and labeling requirements on the outside of the container.

[16] *Importers Manual USA: The Single Source Reference for Importing 4th edition*. Hinkelman, E.G. 2003.

		- Entry at a designated FWS port & compliance with the FWS & customs advance notification and port-of-entry inspection requirements.	
HS Code 63: Other made textile articles, sets, worn clothing etc.	Throw rugs, Bedding, and Pillows.	See **Section 5.5 US Customs Procedures**	- See A Guide to United States Apparel and Household Textiles Compliance Requirements at the following link for a comprehensive list of standards and certifications required to import into the US. https://www.nist.gov/sites/default/files/06272016-guidetousapparelandhouseholdtextiles.pdf This includes: - Flammability standards; - Labeling requirements; and - Secondhand stuffing requirements.
HS Code 71: Jewelry, precious stones, metals, coins, etc.	Necklaces, bracelets, earrings, rings, and precious stones.	See section **5.5 US Customs Procedures**	Lead-Containing Jewelry Law. California Health & Safety Code Section 25214.1 et seq. prohibits any person from manufacturing, shipping, selling or offering jewelry for retail sale in California if the jewelry contains lead above specified levels, and requires that the jewelry be made entirely from specified materials. Businesses of all sizes are subject to the law. A warning that the jewelry might contain lead above the specified levels is not an acceptable "safe harbor." - The buyer may require a seller to provide a Lead Certificate attesting that the jewelry being sold does not contain a level of lead that would prohibit the jewelry from being sold or offered for sale in California pursuant to the law. - For each Purchase Order, a buyer may require a Lead-Containing Jewelry Certificate or a substantially similar worded certificate.
HS Code 97: Works of art, collectors'	Wall paintings; Sculptures; Kisi Stone	See section **5.5 US Customs Procedures**	

pieces and antiques			

General AGOA Rules of Origin (Non-Textiles and Apparel)

AGOA rules of origin for all products that are not textile and apparel are based on a percentage methodology, where local content must exceed a certain threshold.

(Separate and distinct rules of origin are in place for the textiles and apparel sector. See next Annex for this.)

As a general requirement, AGOA requires that goods that are eligible for AGOA preferences must be the "growth, product or manufacture" of an AGOA-beneficiary country. They products become the "growth, product or manufacture" of the AGOA beneficiary by meeting the local content threshold, which is 35%.

The main requirements are:

- The product must be imported directly from the AGOA-beneficiary country into the United States;
- Items must be "growth, product or manufacture" of one or more AGOA-beneficiary countries (these requirements can be met jointly by more than one AGOA beneficiary - this concept is called ‘cumulation of origin’);
- Products may incorporate materials sourced from outside countries (i.e. non AGOA-beneficiaries) provided that the sum of the direct cost or value of the materials produced in one or more designated AGOA-beneficiary countries, plus the "direct costs of processing" undertaken in the AGOA-beneficiary countries, **equal at least 35% of the product's appraised value** at the U.S. port of entry (See Note below);
- In addition, a total of up to 15% of the 35% local content value (as appraised at the US port of entry) may consist of US-originating parts and materials.

*NOTE: The US Customs will generally appraise the merchandise at the **full value of the transaction**, which includes the following components:

- Packaging costs, selling commission, royalty and licensing fees incurred by a buyer, and the value of free assistance that may have been provided to the buyer conditional upon the sale.
- Included under the "direct costs of processing" are the cost of labor, engineering or supervisory quality control, machinery costs (and depreciation of machinery and equipment), as well as Research and Development costs (R&D).

AGOA Textiles and Apparel Provisions

Textile and apparel articles that qualify for duty-free treatment under the program include:

1. apparel made of U.S. yarns and fabrics;
2. apparel made of SSA (regional) yarns and fabrics, subject to a cap;
3. apparel made in a designated lesser-developed country of third-country yarns and fabrics (also subject to a cap);
4. apparel made of yarns and fabrics not produced in commercial quantities in the United States;
5. textile or textile articles originating entirely in one or more lesser-developed beneficiary SSA countries;
6. certain cashmere and merino wool sweaters; and
7. hand-loomed/handmade/or folklore articles and ethnic printed fabrics
   Eligible Countries: Preferential treatment for apparel took effect on October 1, 2000. However, in order for countries to be eligible for apparel benefits, they must have in place an effective visa system to prevent illegal transshipment and use of counterfeit documentation, as well as effective enforcement and verification procedures. Specific requirements of the visa systems and verification procedures were presented to African governments via U.S. embassies on September 21, 2000. For a list of countries eligible for apparel benefits, including those also eligible for the Special Rule for Apparel, see AGOA Preferences: Country Eligibility, Apparel Eligibility, and Textile Eligibility (Category 0 and Category 9).

Special Rule for Apparel Applying to Lesser Developed AGOA Countries: Under a "Special Rule" for lesser-developed beneficiary countries, SSA LDCs (with a per capita gross national product of less than $1,500 a year in 1998, as measured by the World Bank) enjoy an additional preference in the form of duty-free and quota-free access for apparel made from fabric originating anywhere in the world. The Special Rule is in effect until September 30, 2025 and is subject to a cap (see below for details on the cap). All AGOA-eligible countries are determined to be LDCs with the exception of South Africa.

Textile and Textile Articles (Category 0): AGOA IV expanded AGOA benefits to textile articles originating entirely in one or more lesser-developed beneficiary SSA country. This new provision extends preferential treatment to textile articles such as fibers, yarns, fabrics, and made-up goods (i.e., towels, sheets, blankets, floor coverings).

Hand-loomed/Handmade/Folklore Articles/Ethnic Printed Fabrics (Category 9): Provides duty- and quota-free benefits for hand-loomed, handmade, folklore articles, or ethnic printed fabrics, made in beneficiary sub-Saharan African countries. This provision is known as "Category 9". This extends duty-free treatment to articles that may not otherwise qualify for AGOA if they are completely handmade and hand-loomed and do not include any modern features such as elastic or zippers, etc. Such designations can only be made following consultations between the United States and the beneficiary SSA country.

Regional Cap: AGOA limits imports of apparel made with regional or third country fabric to a fixed percentage of the aggregate square meter equivalents (SME) of all apparel articles imported into the United States. Beginning October 1, 2007, the annual aggregate quantity of imports eligible for preferential treatment under these provisions is an amount not to exceed 7 percent of all apparel articles imported into the United States. Of this overall amount, apparel imported under the Special Rule for lesser-developed countries is limited to an amount not to exceed 3.5 percent of apparel imported into the United States in the preceding 12-month period. Apparel articles entered in excess of these quantities will be subject to otherwise applicable tariffs. The duty- free cap is not allocated among countries. It is filled on a "first-come, first- served" basis. For the most current data on aggregate imports under the cap, please visit the OTEXA website and click on "AGOA".

Abundant Supply: AGOA IV provided for special rules for fabrics or yarns produced in commercial quantities (or "abundant supply") in any designated sub-Saharan African country for use in qualifying apparel articles. Upon receiving a petition from any interested party, the U.S. International Trade Commission would determine the quantity of such fabrics or yarns that must be sourced from the region before applying the third country fabric provision. It also provided for 30 million square meter equivalents (SMEs) of denim to be determined to be in abundant supply beginning October 1, 2006. *Section 3 of the Andean Trade Preference Extension Act (Public Law 110-436) revoked this provision.*

Commercial Availability: The President is authorized to proclaim duty-free and quota-free benefits for apparel that is both cut (or knit-to-shape) and sewn or otherwise assembled in beneficiary countries from fabric or yarns not formed in the United States or a beneficiary country, if the President has determined that such yarns or fabrics cannot be supplied by the domestic industry in commercial quantities in a timely manner. AGOA IV provides for a process to remove designated fabrics or yarns that were determined not to be available in commercial quantities in the United States on the basis of fraud. For details on products that receive duty- free treatment under the AGOA, see the Commercial Availability Documents Database.

Findings and Trimmings: An apparel article is eligible for benefits even if the article contains findings or trimmings of foreign origin, if the value of such findings and trimmings does not exceed 25 percent of the cost of the components of the assembled article. Examples of findings and trimmings include sewing thread, hooks and eyes, snaps, buttons, "bow buds," decorative lace trim, elastic strips, and zippers. Elastic strips are considered findings or trimmings only if they are each less than 1 inch in width and used in the production of brassieres.

Certain Interlinings: Articles containing certain interlinings of foreign origin are eligible for benefits if the value of the interlinings (and any findings and trimmings) does not exceed 25 percent of the cost of the components of the assembled article. The interlinings permitted include only a chest type plate, a "hymo" piece, or "sleeve header," made of woven or weft-inserted warp knit construction and of coarse animal hair or man-made filaments. This benefit will terminate if the President determines such interlinings are made in the United States in commercial quantities.

Certain Components: AGOA III expanded product eligibility to allow non-AGOA produced collars, cuffs, drawstrings, padding/shoulder pads, waistbands, belts attached to garments, straps with elastic, and elbow patches for all import categories to be eligible.

De Minimis Rule: Apparel products assembled in SSA countries that are otherwise considered eligible for AGOA benefits but for the presence of some fibers or yarns not wholly formed in the United States or the beneficiary SSA country will still be eligible for benefits as long as the total weight of all such fibers and yarns is not more than 10 percent of the total weight of the article.

Special Documentary Requirements: A certificate of origin is required for each shipment of textiles and apparel claiming the preferential trade benefits for textiles and apparel, in addition to the visa. The U.S. importer must obtain the certificate of origin from the manufacturer prior to presentation of entries to the U.S. Customs Service claiming an AGOA preference. The importer is required to possess the certificate of origin and to be able to present it upon demand by the U.S. Customs Service. The visa arrangement establishes documentary procedures for each shipment of eligible textile and apparel products from a designated beneficiary sub-Saharan African country to the United States.

Illegal Transshipment: AGOA describes "transshipment" as claiming a textile or apparel article for preferential treatment that is false with respect to country of origin, manufacture, processing or assembly of the article or any of its parts. If transshipment is found, the United States will deny all benefits for future textile or apparel shipments from the transshipping SSA exporter for five years.

The Committee for the Implementation of Textile Agreements (CITA): CITA has the authority to implement certain provisions of AGOA's textile and apparel benefits. These provisions include:

- Determination of the annual cap on imports of apparel that is assembled in beneficiary countries from fabric formed in beneficiary countries from yarn originating either in the United States or in beneficiary countries. Until September 30, 2025, the statute permits lesser-developed beneficiary countries to obtain preferential treatment for apparel assembled in beneficiary countries regardless of the origin of the fabric;
- Determination that yarn or fabric cannot be supplied by the U.S. industry in commercial quantities in a timely manner, and to extend preferential treatment to eligible apparel from such yarn or fabric (commercial availability);
- Determination of eligible hand-loomed, handmade, or folklore articles and ethnic printed fabrics;
- A "tariff snapback" in the event that a surge in imports of eligible articles causes serious damage or threat thereof to domestic industry;
- Determination of whether U.S. manufacturers produce interlinings in the United States in commercial quantities, thereby rendering articles containing foreign interlinings ineligible for benefits under AGOA; and
- Determination of whether exporters have engaged in illegal transshipment and denial of benefits to such exporters for a period of five years.

STAKEHOLDER LIST

AGOA COMPANIES

N°	SECTOR	COMPANY	REPRESENTATIVE	TITLE
1	Textile	ACTUAL TEXTILES	Hirdjee	Director
2	Textile	AQUARELLE MADAGASCAR SA	Tajoo Ayaz	Director
3	Textile	ARAWAK		
4	Textile	COTTONLINE	Véronique AUGER	Chief Executive Officer
5	Textile	GAMA Textile		
6	Textile	GROVE INDUSTRY MADAGASCAR SARL	Mr. Rolland	Manager
7	Textile	HAY TEX International	Andy Randrianandraina	Manager
8	Textile	I-MAR		
9	Textile	KALIANA SARL	Jonah Andrianarivo	Owner
10	Textile	KARINA SA	Stéphane DE ROSNAY	Director
11	Textile-Label	LABELTEX	Pascal ROCHECOUSTE COLLET	Country Manager
12	Textile	MAZAVA SPORTSWEAR SARL	Ralison Fenosoa	Religion Manager
13	Textile	MKLEN INTERNATIONAL	Suresh Sakhrani/Manitra Rambelson	Managing Director/ DRH
14	Textile	NEWDAN		
15	Textile	ORIGINAL CONFECTION MADA SARL	Anjara	DAF
16	Textile	PLG CONFECTION	Jean Jacques Gros	Owner
17	Textile	SOCIETE GENERAL GARMENT	Houssen Rachid Irchad	Director
18	Textile	SUPRA-KNITS	Ravi Sreeniband	Chief Executive Officer

19	Textile	TROPIC MAD	Sandrine Douglat	Director
20	Textile	ULTRAMAILLE SARL	Frédéric WYBO	Chairman-CEO
21	Textile	WORLD KNITS MADA	RAJAONARIVONY Domoina Lalaina	Chief Executive Officer
22	Textile	FESTIVAL	Maryse THRUMBLE	Directeur General
23	Vanilla bean	AG BINOME	Rakotonaivo Andry	Chief Executive Officer
24	Essential oil	AROMEYA	Jean-Pierre DJERBA	General Manager
25	Essential oil	BOURBON OIL SARL	Akil Cassam	Chief Executive Officer
26	Essential oil	CLUSTER HUILE ESSENTIELLE	Tang Lysiane	PDG
27	Essential oil	FLORALYS		
28	Essential oil	FLORE AROMA	Hantatiana Ranivo	Owner
29	ORGANICS-Fertilizer	GUANOMAD	Patrik Rajaonary	Director
30	ORGANICS-Juices	HAVAMAD	Andrien Jacque	Manager
31	Essential oil	HOMEOPHARMA	Lukas PACHE	Head of Strategic Projects
32	Essential oil-Vanilla	MADAGASCAR FLAVORS	Felahasina Rabarison	CO-Gerante
33	Spices	MADEPICES	Kareen Nicolessi	Manager
34	Moringa	MORINGA WAVE	Franco Emilio Risso	Managing Director and Founder
35	Vanilla bean	PURE VANILLA	Noamy Rasolofonirina	Owner
36	Essential oil	SOAFANIRY ETS	Soafaniry Brigitte	Chief Executive Officer
37	Vanilla bean	SUN RESOURCES MADA SARL	Sophie Rakotoarison	Country Head

38	Vanilla bean	VIDEEKO VANILLA ZP	Ertance Zebeline	Country Representative
39	Chocolate, Vanilla	BEYOND GOOD CHOCOLATE	Nate Engle	Supply Chain Director
40	Shrimp	UNIMA		
41	Shrimp	OSO Farming		
42	BAGS and BASKETRIES	ART LAND	Bodo Wittmer	Owner
43	BAGS and BASKETRIES	DIAMONDRA CREATION	Ramerizatovo Holland Yvonne	Owner
44	BAGS and BASKETRIES	ENKARENA-VAHONA	François Xavier Mayer	Chief Executive Officer
45	BAGS and BASKETRIES	HIBISCUS/ Cinnamon'Omada	Rambeloson Hery	Manager
46	BAGS and BASKETRIES	KALOES	Jean Marie Parthenay	Owner
47	BAGS and BASKETRIES	MAISON ID HARMONY	Claudine Randriambololona	Manager
48	BAGS and BASKETRIES	MIHARY HM SARL	Ravelomanana	Manager
49	BAGS and BASKETRIES	RAKETA SARL	Rajaonarison Zina	Chief Executive Officer
50	BAGS and BASKETRIES	SIL'OUETTE	Noeline Andrianarivelo	Owner
51	RAW RAFFIA	TERRE LA SARL	Andrea Mathilde	Manager
52	Plant extracts	MIOTY VOAJANAHARY	John James	Owner
53	Plant extracts	BIONEXX	Charles Giblain	Chairman-CEO

54	Custom broker	ARIVA LOGISTIC	Dooman Boodhoo	Country Manager
55	Custom broker	BOLLORE AFRICA LOGISTICS	Tantely Bernadini	Marketing Manager
56	Shipping line	MALAGASY SHIPPING, AGENT FOR MAERSK LINE	Dilrajsing Koonbeeharry	General Manager
57	Shipping line	MEDITERRANEAN SHIPPING	Sandeep LODHA	Chief Financial Officer
58	Shipping line	CMA-CGM	Herimandimby Ravelomanantsoa	Dy. General Manager

GOVERNMENT

Name	Title	Organization
Raoelison Charles Ralison	Ingenieur Agro Alimentaire	Department Head Autorité Sanitaire Halieutique
Andry Mahefa Rajaonarisoa	Directeur Executif de l'ASH	Autorite Sanitaire Halieutique (ASH)
Ravalomanda Andry Tiana	DG	EDBM
Lisiniaina Razafindrakoto	DRDSP	EDBM
Ratefinanahary Ranto Edmée	DGC – MICC; DCE	MICC
Andriamahefa Rindra Lova Ny Aina	DEPT EXT. TRADE	MICC
Njara Rarivojaona	AGOA Committee President /DG COMMERCE	MICC
Noroseheno Raharinjatovo	Manager	Ministry of Industry and Private Sector Development - MIDSP

OTHER

N°	Last Name	Title	Organization
1	Scott Reid	EXECUTIVE DIRECTOR	AMCHAM
2	Viviane DEWA	Presidente	Federation of Malagasy Chambers of Commerce and Industry - FCCIM

3	Eva Razafimandimby	Executive Director	GEFP
4	Voahangy Ranaivoson	Executive Assistant Director	GEFP
5	Evelyne Rakotomanana	Executive Director	SIM Industry (PME) mostly food industry.
6	Winnie RASOLONANDRASANA	Executive Director	SYMABIO
7	Hagasata RAKOTOSON	Managing Director	SOLIDIS
8	Danny HERVOL	Director	MADAGASCAR CONSULTING
9	Geoffrey TASSINARI	Chief Executive Officer	MADAGASCAR DEVELOPMENT PARTNERS
10	Thierry Marie Rajaona	President	GEM
11	Razafiarison Andrianvalomanana	President	FIVMPAMA

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