MAP Madagascar

Financial inclusion diagnostic findings
Wednesday, 03 May 2017
Antananarivo
Agenda

1. Why financial inclusion?
2. Context and financial needs
3. Opportunities to extend inclusion
4. Priorities and actions
Why financial inclusion?
Why financial inclusion? Welfare improved with financial inclusion

A large proportion of adults surveyed, with revenues of less than a dollar a day, indicated that they had to miss a meal, not send their children to school, or have not been able to pay their healthcare fees.

Source: FinScope (2016)
Policy environment: Financial sector development programmes and role of MAP

<table>
<thead>
<tr>
<th>Programme</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSAP (IMF, 2016)</td>
<td>Assessed stability of the financial system to identify sources of systematic risk</td>
</tr>
<tr>
<td>World Bank Aide Memoire (2017)</td>
<td>Assessed financial inclusion to determine WB financial inclusion priorities Current focus on access to transaction accounts, payment system modernisation, access to credit for MSMEs, strengthening institutional capacity and project management and impact evaluation</td>
</tr>
<tr>
<td>The Maya Declaration (2012)</td>
<td>Committed to:</td>
</tr>
<tr>
<td></td>
<td>• Improve access to microfinance services for the population by increasing the household penetration rate from 22.6% in 2012 to 38% by 2017</td>
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<tr>
<td></td>
<td>• Reform current laws and regulations in order to support financial inclusion (especially in the field of mobile banking and customer protection)</td>
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<td></td>
<td>• Ensure availability of reliable and updated financial inclusion data in accordance with international standards, in particular those established by the Financial Inclusion Data Working Group</td>
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</tbody>
</table>

Role of MAP:
• Requested by MoF to develop its financial inclusion policy
• Analyse barriers, and opportunities (in the savings, credit, payments and insurance markets) and set out key priorities to improve financial inclusion to meet broader policy objectives
• Shape and influence the above programmes by providing inputs and evidence
MAP approach: Diagnostic inputs – data collected

**Uncover discrete target markets and needs cases**
- FinScope (2016)
- Consumer interviews (2016)

**Product and provider landscape (informal and formal)**
- Interviews (2017)
- Annual reports
- Product data
- Mystery shopping
- Secondary literature

**Public policy objectives and regulatory context**
- Interviews (2017)
- Regulatory and policy review

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**Financial inclusion priorities**
Methodology: Details and constraints of the analysis

Demand
- FinScope based on 5,000 individuals – a survey that is representative at the national and provincial level with a margin of error of 1%
- For sub-questions: a sample of at least 100 respondents required – which results in a margin of error of 10% or less
- For every analysis: a confidence level of at least 95%

Supply
- Interviews with 41 stakeholders
- Data received from 28 stakeholders
MAP approach: Timeline

- Stakeholder buy-in & Finscope
- Qualitative research
- MAP Diagnostic supply-site visit
- MAP diagnostic drafting
- Stakeholder presentation
- Submission of diagnostic
- Road map preparation
- Road map implementation

Diagnostic research & engagement

- Jan
- Feb-May
- May
- To be determined
Context and financial needs
Most Malagasy manage their lives without using the financial system

“When my husband had a stroke, our family members helped us.”

“There was a time when we lost all crops because of the cyclone... there is nothing we can do about a disaster like that... we just have to survive.”

“I manage the money in the house. My husband gives me the money, then I give him some back for pocket money.”

“We start planting 3 months before school starts. That way, we have enough to sell for the school fees.”

Sources: FinScope (2016), qualitative interviews
Use of financial services to meet needs limited

<table>
<thead>
<tr>
<th>Country</th>
<th>Banked</th>
<th>Formal</th>
<th>Informal</th>
<th>Excluded</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>75%</td>
<td>6%</td>
<td>5%</td>
<td>14%</td>
</tr>
<tr>
<td>Uganda</td>
<td>20%</td>
<td>34%</td>
<td>31%</td>
<td>15%</td>
</tr>
<tr>
<td>Kenya</td>
<td>32%</td>
<td>35%</td>
<td>8%</td>
<td>25%</td>
</tr>
<tr>
<td>Swaziland</td>
<td>53%</td>
<td>11%</td>
<td>10%</td>
<td>26%</td>
</tr>
<tr>
<td>Rwanda</td>
<td>23%</td>
<td>19%</td>
<td>30%</td>
<td>28%</td>
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<tr>
<td>Namibia</td>
<td>62%</td>
<td>3%</td>
<td>4%</td>
<td>31%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>12%</td>
<td>40%</td>
<td>17%</td>
<td>31%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>36%</td>
<td>12%</td>
<td>12%</td>
<td>40%</td>
</tr>
<tr>
<td>Malawi</td>
<td>27%</td>
<td>17%</td>
<td>14%</td>
<td>52%</td>
</tr>
<tr>
<td>DRC*</td>
<td>12%</td>
<td>24%</td>
<td>12%</td>
<td>52%</td>
</tr>
<tr>
<td>Madagascar</td>
<td>12%</td>
<td>17%</td>
<td>30%</td>
<td>41%</td>
</tr>
</tbody>
</table>

* Only economically active areas

Source: FinScope (various years)
Context and realities very tough for inclusion

Poverty:
• GDP per capita of $402 (current USD)
• GDP of $9.7bn

Significant urbanisation, insignificant migration:
• 4.7% rate of urbanisation
• Only 0.63% live abroad

Reliance on agriculture:
• >70% of the population involved
• >4.3 million experience annual agricultural shocks

Ease of doing business constrained:
• Ranks 167/190 countries

Mobile phone ownership low:
• 44% of adults

47th largest country: 587,041 km²
52nd largest population: ~24 million inhabitants

Young population:
• ~61% under 25 years

Rural areas excluded, even higher income earners underserved

<table>
<thead>
<tr>
<th>Location</th>
<th>Banked</th>
<th>Formal</th>
<th>Informal</th>
<th>Assets</th>
<th>Family/friends</th>
<th>Excluded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td></td>
<td></td>
<td>25%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>7%</td>
<td>12%</td>
<td>11%</td>
<td>23%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td></td>
<td></td>
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<tr>
<td>Urban</td>
<td>26%</td>
<td>28%</td>
<td>6%</td>
<td>6%</td>
<td>15%</td>
<td>19%</td>
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Gender*

<table>
<thead>
<tr>
<th>Gender</th>
<th>Banked</th>
<th>Formal</th>
<th>Informal</th>
<th>Assets</th>
<th>Family/friends</th>
<th>Excluded</th>
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<tbody>
<tr>
<td>Female</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>11%</td>
<td>14%</td>
<td>10%</td>
<td>21%</td>
<td>21%</td>
<td>22%</td>
</tr>
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Daily income

<table>
<thead>
<tr>
<th>Income</th>
<th>Banked</th>
<th>Formal</th>
<th>Informal</th>
<th>Assets</th>
<th>Family/friends</th>
<th>Excluded</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;MGA 3k</td>
<td>1%</td>
<td>10%</td>
<td>11%</td>
<td>21%</td>
<td>24%</td>
<td>30%</td>
</tr>
<tr>
<td>(USD 1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt;MGA 30k</td>
<td>59%</td>
<td>15%</td>
<td>5%</td>
<td>21%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(USD 10)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Source: FinScope (2016)

Menabe, Anosy higher male penetration; Analamanga higher female penetration
Payments and savings most used to meet needs

% of total adults

Payment to local entity: 95%
Payment to remote entity: 47%
Resilience: 33%
Consumption smoothing: 7%
Education: 6%
Asset: 3%
Business: 3%
Farming: 6%
Life event: 2%

Transfer of value

Credit
Savings
Insurance
Payments
Overlaps

Source: FinScope (2016)
Formal financial services – what does not work

<table>
<thead>
<tr>
<th>Reason</th>
<th>Quote</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>I waste my time</td>
<td>“The problem is that there is always a long queue to access the bank services. And because I am a businesswoman, my time is precious. For example when I have to pay for stock. If I want to pay them, I have to wait for the bank to get the money.” Female, rural business owner</td>
<td></td>
</tr>
<tr>
<td>I don’t trust it</td>
<td>“Banks and MFIs are scammers. When [a MFI branch] closed down, my mother’s money just disappeared even though they still have an office in Tana. We don’t know what happened. They didn’t take responsibility. Also, I think that the Malagasy banks are interested in your deposits but not if you want to invest.” Male, government employee in Antananarivo</td>
<td></td>
</tr>
<tr>
<td>Not for me</td>
<td>“Only a few Malagasy people [have bank accounts]. First of all, because they do not have enough money. Secondly, banks are for rich people. That’s what we Malagasy people think.” Male, government employee in Antananarivo</td>
<td></td>
</tr>
<tr>
<td>I am confused</td>
<td>“I don’t see what are the advantages for using [the bank]. I don’t know how to use it. I am an old school person. I don’t like these systems. Even the number of my account, I don’t know it. I use only the card to get money. If people ask to me the number, I don’t know it.” Male, employed in Antananarivo</td>
<td></td>
</tr>
<tr>
<td>I can’t access it</td>
<td>“Once, I brought money to the bank in the morning and my child fell sick that night. I didn’t know how to pay. I asked the doctor to save my child’s life and I promised to give his money the morning. So, after this we decided not to put our money in the bank anymore but to keep it at home.” Male, has a small business in Antananarivo</td>
<td></td>
</tr>
</tbody>
</table>

Source: Qualitative interviews (2016)
<table>
<thead>
<tr>
<th>Category</th>
<th>Quote</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>It’s convenient for me</td>
<td>“I can use [mobile money] even if I’m at home. The bank is not practical for me to send money and it passes through the bank before it gets to the person. With [mobile money], it is like a hand-to-hand transaction; there is no intermediate. The higher cost that [mobile money] charges is worth it because it is more practical.” Male, government employee in Antananarivo</td>
<td></td>
</tr>
<tr>
<td>It’s safer for me</td>
<td>“It’s safer than cash. When I have enough money in my account, I can just transfer it to my supplier for example. And many people also use [mobile money].” Female, rural shopkeeper</td>
<td></td>
</tr>
<tr>
<td>It’s quicker for me</td>
<td>“They advised me at the bank to use a debit card because it’s cheaper to check your balance. And they’re right, it’s much cheaper. Plus, you’re no longer obliged to queue at the bank and waste time there.” Male, dentist in Antananarivo</td>
<td></td>
</tr>
<tr>
<td>I have control</td>
<td>“I prefer to save at the bank actually. One of the advantages of the bank have over mobile money [or cash], you are always tempted to use the money, so you save less. Whereas if you save money at the bank, when you want to get it, you have to go to the bank and queue and there are transportation fees too so it’s less tempting.” Male, employed in Ambondrona</td>
<td></td>
</tr>
<tr>
<td>I can achieve my goal</td>
<td>“I plan to build a house in the near future and I will borrow from [a MFI]. It really helped me a lot to borrow money from here. I have been able to upgrade my wooden house into a brick one and I could even build another wooden house that I also want to change into brick soon. I only trust the [MFI]. I have been here for years and I trust them.” Female, has a business in Antananarivo</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Qualitative interviews (2016)
Distinct consumer focus for each provider

- **Banks and CEM:** 1,501,489 adults
- **Mobile money:** 2,067,145 adults
- **MFIs:** 1,395,868 adults
- **Self, friends and family:** 5,402,211 adults

* Size of bubble indicates number of clients

Sources: CNFI (2017), FinScope (2016)
Financial needs and priorities

Main financial needs

- **Food security and resilience**: 4.3m adults faced agricultural risks in past year, 40% of adults worry they will not have enough food
- **Economic growth and opportunity**: 5.3m adults live in extreme poverty without economic opportunities other than subsistence farming

Financial sector priorities: support resilience and growth

- **Individual**: critical need to build *savings* and secure fast emergency *payments* for resilience and food security. Credit and insurance a niche role only given cost and complexity.
- **MSMEs and farmer entrepreneurs**: *intermediation* and *trade payments* over distance key to build opportunities for growth and exports
- **Government**: broader climate risk management strategies needed beyond financial inclusion approach

Sources: WB survey (2015, 2016)
## Current gaps in provision

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

1. Payments for resilience and trade
2. Savings to manage shocks and build productive capital
3. Targeted credit to grow economic opportunity
4. Strengthen enabling regulation and environment

Niche opportunities for insurance exist, but do not currently constitute one of the principal factors for financial inclusion
1. Payments for resilience and trade
Payments: Underdeveloped payment system with inefficient clearing and settlement

**Settlement**
- RTGS: high value interbank EFT

**Clearing**
- ACH: automated cheques, low value EFT (debits and credits)
- Manual: cheques/MICR

**Banks**

**Securities**
- MFIs
- MMO
- MMO
- MMO

**Offshore**
- MasterCard/Visa international clearing and settlement

**Bilateral/multilateral**
- clearing in France

**Cross-border**
- UPU

**Post Office**
- OTC

**MTO**
- OTC

**Link established**
- Link underdeveloped; clearing and settlement only through bank account

Source: Authors’ own per interviews
Payments: Cash dominates across expenses and receipts

Source: FinScope (2016)
Payments: Swift growth in accounts, especially MFIs and mobile money accounts, but higher dormancy

Mobile money interoperability allows freer flow of funds in the economy for resilience

80% of accounts used once a month or less

Payments: More than 70% of remittances received seasonally or less; used to strengthen resilience instead of income

<table>
<thead>
<tr>
<th></th>
<th>weekly</th>
<th>fortnightly</th>
<th>monthly</th>
<th>seasonally</th>
<th>once a year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>45%</td>
<td>27%</td>
</tr>
<tr>
<td>Dependents</td>
<td></td>
<td></td>
<td>45%</td>
<td></td>
<td>22%</td>
</tr>
<tr>
<td>Subsistence farmers</td>
<td></td>
<td>47%</td>
<td></td>
<td></td>
<td>39%</td>
</tr>
<tr>
<td>Smallholder farmers</td>
<td></td>
<td></td>
<td>48%</td>
<td></td>
<td>23%</td>
</tr>
<tr>
<td>Informally employed</td>
<td></td>
<td></td>
<td></td>
<td>26%</td>
<td>22%</td>
</tr>
<tr>
<td>Formally employed</td>
<td></td>
<td></td>
<td></td>
<td>56%</td>
<td>25%</td>
</tr>
<tr>
<td>MSMEs</td>
<td></td>
<td></td>
<td></td>
<td>43%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Source: FinScope (2016)
### Payments: MFI and bank accounts largely used for saving not payments

| No of adults who use MFI products | Savings account | Agricultural loan | Trade loan | Fixed term deposit | Discount savings | Mobile money | Housing loan | Salary deposit | Consumption loan | Other | Savings plan | Equipment loan | Education loan |
|----------------------------------|-----------------|-------------------|------------|--------------------|------------------|--------------|--------------|---------------|-----------------|-----------------|-------|-------------|----------------|----------------|
|                                  | 141,873         | 72,175            | 56,252     | 30,500             | 29,981           | 29,639       | 27,919       | 25,902         | 24,338           | 23,427          | 23,086 | 22,891      | 14,871         |

<table>
<thead>
<tr>
<th>No of adults who use bank products</th>
<th>To make payments/get money</th>
<th>To keep money safe</th>
<th>To receive salary/wages</th>
<th>Other</th>
<th>To get credit/loan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>26,226</td>
<td>2,970</td>
<td>224,906</td>
<td>186,311</td>
<td>89,016</td>
</tr>
</tbody>
</table>

Source: FinScope (2016)
Payments: Distribution very limited compared to SADC

<table>
<thead>
<tr>
<th>Service</th>
<th>SADC excl SA</th>
<th>Madagascar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active mobile money agents</td>
<td>24.3</td>
<td>76.3</td>
</tr>
<tr>
<td>ATMs</td>
<td>4.7</td>
<td>4.4</td>
</tr>
<tr>
<td>MFI branches</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Commercial banks</td>
<td>2.1</td>
<td>13</td>
</tr>
</tbody>
</table>

Source: FinScope (2016)
**Payments:** Key considerations for national switch in Madagascar— “Fit for purpose” imperative

<table>
<thead>
<tr>
<th>Criteria for national switch</th>
<th>Virtual (off-site) hosted system</th>
<th>Physical (stand-alone) in-country hosting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fits needs</td>
<td>✔ ✔</td>
<td>✔</td>
</tr>
<tr>
<td>Flexibility and interoperability</td>
<td>✔ ✔</td>
<td>✔ ✔</td>
</tr>
<tr>
<td>Affordability – capacity and software</td>
<td>✔ ✔ ✔</td>
<td>✔</td>
</tr>
<tr>
<td>Manages risk</td>
<td>✔ ✔ ✔</td>
<td>✔</td>
</tr>
<tr>
<td>Swift implementation</td>
<td>✔ ✔ ✔</td>
<td>✔</td>
</tr>
<tr>
<td>Trust</td>
<td>✔ ✔</td>
<td>✔</td>
</tr>
<tr>
<td>Global integration and compliance</td>
<td>✔ ✔</td>
<td>✔ ✔</td>
</tr>
</tbody>
</table>
Payments: Opportunities to extend payments

- Critical to find **appropriate model for sustainable digital scale** for interoperability, security and efficiency – a stand-alone national switch model is increasingly becoming redundant

- Improve **efficiency** of cash management and reticulation

- Significant **mobile money** potential, but follows existing cash footprints

- Payments **use cases** to be extended – value chain digitisation role, remittances key for domestic transfers (especially MSME transactions), government payment digitisation potential (but sequencing critical to shifting cost to consumer)

- **MFI and Post Office footprint**, key rural institutions to be leveraged for payments

- Limited opportunity for cross border remittances given relatively few diaspora
2. Savings to improve resilience and build productive capital
Savings: Significant risks experienced; no tools to cope; most use savings or do nothing

- **Nothing**: 40% (Death/loss of income from main income earner), 22% (Death/loss of income from other family member), 73% (Theft), 10% (Drought/poor rainfall/loss of access to water), 19% (Flooding/storms), 19% (Fire/destruction of HH property), 75% (Health)
- **Borrowed money**: 42% (Death/loss of income from main income earner), 21% (Death/loss of income from other family member), 73% (Theft), 19% (Drought/poor rainfall/loss of access to water), 68% (Flooding/storms), 61% (Fire/destruction of HH property), 75% (Health)
- **Used savings**: 10% (Death/loss of income from main income earner), 19% (Death/loss of income from other family member), 73% (Theft), 19% (Drought/poor rainfall/loss of access to water), 19% (Flooding/storms), 10% (Fire/destruction of HH property), 75% (Health)
- **Assistance from family/friends**: 2,660,000 adults
- **Other**: 2,135,000 adults
- **Paid by social security**: 2,047,000 adults
- **Claimed insurance**: 2,796,000 adults

Source: FinScope (2016)
Savings: Trust and return constrains saving

- Most formal products deliver negative real returns
- % who save in assets: 30%
- % who save informally: 80%

Savings: Distribution footprint makes low value frequent deposits difficult

- **Distribution varies significantly**
  - 950+ access points total
  - Range from 4-322 per province
  - Over one third in Tana
- **Payments interoperability limited**
  - Between branches
  - Between institutions
  - Limited MFI-Mobile money partnership
- **Challenging cash reticulation**
  - Cash management expensive

## Savings: CEM and CNAPS largest individual savings institutions; banks main holders of capital

<table>
<thead>
<tr>
<th>Provider</th>
<th>No of savings customers</th>
<th>Interest rate (per year)</th>
<th>Total assets (in MGA)</th>
<th>No of branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFIs</td>
<td>300,000</td>
<td>0% - 10%</td>
<td>401bn</td>
<td>850</td>
</tr>
<tr>
<td>Banks</td>
<td>700,000</td>
<td>0% - 11%</td>
<td>7,010bn</td>
<td>320</td>
</tr>
<tr>
<td>CEM</td>
<td>600,000</td>
<td>2.5%</td>
<td>329bn</td>
<td>25</td>
</tr>
<tr>
<td>PAOMA</td>
<td>400,000</td>
<td>5.25%</td>
<td>351bn</td>
<td>250</td>
</tr>
<tr>
<td>CNAPS</td>
<td>1,600,000**</td>
<td>n/a – guaranteed benefit</td>
<td>600bn</td>
<td>39</td>
</tr>
<tr>
<td>Mobile money</td>
<td>2,000,000*</td>
<td>0%</td>
<td>X</td>
<td>26,800</td>
</tr>
</tbody>
</table>

* Accounts held, not limited to savings  ** Total affiliated members  X Not provided

Savings: Wealthier consumers driving formal capital pool

Source: FinScope (2016)
Savings: Opportunities to extend savings

• **Secure** systemic savings for intermediation and growth
  • Strengthen legal oversight of systemic institutions
  • Protect savings in formal institutions via deposit insurance
• Strengthen bank and mobile **agency** to receive deposits to increase efficiency of existing distribution infrastructure
  • Encourage partnership with mobile providers
  • Support cash reticulation development
• Align **product design** to meet customer needs
  • Easy access key in emergencies
  • Land and housing a key driver of need for longer term savings
• **Strengthen informal groups** to enable local services
  • Build trust to collaborate with **community structures** for trust and education
  • Strengthen role of local structures in financial inclusion
• Leverage **community structures and church groups** for trust and education
Savings: Opportunities to extend savings

- Align **product design** to meet customer needs
  - Easy access key in emergencies
  - Land and housing a key driver of need for longer term savings
- **Strengthen informal groups** to enable local services
  - Build trust to collaborate with **community structures** for trust and education
  - Strengthen role of local structures in financial inclusion
- Leverage **community structures and church groups** for trust and education
3. Targeted credit for economic opportunities
Credit: Big gap in potential productive need for credit, but use low

Reasons for and against borrowing

Innovations for inclusion: Credit-health by MFIs
Product design – MFI and BOA for agriculture

Source: FinScope (2016)
# Credit: Banks and MFIs main credit providers

<table>
<thead>
<tr>
<th>Level of institution</th>
<th>Loan book (billion MGA)</th>
<th>Profitability (RoE)</th>
<th>NPL (30 days)</th>
<th>Farmers and MSMEs served</th>
<th>Interest charged to client (per year)*</th>
<th>Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>4,500</td>
<td>4% - 48%</td>
<td>10.5%</td>
<td>367,000 (37%)</td>
<td>9% - 24%</td>
<td>~320</td>
</tr>
<tr>
<td>MFI 3</td>
<td>383</td>
<td>-7% - 19%</td>
<td>6%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MFI 2</td>
<td>548</td>
<td>-10% - 23%</td>
<td>21%</td>
<td>530,000 (63%)</td>
<td>18% - 48%</td>
<td>~850</td>
</tr>
<tr>
<td>MFI 1</td>
<td>9</td>
<td>1% - 6%</td>
<td>15%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Excludes various fees and other charges. Effective rate much higher.

**Source:** FTHM (2016), provider interviews (2017), CNFI (2016), FinScope (2016)
Credit: Barriers – high cost to operate

High cost to lend

- Limited effective credit information (credit bureau) and use of title deeds or collateral registry
- Legal process and contract enforcement difficult
  - Most supply-side interviews: very difficult to realise collateral or recover debt; bank and MFI personnel targeted by police
  - Guarantee fund interviews: multiples of collateral required for debts, due to difficulty to recover (up to 600%)
  - Limited recovery rate of debt and significant delays (11% and 3 years)
- Cost of cash burdensome, especially in remote locations
- Client shocks affect sustainability; need to strengthen resilience
- Particular problem for MFIs (typical Opex: 80%; profits low: 4%)

**Credit: Barriers – scarce capital not optimally allocated**

**Capital scarcity and allocation**

- Banks are the biggest lenders (MGA 4.5tn loans), but focus on high income & corporates; some excess liquidity
- MFIs lend most to MSMEs, but report a capital gap of MGA 386bn
- MFI capital funded largely by deposits (MGA 220bn/MGA 250bn), with some funding by CNAPS and CEM
- Limited use of donor funding (MGA 10bn), limited loans from a small number of banks, and a refinancing fund (MGA 5bn)
- MFI lending from banks constrained due to:
  - Lack of reliable information on MFI activities
  - Profitability and perceived risk of MFIs; struggle to rival banks’ other options

Credit: Barriers – cost of capital challenging

Cost of capital

- Limited funds available from CNAPS & CEM at 6%-12%
- Bank funds available at 10%-14%
- 0%-7% margin above inflation (6%-7%)
- Limited profitability results in constrained ability to afford such rates

Credit: Opportunities to extend credit

- Build **consumer education and trust**
  - Implement market conduct requirements (disclosure and recourse)
  - Strengthen governance and supervision of MFIs
- Reduce **operating and lending costs** and improve **affordability** of credit
  - Implement an effective credit bureau for **credit information** to reduce risk to lend
  - Facilitate **contract enforcement**
  - Update and enforce **usury law**
  - Improve implementation of **title deed registry** and access
  - Digital payments for **economies of scale**
Credit: Opportunities to extend credit

- Facilitate **access to affordable capital** for growth MFIs
  - Improve **quality of MFI information** to access bank and financial provider finance
  - Extend MFI **refinancing fund**
  - Support bank-MFI **partnerships**
- Improve **information on MSMEs** and farmer entrepreneurs to identify market opportunity
- Improve MFI resilience through **wholesale MFI insurance** against losses from climate shocks
- Support CNFI to collect and report on appropriate market **data**
Credit: Opportunities differ across types of MFIs

<table>
<thead>
<tr>
<th>Description</th>
<th>Niche MFIs</th>
<th>Retail MFIs</th>
<th>Donor-funded MFIs</th>
<th>Fragile MFIs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Targets agriculture &amp; MSMEs</td>
<td>• Focuses on large-scale deposit collection and lending</td>
<td>• Donor-driven, impact-oriented</td>
<td>• Insufficient capital and low profitability</td>
</tr>
<tr>
<td>Opportunities</td>
<td>• MIS systems tailored to target market</td>
<td>• Facilitate access to affordable capital e.g. refinancing</td>
<td>• Facilitate peer learning to inform Retail &amp; Niche operators</td>
<td>• Protect deposits</td>
</tr>
<tr>
<td></td>
<td>• Facilitate cash management</td>
<td>• MIS systems and digitisation to enable efficiency at scale</td>
<td>• Potential feeder to graduate to bigger loans</td>
<td>• Manage failures to retain trust</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Improve disclosure and governance to access bank loans</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4. Insurance not a financial inclusion priority, but opportunities to extend cover remain
Insurance: Exposure to significant risks; no tools to cope

- **Death/loss of income from main income earner**: 68% of adults used risk mechanism to respond to risk in the last 12 months.
- **Death/loss of income from other family member**: 61% of adults used risk mechanism to respond to risk in the last 12 months.
- **Theft**: 75% of adults used risk mechanism to respond to risk in the last 12 months.
- **Drought/poor rainfall/loss of access to water**: 75% of adults used risk mechanism to respond to risk in the last 12 months.
- **Flooding/storms**: 75% of adults used risk mechanism to respond to risk in the last 12 months.
- **Fire/destruction of HH property**: 75% of adults used risk mechanism to respond to risk in the last 12 months.
- **Health**: 75% of adults used risk mechanism to respond to risk in the last 12 months.

Source: FinScope (2016)
**Insurance**: Only 200k adults have insurance, 130k have pensions; motor vehicle and health most owned products

% of adults who have ... insurance

- **Pension fund**: 26%
- **Motor vehicle**: 19%
- **Health/medical**: 16%
- **Life insurance**: 11%
- **Fire/natural disaster**: 7%
- **Accident/travel insurance**: 7%
- **Property damage**: 5%
- **Other**: 4%
- **Microinsurance**: 3%
- **General liability**: 1%

Source: FinScope (2016)

- 5 Insurers, largest state owned
- No commercial agricultural insurance offered
- Health cover provided through employer schemes, CNAPS, insurance companies and health mutuals
- National pension scheme offers compulsory pensions to all employed
Insurance: Limited awareness, income, trust key constraints to consumers

62% of people have never heard of insurance
Only 28% of people think insurers can be trusted

"Because the insurance companies will always find reasons not to cover you. That's why people do not trust them."
Male, urban, formally employed

"I was the victim of an accident once, but the insurance company found pretexts and arguments not to refund me - I got absolutely nothing."
Male, urban, small business owner

Source: FinScope (2016), qualitative interviews (2016)
Insurance: Provider constraints to address for development

- No **framework to enable insurance** through MFIs, MNOs (m-insurance)
- **Agent models** limited to employees of insurers
- Limited actuarial **skills** and **MIS**
- Benefits of **digital contracting** not realised
- **Tax burden** on life products make them unaffordable
- **Product innovation** need beyond retail; innovations to enable insurance to value and supply chain actors to survive shocks faced by their clients to enable future service (e.g. insuring MFIs to allow payment holidays during climate shocks)
5. Strengthen financial inclusion policies, regulation and institutions
Regulation: Context and challenges for financial inclusion

• Constrained legal system with insufficient resources – 659 advocates, 460 in Antananarivo
• Trust in formal justice challenging
• Document access for inclusion is challenging – Identity and title deeds
• Most rely on community legal system (Dina)
• Challenging relationship between judiciary and FSPs
• Well drafted legislation – flexible and principles-based but;
• Practice does not reflect legislation and regulation in some cases
## Regulation: Opportunities to enable for inclusion

### Extend access

- Implement **electronic money regulation**
- Improve **access to identity documents** and deeds
- Implement **FATF guidelines (2012)** in inclusive manner
- Embed, operationalize and validate **credit information sharing**
- Develop a **framework for bank agency**
- **Strengthen Financial Inclusion mandate**
  - Financial inclusion policy required
  - CNFI mandate strengthened to coordinate and monitor
  - Appropriate financial inclusion data to be collected
  - CSBF mandate to include support for financial inclusion
## Regulation: Opportunities to enable for inclusion

<table>
<thead>
<tr>
<th>Build trust &amp; ensure stability</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Implement <strong>market conduct</strong> requirements for recourse and transparency</td>
</tr>
<tr>
<td>• Improve <strong>judicial system quality</strong> for contract enforcement</td>
</tr>
<tr>
<td>• Create <strong>specialized financial services ombud</strong> following international standards for broader financial services matters</td>
</tr>
<tr>
<td>• Strengthen <strong>prudential requirements for systemic savings institutions</strong></td>
</tr>
<tr>
<td>• Comprehensively protect <strong>trust account</strong> of mobile money institutions – priority creditor</td>
</tr>
<tr>
<td>• Strengthen <strong>MFI reporting and auditing requirements</strong></td>
</tr>
<tr>
<td>• Investigate <strong>deposit insurance</strong> to build trust</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Enable informality</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Normalize informal legal mechanisms in appropriate jurisdiction for <strong>informal savings groups</strong></td>
</tr>
<tr>
<td>• Create appropriate legal space for small scale savings groups from credit establishment requirements</td>
</tr>
</tbody>
</table>
Priorities and actions
Opportunities to address gaps: Resilience and growth

Responsibility entities → Needs → Gap (% of total adults) → Description → Opportunity
Opportunities to address gaps: Resilience

- **Individuals**
  - Payments to receive family and community and donor support when shock hits: 8.7m adults (79%)
  - Do not use formal payment mechanisms

- **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

- **Government**
  - Will need 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

Payment eco-systems and trust, partnership and agency for footprint

Trust, informal savings groups

Outside scope of Financial Inclusion policy
Opportunities to address gaps: Growth

<table>
<thead>
<tr>
<th>Wealthier individuals</th>
<th>Savings to be mobilised for investment capital</th>
<th>501,000 adults (5%)</th>
<th>Are not formally saving despite being formally employed or earning more than 5 USD/day</th>
<th>Trust, secure formal long-term savings, payment system, education</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSMEs and farmers who sell</td>
<td>Savings to be mobilised for business</td>
<td>1.8 million adults (16%)</td>
<td>Who sell and earn at least 1 USD/day do not save</td>
<td>Above, targeted products</td>
</tr>
<tr>
<td>MSMEs and farmers who sell</td>
<td>Formal credit to be allocated to productive opportunities</td>
<td>1.1 million adults (10%)</td>
<td>Who sell and earn at least 2 USD/day have never had formal credit</td>
<td>Credit eco-system and trust</td>
</tr>
<tr>
<td>MSMEs and farmers who sell</td>
<td>Payments to facilitate trade and value chains</td>
<td>795,000 adults (7%)</td>
<td>Who sell and earn at least 1 USD/day do not use formal payment mechanisms</td>
<td>Payment eco-systems and trust, partnership and agency for footprint</td>
</tr>
</tbody>
</table>
Opportunities to address gaps: Payments

- Payment eco-system development to improve efficiency (infrastructure, cash management)
- Digitise key value chains and government payments to extend use cases
- Extend distribution – Bank agency; leverage Post Office and MFI footprint
- Mobile money liquidity management to extend distribution
Opportunities to address gaps: Savings

- Secure systemic savings – regulation and supervision
- Appropriate product design aligned with market needs
- Enable informal savings groups – regulation and capacity building
- Improve collection of deposits through payment system development above
- Build trust and education through community and church groups
Opportunities to address gaps: Credit

- Enable credit to targeted entrepreneurs
- Payments for resilience and trade
- Savings for resilience and capital
- Strengthen financial inclusion policy, regulation and institutions

- Improve contract enforcement and credit information in financial sector to increase trust
- Address constraints to reduce operating and lending costs and improve affordability of credit
- Facilitate access to affordable capital for growth MFIs
- Enable MFIs to lend to growth businesses – MIS, quality of financial information, capacity building
- Strengthen information on MSMEs and farmers to identify market opportunity
- Improve MFI resilience through wholesale insurance
Opportunities to address gaps: financial inclusion policy, regulation

- Address regulatory barriers
- Implement targeted market conduct regulation
- Strengthen financial sector relevant judicial environment
- Develop and implement financial inclusion policy
- Design and monitor financial inclusion data to improve implementation
- Strengthen CNFI to coordinate, enable and monitor financial inclusion interventions
- Consumer education strategy needed
MAP is a comprehensive market assessment of retail financial services. The purpose of MAP is to assist the Government to identify key priorities and opportunities to extend access to financial services.

The MAP framework has been developed in partnership between Cenfri, FinMark Trust and the UNCDF and is intended to become a public good that can advance the global financial inclusion agenda.

Thank You!

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Annexure: Additional supporting data
Very vulnerable society with over 4.3 million experiencing annual agricultural shocks

Of those adults involved in farming, the % who experienced a shock in the past 12 months

<table>
<thead>
<tr>
<th>Crop Type</th>
<th>Adults Affected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice</td>
<td>6,839,987 adults</td>
</tr>
<tr>
<td>Manioc/Cassava</td>
<td>4,867,704 adults</td>
</tr>
<tr>
<td>Corn</td>
<td>5,637,698 adults</td>
</tr>
<tr>
<td>Poultry</td>
<td>4,716,695 adults</td>
</tr>
<tr>
<td>Beans/peanuts</td>
<td>4,229,781 adults</td>
</tr>
<tr>
<td>Cattle</td>
<td>3,175,769 adults</td>
</tr>
<tr>
<td>Tubers/root crops</td>
<td>2,382,202 adults</td>
</tr>
<tr>
<td>Fruits</td>
<td>2,031,852 adults</td>
</tr>
<tr>
<td>Swine/pigs</td>
<td>1,724,682 adults</td>
</tr>
<tr>
<td>Vegetables</td>
<td>1,921,195 adults</td>
</tr>
<tr>
<td>Sugar cane</td>
<td>1,349,174 adults</td>
</tr>
<tr>
<td>Beverage crops</td>
<td>885,454 adults</td>
</tr>
<tr>
<td>Vanilla</td>
<td>495,789 adults</td>
</tr>
</tbody>
</table>

Source: FinScope (2016)
Product access strand – savings most used, very limited formal access

- **Credit**: 70% Banked, 20% Formal, 3% Informal, 5% Assets, 3% Family/friends, 2% Excluded
- **Savings**: 42% Banked, 17% Formal, 3% Informal, 25% Assets, 5% Family/friends, 7% Excluded
- **Insurance**: 95% Banked, 3% Formal, 3% Informal, 2% Assets, 2% Family/friends, 3% Excluded
- **Transactions**: 77% Banked, 13% Formal, 10% Informal, 2% Assets, 2% Family/friends, 1% Excluded
- **Remittances**: 71% Banked, 15% Formal, 10% Informal, 2% Assets, 2% Family/friends, 2% Excluded

*Split for individuals who have any type of product within the specified category*

Source: FinScope (2016)
Who provides what to whom

* Includes CEM and MTOs (work through the banks)

---

**Assets**

- **MGA 115k**: 1,000,000
- **MGA 122k**: 2,000,000
- **MGA 128k**: N/A

**Family/ friends**

- **MGA 115k**: N/A
- **MGA 122k**: 600k
- **MGA 128k**: N/A

**Informal**

- **MGA 250k**: 25
- **MGA 259k**: 3
- **MGA 274k**: 5
- **MGA 315k**: 11

**Sources:** BCM (2016), CNFI (2017), FinScope (2016)
Providers innovating to meet customer needs

Mobile money interoperability
Allowing freer flow of funds in the economy for resilience

Credit-Health by MFIs
Tying health and repayment together

Product design - MFI & BOA for agriculture
Crop maturity determines repayment (not the reverse)
Payments: High dormancy in accounts; 80% only use once a month or less

Source: Findex (2014)
Payments: Limited use, most transaction types used monthly or less

- Cash a cheque: 60% (Daily), 37% (Weekly), 5% (Monthly), 2% (Less often)
- Deposit cash: 54% (Daily), 35% (Weekly), 5% (Monthly), 6% (Less often)
- Deposit a cheque: 80% (Daily), 36% (Weekly), 15% (Monthly), 4% (Less often)
- Cash withdrawal from bank account: 53% (Daily), 36% (Weekly), 4% (Monthly), 7% (Less often)
- Paid people/bills: 29% (Daily), 28% (Weekly), 10% (Monthly), 3% (Less often)
- Used cash point/ATM: 71% (Daily), 58% (Weekly), 13% (Monthly), 4% (Less often)
- Transfers between your bank accounts: 65% (Daily), 34% (Weekly), 11% (Monthly), 3% (Less often)
- Transfers to other bank accounts: 76% (Daily), 13% (Weekly), 11% (Monthly), 3% (Less often)
- Got paid by someone into bank account: 54% (Daily), 43% (Weekly), 15% (Monthly), 18% (Less often)
- Internet/online banking transactions: 73% (Daily), 72% (Weekly), 15% (Monthly), 5% (Less often)
- Mobile money transactions: 77% (Daily), 76% (Weekly), 13% (Monthly), 15% (Less often)

Source: FinScope (2016)
<table>
<thead>
<tr>
<th>Criteria for National switch (based on analysis of constraints and opportunities in payments) + WB Aide Memoire</th>
<th>Virtual (Off-site) hosting linked via Bankserve or Siress</th>
<th>Physical (standalone) in-country hosting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Able to raise and stimulate currently limited use case, infrastructure-light, less connectivity reliant, reduces costs of card and associated product use, and can be gradually enhanced</td>
<td>YES. Relatively low costs and speed of running system will positively impact on consumer trust and uptake</td>
<td>NO. Could worsen current adverse Financial inclusion environment because of high costs (upfront and running costs) that will be passed on to consumers, likely debt financing, inadequate local capacity</td>
</tr>
<tr>
<td>Functionality; Facilitates payment convergence and interoperability—both multiple instrument and multiple channel; e.g. can process different types of payments; POS, ATM, mobile, cards vs non-card including vouchers, low value EFT (debit and credit)</td>
<td>YES. Can be efficient even at current low volume</td>
<td>YES. But needs high volumes to be efficient and this may only be possible in the long term. Overall will offer low value to consumers and payment system users.</td>
</tr>
<tr>
<td>Cost effectiveness (procure, deploy, use and maintain) hereby fostering consumer trust and confidence. This is a key financial inclusion imperative because consumer affordability and use of affordable payment products critical</td>
<td>YES. Approx. US$1000/month to deploy, and use plus US$0.17 cents per transaction. (Zimbabwe, DRC have similar low cost system)</td>
<td>NO. Approx US$10 million to US$25 million. Anticipated economies of scale and cost reduction may not be realized due to high front-end and back-end costs as well as adverse initial conditions that are likely to persist (limited use case, high costs)</td>
</tr>
<tr>
<td>Easy disaster recovery due to ability to switch mirror</td>
<td>YES. Mirroring affordable for disaster recovery</td>
<td>NO. Switch mirroring too expensive given initial cost outlay and high running expenses</td>
</tr>
<tr>
<td>Fosters consumer trust and results in affordable financial products, channels and instruments</td>
<td>YES. The above costs are quite low and affordable and provide best chance to stimulate payment system</td>
<td>NO. High cost outlays (as in above) will be passed on to consumers. Alternatively banks will cross subsidize with other products and hence limit inclusive products range</td>
</tr>
<tr>
<td>Criteria for National switch (based on analysis of constraints and opportunities in payments)</td>
<td>Virtual (Off-site hosting)</td>
<td>Physical in-country hosting</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Very brief testing and implementation phase to ensure costs don’t end up being borne by consumer</td>
<td>YES. Very short testing period</td>
<td>NO. Requires elaborate testing and retesting to configure with Madagascar conditions. This increases costs in a capacity constrained environment</td>
</tr>
<tr>
<td>Technologically interoperable—with future technologies including biometrics (since ID and KYC is a key issue limiting inclusion)</td>
<td>YES. Its ISO 20022 compliant and interoperable with other technologies. Can be modularized (at minimum costs) and take on additional modules and respond to technological developments</td>
<td>YES. Can be modularized but at high costs. High configuration requirements may make it redundant or difficult to integrate and adapt new technologies in future.</td>
</tr>
<tr>
<td>Can seamlessly integrate with mobile (given Madagascar mobile potential) to enhance reach and financial inclusion.</td>
<td>YES. Can do that at low cost</td>
<td>YES. Can do that but at high cost</td>
</tr>
<tr>
<td>Switch and Clearing house (PCH) rules and standards to be ISO20022 compliant—covering ID slot, interoperability, etc.</td>
<td>YES. It is ISO 20022 compliant. But Clearing house rules need to in place irrespective of which national switch eventually gets adopted</td>
<td>YES. It could be ISO 20022 compliant. But Clearing house rules need to in place irrespective of which national switch eventually gets adopted</td>
</tr>
<tr>
<td>Balance affordability and developmental needs</td>
<td>Yes. Because its fit for purpose and can grow with the changing consumer and FSPs needs</td>
<td>NO. May result in high costs and exclusion as well as high debt if debt financed</td>
</tr>
</tbody>
</table>
Savings: Real return on bank, MFI and mobile accounts low or negative

<table>
<thead>
<tr>
<th></th>
<th>Banks and CEM</th>
<th>MFI banks</th>
<th>MFIs</th>
<th>Mobile money</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MGA 15k pm</td>
<td>MGA 30k pm</td>
<td>MGA 15k pm</td>
<td>MGA 30k pm</td>
</tr>
<tr>
<td><strong>Base deposit over a year</strong></td>
<td>181k</td>
<td>363k</td>
<td>181k</td>
<td>363k</td>
</tr>
<tr>
<td><strong>Annual interest</strong></td>
<td>7.5k</td>
<td>15k</td>
<td>15k</td>
<td>30k</td>
</tr>
<tr>
<td><strong>Nominal value of savings</strong></td>
<td>181k</td>
<td>363k</td>
<td>181k</td>
<td>363k</td>
</tr>
<tr>
<td><strong>Real value of savings</strong></td>
<td>175k</td>
<td>353k</td>
<td>184k</td>
<td>366k</td>
</tr>
</tbody>
</table>

| % change between nominal and real savings value | -5%      | -2.5%    | 2%      | 0.5%    | 0%      | -1%      | -6%      | -6%      |

Sources: FTHM (2016), provider interviews (2017)
Credit: MFIs serve higher number of poor MSMEs and farmer entrepreneurs

No of adults getting MFI and bank loans

Source: FinScope (2016)