Making Access Possible

Madagascar

Catalysing and supporting the financial services sector to enhance inclusiveness in Madagascar

Financial Inclusion Roadmap

2018 - 2022

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Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recommended action. Through its design, MAP seeks to strengthen and focus the domestic development dialogue on financial inclusion. The global project seeks to engage with various other international platforms and entities impacting on financial inclusion, using the evidence gathered at the country level. The MAP methodology and process has been developed jointly by UNCDF, FinMark Trust and the Centre for Financial Regulation and Inclusion (Cenfri) to foster inclusive financial sector growth.

At country level, the core MAP partners collaborate with government, other key stakeholders and donors to ensure an inclusive, holistic process.

This document sets out the Roadmap for financial inclusion based on the comprehensive diagnostic findings. It has been developed in collaboration with the MAP Madagascar steering committee and will form the basis of the national strategy on financial inclusion of Madagascar.

This Roadmap was produced by the FinMark Trust as part of the larger MAP diagnostic work in Madagascar.

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Ministère des Finances et du Budget

TRESOR PUBLIC
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ABOUT MAP MADAGASCAR

This roadmap document is produced as part of a series of documents in the Making Access Possible (MAP) Madagascar initiative.

MAP Madagascar has been rolled out under the guidance of the MAP steering committee chaired by the Treasury department of the Ministry of Finance and Budget. The steering committee includes representatives from government, regulators, private sector, and donors.

The key research findings from the MAP diagnostic are captured in the country diagnostic report, Madagascar Making Access Possible: Financial Inclusion Diagnostic Report, 2017 produced by the Centre for Financial Regulation and Inclusion (Cenfri) in collaboration with The Finances, Technologies, Human Resources and Management (FTHM), a consulting firm based in Madagascar. The diagnostic covers the demand-side, supply-side and regulatory analyses. The supply-side analysis covers payments, savings, credit and insurance, and therefore provides an understanding of financial inclusion in a broad context, and draws from a range of stakeholder consultations conducted in early 2017 as well as a mystery shopping exercise at branches/outlets of various financial institutions and product and provider data provided by 28 institutions. The demand-side component includes an analysis of access, usage, perceptions and attitudes of financial services by target groups. Qualitative insights were gathered through a series of 28 in-depth consumer interviews conducted in Antananarivo and rural areas within a three-hour drive from the capital in 2016. These insights complement the quantitative consumer insights generated through the FinScope Madagascar consumer survey published by FinMark Trust in 2016, a nationally representative demand-side consumer survey based on a nationally representative sample of 5,040 adults (individuals aged 18 and older).

Documents produced as part of the MAP Madagascar initiative include: (1) Madagascar Making Access Possible: Financial Inclusion Diagnostic Report 2017. (2) FinScope Consumer Survey Highlights Madagascar 2016. (3) Presentation: Madagascar FinScope Survey 2016. A summary presentation of the Madagascar MAP Diagnostic Report findings, presented to a Stakeholder Workshop on 3 May 2017 and the FinScope dataset are available on request.

The roadmap summarises the main findings and recommendations from the comprehensive diagnostic report and presents a way forward on the recommended priority areas for financial inclusion in Madagascar.

The MAP methodology and process has been developed jointly by UNCDF, FinMark Trust and Cenfri to improve financial inclusion to improve individual welfare and support inclusive growth.

THIS REPORT WAS PRODUCED BY THE FINMARK TRUST

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Executive Summary

The Madagascar Financial Inclusion Roadmap 2018 – 2022 lays out the national priorities for the enhancement of financial inclusion in Madagascar. The Roadmap is based on the diagnostic findings contained in the Madagascar Making Access Possible: Financial Inclusion Diagnostic Report 2017, which in turn draws on in-country research and interviews, FinScope Survey 2016 and qualitative research. MAP Madagascar has been conducted in conjunction with the Ministry of Finance and Budget.

Access to financial services can help fuel economic growth, and at the household level can help build welfare and facilitate access to core services such as health or education. However increasing financial inclusion is challenging to achieve in Madagascar, given significant poverty levels where many find it difficult to afford financial services, low literacy levels, a lack of familiarity with formal financial services, severe infrastructure constraints and an underdeveloped payment eco-system which all make it difficult for formal financial service providers to reach most consumers. Frequent shocks further impact access, in that they render consumers more vulnerable, with increased risk to lend to such consumers. The result is a situation where most Malagasy do not use any financial services: only 29% of adults are formally served and even higher income individuals are not yet fully served, 41% of adults do not use any financial services and rural areas are most excluded.

Financial services can play a much greater role in Madagascar in supporting two broader public policy objectives, food security and resilience, and creating economic growth and opportunity. Poverty, irregular incomes and reliance on risk-prone agriculture combine to create high levels of vulnerability, and financial inclusion could play a greater role in helping families diversify income streams and address vulnerability to climate and agricultural risks which are a reality for as many as 4.2 million adults who experienced a climate-related shock in the past year. At the individual level it is critical to build savings, and fast, secure payments for resilience and food security. For micro, small and medium enterprises (MSMEs) and farmers, there is a great need for increased financial intermediation (that is, to mobilise savings and allocate capital to those needing productive loans), and more efficient mechanisms for trade payments. A prevalently young society, 61% of Malagasy are under 25 years of age and this creates an imperative to build skills and create appropriate employment to absorb the growing labour force.

The Making Access Possible (MAP) programme has helped to identify priority areas that will help to increase access to financial services in Madagascar, as well as begin to address the other dimensions of inclusion i.e. depth and quality. The overarching policy goal chosen to provide a vision and direction for financial inclusion in Madagascar is as follows:

"Improve access to financial services for the population by increasing the proportion of adults with access to formal financial services from 29% in 2016 to 45% by 2022[1]*. The vision is supported by two global objectives: (i) catalyse the financial services sector to evolve and better meet the needs of the country and consumers, and in particular low-income populations and micro, small and medium-sized enterprises, by expanding payments for resilience and trade, savings and insurance for resilience and capital, credit to targeted entrepreneurs, and financial literacy and customer protection; and (ii)*

[1] This baseline is based on FinScope 2016 results.

strengthen financial inclusion policy, regulations and institutions, in order to better support financial inclusion, including ensuring the availability of reliable and up to date financial inclusion data in accordance with international standards".

The goal is anchored on five key pillars defining the respective areas of action:

1. **Financial Literacy and Consumer Protection** strategy, promoting customer protection, customer education, rural populations, women and youth.
2. **Savings and niche insurance opportunities to manage shocks and build capital:** Over 4.2 million adults experienced a climate-related shock in the past year but only one million had a formal savings product to cushion the shock; two million adults suffered the death or loss of income of a breadwinner and 2.6 million adults suffered health-related risks in the past year.
3. **Payments for resilience and trade:** 79% of adults do not use formal payment mechanisms.
4. **Targeted credit to extend economic opportunities:** More than a million small businesses and farmers earning USD 2 or more per day have never had formal credit.
5. **Strengthening financial inclusion policies, regulations and institutions:** Financial inclusion is challenging to achieve and requires a clear vision, sufficient resources and effective collaboration across a broad range of stakeholders.

It is envisaged that the proposed interventions will result in an increase in breadth and depth of financial inclusion in Madagascar, in support of national poverty alleviation and economic growth objectives, Madagascar's commitment to the Sustainable Development Goals (Agenda 2030), the National Development plan (2015-2019), the Maya Declaration made in 2013, and the SADC regional financial inclusion strategy. This Roadmap will also form the basis for a national financial inclusion strategy 2018 – 2022.

Implementation of the activities will be coordinated by the MAP Steering Committee. The Coordination Nationale de la Finance Inclusive (CNFI) unit within the Ministry of Finance and budget will provide the required leadership and secretariat services needed to support the implementation work.

1. Background

1.1 Introduction

Financial inclusion is a means to an end – the end being improved household welfare and an impact on those activities that contribute to production and economic growth. Effective financial systems[2] can fuel real economy impacts at the macroeconomic level by mobilising savings for investment purposes (including capital allocation for business development), reducing transaction costs and increasing efficiency, thereby contributing to employment generation and growth. At the microeconomic or household level, financial inclusion can impact people's welfare directly by reducing their transaction costs, enabling them to more efficiently manage risks, allocating capital for productive use and supporting the accumulation of wealth over time. Financial services can also facilitate access to core services, such as health or education. This can impact growth directly, by triggering service sectors, as well as indirectly, by enhancing productivity.

In Madagascar financial inclusion can play a particularly important role in addressing food security, managing deprivation as well as in helping consumers to weather shocks and to smooth and grow income. The Making Access Possible (MAP) research shows that while 17% of adults who earn less than a dollar a day and who are financially excluded (that is, have no formal or informal financial services) indicate that they have missed a meal, could not send their children to school, or could not pay their health costs in the past year, the percentage drops to 8% when considering the corresponding proportion among the financially included[3]. This indicates that, for people with similarly low income levels, whether they are financially included or not makes a significant difference to the likelihood of financial distress.

The purpose of the Madagascar Financial Inclusion Roadmap is to assist the government and stakeholders to identify and implement actions that best improve financial inclusion, based on the research as documented in the diagnostic report[4]. The diagnostic is based on the application of the MAP diagnostic and programming framework, which explores the linkages between financial inclusion and the real economy. What sets MAP apart from other scoping exercises is that the demand-side perspective is the point of departure. The rest of the analysis evaluates the supply of financial services against the core customer needs identified, which may vary across parts of the country and across target market segments. The MAP process is uniquely linked to a multi-stakeholder process that leads to the development and implementation of a national roadmap for financial inclusion.

An important part of the MAP approach is to gather primary evidence. On the supply-side this was done through a range of stakeholder consultations conducted in 2017, a mystery shopping exercise at various financial institutions, and product and provider data provided by 28 institutions. On the demand-side, qualitative insights were gathered through a series of 28 in-depth consumer interviews conducted in Antananarivo and rural areas within a three-hour drive from the capital in 2016, and the quantitative FinScope Madagascar consumer survey published by FinMark Trust in 2016. FinScope is a nationally representative demand-side survey of consumer behaviour and interaction with financial

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[2] See, for example, Calderón & Liu (2003), King & Levine (1993), and Levine (1997).

[3] Note that all statistics quoted on the Malagasy adult population and their realities and financial services interaction derive from FinScope Madagascar (2016) unless otherwise indicated.

[4] The key research findings from the diagnostic are captured in the "Making Access Possible: Madagascar Financial Inclusion Diagnostic Report 2017" prepared by Cenfri and FTHM.

services, and in Madagascar is based on a nationally representative sample of 5,040 adults (being representative of a total adult population aged 18 and older of 11,324,760).

This roadmap summarises the findings of the diagnostic, and presents a way forward on the recommended priority areas. It has been developed in a stakeholder intensive process as part of the MAP research. In Madagascar MAP has been rolled out under the guidance of the MAP Steering Committee chaired by the Treasury department of the Ministry of Finance and Budget. The steering committee includes representatives from government, regulators, private sector, and donors.

1.2 Roadmap approach and methodology

Schematically the roadmap approach is shown in Figure 1. The roadmap is founded on priority areas identified in the research, representing gaps and opportunities in the market which can have the largest positive impact on consumer welfare if appropriately addressed. Within the diagnostic report framework, each of the highlighted gaps and issues is analysed from the perspective of the user or potential user of the financial product or service, using the Making Markets Work for the Poor (M4P) approach. This approach identifies the stakeholders, structures, laws, regulations and customary relationships that underpin the product or service.

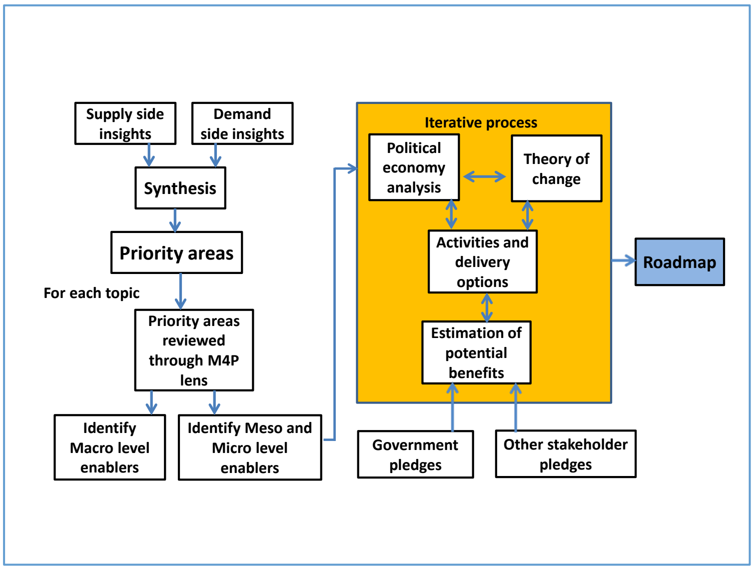

Figure 1: Roadmap approach

In order to provide a vision and direction, a policy goal (vision) is proposed towards which supportive intervention logic can be organized and monitored, indicating how the proposed interventions will contribute to the achievement of the goal and outcomes.

The final stage of the process is to build consensus from the key stakeholders for the interventions, and to place it in the format of a roadmap, including responsibilities and accountabilities and activities. Costs, timeframes and targets will be firmed up as part of the implementation phase.

2. Madagascar Financial sector context

2.1 Country Context

A unique Island State. Madagascar is a unique microcosm with a rich and diverse culture, and world-renowned fauna and flora ecosystem. It is a largely agrarian society: 72% of adults depend on agriculture and 73% of the population live in rural areas. The island is vulnerable to the extremes of nature, and more than 4.2 million adults experienced a climate-related shock in the past year.

Significant poverty with limited economic opportunities. The financial system needs to fit consumer realities which are characterised by poverty, remoteness, reliance on agriculture and informal employment, as well as irregular incomes, with limited opportunities to diversify income streams. An estimated 5.3 million people (47% of all adults) earn less than the equivalent of USD 1 per day and 87% of all adults generate the bulk of their income in the informal economy (mainly in the agricultural sector). 52% of adults have long gaps between incomes (income is less frequent than monthly).

Ability to participate in the formal economy hamstrung by poor infrastructure and connectivity. The road network is poorly developed, with only 6,103km of paved road in a country with the 47th largest surface area in the world (CIA, 2017). Only 17% of the population have access to electricity (World Bank, 2017c), and only 35% of adults use a mobile phone (FinScope 2016).

Low levels of education and limited use of French constrain engagement with formal sector. Only around 65% of those aged 15 and above are considered literate (World Bank, 2017b), and fewer than five million people understand French, the official business language (OIF, 2017).

Different realities for different target markets. There is a significant difference in income, resilience and economic opportunities between wealthier urban groups and poorer and rural households. There are also gender differences with the formally employed being disproportionately male, whereas small-scale entrepreneurs and dependents are largely female. Cultural differences are significant across regions.

A very young society. 61% of Malagasy are under 25 years of age. This creates an imperative to build skills and create appropriate employment to absorb the growing labour force.

Slow economic recovery after period of political isolation. The 2009 political crisis triggered economic sanctions and significant donor withdrawal, and affected government's ability to borrow, all of which constrained the economy (World Bank, 2013). Critical sectors are recovering but growth remains slow.

Limited global ties. Despite data limitations, estimates show that the diaspora population is very small in international terms (estimated at only 0.63% of all citizens by IOM (2017)).

2.2 Policy Context

Financial inclusion serves a real need. In Madagascar, the financial sector serves a particularly important purpose to assist people to cope with risks and to empower them to help themselves, thereby unlocking growth opportunities. These household-level imperatives are mirrored at the national level: financial services can be a powerful policy tool towards national resilience, development and growth.

Long-standing government commitment to financial inclusion. The Government of Madagascar acknowledges the role of financial inclusion in serving its public policy goals. Its commitment to the promotion of financial inclusion was first formalised in 2003 when it formed the Coordination Nationale de la MicroFinance (CNMF), which has since become the Coordination Nationale de la Finance Inclusive (CNFI), housed within the Treasury Department of the Ministry of Finance. In 2013, Madagascar became a signatory to the Maya Declaration[5], a global commitment platform for countries to set their own concrete financial inclusion targets.

Setting strategic priorities for inclusion. At the end of 2012 stakeholders approved a National Strategy on Financial Inclusion for 2013-2017, which set out the approach to develop microfinance as part of the national objectives. The Strategy period comes to an end in 2017 and building on previous initiatives the Ministry of Finance has implemented the comprehensive diagnostic methodology of MAP to analyse the barriers and opportunities for financial inclusion beyond just microfinance, and to define key priorities for the promotion of financial inclusion to meet consumers needs and serve broader policy objectives. Other notable strategic interventions at national level have included the International Monetary Fund (IMF) Financial Sector Assessment Programme (FSAP) report of 2016 and the 2017 World Bank Aide Memoire on financial inclusion that have provided important checkpoints along the way.

2.3 Status of financial inclusion in Madagascar

Challenging environment creates a gap. The poor socioeconomic conditions mean that the bulk of the populace find it difficult to afford financial services. Low literacy levels and a lack of familiarity with formal financial services, combined with severe infrastructure constraints and an underdeveloped payment eco-system, means that formal financial service providers find it difficult to reach most consumers. Frequent shocks, such as climate events, illness and theft further impact access, in that they render consumers more vulnerable, with increased risk to lend to such fragile consumers. The result is a situation where most Malagasy either do not use any financial services, or look to others in their community or use own devices to save, borrow or cope with risks.

Very low use of financial services. Most Malagasy manage their financial lives without using the financial system. FinScope (2016) shows that only 29% of adults use formal financial services and 41% do not use any form of financial services. Figure 2 illustrates the access strand in Madagascar in regional context: 12% of Malagasy adults have / use a bank account. A further 17% have a financial service from another formal provider (such as microfinance institution and mobile money) and another 30% of adults, while not formally included, engage with informal financial services. This places Madagascar at the bottom of the financial inclusion spectrum compared to regional peers.

Entrepreneurs have a similarly low use of financial services. Of the 1.9 million adults involved in MSMEs and 2.4 million in small holder farming, only 42% and 16% respectively are formally included, while

[5] The Maya Declaration is an initiative of the Alliance for Financial Inclusion (AFI). It was launched in 2011 at the Global Policy Forum (GPF) in Riveria Maya, Mexico (AFI, 2017). To date, more than 80 Maya Declaration commitments have been made. Madagascar's commitment in its 2012 declaration was to (i) Significantly improve access to microfinance services for the population by increasing the household penetration rate from 22.6% in 2012 to 38% by 2017; (ii) Reform current laws and regulations in order to support financial inclusion in Madagascar, in particular in the field of mobile banking and customer protection; and (iii) Ensure availability of reliable and updated financial inclusion data in Madagascar in accordance with international standards, in particular those established by the Financial Inclusion Data Working Group.

41% of MSMEs and 44% of small holder farmers are completely excluded from formal and informal financial services.

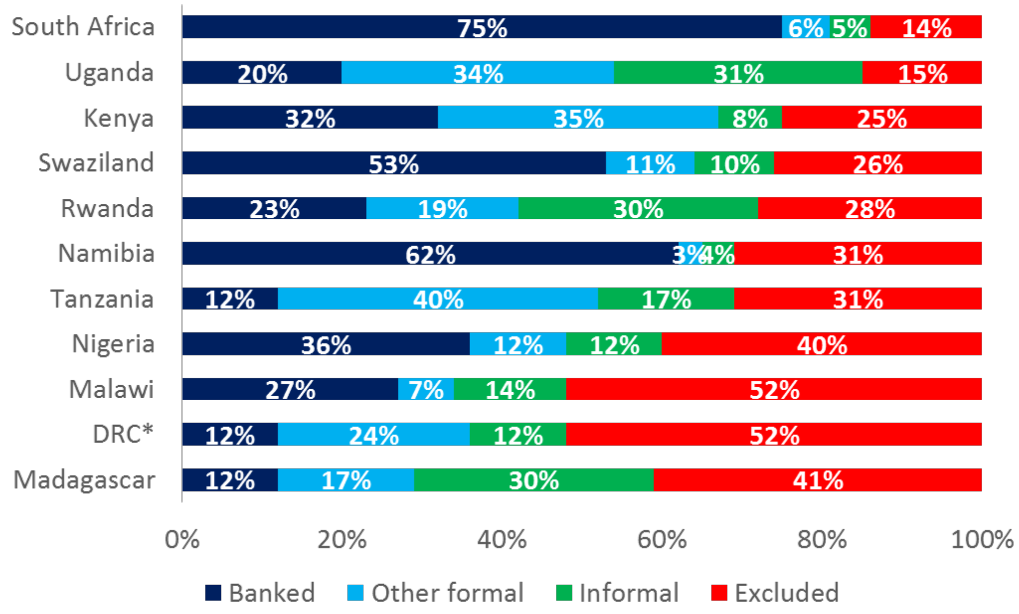

Figure 2. The Madagascar access strand, a regional comparison

Source: FinScope (2016)

Rural areas most excluded; even higher-income earners underserved. Figure 3 below shows that urban and wealthier groups are significantly more included than poorer people and those living in rural areas, though the latter two groups represent by far the biggest proportion of the population. Rural adults depend extensively on informal mechanisms to manage their financial lives. It is significant to note that even for the urban and wealthier cohorts, more than four out of every ten individuals are not formally served. There are no marked gender differences at national level.

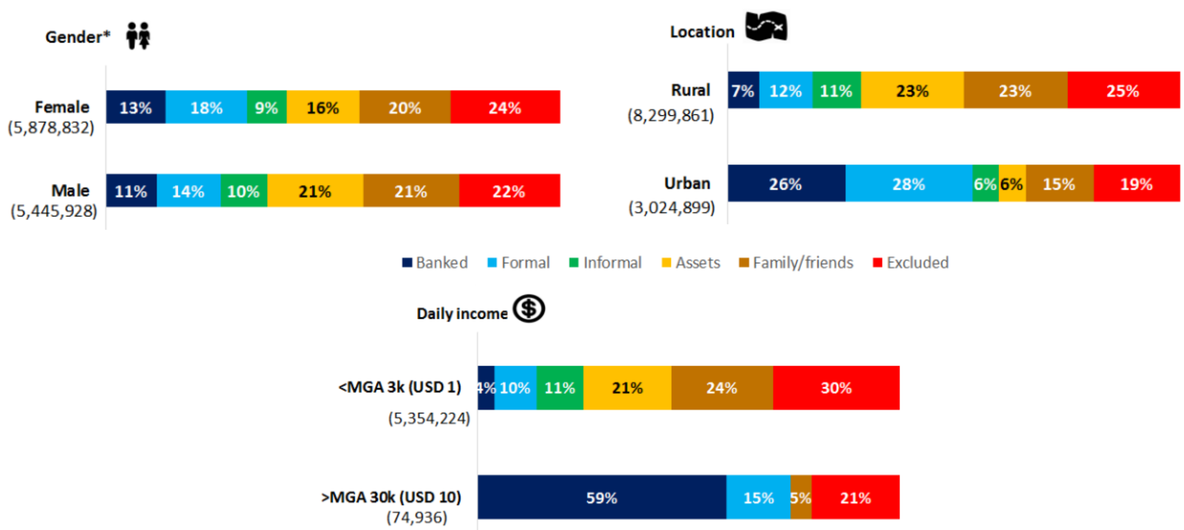

Figure 3. Access strand comparison between location, gender and income categories

Source: FinScope (2016)

Low usage persists across product markets. Payments are the most significant formal products used, with bank accounts playing a prominent role in facilitating transaction services. Non-bank formal services (notably mobile money) account for the bulk of remittance transfers. Savings is the dominant product category when informal provision, family and friends (which includes "do it yourself" saving such as saving in a savings pot) and the use of assets such as livestock as savings vehicle are included. Credit and insurance are underdeveloped, and only 300,000 adults have insurance, largely motor vehicle insurance, while 70% of Malagasy adults do not have any credit (even when loans from family and friends are taken into account) indicating not only an underdeveloped formal credit market, but a reluctance to take on debt in general.

Majority of adults in Madagascar are thinly served by formal institutions. FinScope (2016) revealed that there are limited overlaps within the product categories. The majority of Malagasies usually stick to their preferred provider, i.e. they either use a bank or their savings pot for savings but not both. Only 4% of adults use more than two formal financial services.

2.4 Consumer Perspectives

Financial needs. Financial services typically serve four functions: to pay somebody else (**transfer of value**), to meet expenses on an ongoing basis (**liquidity**); to meet large expenses resulting from shocks or other unpredictable events (**resilience**); or to put together larger amounts of money to achieve objectives that cannot be funded from regular income (**meeting goals**). The most prominent need in Madagascar is for **transfer of value**, mainly to pay somebody in the vicinity (95% of adults), or to transfer money over a distance (47%). The next most prominent need is for **resilience**, for which most consumers use savings (33%) or credit (7%) to cope with the impact of risk events. Only 3% use a payments service (i.e. receiving a remittance to cope with the impact of a shock) and the use of insurance is conspicuous in its absence. In meeting **liquidity needs,** consumption smoothing is the only significant use case picked up in the FinScope survey findings for which 8% of adults borrow, 14% use savings and 7% use payments instruments. The most significant use cases for **meeting goals** were identified as the ability to pay for a better education, to build assets, to establish or grow a business, to farm, or to provide for some life event. Savings featured most prominently in each of these cases, though in the case of paying for education many people also draw on payments vehicles.

Two priority needs. (i) The prevalence of agricultural shocks and the fact that a substantive proportion of the population is concerned about food security, places resilience centre stage not only at the public policy level but also as household-level financial need. (ii) Almost half of all adults live in absolute poverty and without significant economic opportunities. Generating opportunities for people to grow their income and progress out of poverty is hence a first order financial need. There is also a pronounced need for payments to allow people and small businesses to conduct their daily lives.

Corresponding financial service imperatives. At the individual level, it is critical to build savings and secure fast emergency payments for resilience and food security. Credit and insurance, though both in theory should play an important role in resilience, in practice fulfil only a limited role given the cost and other challenges to provide these services beyond the top-end of the retail market. For MSMEs and farmers, there is a pronounced need for financial intermediation (that is, to mobilise savings and allocate capital to those needing productive loans). Equally important is the need for trade payments over a distance to build opportunities for growth and exports. For government, there is an imperative for climate risk management strategies beyond a retail financial inclusion approach.

Significant barriers to access and usage identified. The qualitative demand-side interviews sketch a clear picture of why people would use formal services or not: they allow quicker, safer, more convenient access to funds and allow users greater control over their finances to achieve their goals. However, there are also many significant barriers to access and usage, with many people considering formal financial services to be “not for them”. These **barriers** include:

- *Limited distribution footprint* particularly in rural areas.
- *A trust deficit.* Trust in the legal system, government and business is limited and only 36% of adults indicate that they trust a formal institution with their savings. 61% of adults feel that it is better to save at home or in the community than with a formal institution.
- *Lack of familiarity.* People are not yet convinced of the value of digital payments, which speaks to a lack of familiarity, but also to the broader culture of mistrust of formal institutions.
- *Low or negative real returns* on bank, MFI and mobile accounts, due to low interest rates which fail to exceed inflation.
- *Cost and cost perceptions* particularly when comparing cash to use of digital money for which there is a fee, and for credit where nominal interest rates do not take into account hidden costs, which are often not disclosed to the customer until the loan is disbursed.
- *Limited use cases* for digital payment functionality. Only a limited proportion of salary payments and remittances are paid electronically.
- *Information asymmetries.* Consumers report a lack of transparency on credit terms, and the providers’ lack of credit information increases the risk to give credit.
- *Product features* do not always meet consumer realities, particularly loan repayment terms which do not match consumer needs e.g. forcing early harvesting of vanilla which results in lower quality.
- *Out of reach for most.* Insurers focus on corporates and a small, wealthier individual client base as the business case to expand into small-premium policies is weak.
- *Lack of consumer education* particularly for insurance where 42% of people indicate that they do not have insurance due to lack of understanding of the product and 25% say that do not feel they need or want insurance. Insurance is also impacted by lack of sufficient income, and lack of trust.
- *Frustration of wasting time* in queues as there are so few ATMs and branches.
- *Restrictions* that apply when funds are urgently needed for emergencies is a further deterrents to using formal financial services.

Entrepreneurs face many of the barriers experienced by consumers. MSMEs and small holder farmers face many of the same barriers as consumers however it is worth highlighting the significant concentration of entrepreneurs in rural areas, with 56% of adults in the MSME segment and 93% of small holder farmers being based in rural areas. Challenges in accessing credit are particularly significant for entrepreneurs, where the difficult contract enforcement regime, lack of customer credit information, lack of a deeds or collateral registry and difficulties in debt recovery all lead to high costs and onerous collateral requirements (up to 600% of borrowed value).

2.5 Provider Perspectives

Diverse provider landscape. A wide range of service providers serve the market, the mainstream providers of formal financial services being the 11 banks, 25 registered MFIs, 3 mobile money operators (MMOs), and 5 insurance companies. The banks serve 1.5 million customers, MFIs 1.4 million adults, and MMOs 2 million clients. There are only an estimated 200,000 insurance clients.

Usage is low and across providers around 80% of accounts are not used more than twice a month. Most Malagasy live their financial lives almost entirely in cash. Those based in rural areas have a much higher likelihood of relying on family and friends, assets such as livestock or informal providers instead of formal financial services. An estimated 300,000 people belong to informal savings groups.

Distinct target market focus across formal categories. Most large MFIs have a specific mandate to serve lower-income consumers while banks tend to focus on corporate clients and wealthier individuals. Insurers serve a small, largely wealthy client base, with cover being largely compulsory, either linked to loans (credit life) or motor vehicle ownership. No agricultural insurance cover is provided. There are five main credit guarantee schemes targeting MSMEs.

Banks and MFIs are the only formal credit providers. Bank and MFI credit books are characterised by high non-performing loans, which in turn reflect the economic circumstances and risks faced by the target market, a challenging legal process for contract enforcement and debt collection, and inability to access adequate information on clients.

Elaborate and costly cash transit system. There is no central coordination on cash reticulation and this increases the cost of transporting cash. Cash is flown to remote areas when needed by larger institutions and Mobile agents are often expected to manage their own liquidity within their community. People also club together to transport cash from the nearest town, often requiring a few days for a round trip.

Underdeveloped payment system with inefficient clearing and settlement. The volume and value of transactions flowing through the Real-time Gross Clearing and Settlement System (RTGS) and retail system is very low given the size of the Gross Domestic Product (GDP). Most clearing and settling is done overseas, which significantly increases cost. The three mobile money providers are interoperable bilaterally, and they are required to lock up significant capital and liquidity on the bilateral platforms.

Distribution footprint very limited. Madagascar has only 2.1 bank branches, 2.4 Automated Teller Machines (ATMs) and 76.3 active mobile money agents per 100,000 people, compared to an average of 13, 24.3 and 116.5, respectively, for Southern African Development Community (SADC) countries excluding South Africa (World Bank, 2017b). MFIs fare better at an average of 4.4 MFI branches per 100,000 adults compared to 4.7 for SADC excluding South Africa. Most ATMs are located at a bank branch and so do not extend the footprint of the banking network. Though mobile money agents have significantly broadened the reach of the payments footprint, only 35% of adults own a mobile phone (and only 44% use a mobile phone in total) and this limits the potential for mobile phones as alternative distribution channel. In addition to being limited the distribution footprint is highly concentrated in urban areas: of all access points that are bank or MFI branches and ATMs, over one third is in Antananarivo and some provinces in the West and South have fewer than ten access points. This situation is exacerbated by limited interoperability between institutions and branches.

Mobile money has biggest footprint. The MFIs have the largest provider branch network, at 850, compared to banks at 320 and the Post Office (PAOMA) at 250. The large number of mobile money agents, at close to 27,000, means that the reach of mobile money dwarfs that of all the other channels, combined. The Post Office offers payment and savings services (including international transfers) through its network, also covering rural areas, which makes it a potentially attractive distribution partner for financial services although it has constrained systems and skills.

Large government stake in non-bank financial service provision. Government owns a stake in the largest insurer, Aro, and in a few of the larger banks. It also controls the largest savings institutions by number of savers, or contributors (for contributions), namely Caisse Nationale de Prévoyance Sociale (CNAPS) (the public pension scheme), Paositra Malagasy (PAOMA) and Caisse d'Épargne de Madagascar (CEM) the oldest and largest savings bank.

2.6 Environmental Factors

Limited consumer viability, reach. The high instance of poverty and rural nature of the population make consumers difficult to serve.

Limited skills and ineffective MIS systems. Particularly for MFIs which frequently operate on paper based systems and therefore struggle to form an up to date view across their network of the state of the business and face fraud risk. Insurance-specific skills are also lacking in industry and regulatory authorities alike. There are no qualified actuaries in Madagascar and no insurance training institutions.

Ease of doing business constrained. Madagascar ranks 184th out of 189 countries according to the World Bank's Ease of Doing Business report (2016).

Trust in community structures and church, rather than official structures. There is a low level of trust in formal systems. A 2015 report by Transparency International indicated that one in two Malagasy believe that most magistrates and police officers are corrupt, and one in three believe the business sector to be corrupt. MAP research shows that community structures and the church are the most trusted institutions outside the family. The trust deficit is aggravated by a reluctance to modernise among many of the low-income population.

Infrastructure constraints. The Setting up and maintaining of distribution points is expensive and difficult due to poor and limited road infrastructure, lack of electricity in rural areas and high chances of cash heists in isolated areas.

2.7 Legal and Regulatory Environment

Regulatory framework spans various authorities. The Council for Banking and Financial Supervision (CSBF) plays a key role, regulating credit establishments (banks, microfinance institutions), financial, intermediary and banking operations establishments, and electronic money institutions. The Ministry of Finance has an important relationship with the CSBF (appointing some members of council), and regulates the insurance market. It also houses the CNFI / financial inclusion mandate. Other important regulatory authorities include the Ministry of Commerce (consumer protection); SAMIFIN (Financial intelligence service / Anti-Money Laundering / Counter-Financing of Terrorism (AML / CFT); Bureau Indépendant Anti-Corruption (anti-corruption bureau - BIANCO); the Central Bank (all participants in the payments system); and the Autorité de Régulation des Technologies de Communication (ARTEC) which regulates the mobile network sector

Trust in judiciary low. Nearly half of Malagasy view most or all magistrates as corrupt (Transparency International, 2015). They view the police in the same fashion. Given the trust deficit and capacity constraints in the formal legal system, most people access justice via informal, community-based legal structures, or dina. These structures currently have no legal standing in financial service matters as they are not explicitly empowered to act on these matters in terms of the law.

De facto reality different from de jure. Some key financial sector laws are in force, but not yet enforced pending the issue of subordinate regulation. The most prominent of these are the electronic money framework and the consumer protection framework. While electronic money regulations were likely to be developed in the near future, the research did not identify any specific plans regarding the development of regulations to give effect to the consumer protection law.

Constrained regulatory capacity. The generally well-drafted laws in Madagascar sufficiently empower the various financial sector regulatory authorities to act in the best interests of the financial sector. However, regulators often cannot pursue these objectives fully, due to capacity constraints in terms of financial resources as well as access to a skilled labour pool. This is exacerbated by their weak links to other regulators and international bodies, which limits peer learning on best practices.

Prudential requirements not consistently applied. Some large government and parastatal entities do not operate according to the prudential norms required by law. Others are subject to prudential requirements, yet remain in a prudentially precarious position. CEM, CNAPS and PAOMA are the individual institutions with the largest client bases, but they operate under their own legal frameworks, without sufficient prudential requirements. This poses a systemic risk to their customers' assets and the financial sector more broadly.

KYC and other documentation challenging. Access to an official identity document, proof of address and proof of income is limited, particularly in rural areas.

3. Enhancing Financial Inclusion in Madagascar

3.1 Estimating the Size of the Gap

Critical constraints drive gap between use and needs. While financial inclusion has the potential to help consumers build their resilience in the face of climatic risks and increase their access to more diversified economic opportunities outside of agriculture, there is a stark gap between what financial services currently provide and the on-the-ground reality of low financial service usage. This gap has resulted from the existing structural barriers, compounded by demand-side drivers such as a lack of trust in formal systems.

Opportunities for bridging the gap. A number of significant opportunities exist to bridge the gap between needs and usage of key financial services:

- Payments systems can provide swift access to emergency payments and facilitate more efficient and reliable transfers of funds for small businesses.
- Savings can provide a cushion to manage shocks, help smooth consumption, and provide capital for investment.
- Credit is key to grow small businesses to provide employment.
- Insurance can help manage risks and build capital for investment

Table 1 below recaps each of the needs identified earlier and the estimated gap size for each.

	Relevant to?	Need	Gap (% of total adults)	Notes
Resilience	Individuals	**Payments** to receive family and community and donor support when shock hits	8.7m adults (79%)	do not use formal payment mechanisms
Resilience	Individuals	**Savings** to build a cushion to cope with shock	2.7m adults (24%)	earn at least 1 USD/day but do not save for shocks
Resilience	Government	Need for a **national intervention**, e.g. disaster risk management strategy and PPP for agricultural and disaster risks which leverages insurance	4.3m adults (39%)	experienced an agricultural shock in the past year
Growth	Wealthier individuals	**Savings** to be mobilised for investment capital	501k adults (5%)	are not formally saving despite being formally employed or earning more than 5 USD/day
Growth	MSMEs and farmers who sell	**Savings** to be mobilised for business	1.8m adults (16%)	who sell and earn at least 1 USD/day do not save
Growth	MSMEs and farmers who sell	**Formal credit** to be allocated to productive opportunities	1.1m adults (10%)	who sell and earn at least 2 USD/day have never had formal credit
Growth	MSMEs and farmers who sell	**Payments** to facilitate trade and value chains	795k adults (7%)	who sell and earn at least 1 USD/day do not use formal payment mechanisms

Table 1. Mapping key opportunities to identified needs and gaps

Source: MAP Diagnostic 2017

3.2 A Proposed Goal for financial inclusion in Madagascar

A market in early development stages. The low usage picture, together with the context barriers and market constraints as outlined above are indicative of a financial services market at the early stages of development. It is characterised by severe infrastructure constraints, significant regulatory gaps and large proportions of the consumer and small business market lacking access to financial services. Retail financial services, while growing in some areas, are still largely underdeveloped in others, notably credit and insurance.

Largest focus on improving access. The policy and market focus should thus be on overcoming the structural barriers to the development of a more accessible retail market. This will include improving infrastructure, making regulatory changes to enable markets, educating consumers and building trust in financial institutions and in formal institutions more generally, closing the skills, information and funding gaps for providers where they exist, and strengthening financial inclusion policies, regulations and institutions to ensure the market system develops in a sustainable and responsible fashion.

Parallel focus on responsible finance. A special focus is also needed on promoting customer protection, customer education, rural populations, women and youth. This informed by the statistics which show that 73% of the population live in rural areas with significantly lower access to financial services, the large youth population (61% of Malagasy are under 25 years of age) whom the sector needs to ensure they are financially included and financially educated, and the cultural variations across the country which may leave women disadvantaged in specific geographies within Madagascar.

Measurable overarching goal. Doing so could unlock a potential market in the order of 1.8 million additional clients (i.e. increase the level of formal inclusion from 29% to 45%), putting Madagascar in the next quartile of the regional benchmark presented earlier, in line with Rwanda (42%) and Tanzania (52%) and above Malawi (34%) and DRC (36%). The overarching policy goal chosen to provide a vision and direction for financial inclusion in Madagascar is as follows:

"Improve access to financial services for the population by increasing the proportion of adults with access to formal financial services from 29% in 2016 to 45% by 2022[6]".

The vision is supported by two global objectives: (i) Catalyse the financial services sector to evolve and better meet the needs of the country and consumers, and in particular low-income populations and micro, small and medium-sized enterprises, by expanding payments for resilience and trade, savings and insurance for resilience and capital, credit to targeted entrepreneurs, and financial literacy and customer protection; and (ii) strengthen financial inclusion policy, regulations and institutions, in order to better support financial inclusion, including ensuring the availability of reliable and up to date financial inclusion data in accordance with international standards".

3.3 Strategic Pillars: Key Priorities for Financial Inclusion

Priorities organised under six key pillars. Given that a financial inclusion roadmap will not be able to bridge every gap and realise every opportunity, financial inclusion interventions have been prioritised according to their potential reach the population based on their needs and capacity to absorb financial services. Based on the analysis, the most significant impact for financial inclusion is possible where the focus is placed on five priority areas as follows:

1. **Financial Literacy and Consumer Protection** strategy, promoting customer protection, customer education, rural populations, women and youth.
2. **Savings and niche insurance opportunities to manage shocks and build capital:** Over 4.2 million adults experienced a climate-related shock in the past year but only one million had a formal savings product to cushion the shock; two million adults suffered the death or loss of income of a breadwinner and 2.6 million adults suffered health-related risks in the past year.
3. **Payments for resilience and trade**: 79% of adults do not use formal payment mechanisms.
4. **Targeted credit to extend economic opportunities:** More than a million small businesses and farmers earning USD 2 or more per day have never had formal credit.
5. **Strengthening financial inclusion policies, regulations and institutions:** Financial inclusion is challenging to achieve and requires a clear vision, sufficient resources and effective collaboration across a broad range of stakeholders.

Some issues tackled in parallel. While these priorities primarily address financial inclusion related issues, a number of issues beyond financial inclusion need to in parallel continue to be addressed, notably the building of infrastructure such as roads and electricity, and the need for government to develop / update the national risk and disaster management strategy and intervention. The role of the State in these areas, and the catalytic role that the Ministry of Finance should play is noted in this Roadmap.

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[6] The baseline is based on FinScope 2016.

4. Bridging the gap – Implementation Priority Areas

Actions to realise the opportunities. This section further describes the recommended actions to capitalise on each of the identified opportunities for government and public sector officials, and for the private sector. Development partners can support interventions across both spheres.

Focus on formal provision. The identified priorities primarily focus on strengthening formal provision of financial services. That is not to say that informal financial services do not fulfil a valuable role or should be shut down. On the contrary, a significant proportion of people will continue to rely on informal services as their only viable option for some years to come.

4.1 Strategic Pillar 1 – Financial Literacy and Consumer Protection

Socially responsible strategy. A Socially responsible implementation strategy is proposed, promoting customer protection, customer education, rural populations, women and youth. These important cross-cutting themes are proposed to enable the various priority activity areas above to be socially responsive, and to address specific nuances in the Malagasy market. Under this Roadmap it is in particular proposed to:

- *Ensure adequate customer protection and customer education, for the benefit of customers but also to build trust in the sector*. The strategy must remain sensitive to the needs of the vulnerable or potentially vulnerable groups, notably women, youth, the rural and the extreme poor. In each activity area opportunities need to be sought to encourage and enable these and other vulnerable groups to access formal financial services. This is also important given that 73% of the population live in rural areas with significantly lower access to financial services, the large youth population, and the cultural variations across the country which see women disadvantaged in specific geographies within Madagascar. Finally it is important to be sensitive to, and to encourage innovation and better coverage of unserved and underserved areas throughout the implementation areas.
- *Implement market conduct regulation to improve disclosure and consumer recourse*: This includes promulgating and implementing the regulations for consumer protection. Developing a market conduct framework across the financial services sector probably requires a dedicated CNFI/CSBF team to be assigned to the task. The Ministry of Commerce should be supported to set up and implement the consumer protection law in such a manner that it balances the needs of providers with effective protection of consumers in a manner conducive to financial inclusion.
- *Leverage community and church structures to build trust and educate consumers*: Providers should work together to build trust in the formal financial sector, for example through joint public awareness campaigns focusing on key trust messages. Community and church groups should be leveraged as channels for consumer communication and/or education, given the high levels of trust in these institutions and their deep ties to rural people.
- *Financial education strategy to improve awareness, capacity and understanding*: The financial education strategy to be rolled out will over time be expected to cover various sectors of the population, but is initially focused on the youth, including schools (secondary schools at national level, vocational training and university colleges). The stakeholders currently have launched the global money week and School Bank initiatives for the youth sector, and are considering a pilot financial education project in partnership with the Ministry of Tourism, focused on tourism sector (tourist guides, hotels and restaurants) in Ranomafana Andasibe, Isalo, and Morondava Ankarana parks. Where possible the education should facilitate uptake and increase use cases, and should

thus focus on connecting the consumer experience of current products and use cases with knowledge on available and potential products. The campaigns should not focus on marketing of products but should also be about information sharing, listening and generating useful feedback that financial service providers and policy makers can act on to improve transparency, pricing and product offerings. Overall, it should it should build trust and increase use cases for products. In parallel there is need for an effective communication strategy on financial inclusion at the national level to strengthen public confidence in financial institutions, especially Microfinance institutions, including following the promulgation of the new law on microfinance.

These cross-cutting activities are proposed to be coordinated by the CNFI.

4.2 Strategic Pillar 2 – Savings and niche insurance opportunities to manage shocks and build capital

4.2.1 Savings to manage shocks and build capital for growth

Why focus on savings? Mobilisation of savings to provide capital for growth and development is one of the key roles the financial sector plays. At the household level, research shows that low-income people want to save and can save. Formal savings, and to an extent informal savings, offers the benefit of security from crime (e.g. theft), wealth accumulation and hedging against inflation, if returns are possible. Most significant might be the built-in self-control mechanism, as funds at home are easier to spend and removing that temptation is a significant first step to building up assets.

Savings particularly pertinent for Malagasy. Malagasy's first port of call in the face of risks and deprivation is to try and save in some way – be it in a savings pot at home, by buying livestock, or under the mattress. Yet only a small proportion of adults save in the formal financial sector and millions of adults have no recourse other than to reduce their consumption in the face of risks such as theft. This creates a clear imperative for building the savings market. Savings are also key for domestic investment and growth at the local as well as national level – informal savings groups funds are often used in farming activities, while formal savings can be pooled for larger projects.

Savings for resilience and growth: 47% of adults save, yet only 15% of savers save in formal savings vehicles. As such, there exists a large untapped opportunity for the formal financial sector to extend savings as a much-needed safety net. Savings can also play a much greater role to drive investment to fuel economic opportunities. Savings are a critical resource for small business start-ups, yet only 42% of small businesses save formally. Furthermore, the savings of wealthier groups such as the formally employed, when intermediated, can be a critical source of capital, but only 54% of the employed and wealthier groups save formally. The main focus should be on two areas: mobilising savings for investment capital from the 500,000 adults who are not formally saving despite being formally employed or earning more than 5 USD/day, and mobilising the 1.8 million MSMEs or farmers who sell their produce and earn at least 1 USD/day, but do not save. Encouraging them to save through appropriately tailored vehicles could unlock savings to drive business growth.

Addressing the constraints. Formal savings remain constrained due to the lack of trust in formal options, limited touchpoints for deposits and withdrawals and products that do not meet needs as well as informal alternatives. The very low to negative real return provided on various formal savings options does not compensate for the additional costs incurred to access formal products vis-à-vis informal alternatives, implying that people prefer their traditional, informal ways of saving. In many rural areas, informal savings groups and home savings are the only real options for saving. The strengthened supervision of savings institutions, such as some more fragile MFIs, CEM, PAOS and CNAPS, is important to safeguard existing savings and build trust to attract further savings. Deposit insurance can also be considered. The promotion of partnerships between institutions such as MFIs and mobile money operators and facilitation of the agency model will allow savings products to reach further into rural areas. Where other alternatives are less appropriate, informal savings groups should be promoted, with scope to partner with financial institutions to store savings or extend loans.

The following imperatives are proposed to encourage more people to entrust formal providers with their savings.

Public sector priorities:

- *Strengthen the prudential supervision of key savings institutions to safeguard existing savings*: Ensuring that financial institutions such as CEM, PAOMA, CNAPS and MFIs are sound and, in the case of collapse, can still meet their obligations towards clients is crucial in building long term trust in the financial sector. Strengthened supervision is needed to safeguard consumers and protect the integrity of and trust in the system, which can be done by introducing prudential requirements for these institutions and incorporating them under the supervisory mandate of the most relevant regulatory authority. MFI supervision should also be strengthened to safeguard consumer savings.
- *Provide for a form of monitoring, recognition of and support to small local savings groups to allow proper recourse by members:* An estimated 300,000 individuals belong to savings groups, yet under current legal frameworks these groups are technically illegal, although the CSBF are aware of them and engages frequently with the informal savings group promoters. A legal space should be carved out to allow small groups to exist, through an exemption to current legislation or registration as an association that is monitored, but not supervised. Such a carve out space would need to be a low-compliance space[7], with defined roles, and should bestow informal savings groups with a legal identity and allow their users access to recourse mechanisms. The space must be accompanied by appropriate limits to prevent such groups from creating a systemic risk as well as to protect the business models of players already in this space.
- *Build capacity of informal savings groups to protect group members*: Informal savings groups are effective at building small-scale savings but the management can be difficult and governance can fail. Training of informal savings groups will be required in the medium term to extend the number of people that can benefit from such groups.
- *Implement payment system recommendations under Pillar 1* above to allow frequent deposits of small amounts: This is particularly to extend deposit and withdrawal options for savings by enabling bank and mobile agency.
- Consider introducing deposit insurance to build trust and protect consumers.

Private sector priorities:

- *Align product design with customer needs for flexibility, transparency and security*: current savings account options do not provide attractive options for wealthier groups, and there is need for easy access for emergencies, plus targeted savings options for housing, land and business purposes.

[7] Noting that it may not be feasible or desirable to comprehensively supervise them or subject them to extensive prudential or monitoring requirements.

- *Partner with informal savings groups* to reach further down market and benefit from the scale of group engagements rather than individual interactions. Formal institutions can store savings or extend loans. Such partnerships also provide effective platforms to improve financial literacy

4.2.2 Niche insurance opportunities for resilience and productivity

Why focus on insurance? In the absence of formal insurance, low-income households cope with risks in various ways (formal and informal) that are often inefficient, perverse and expensive, and where available it lessens welfare-reducing behaviour, for example disposing of productive assets or disposing of assets at a loss, taking children out of school, or depleting savings, and taking expensive informal credit. For businesses and farmers insurance allows and incentivises riskier investments and focus on higher-yielding and/or more specialised activities or on business opportunities otherwise considered too risky. Moreover, insurance enables access to critical services, including healthcare, while at the macro level insurers are often the largest institutional investors and in many developing markets the only domestic source of longer-term capital.

Insurance can support resilience and growth. Many Malagasy are vulnerable to shocks that severely affect their livelihoods, and by its nature insurance is designed to help people cope with the impact of risk events. Insurers are also critical institutions to mobilise domestic assets for investments.

Niche insurance opportunities: 4.2 million people faced agricultural risks in the past year and over two million people faced health risks. Yet only 2% of Malagasy adults are formally insured. The rural nature of the population, small formal employment base, limited infrastructure and small financial sector footprint all challenge mass market insurance distribution and premium collection. The ability of the low-income population to afford insurance is a significant constraint, meaning that savings, credit and remittances may be more effective risk management mechanisms than insurance for poorer consumers. Even for wealthier clients, however, most insurance is compulsory insurance such as motor vehicle insurance, credit life insurance and employer-based health cover. A limited understanding of insurance, lack of 'insurance culture' among Malagasy people, lack of trust and poverty and insufficient compulsory insurance products constrains most forms of voluntary take-up.

At this stage of insurance market development, the biggest opportunity for retail insurance lies in better leveraging alternative distribution channels, such as bancassurance and mobile assurance, as well as in ensuring that compulsory insurance delivers client value. This requires a legal framework that explicitly allows for alternative distribution and provides recourse to consumers. There are also some targeted opportunities within the agricultural value chain to provide insurance to associations, agricultural processors or other aggregation points for smallholder farmers, or via MFIs that lend to key value chains. The extent of agricultural risk furthermore creates an imperative for a risk management strategy at the national level, including sovereign insurance interventions such as the African Risk Capacity (ARC).

Public sector priorities:

- *Develop the legal framework to support alternative distribution of insurance, through MFIs, mobile providers, local groups and farmer associations*: The current insurance regulatory framework does not explicitly allow for MFI and m-insurance models as well as aggregator[8] models beyond tied or

[8]Aggregators can be defined as entities that bring together people for non-insurance purposes (for example retailers, service providers, utility companies, membership based organizations or civil society organisations) and that are then utilised by

employed agents. The lack of a legal framework creates uncertainty in the market on how such models should be rolled out and what functions various parties may permit under what conditions. The ongoing revision of the microfinance law provides for the distribution of microinsurance as one of the services MFIs are authorised to provide.

- *Reduce the tax burden on insurance premiums to improve affordability*: Reducing or removing the tax on insurance premiums in the short-term at least is unlikely to have a substantial fiscal impact.
- *Improve availability of insurance skills to facilitate market development, including actuarial skills*: Building up the requisite local skills base will take time. It is important to connect with the global community and encourage peer learning on effective strategies in this regard.
- *Sovereign insurance interventions:* Build capacity and dedicate resources to manage national climate and agricultural risks through ARC.
- *Introduce insurance market conduct requirements to improve trust*: Clear consumer protection measures around disclosure, recourse, governance and claims processing are required to build trust. In this regard, the initiative to establish an independent insurance regulator is welcomed.

Public / Private sector priorities:

- *Insurance specific financial education in partnership with private sector*: Low consumer awareness of insurance requires targeted education strategies especially during decision moments, which requires the involvement of the private sector.
- *Extend products to cover agricultural r*isks, such as through agricultural index insurance or meso-level insurance to manage MFI, value chain or supply chain risks affecting farmer productivity: The extent of agricultural risks faced suggest a need for insurance, such as index insurance, however, this for small-scale farmers will likely require some subsidy to be affordable and sustainable. African Risk Capacity (ARC) membership is in place to manage the impact of climate risk at government level, but premiums are not yet funded. In the meantime there are also some targeted opportunities within the agricultural value chain to provide insurance to associations, agricultural processors or other aggregation points for smallholder farmers, or via MFIs that lend to key value chains.

Private sector priorities:

- *Partner with MFIs and health mutuals for health cover*: Health mutuals provide most of the voluntary health cover at present. Mutual MFIs could consider extending their services to health cover, in partnership with health providers or underwritten by insurers.
- *Collaborate with banks to expand insurance coverage* and insure customer risks and protect bank business cases and client welfare: Banks have relationships with clients that allow them to be effective distributors of a broad suite of financial services, including insurance.

These activities are proposed to be championed by the Ministry of Finance and Budget / CNFI.

4.3 Strategic Pillar 3 – Payments for resilience and trade

Why focus on payments? Effective payments mechanisms are a requirement for the efficient provision of all other financial services and form a vital backbone for the provision of goods and services in the

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insurers, with or without the intervention of agents or brokers, to distribute insurance and, depending on the model, fulfil additional functions such as administration and/or claims pay-out (IAIS, 2015).

broader economy. Payments allows for the transfer of value between individuals and businesses. Given the frequency with which every member of society makes payments, optimising the efficiency and affordability of payments mechanisms is directly welfare improving.

Payments for resilience and commerce: Almost all Malagasy adults make payments on a day to day basis, and about half of them regularly need to transfer money over a distance. However, 79% do not use any formal payment instruments. A lack of trust in financial institutions and limited understanding of how formal payments work are critical barriers to formalisation. Furthermore, inadequate payments infrastructure, limited interoperability between existing infrastructure, a lack of use cases for formal payments and challenges around cash reticulation, all make it inconvenient and expensive to access formal payments. This means that the reliance on cash is maintained. People who only transact in cash cannot make or receive emergency remittance transfers when shocks arise. They also forfeit efficiency gains in conducting commercial activities, such as purchasing stock or engaging with other financial services such as credit and savings for business activities. Addressing these challenges will require a more convenient, secure and cost-effective payment ecosystem. This in turn will require extending the payment distribution footprint through more interoperable touch points (including leveraging mobile money and bank agents). In a cash-based society, extending the digital payment ecosystem requires particular attention to effective cash management and a pervasive network of touch points for cash-in and cash-out which in Madagascar is critical to improve resilience and build economic opportunity for individuals. Lastly there is also scope to consider the digitisation of key value chains and payment streams, including government payments.

Ongoing plans for modernisation of National Payment System. A national payment system amongst other benefits facilitates the exchange of goods and services and reduces costs and delays; enables a higher level of intermediation; eliminates risks associated with cash such as theft and counterfeit currency; and helps in early detection of challenges in the financial system. The Malagasy authorities, working with the World Bank and IMF[9], have already initiated a number of initiatives to modernise the payment system, including: a draft payments law, development of a payments strategy, gradual phasing out of manual clearing, initiatives to digitise public payments[10] and active consideration of a switch. The analysis and recommendations in this section are positioned to build on and inform these developments.

Proposed focus areas to promote and expand payments for resilience and commerce are as follows.

Public sector priorities:

- *Develop an appropriate, interoperable payments ecosystem to improve efficiency and affordability*: This recommendation builds on the existing payments modernisation initiative in Madagascar rolled out by BFM. Some important ways of extending the ecosystem for cash-in, cash-out and point of sale touchpoints is through interoperability between the infrastructure of different financial service providers which requires cost-effective switching that takes into account anticipated volumes and limited fiscal resources. Additional ways of extending the

[9] As per World Bank Aide Memoire (2017c) and IMF's FSAP (2016).

[10] The current Ministerial Order N-28429/2016 states: "…expenditure incurred by public bodies (State, decentralized territorial authorities, national and local public institutions) in favour of a contractor, in particular a provider of services and supplier, natural or legal person, must be paid by transfer to the account of the beneficiary at the level of a bank or financial institution". In addition, all receivables of a monthly amount exceeding MGA 600,000 (USD 199) to pensioners, civil servants, etc. are to be paid via a bank account.

payment ecosystem include: facilitating MFIs to clear and settle among themselves, either directly or indirectly via a sponsor bank; incentivising financial service providers to extend their distribution footprint; strengthening the capacity and mandate of BFM to be proactively involved in the payment system; considering digitisation of government payments (Government to Person (G2P) and Person to Government (P2G)) where appropriate; and targeted consumer education.

- *Help reduce cash management costs related to note quality and cash transit*, for which the BFM could consider polymer notes as a way of reducing ATM jamming costs associated with poor banknote quality; explore the possibility of engaging gas stations and other outlets with a high cash turnover to manage and reduce the cost of cash; and explore the possibility of using vaults at commercial banks as an agency for the central bank to accept regional deposits.
- *Develop a bank agency regulatory framework* to enable banks and MFIs develop alternative distribution mechanisms: Bank agency merits being better incorporated into a framework and developed since such operations are not currently supported in legislation – instead they are only covered by the legislation on intermediaries in bank operations.
- *Implement Financial Action Task Force (FATF) 2012 guidelines in a way that view financial exclusion as a key risk*. Consideration should be given to proportionate implementation of Know-Your-Customer (KYC) requirements to allow low-value, low-risk transactions with reduced KYC requirements, and use of a switch that has built-in biometrics.
- *The development of a comprehensive payments system law* to ensure a coherent approach and enable the payment eco-system is critical, and such a law must encourage interoperability between all payment channels, payment devices, payment instruments and payment systems to ensure alignment with international standards and best practice, as well as to efficiently leverage the payments infrastructure in Madagascar.

Private sector priorities:

- *Extend use cases for formal payments* by digitalising key public sector, value chain and trade payments, including card payments in the tourism sector.
- *Improve mobile money agent liquidity mana*gement to ensure reliable access to funds for clients and viable business models for agents, potentially by extending the super-agent role for operational support and helping agents to balance their liquidity. This effort is to be complemented by collaboration among the stakeholders to standardize scheme rules within the interoperability arrangement; and regulatory flexibility in the use of trust accounts to pay interest to customers to enhance liquidity.
- *Improve cash reticulation and management* to extend cash-in/-out points, improve economies of scale and reduce the cost of cash (necessary for adoption of digital payments): There is potential for partnership among providers and the use of central providers such as Brink's to reduce cost and to reduce the flow of cash from rural to urban areas.
- *Leverage MFI and Post Office footprint to extend reach* of formal touch points: MFIs should be enabled to play a more significant role in payments and cash management (between their branches and for other providers), and there are opportunities for partnership with the Post Office to extend payment services given its significant rural footprint.
- *Explore opportunities to strengthen value proposition for consumers and merchants* to enhance digitalisation: For consumers, through reduced costs, flexibility and revocability; for merchants, through reduced costs of acquiring POS, low interchange fees, increased use cases and volumes, and offline functionality to accommodate connectivity challenges.

This priority will be championed by the BCM / BFM.

4.4 Strategic Pillar 4 – Targeted credit to extend economic opportunities

Why focus on credit? The effective allocation of capital for productive purposes is a fundamental goal of the financial system. Credit is a product of this intermediation process and can contribute to productivity through spurring economic growth, employment and improved welfare if used for purposes such as building businesses, funding education, funding larger assets and preventing people from falling into poverty after a shock. However, it can also trap people in a cycle of debt that causes severe hardship. Getting the balance right between improved access to credit and protection against over-indebtedness is difficult and requires a comprehensive view of the market from the consumer and provider's perspective.

Big gap in potential need for productive credit. In Madagascar, the biggest need that emerged from the research is for formal credit to enable productive opportunities. There are more than a million small businesspeople and farmers who sell and earn at least the equivalent of USD 2 per day, yet have never had formal credit.

Credit for targeted entrepreneurs: Credit makes up only 13% of GDP (World Bank, 2017a) and only 13% of adults have credit accounts, most of them via microfinance institutions. A lack of reliable information on client creditworthiness, coupled with the high costs associated with maintaining the distribution network push up lending costs, as does a lack of access to capital for on-lending on the part of MFIs. Lending also relies heavily on collateral which has proven time-consuming and costly to realise due to limitations in the title deed system and a challenging relationship with the judiciary. Furthermore, loan terms may not match consumer realities. For example, if agricultural loan maturity does not coincide with the harvest cycle, meeting loan repayments may prompt farmers to harvest immature crops, or to be unable to repay the loan within the agreed timeframe. From the client's perspective, full information on loan fees, terms and conditions is also difficult to obtain. These challenges call for interventions to increase efficiency and reduce costs, including access to more reliable information for lenders and borrowers alike, as well as targeted product design for niche market such as agriculture and MSMEs. Targeted capacity building and MIS system development will be key to improve governance, address operational constraints and reduce underserved populations' access costs.

Five key priorities for policymakers/regulators are proposed, while from a market perspective the main recommendation is to strengthen MFIs in a tailored way, depending on the type of MFI.

Public sector priorities:

- *Improve credit information on clients* (including credit bureaus) to reduce the cost and risk to lend: Sharing of client credit information can be improved by ensuring seamless information sharing between the current two bureaux (one for banks and one for MFIs) so that each has a comprehensive view of a client, and / or enabling providers to access both bureaux. Further opportunities include improving the implementation of a title deed registry as well as access to title deeds.
- *Improve the dispute resolution system* at the court level in the financial sector in order to increase confidence (Training of judicial officers on financial and banking system matters to ensure effective implementation of the law: Building judicial capacity, particularly in assessing credit agreements, will assist providers in recouping collateral; establishing a financial services special

court; and providing capacity support for BIANCO focusing on capacity to detect and deal with corruption in the financial sector).

- *Improve transparency of disclosure and address the extent of non-interest related costs*: Effective consumer protection requires sufficient information on the terms, conditions and total cost associated with the loan, as well as regarding the legal protection and recourse options against consumer abuse. Specific actions that can be taken to address these two challenges include strengthening governance and supervision for MFIs and; Implementing market conduct requirements, particularly for disclosure and recourse. This includes updating the dispositions of the Usury Law, as well as empowering the CNFI with a broader mandate to collect the data required to ensure transparency in retail credit provision, and strengthening the CSBF mandate and capacity to implement.
- *Enhanced supervision for fragile MFIs*, to protect deposits and to manage any failures that may occur: Strengthened supervision should be to identify and monitor such MFIs and where required put them under administration to avoid loss of assets by consumers.

Private sector priorities:

- *Strengthen and digitise MFI information systems to improve efficiency and reduce risk*: This is particularly needed for niche MFIs, with the MIS tailored to the specific target market, and Retail MFIs[11] to increase efficiency and scale.
- *Build capacity of MFIs to improve the quality of their loan portfolios* and financial information to access credit: For niche MFIs, the main opportunities lie in supporting improved cash management as these MFIs are often rural and incur high costs to manage cash, and providing wholesale insurance to deal with climatic shocks. The main need for retail MFIs is access to affordable capital (refinancing), for which the MIS and improved disclosure and governance are required.
- *Consider alternative credit scoring models* to reduce reliance on collateral for credit, e.g. mobile transaction history or social media data: There is also an opportunity for retail and niche operators to tap peer-to-peer learning from donor-funded MFIs on innovative ways that they are designing their products to deliver real value to their clients.
- *Assess the potential for, and if viable establish new finance lines*, guarantee facilities or similar facilities to support the expansion of MFIs in rural areas and to promote growth
- *Improve the support for MSMEs*, particularly with data and information, and potentiallywith niche financing facilities for example for start-ups, where feasible.

These activities are proposed to be championed by the CNFI.

4.5 Strategic Pillar 5 – Strengthening financial inclusion policies, regulation and institutions

Why important: The financial sector policy and regulatory framework sets the parameters for the operation of the market. It determines who may enter and operate, under which conditions, how they should treat their customers, what safeguards against failure and what recourse mechanisms are in

[11] Niche MFIs specialise in agricultural or MSME loans in specific sectors; Retail MFIs focus on large-scale deposit collection and lending (they serve more than half of all MFI consumers); while fragile MFIs exhibit low profitability and are challenged by insufficient capital.

place. A sound and complete regulatory framework that is properly enforced therefore forms the foundation for all the other strategic recommendations.

Strengthen policy and regulatory authorities: Legislation in Madagascar is generally well-drafted. Nevertheless, some legislative challenges remain that, if addressed, could significantly strengthen the functioning and accessibility of the financial sector. Notably, trust in the judiciary is low and resources for implementation and enforcement are constrained. The result is a gap between de facto and de jure realities. Furthermore the application of certain laws, such as for consumer protection and electronic money, is not forthcoming, thus creating a delay and uncertainty in the market. Other laws, such as the anti-money laundering and countering financing of terrorism (AML/CFT) frameworks require updates, and a comprehensive law on payment systems must be created to reflect the latest international norms. Though government is committed to financial inclusion and the CNFI has a mandate in this regard, this is not yet explicitly reflected in the regulatory and supervisory mandates of financial service regulatory authorities. A comprehensive financial inclusion policy and appropriate monitoring approach will be critical.

Dependence on informal law, but no legal standing. Given the trust deficit and capacity constraints in the formal legal system, most people access justice via informal, community-based legal structures, or *dina*. These structures currently have no legal standing in financial service matters as they are not explicitly empowered to act on these matters in terms of the law.

The priority activities to be addressed will respectively help extend access to financial services, build trust and ensure stability, and acknowledge the role and facilitate the functioning of currently informal institutions and legal systems and are as follows:

- *Develop and implement a financial inclusion policy*, including mechanisms for appropriate data collection and monitoring.
- *Strengthen the mandate of key institutions* such as CNFI and CSBF to support financial inclusion – policy, capacity and data: (i) strengthen the CNFI via a broad-based national financial inclusion strategy; (ii) collaboration between the key regulators in the industry (Ministry of Commerce and the CSBF) and the CNFI should be supported, particularly as consumer protection regulations are drafted and promulgated; (iii) Consider legislative mandate for financial inclusion within the Ministry of Commerce and the CSBF, to broaden their focus beyond consumer protection and prudential matters and also ensure sufficient financial inclusion data within the market.
- *Amend regulation* where required to fill legal gaps and strengthen supervision of key areas relevant for financial inclusion, including (i) Addressing gaps in mobile money, payment systems, consumer credit and the safeguarding of savings as outlined in the respective pillars; (ii) CSBF should be supported to ensure that the implementation of the electronic money law is done in a manner that augments the role that mobile money currently plays in Madagascar; (iii) Implement the 2012 FATF guidelines in a manner that supports financial inclusion. This includes implementing the risk-based approach in an inclusion-sensitive manner. Given the large informal economy, the point of departure for such an approach is to acknowledge that financial exclusion heightens money laundering and financing of terrorism risks, as informal transactions cannot be monitored for AML/CFT purposes; (iv) Strengthen supervision/enforcement of existing requirements. Trust in the system requires certainty that whatever requirements are put in place, will be enforced. It also requires transparency in the process that renders a decision or judgement, and ensuring that consumers are aware of what the regulatory requirements are and can hold officials accountable; (v) Comprehensively protecting trust accounts of mobile money providers, so that the trust accounts are protected from the creditors of the bank in addition to being protected from the

creditors of the institution[12]; and (vi) Strengthening reporting and auditing requirements for MFIs to ensure that prudential requirements are consistently complied with, reported information meets the minimum standards set by many international financial institutions thereby enabling increased investment, and that Malagasy institutions can effectively lend to each other.

- *Strengthen the judicial environment* as relevant for the financial sector: (i) Creation of a financial sector-specific court, with appropriate jurisdiction. The court should be created with expertise from the banking sector to ensure that its rulings are made in a manner that is in line with best practice within the sector. (ii) Creation of a specialised ombudsman – funded by the private sector – for consumer protection matters, to ensure effective recourse in financial services disputes with clients. Such an ombud system should follow international norms and draw on the expertise of the banking sector to ensure effective implementation. (iii) Creation of an arbitrator for larger financial services disputes with appropriate skills and funding from the financial sector. (iv) Creating an appropriate and strictly demarcated jurisdiction for financial matters resolved via *dina* to ensure that rulings are legally binding and enforceable. It will also ensure that rulings are subject to magisterial oversight and that formal legal recourse mechanisms are available where required. (v) training of judicial officers (Pillar 4).
- *Improve access to identity, proof of address and title deed processes and documentation* to facilitate financial service access: Further investigation is needed of required improvements to the deeds registry and in the issuing of identity documents to assist individuals to meet KYC requirements for proof of address and identity.
- *The state carries the responsibility for the establishment of a favourable fiscal environment*. The ability to participate in the formal economy is often hampered by poor infrastructure and connectivity (roads, electrification, telecommunication network, etc.), and poor infrastructure is also closely linked to the insecurity that continues to present a real constraint for financial service providers. Thus it is anticipated that the state will continue to focus on the establishment of a favourable environment for financial inclusion, with the Ministry of Finance and Budget playing a catalytic role within the government to initiate and facilitate such discussion in areas that significantly impact on the provision of financial services.

These activities will be coordinated by the CNFI.

5. Roadmap to a more inclusive financial sector

5.1 Summary of Activities, Responsibility, Priority and Timelines

The high level priority area list is summarized in Table 2 below. A more detailed list of proposed actions is included as Annexure 1, together with the responsible entities (Primary and Secondary), implementation time horizon (Short, Medium and Long Term) and priority (High, Medium, Low). Short term would imply 1 – 2 year activities, Medium term 2 – 3 years, and Long term over 4 years. A high level budget is also included, as Annexure 2.

[12] The only creditor that may claim from the trust account is a client, and only up to the limit of his outstanding mobile money balance.

Table 2: Summary list of proposed Roadmap action areas

Priority Area	Market interventions
Pillar 1: **Financial Literacy and Consumer Protection**	• Ensure a socially responsible implementation of the strategy, promoting customer protection, customer education, rural populations, women and youth • Implement targeted market conduct regulation to improve disclosure and consumer recourse • Leverage community and church structures to build trust and educate consumers. • Implement financial education programmes for various sectors of the population, initially the youth (through secondary school, tertiary and university college curriculum, Global Money week and School Bank), and the tourism sector (pilot project in partnership with the Ministry of Tourism). • Effective communication strategy on financial inclusion at the national level to strengthen public confidence in financial institutions, especially Microfinance institutions, including following the promulgation of the new law on microfinance
Pillar 2: **Savings and niche insurance opportunities for resilience and to build capital for investment**	**Savings:** Public sector priorities: • Strengthen the prudential supervision of key savings institutions to safeguard existing savings. • Provide for a form of monitoring, recognition of and support to small local savings groups to allow proper legal recourse by members, including creating an appropriate legislative and regulatory space for them, and building their capacity to protect group members. • Implement payment system recommendations above to allow frequent deposits of small amounts. • Consider introducing deposit insurance to build trust and protect consumers. Private sector priorities: • Align product design with customer needs for flexibility, transparency and security. • Partner with informal savings groups to reach further down market and benefit from the scale of group engagements rather than individual interactions.
	Insurance Public sector priorities: • Develop the legal framework of the insurance sector, to better support financial inclusion, particularly alternative distribution of insurance through MFIs, mobile providers, local groups and farmer associations. • Reduce the tax burden on insurance premiums to improve affordability • Improve availability of insurance skills to facilitate market development, including actuarial skills. • Build capacity and dedicate resources to manage national climate and agricultural risks through ARC. • Introduce insurance market conduct requirements to improve trust Public / Private sector priorities: • Insurance specific financial education (in partnership with the private sector) • Extend products to cover agricultural risks, such as through agricultural index insurance or meso-level insurance to manage MFI, value chain or supply chain risks affecting farmer productivity. Private Sector priorities

	• Partner with MFIs and health mutuals for health cover. • Collaborate with banks to insure customer risks and protect bank business cases and client welfare.
Pillar 3: **Payments for resilience and commerce:**	Public sector priorities: • Develop an appropriate, interoperable payments ecosystem to improve efficiency and affordability. • Policy level measures to reduce cash management costs related to note quality and cash transit • Develop a bank agency regulatory framework to enable alternative distribution. • Implement FATF guidelines in a way that view financial exclusion as a key risk. Private sector priorities: • Extend use cases for formal payments by digitising key public sector, value chain and trade payments, including card payments in the tourism sector. • Improve mobile money agent liquidity management to ensure reliable access to funds for clients and viable business models for agents. • Improve cash reticulation and management to extend cash-in/-out points, improve economies of scale and reduce the cost of cash (necessary for adoption of digital payments). • Leverage existing (MFI and Post Office) footprint to extend reach of formal touch points. • Explore opportunities to strengthen the digital financial services value proposition for consumers and for merchants
Pillar 4: **Enable credit to targeted entrepreneurs**	Public sector priorities: • Improve credit information on clients (including credit bureaus) to reduce the cost and risk to lend. • Improve the dispute resolution system at the court level in the financial sector in order to increase confidence (Training of judicial officers, financial services special court, and providing capacity for anticorruption measures in the sector). • Improve transparency of disclosure and address the extent of non-interest related costs. Private sector priorities: • Strengthen and digitise MFI information systems to improve efficiency and reduce risk. • Build capacity of MFIs to improve the quality of their loan portfolios and financial information to access credit. • Consider alternative credit scoring models to reduce reliance on collateral for credit, e.g. mobile transaction history or social media data. • Consider new finance lines for MFIs to lower cost of capital and promote growth. • Improve the support for, and quality of information on micro businesses and agricultural entrepreneurs to identify opportunities in the market.
Pillar 5: **Strengthen financial inclusion policy, regulations and institutions**	• Develop and implement a financial inclusion policy, including mechanisms for appropriate data collection and monitoring. • Strengthen the mandate of key institutions such as CNFI and CSBF to support financial inclusion. • Amend regulation where required to fill legal gaps and strengthen supervision of key areas relevant for financial inclusion, including mobile money, payment systems, consumer credit and the safeguarding of savings. • Strengthen the judicial environment as relevant for the financial sector. • Improve access to identity, proof of address and title deed processes and documentation to facilitate financial service access.

	• Ensure good business environment for financial inclusion (especially in terms of infrastructure, connectivity and security)

5.2 Anticipated benefits

FinScope Madagascar (2016) indicates that a vast majority of adults remain without access to any type of formal or informal financial service – 41% nationally and 46% in the rural areas. Entrepreneurs similarly face significant exclusion, with 41% of MSMEs and 44% of small holder farmers excluded from financial services. This limits their ability to effectively manage their financial lives. It limits their capacity to mitigate against risks, smooth their consumption, accumulate assets and invest in productive activities. Even among the 29% who are formally served, there is a lot of room for improvement, by deepening access and usage.

The Madagascar financial inclusion roadmap will help policy makers and stakeholders focus attention on the key issues as identified in the research to help build a more inclusive society.

The Roadmap will help contribute to these and the following other benefits:

- Improving household welfare by extending financial inclusion to households that are currently less well served, such as expanded digital payment and remittance services which will enable individuals to affordably transact, send and receive long distance remittances, and affordable and appropriate savings products that provide the tools to build up savings that can be used to smooth consumption and mitigate risks, and increased options for risk mitigation.
- Supporting economic growth by mobilising savings, providing insurance and payment services and facilitating credit for productive enterprises and for investment in assets.
- At the macro level improvement in overall economic efficiency by enhancing financial sector infrastructure, improving regulation and reducing risks. Increased access to financial services will also support the fundamental policy objectives of food security and economic growth, and a potentially positive impact in helping reduce inequality.
- At the micro level the growth of new and existing institutions to better serve the low income including new partnerships between various players.
- A measurement framework to quantify and track financial inclusion, and to ensure that the program of action remains relevant to national objectives.

Overall the program will result in the growth, deepening and higher quality of financial inclusion, especially by addressing some of the access barriers observed in the research. Such improvements will be beneficial to the economy. They will also help Madagascar contribute measurably towards the UN Sustainable Development Goals, and the Maya declaration.

5.3 Financial Inclusion Roadmap in the Financial Policy Context

Existing policy initiatives. The financial inclusion Roadmap is supportive of and is made in the context of wider global, regional, national and financial sector strategies, the most relevant being:

- The UN Sustainable Development Goals (Agenda 2030);
- SADC regional financial inclusion strategy 2016;
- The Madagascar National Development plan (2015-2019);
- The Development cooperation policy;
- The World Bank Aide Memoire (2017); and

- The Maya Declaration 2012

As noted earlier the Government of Madagascar acknowledges the role of financial inclusion in serving its public policy goals.

A national financial inclusion strategy based on this Roadmap has been proposed under the leadership of the Ministry of Finance, as a successor strategy to the National Strategy for Financial Inclusion (CNFI, 2013-2017). As such the Financial Inclusion Roadmap 2018 – 2022 has been completed at an opportune time to form the basis for the policy and strategic framework for financial inclusion in Madagascar for the period 2018 - 2022, and is well suited to do so as it is based on a comprehensive diagnostic which pinpoints those priority areas that will provide the greatest return on resources invested, and has been developed in a stakeholder intensive process.

The Roadmap has been developed under the leadership of the CNFI, housed within the Treasury Department of the Ministry of Finance, being the body mandated to coordinate financial inclusion in Madagascar. CNFI will lead the proposed strategy formulation and adoption process, and engage with stakeholders in this respect as needed.

5.4 Financial Inclusion Roadmap in the Context of other Financial Inclusion Work

As noted earlier the government has been engaged in a number of initiatives that support financial inclusion, such as the roll-out of the previous financial inclusion strategy and the setting up of CNFI to coordinate financial inclusion. A number of other financial inclusion initiatives by different development partners are also underway. Table 3 summarises some of the most relevant ongoing work in the respective priority areas, and how each relates to the financial inclusion Roadmap.

Table 3: Table of relevant donor projects in Madagascar

Initiative	Focus	Fit with Roadmap
National Strategy for Financial Inclusion (CNFI, 2013-2017)	Microfinance development in Madagascar between 2013 - 2017	Roadmap sets the scene for the successor strategy, 2018 - 2022
Financial Sector Assessment Program FSAP (IMF, 2016)	Assessed stability of the financial system to identify sources of systematic risk	Roadmap focuses on financial inclusion
World Bank Aide Memoire(2017)	Current focus on access to transaction accounts, payment system modernisation and access to credit for MSMEs	This work fits in the Roadmap context. Going forward there is need for coordination / alignment as may be identified by CNFI.
IFAD Aide Memoire (2017) (draft)	Improve the incomes and food and nutritional security of vulnerable rural people, through improved production methods, marketing and trade, and improved diets of target households	IFAD work is primarily in agriculture but is in synergy with the financial inclusion strategies here proposed for rural populations.
The Maya Declaration (2012)	Improve access to microfinance services; Laws and regulations to support FI	Roadmap supports the Maya declaration and sets the scene for an updated declaration

	especially mobile banking and customer protection); availability of FI data	

These initiatives are complementary to the priorities identified in the Roadmap. Coordination of various development partners will need to be continued, and the roadmap will provide a suitable platform for this coordination, and is well suited to do so as it is continues to involve multiple stakeholders.

The Roadmap is not a static document and will be updated over time as new research becomes available, and as the financial inclusion landscape evolves.

5.5 Implementation and Evaluation

It is proposed that the existing Steering Committee under the chairmanship of the Treasury Department, Ministry of Finance and Budget will continue to be responsible for the implementation process, championing and providing leadership and coordination.

Actual implementation will be the responsibility of the respective stakeholders, and particularly the regulators, the financial service providers, Ministries as well as development partners active in financial inclusion. Sector associations will assist to coordinate providers in their respective sectors, ensuring that sector positions emerge that support financial inclusion in a sustainable manner. The key stakeholders identified for implementation are shown in Table 4 below.

The Financial inclusion coordination Secretariat is housed at CNFI, who will also lead Donor engagement at a strategic level. Implementation will in some cases be subject to resource availability.

Table 4: Financial inclusion stakeholders in Madagascar

	CATEGORIES	INSTITUTIONS	ROLES and RESPONSIBILITIES
1	REGULATORY AUTHORITIES	• CSBF • BCM / BFM • MFB (Insurance) • ARTEC (Communications) • SAMIFIN	1. Regulatory and supervisory support 2. Advice, leadership, facilitation, strategy to achieve Financial Inclusion targets
2	MINISTRIES AND AGENCIES	• Ministry of Finance and Budget / CNFI • Industry & Private sector Devt • Agriculture • Communications	1. Coordination of Initiatives 2. Budget 3. Ensure that initiatives comply with Policy statements and with best practice
3	ASSOCIATIONS & NETWORKS	• MFI (APIMF) • Bank (APB) • Chamber of Commerce / Small business, • Insurance (CEAM) • Consumer	1. Represent members' ideas in Financial Inclusion committees meetings 2. Encourage best practice among members

4	SECTOR ENTITIES	• Banks, MNOs, MFIs, Insurers, Post Office, CNAPS	1. Implementation of best practices 2. Feedback to coordinating bodies
5	DEVELOPMENT PARTNERS	• Various	1. Financial and Technical support 2. Coordinate amongst each other and with Government

In addition to these core stakeholders involved in the implementation process there are also non-core stakeholders, including for example Ministry of Tourism, Planning or Commerce, Farmers Association and others. These will be included in the process as needed over time.

The membership of the Steering Committee will remain largely as it is currently, comprising the Ministry of Finance and Budget (Chair), Central Bank as a core member responsible for key implementation areas, other regulators, private sector and development partners. However it will be necessary to incorporate any new members that are needed during various phases of the implementation. At the recommendation of the CNFI where needed Technical Clusters and / or Working Groups will also be formed to address various detailed activity areas.

Successful implementation is contingent on engagement with, and the role played by the private sector. It will be important to get the firm commitment of the private sector players through tailored engagement with sector associations, regulatory processes, as well as with individual players to resolve specific issues for the purposes of enhancing financial inclusion. It is proposed that the Steering Committee and its structures will meet with the private sector early on in order to clarify their role in the Roadmap, obtain buy in, as well as clarify actions that the private sector expect Government to put in place for them to play their role in enhancing financial inclusion.

5.6 Measurement

Successful implementation partly depends on being able to measure progress, as well as communicating the outcomes of the interventions. The Ministry of Finance and Budget / CNFI will monitor and evaluate the proposed actions and outcomes, and provide regular report backs to various government organs.

Activity based tracking is recommended, complemented by the tracking of outcome and output based targets annually including Access, Usage, Affordability, Appropriateness, Financial literacy, and Consumer protection. A draft set of indicators is included as Annexure 3.

The M&E framework will help demonstrate and highlight delivery against the national financial inclusion Strategy / Roadmap, helping ensure that activities are implemented and anticipated results are achieved. The M&E framework is also an important tool for stakeholder mobilization, for ensuring international and regional consistency, and to support the learning agenda.

CNFI will lead the data collection process, taking into account already available data and any limitations on its use. It is recommended to avoid unnecessarily adding to regulatory burden of service providers wherever possible, and to be sensitive to legal and regulatory constraints. Reporting cycle will be annual.

5.7 Risks

Some of the risks to implementation include:

- Lack of implementation capacity. Mitigation: The Steering Committee as part of its short term action plan will focus on development partner and private sector mobilisation and coordination. Development partners and the private sector will be mobilised to support the implementation process.
- Lack of buy-in, particularly by private sector stakeholders. Mitigation: The Steering Committee as part of its short term action plan will develop a private sector engagement strategy and plan. Regulators will be involved in this process, and where necessary legal and regulatory amendments will be made to support the process.
- Lack of infrastructure to support proposed interventions. Mitigation: Ministry of Finance in conjunction with other stakeholders will prioritise infrastructure development in selected bottle neck areas e.g. payment system infrastructure.
- Time frames for legislative reform may be long. Mitigation: Ministry of Finance to coordinate and ensure timelines are shortened where possible.

The Steering Committee will work with the stakeholders to ensure that these and other risks are tracked and mitigated.

6. Conclusions

Access to financial services can help fuel economic growth, and at the household level build welfare and facilitate access to core services such as health or education. However Madagascar is a challenging environment to do business in, and the Financial Inclusion Roadmap 2018 – 2022 has laid out some proposed national priorities that if properly implemented can enhance financial inclusion in Madagascar. The priorities are based on the diagnostic findings, and will help to inform the future financial inclusion agenda in Madagascar. Financial inclusion is challenging to achieve and requires a clear vision, sufficient resources and effective collaboration across a broad range of stakeholders.

The proposed interventions will result in an increase in breadth and depth of financial inclusion in Madagascar, in support of the National Development Plan, the Maya declaration, the SADC regional financial inclusion strategy, and the UN Sustainable Development Goals.

Implementation of the Roadmap will be coordinated by the MAP Steering Committee under the guidance of the Ministry of Finance and Budget. The immediate next steps in the Roadmap process include the development of the national financial inclusion strategy, finalisation and adoption of the M&E targets and indicators, development of annual Action Plans annually, and the development and implementation of a fund mobilisation strategy.

The Roadmap will most visibly contribute to financial inclusion through the development of strategies, products and business models that deliver better value to low income customers.

7. Annexure 1 – Summary of Proposed Roadmap Activities

The actions outlined in the main document are further detailed in the tables below, together with the responsible entities (Primary and Secondary), implementation time horizon (SHORT, MEDIUM and LONG Term) and priority (HIGH, MEDIUM, Low). SHORT term would imply 1 – 2 year activities, MEDIUM term 2 – 3 years, and LONG term over 4 years.

Table 1: Financial education and customer protection

Priority interventions	Proposed Activities	Responsible	Priority	Timeline
1.1 Ensure a socially responsible implementation of the strategy, promoting customer protection, customer education, rural populations, women and youth	• Ensure adequate customer protection and customer education as identified across the interventions in the respective pillars below	• CNFI • APIMF	• MEDIUM	• LONG
	• Ensure strategy remains sensitive to the needs of the vulnerable or potentially vulnerable groups, notably women, youth, the rural and the extreme poor	• CNFI	• MEDIUM	• LONG
	• Encourage innovation and better coverage of unserved and underserved areas	• CNFI	• HIGH	• LONG
1.2 Implement targeted market conduct regulation to improve disclosure and consumer recourse	• Promulgate and implement the regulations for consumer protection	• CSBF • MFB • CNFI	• MEDIUM	• LONG
	• Develop a market, conduct a framework across the financial services sector (probably assigning a dedicated CNFI/CSBF team)	• Ministère chargé du Commerce • CSBF • MFB	• HIGH	• MEDIUM
	• Designate a specific entity that will be responsible for consumer protection within the financial services sector, with possibility of separating the entity that handles the informal and formal	• CSBF • MFB	• MEDIUM	• SHORT
1.3 Leverage community and church structures to build trust and educate consumers	• Motivate providers to work together to introduce programmes to build trust in the formal financial sector, for example through joint public awareness campaigns focusing on trust messages,	• AP • CNFI	• HIGH	• SHORT

especially on savings	and savings, leveraging community and church groups as channels for consumer communication and/or education			
1.4 Implement existing / new financial education programmes for various sectors of the population	• Integrate financial education into official curriculum of schools at national level, vocational training and university programs	• Min of Education • MFB	• MEDIUM	• LONG
	• Financial education of youth: Global Money week, and School bank.	• MFB, MEN • DOF CNFI, APIMF, MFI • Partenaires Techniques et Financiers	• HIGH	• SHORT
	• Pilot financial education project in partnership with the Ministry of Tourism, focused on tourism sector (tourist guides, hotels and restaurants) in Ranomafana Andasibe, Isalo, and Morondava Ankarana parks	• CNFI • Min of Tourism	• MEDIUM	• SHORT
1.5 Effective communication strategy on financial inclusion	• Develop and implement an effective communication strategy on financial inclusion at the national level in order to establish and / or strengthen public confidence in financial institutions, especially Microfinance Institutions	• CNFI • APIMF • CSBF	• MEDIUM	• MEDIUM
	• Develop and implement a communication strategy to follow the promulgation of the new law on microfinance	• CNFI • APIMF • CSBF	• MEDIUM	• SHORT

Table 2: Proposed Roadmap Activities: Savings and insurance for resilience and to build capital for investment

Priority interventions	Proposed Activities	Responsible	Priority	Timeline
Savings				
2.1 Strengthen the prudential supervision of key savings institutions to safeguard existing savings.	• Introduce prudential requirements for CEM and PAOMA	• CSBF • MFB	• HIGH	• LONG
	• Incorporate CEM, PAOMA, and CNAPS under the supervisory mandate of the most relevant financial sector regulator, including any necessary regulatory amendments	• CSBF, MFB, BFM	• HIGH	• LONG
	• Strengthen MFI supervision to safeguard consumer deposits and manage failures by identifying and monitoring fragile MFIs, and where required putting them under administration to avoid loss of assets by consumers	• CSBF • AP • MFB	• HIGH	• SHORT
2.2 Provide for a form of monitoring, recognition of, and support to small local savings groups to allow proper recourse by members	• Carve out an appropriate space to allow small groups to legally exist, through an exemption to current legislation and / or registration as an association that is monitored, but not supervised	• CSBF • Réseau des Groupes • MFB	• HIGH	• SHORT
	• Create an appeal mechanism to protect members of savings groups	• CNFI	• HIGH	• SHORT
	• Census and identification of existing savings groups through the network of promoters	• CSBF, MFB, Réseau des promoteurs des GE	• HIGH	• SHORT

	• Revitalization of the promoters network	• CNFI	• MEDIUM	• SHORT
	• Support local savings groups by developing guiding principles around risk management for savers, conditions for mandatory relationship with formal institutions (cap / limit rules) and identification / authentication	• CNFI	• MEDIUM	• SHORT
	• Training and capacity development of informal savings groups, focusing on protecting small-scale savings, management skills and governance	• Réseau des promoteurs des GE • CNFI	• HIGH	• SHORT
2.3 Implement payment system recommendations above to allow frequent deposits of small amounts	• See specific activities under Pillar 3 below (particularly expanding / enabling bank and mobile agency)	•	•	•
2.4 Consider introducing deposit insurance to build trust and protect consumers.	• Explore potential for and introduce deposit insurance	• CSBF	• MEDIUM	• MEDIUM
2.5 Align product design with customer needs for flexibility, transparency and security	• Encourage innovation and learning from international markets to improve current savings account features and options and provide attractive options for customers, including revised interest rates	• AP • MFB	• HIGH	• SHORT
Insurance				
2.6 Develop the legal framework of the	• Update / amend the insurance regulatory framework to explicitly	• MFB, CSBF	• HIGH	• SHORT

insurance sector to better support financial inclusion	allow for MFI and m-insurance models as well as aggregator models[13], with clarity on how such models should be rolled out and what functions various parties may permit under what conditions			
	• Update insurance code - revising compulsory insurance and insurance on deposits for banks and MFIs	• MFB, CSBF	• MEDIUM	• LONG
2.7 Improve availability of insurance skills, including actuarial skills	• Connect with universities and with the global community to encourage peer learning and develop medium term and effective insurance skills development strategies	• Ministère chargé de l'Enseignement Supérieur • MFB	• MEDIUM	• LONG
	• Encourage the creation of a training center for insurance business	• MFB	• MEDIUM	• LONG
2.8 Build capacity and dedicate resources to manage national climate and agricultural risks	• Technical support to the Ministry of Agriculture and the Ministry of Finance to build necessary capacity and dedicate resources to manage national climate and agricultural risks through ARC	• Partenaires Techniques et Financiers	• HIGH	• LONG
2.9 Introduce insurance market conduct requirements to improve trust	• Establish an independent insurance regulator	• CSBF • MFB	• HIGH	• SHORT
	• Introduce clear consumer protection measures around insurance disclosure, recourse, governance and claims processing	• CSBF • Ministère du Commerce • MFB	• HIGH	• MEDIUM
2.10 Insurance financial education	• Targeted insurance education strategies especially during decision moments, focusing on	• MFB, CSBF, Comité des Entreprises d'Assurances à	• HIGH	• LONG

[13] E.g. through MFIs, mobile providers, local groups and farmer associations

in partnership with the private sector	consumer awareness of insurance, with the involvement of the private sector	Madagascar (CEAM)		
	• Work with insurance sector to raise awareness on the insurance industry	• MFB, CSBF, Comité des Entreprises d'Assurances à Madagascar (CEAM)	• MEDIUM	• LONG
2.11 Extend products to cover agricultural risks, such as through agricultural index insurance or meso-level insurance to manage MFI, value chain or supply chain risks affecting farmer productivity	• Mobilise necessary funds for subsidies to small holder farmer insurance schemes; and for the African Risk Capacity (ARC) premiums (membership is in place)	• Ministère chargé de l'Agriculture, MFB, Partenaires Techniques et Financiers	• HIGH	• LONG
	• Explore and implement targeted opportunities within the agricultural value chain to provide insurance to associations, agricultural processors or other aggregation points for smallholder farmers, or via MFIs that lend to key value chains.	• Ministère chargé de l'Agriculture, MFB, Partenaires Techniques et Financiers	• HIGH	• LONG
2.12 Collaborate with banks to expand insurance coverage among their clients	• Collaborate with banks to develop and / or package relevant insurance products, utilizing their existing strong relationships with clients	• Secteur Privé (Banque, Compagnies d'assurances, etc.), CSBF, MFB	• LOW	• LONG

Table 3: Proposed Roadmap Activities: Payments for Resilience and Trade

Priority interventions	Proposed Activities	Responsible	Priority	Timeline
3.1 Develop an appropriate, interoperable payments ecosystem to improve efficiency and affordability	• Cost effective switch arrangement implemented	• BFM/CSBF-MFB - PTF	• HIGH	• LONG
	• Ensure interoperability between the infrastructure of different financial service providers	• BFM/CSBF – IF -MFB	• HIGH	• LONG
	• Facilitate MFIs to clear and settle among themselves (directly or via sponsor bank)	• BFM/CSBF - APIMF	• MEDIUM	• MEDIUM
	• Incentive measures for financial service providers to extend distribution footprint	• PTF - MFB	• HIGH	• SHORT
	• Strengthen capacity and mandate of BFM to be proactively involved in the payment system	• BFM -PTF	• HIGH	• SHORT
	• Promote targeted financial education on digital financial services	• MFB – BFM/CSBF – EME-FINTECH	• HIGH	• MEDIUM
	• Implement BFM payments strategy 2021 including strengthening competition	• BFM	• MEDIUM?	• LONG
	• Pass and implement comprehensive payments law	• BFM/CSBF - MFB	• HIGH	• SHORT
3.2 Policy level measures to reduce cash management costs related to note quality and cash transit	• Popularize the use of electronic money	• MFB/CSBF – MFB	• HIGH	• LONG
	• Consider / implement polymer notes	• BFM	• LOW	• LONG
	• Explore possibility of engaging gas stations and other high cash turnover outlets to manage and reduce the cost of cash	• BFM/CSBF – MFB -	• MEDIUM	• MEDIUM
	• Explore potential of working with banks for vaults at commercial banks as an agency for the central bank to accept regional deposits	• BFM	• MEDIUM	• MEDIUM

3.3 Develop a bank agency regulatory framework to enable alternative distribution.	• Develop bank and MFI agency framework (legal framework)	• BFM/CSBF - MFB	• MEDIUM	• MEDIUM
	• Develop bank and MFI agency commercial framework	• FSF	• MEDIUM	• MEDIUM
3.4 Implement FATF guidelines in a way that view financial exclusion as a key risk	• See under Pillar 5 for FATF specific actions	• SAMIFIN – MFB – BFM/CSBF - MIN JUSTICE	• MEDIUM	• MEDIUM
	• Incorporate built-in biometrics into National switch	• BFM/CSBF - PTF - MFB	• MEDIUM	• LONG
3.5 Extend use cases for formal payments by digitising key public sector, value chain and trade payments, including card payments in the tourism sector	• Investigate digitalisation of key public sector payments (G2P, P2G)	• MFB - BFM	• HIGH	• MEDIUM
	• Catalyse service providers to investigate digitalisation of value chain and trade payments, including card payments in the tourism sector	• BFM/CSBF – MFB – MIN TOURISME	• MEDIUM	• MEDIUM
3.6 Improve mobile money agent liquidity management to ensure reliable access to funds for clients and viable business models for agents	• Investigate and encourage extending the super-agent role for operational support and helping agents to balance their liquidity	• BFM/CSBF – EME - MFB	• MEDIUM	• MEDIUM
	• Collaboration among the stakeholders to standardize scheme rules within the interoperability arrangement	• BFM/CSBF – MFB – IF	• HIGH	• MEDIUM
3.7 Improve cash reticulation and management to extend cash-in/-out points, improve economies of scale and reduce the cost of cash	• Explore increased use of central providers to reduce cost and to reduce the flow of cash from rural to urban areas	• BFM/CSBF – MFB - IF	• MEDIUM	• MEDIUM
3.8 Leverage MFI and post office footprint to extend reach of formal touch points.	• Enable MFIs and Post Office to play a more significant role in payments and cash management (between their branches and for other providers)	• BFM/CSBF – MFB -IMF	• HIGH	• MEDIUM

3.9 Explore opportunities to strengthen value proposition of digital financial services for consumers and merchants	• Conduct research to identify opportunities to improve consumer digital financial services value proposition by reducing costs, increasing flexibility and/ or revocability of transactions	• MFB • Private sector	• MEDIUM	• MEDIUM
	• **Conduct research to identify opportunities to strengthen merchant digital financial services value proposition, through reduced costs of acquiring POS equipment, lower interchange fees, increased use cases and volumes, and / or offline functionality**	• MFB • Private sector	• MEDIUM	• MEDIUM

Table 4: Proposed Roadmap Activities: Enable credit to targeted entrepreneurs

Priority interventions	Proposed Activities	Responsible	Priority	Timeline
4.1 Improve credit information on clients to reduce the cost and risk to lend	• **Ensure seamless information sharing between the current two bureaux (one for banks and one for MFIs) so that each has a comprehensive view of a client**	• BFM	• MEDIUM	• SHORT
	• **Enable providers to access both bureaux to obtain a fuller picture of the client**	• BFM - FSP	• MEDIUM	• SHORT
	• **Implementation of a title deed registry**	• BFM - GVT	• HIGH	• LONG
	• **Work with relevant ministry to improve access to title deeds for credit purposes**	• BFM - GVT	• HIGH	• LONG
4.2 Improve the dispute resolution system at the Court level on the performance of contracts in order to increase confidence	• **Raise awareness and capacity of judicial officers on financial and banking system matters focusing particularly on capacity in assessing credit agreements**	• MFB • APIMF	• MEDIUM	• SHORT
	• **Special court for banking and finance – See Pillar 5**	•	•	•
	• **Capacity building for BIANCO focusing on capacity to detect and deal with corruption in the financial sector**	• MFB • BIANCO • SAMIFIN	• MEDIUM	• MEDIUM
4.3 Improve transparency of disclosure and address the extent of non-interest related costs	• **Strengthen governance and supervision for MFIs to ensure improved market conduct**	• CSBF • APIMF	• MEDIUM	• MEDIUM
	• **Draft and implement credit market conduct requirements, including for providers to avail sufficient information on the terms, conditions and total cost associated with the loan, as well as regarding the legal protection and recourse options against consumer abuse**	• CSBF • Ministry of Commerce	• HIGH	• MEDIUM
	• **Update and enforce the Usury Law**	• CSBF, MFB	• HIGH	• SHORT
	• **Empower the CNFI with a broader mandate to collect the data required to ensure**	• MFB • CSBF	• HIGH	• SHORT

	transparency in retail credit provision			
	• **Strengthen the CSBF capacity to implement the market conduct requirements**	• CSBF	• HIGH	• MEDIUM
4.4 Strengthen and digitise MFI information systems to improve efficiency and reduce risk	• **Capacity support to strengthen and digitise MFI information systems, for niche MFIs with the MIS tailored to their specific target markets, and for Retail MFIs**	• MFB • APIMF • PTF	• HIGH	• MEDIUM
	• **Enhanced GIS information and GIS information management and sharing**	• APIMF	• MEDIUM	• LONG
4.5 Build capacity of MFIs to improve quality of loan portfolio and financial information to access credit	• **Technical support to build skills capacity of MFIs to improve quality of loan portfolios and financial information**	• APIMF	• HIGH	• SHORT
	• **Support improved cash management for niche MFIs, to reduce costs especially in rural areas**	• APIMF	• MEDIUM	• MEDIUM
	• **Assist retail MFIs with improved disclosure and governance to enable better access to affordable capital**	• APIMF	• MEDIUM	• SHORT
4.6 Consider alternative ways to reduce reliance on collateral for credit,	• **Support MFIs to consider and apply alternative credit scoring models e.g. mobile transaction history or social media data to reduce reliance on collateral for credit**	• APIMF	• MEDIUM	• MEDIUM
	• **Technical assistance to encourage retail and niche MFIs to tap peer-to-peer learning from donor-funded MFIs on innovative product design**	• APIMF	• MEDIUM	• MEDIUM
4.7 Consider new finance lines for MFIs to lower cost capital and promote growth	• Assess the viability of, and implement a low cost financing line with the BFM to support credit extension	• MFB • BFM	• MEDIUM	• LONG
	• Implement a risk-sharing mechanism for MFIs (especially for rural agricultural activities); E.g. establishment of risk-sharing funds and guarantee funds	• MFB • BFM • APIMF	• MEDIUM	• LONG
	• Assess the viability of and set up a dedicated fund to refinance MFIs with government (BTA / Treasury) as a pivot / state guarantee for MFIs	• MFB • BFM • APIMF	• MEDIUM	• LONG

4.8 Improve the support for, and quality of information on, micro-businesses and agricultural entrepreneurs to identify opportunities in the market	• Consider and set up a guarantee fund for start ups	• MIDSP[14] • MPAE[15] • MFB	• MEDIUM	• MEDIUM
	• Implement a national survey of micro-businesses and agricultural entrepreneurs (diagnostic study)	• MIDSP • MPAE • MFB	• MEDIUM	• MEDIUM
	• Capitalization and updating the rural information system (e.g. # of producers by region, value chains, etc.)	• MIDSP • MPAE • MFB	• MEDIUM	• MEDIUM

[14] Ministry of Industry and Private Sector / Ministère de l'Industrie et du Développement du Secteur Privé
[15] Ministry of Agriculture / Ministere aupres de la Présidence en charge de l'Agriculture et de l'Elevage

Table 5: Proposed Roadmap Activities: Strengthen financial inclusion policy, regulations and institutions

Priority interventions	Proposed Activities	Responsible	Priority	Timeline
5.1 Develop and implement a financial inclusion policy, including mechanisms for appropriate data collection and monitoring	• **Develop and implement a financial inclusion strategy, including mechanisms for appropriate data collection and monitoring**	• MFB • CSBF • Secteur Privé • Partenaires Techniques et Financiers	• **HIGH**	• **SHORT**
	• **Regular FINSCOPE surveys (refresh every two years)**	• **CNFI**	• **HIGH**	• **SHORT**
5.2 Strengthen the mandate of key institutions such as CNFI and CSBF to support financial inclusion – policy, capacity and data	• **Strengthen financial inclusion through the institutional repositioning of CNFI at MFB level**	• MFB • Partenaires Techniques et Financiers	• **HIGH**	• **SHORT**
	• **Strengthening the institutional capacity of the CNFI including the financial and human capacity needed over the next five years**	• **CNFI**	• **HIGH**	• **SHORT**
	• **Create / strengthen collaboration mechanism between the key regulators in the industry (Ministry of Commerce, the CSBF and the CNFI) particularly on consumer protection regulations**	• MFB • Ministry of Commerce • CSBF	• **HIGH**	• **MEDIUM**
	• **Consider / implement legislative mandate for financial inclusion within the Ministry of Commerce and the CSBF, to ensure support for financial inclusion and sufficient financial inclusion data within the market**	• Ministry of Commerce • CSBF	• **LOW**	• **SHORT**
	• **Address gaps in mobile money, payment**	• CSBF • BFM	• **HIGH**	• **LONG**

5.3 Amend regulation where required to fill legal gaps and strengthen supervision of key areas relevant for financial inclusion, including mobile money, payment systems, consumer credit and the safeguarding of savings	**systems, consumer credit and the safeguarding of savings as outlined in the respective pillars above**	• MFB		
	• **Technical support for CSBF to ensure that the implementation of the electronic money law is fully supportive of the role that mobile money currently plays in Madagascar**	• Partenaires Techniques et Financiers • CSBF • BFM • MFB	• **HIGH**	• **SHORT**
	• **Implement the 2012 FATF guidelines in a manner that supports financial inclusion (i.e. risk-based approach recognizing the risks of financial exclusion and proportionate implementation of KYC requirements)**	• **CSBF** • **BFM** • **SAMIFIN** • **Secteur Privé**	• **HIGH**	• **MEDIUM**
	• **Implement measures to comprehensively protect trust accounts of mobile money providers, i.e. trust accounts are protected from the creditors of the bank or of the mobile money operator**	• **CSBF** • **BFM**	• **MEDIUM**	• **MEDIUM**
5.4 Strengthen the judicial environment as relevant for the financial sector	• **Catalyse the creation of a financial sector-specific court, with appropriate jurisdiction and expertise from the banking / financial sector**	• **Ministère de la Justice** • **MFB**	• **HIGH**	• **MEDIUM**
	• **Catalyse the creation of a specialised ombudsman – funded by the private sector – for consumer protection matters, to ensure effective recourse in financial services disputes with clients**	• **CSBF** • **MFB** • **Partenaires Techniques et Financiers** • **Secteur Privé**	• **HIGH**	• **LONG**

	• Catalyse the creation of an arbitrator for larger financial services disputes with appropriate skills and funding from the financial sector	• CSBF • MFB • Partenaires Techniques et Financiers • Secteur Privé	• LOW	• LONG
5.5 Improve access to identity, proof of address and title deed processes and documentation to facilitate financial service access	• Further investigation and strategy outlining required improvements to the deeds registry and in the issuing of identity documents to assist individuals to meet KYC requirements for proof of address and identity	• Ministère de l'Intérieur • CSBF	• HIGH	• LONG
5.6 Ensure good business environment for financial inclusion (especially in terms of infrastructure, connectivity and security)	• MFB and Steering Committee to work with relevant Government ministries and sensitise them to the importance of a good business environment	• MFB • Steering Committee	• HIGH	• LONG

8. Annexure 2 – Pro forma Budget

8.1 Budget Assumptions

Types of costs to be estimated include:

- Projects to be funded by CNFI in executing strategy e.g. National conference or M&E system
- Projects to be funded by Government ministries & agencies, and by Industry Associations that arise as a result of the strategy e.g. developing new policy approaches
- Projects to be started by Development partners that are not already in their existing plans e.g. new area of recommended research, cost of catalysing new products or approaches (TBC)
- Grants or subsidies recommended to financial institutions or Associations through the strategy

Excluded Costs:

- Costs borne by Ministries and Agencies, Development partners and Industry Associations that are already budgeted / planned for e.g. national switch
- Costs borne by the private sector e.g. setting up of private switches, credit bureau, Inter-connecting to others, MIS systems, Skills development, etc.

8.2 Estimated Budget

The budget to implement the project is estimates at USD 26.6 million. This budget will be raised by the Ministry of Finance and Budget from government sources, local and international development partners / donors and other international (including sovereign) partners. Some adjustment to the budget is to be expected during the fund raising process.

The 2018 – 2022 Budget is 30% lower than that for the 2013 - 2017 period, which was USD 38.2 million.

The budget will be managed and implemented under the guidance of an Investment Committee set up for the purpose, comprising government, key donors and technical partners.

9. Annexure 3 – Draft set of financial inclusion indicators

These M&E indicators are based on initial discussions, and are a draft set. A final set with baseline and target will be finalised in consultation with Stakeholders. The data will be sourced from key regulators in the sector, i.e. CSBF, BFM and the Ministry of Finance and Budget.

STRATEGIC GOAL	INDICATOR
Access	# of access points per 10,000 adults (>18 years old), by type (e.g. bank branch, ATM, POS, MFI branch, Mobile agent, insurance service point, etc.) and by rural / urban
	Percentage of adults (18+) with access to at least one formal product (total, women)
	Percentage of adults (18+) with two or more products (total, women)
Usage of transactional accounts	Bank and MFI sight Accounts: Accounts declared dormant per Quarter
	Mobile Money Accounts: 60 day active
Appropriateness / Affordability	Number of active regulated deposit accounts per 10,000 adults by rural / urban
	Number of active regulated credit accounts per 10,000 adults by rural / urban
	Cost of mobile money transactions, based on average cost of $30 outward remittance
Alternative channels / transformation	Percentage of adults (18+) with at least one formal product from non-traditional channel (i.e. excluding banks)
	Number of active (90 days) mobile money accounts users
Payments	Number of transactions on national switch (local or cloud)

	Interoperability between different platforms (MNO, Bank, MFI, etc.)
	Percentage of adults (18+) using formal payments
Productive credit	Outstanding loans (households and SMEs) by financial institutions (% of GDP)
	Increase in MSME & farmer loan book (MGA)
	# of MSME & farmer loan accounts
Insurance	# of insurance policies (total, women, policies covering farming activities)
	Percentage of adults (18+) with a formal insurance product
Promote Savings	# of pension accounts
	Percentage of adults (18+) saving formally
	Outstanding deposits (households and SMEs) with financial institutions (% of GDP)
Informal Financial services	# of adults participating in Community Savings Groups
Regulatory	# of regulatory instruments created / updated / amended
	Financial Sector market conduct framework in place and implemented
Implementation	National Financial inclusion strategy approved and under implementation
	Sufficient institutional capacity for FI implementation (USD Budget)

List of Abbreviations and Acronyms

ACH	Automated Clearing House
AFI	Alliance for Financial Inclusion
AML	Anti-Money Laundering
ARC	African Risk Capacity
ARO	Assurances Réassurances Omnibranches (Malagasy insurer)
ARTEC	Autorité de Régulation des Technologies de Communication (Telecommunications Regulator)
ATM	Automated Teller Machine
AU	African Union
BCM	Central Bank of Madagascar
BIANCO	Bureau Indépendant Anti-Corruption (Anti-corruption Bureau)
CCBG	Committee of Central Bank Governors
CECAM	Caisses d'Épargne et de Crédit Agricole Mutuels (Mutual Savings Banks and Agricultural Credit Funds)
CEM	Caisse d'Épargne de Madagascar (Savings Bank of Madagascar)
Cenfri	Centre for Financial Regulation and Inclusion
CFT	Combatting the Financing of Terrorism
CMIL	Commission Malagasy sur L'informatique et des Libertés (Malagasy Commission on Informatics and Civil Liberties)
CNAPS	Caisse Nationale de Prévoyance Sociale (National Social Insurance Fund)
CNFI	Coordination Nationale de la Finance Inclusive (National Organisation for Inclusive Financing)
CNMF	Coordination Nationale de la MicroFinance (National Organisation for Microfinance)
CSBF	Commission de Supervision Bancaire et Financière (Council for Banking and Financial Supervision)
EFT	Electronic Funds Transfer
FATF	Financial Action Task Force
FSAP	Financial Sector Assessment Program
FSAP	Financial Sector Assessment Programme
FSP	Financial Service Provider
FTHM	Finances, Technologies, Human Resources and Management
G2P	Government to Person
GDP	Gross Domestic Product
ICT	Information and Communications Technology
ID	Identity Document
IMF	International Monetary Fund
IOM	International Organization for Migration
KYC	Know Your Customer
MAP	Making Access Possible
MFB	Ministry of Finance and Budget
MFI	Micro Finance Institution
MGA	Malagasy Ariary
MIS	Management Information System
MMO	Mobile Money Operator
MNO	Mobile Network Operator
MSME	Micro, Small and Medium Enterprise
MTO	Money Transfer Operator
OIF	Organisation internationale de la Francophonie
P2G	Person to Government
PAOMA	Paositra Malagasy (Post Office)
POS	Point of Sale

RTGS	Real-time Gross Clearing and Settlement System
SADC	Southern African Development Community
SAMIFIN	Service de Renseignement Financier (Financial Intelligence Service)
SSA	Sub Saharan Africa
UNCDF	United Nations Capital Development Fund
UPU	Universal Postal Union
US	United States of America
USD	United States Dollar

USD/MGA Exchange Rate

Foreign exchange. The local currency in Madagascar is the Malagasy Ariary (MGA). The United States Dollar (USD) equivalent shown throughout this document was calculated using a 12-month average exchange rate (between 1 January 2016 and 31 December 2016) of MGA 3,021/USD (OANDA, 2017).

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Note: This is a truncated bibliography. For a full list of relevant references, please see the country diagnostic report, Madagascar Making Access Possible: Financial Inclusion Diagnostic Report, 2017

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