

E-float money management for Orange agents in Madagascar

1. DEVELOPMENT RELEVANCE

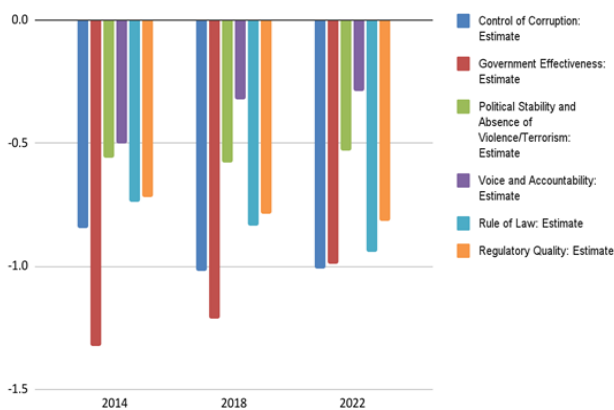
Economic and poverty context

For decades the development of Madagascar was affected by extreme poverty, the climate crisis and destruction through natural disasters. Additionally, political instability (although the situation has been more stable in the past few years), spillover effects such as high inflation caused by the war in Ukraine and rapid population growth keep Madagascar one of the poorest countries in the world. There are only four countries with a lower GDP per capita.

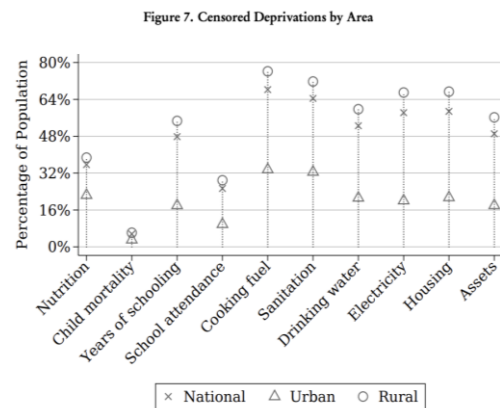
However, economic growth is projected to increase while the inflation rate should decrease by 2024. Tourism has picked up again - a vital sector for the country. The presidential election is planned to be held on November 9th, 2023, with possible repercussions for the short- and long-term stability of the political order in the country. However, demonstrations and public unrest have been observed only locally and have not had any substantial effect on the country by mid-October.

Table 1: Population and economic indicators	
Population in million (2022)	29.6
GDP growth (2022)	3.8%
Inflation (2022)	8.2%
Trade balance (% of GDP) (2022)	-9.1%
Foreign direct investment (net) (% of GDP) (2022)	2.6%
Net ODA received (% of GNI) (2021)	7.4%
Remittances received (% of GDP) (2022)	2.9%
Economic Freedom Index ² (Rank among 186 countries) (2023)	91
Poverty indicators	
GDP per capita (USD) (2022)	505
Gini Index (0= equality 100= inequality) (2012)	42.6
International poverty rate (2012; at 2.15 USD/day)	80.7%
National poverty rate (2012)	70.7%
National rural poverty headcount rate (year)	n.a.
Economic Freedom Index ³ (Rank among 186 countries) (2023)	91

Governance indicators chart⁴ (2023)



Multidimensional poverty index chart⁵ (2023)



Financial sector context

Madagascar’s “National Strategy for Financial Inclusion” for 2018-22 notes that the level of financial inclusion in the country remains relatively low and unevenly distributed across the country. Low literacy levels and low usage of formal financial services, combined with severe infrastructural constraints and an underdeveloped payments ecosystem, make it difficult for formal financial service providers to reach most consumers. Hence, the Government of Madagascar’s (GOM) vision for financial inclusion is to improve access to financial services

¹ The World Bank Group (2023). World Development Indicators database. Washington, DC. <http://data.worldbank.org>. Accessed (18.10.2023)

² Heritage Foundation, (2023) Index of Economic Freedom, <http://www.heritage.org/index/ranking> Accessed (18.10.2023)

³ Heritage Foundation, (2023) Index of Economic Freedom, <http://www.heritage.org/index/ranking> Accessed (18.10.2023)

⁴ The World Bank Group (2023). Worldwide Governance Indicators database. Washington, DC. <http://databank.worldbank.org>. Accessed (18.10.2023)

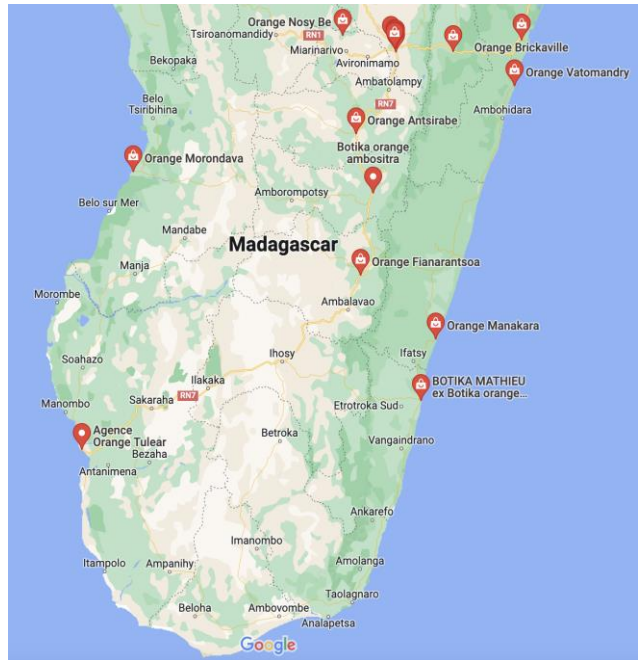
⁵ Oxford Poverty and Human Development Initiative (OPHI) (2023). Global MPI Country Briefing 2023: Madagascar (Sub-Saharan Africa) <https://ophi.org.uk/multidimensional-poverty-index/multi-country-briefings> Accessed (18.10.2023)

for the population by increasing the number of adults with access to formal financial services from 29% in 2016 to 45% in 2022. Recently, several innovative digital products and services have been launched by banks (e.g. BNI launched KRED, a digital microcredit product), MFIs and Fintech's such as Flow Madagascar. While new products enter the market a new law regulating FinTech companies has still not been implemented.

Financial Sector Partner/s

Flow: Flow is a mobile money distributor servicing +2000 mobile money agents in central and south-east Madagascar. It uses modern technology to assure seamless cash in/out transactions for agents who serve mobile money retail clients. Flow Madagascar has partnership contracts with all three MMO. The company has been active since 2020 and employs 28 staff in 4 locations. Its mission is to help small businesses such as mobile money agents grow in the digital age.

Orange Madagascar: Orange is the second biggest telecommunication operator in terms of market share in Madagascar. Orange's mission is to ensure that digital technology is designed, made available and used in a more human, inclusive and sustainable way. The company offers a range of services including mobile money advances for retail customers and a mobile money savings account with interest rates. Its mobile money services include merchant, utilities and bill payments. The Orange group is a stock listed network operator and digital service provider in 26 countries with 253 million customers. In Madagascar, Orange's mobile money agent (MMA) network encompasses 20,000 agents in the whole island hence contributing to financial inclusion and providing financial services for the whole population. Orange also heavily invests in network coverage, especially in the South-east of Madagascar. The MMO is also able to add an average of 400 new MMA to its network per month. Flow signed a distribution contract with Orange in January 2022 which enables Flow to provide e-money services for Orange money agents in up to three zones in the South-east of Madagascar which is amongst the poorest in Madagascar and exposed to the catastrophic effects of cyclones. Hence reliable financial transactions are paramount for any economic and social development.



Orange shops in the project region – south-east of Madagascar

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Based on the successful partnership with Orange and its proven value proposition, Flow expanded its services to +1900 agents by signing distribution agreements with Airtel Money Madagascar and crucially with Telma. Telma is the market leader in Madagascar with up to 30,000 MMA. This means Flow Madagascar offers mobile money services for every operator - a key value proposition for its clients.

2. INTERVENTION APPROACH

Key objectives:

The SCBF intervention aimed at validating the distribution business model of Flow in Madagascar. Compared to other markets (Uganda and Rwanda) where Flow operates in partnership with aggregators, Flow Madagascar developed its own network of MMA. As the Madagascar market is not as mature as in East Africa, a functioning mobile money distribution is key for a possible lending product, which is already offered in other markets). Through our market research we found that agents in Madagascar lack reliable mobile money exchange services. Distributors are often unreliable and may charge illegal fees and sometimes refuse access to e-money altogether.

Based on this contextual background, the SCBF intervention with Flow Madagascar intended to:

- remove ruptures in e-float distribution for Orange Money agents in South-east Madagascar to serve their customers and communities to increase financial inclusion and economic development
- remove illegal fees, long distance travel and long closing times for MMAs to boost their income and increase Mobile Money services usage.

- It has been proven that mobile money can help reduce poverty levels by providing access to reliable and affordable financial transactions especially for people in the agriculture dominated regions such as the South-east of Madagascar. Before the harvest season, farmers need to buy farm inputs, as bank accounts are expensive to manage and bank branches are rare, the best option for the farmer to make payments is mobile money and the same is also true while selling the produce. For farmers to use mobile money services they need functioning and fair (without illegal fees) access to MMAs and that is what Flow Madagascar ensures by servicing these agents with reliable cash in/e-money out and cash out/e-money in services. This is especially true for hard-to-reach areas where Flow is active. For economic development, it is crucial to financially include these farmers of the South-eastern part of Madagascar (where 92% of the population depend on agricultural activities).

Main target outputs and outcomes

Mobile money is the key distribution channel for formal financial services in Madagascar. There are more mobile money users / account holders than bank and MFI accounts combined. Those users/retail customers depend on a functioning distribution network for MMAs and financially educated MMAs to serve them anytime and anywhere. Flow Madagascar’s mission as a mobile money distributor is to deliver transparent and convenient e-money distribution services for MMAs of all three mobile money operators (MMO). The partnership model is the following:

Flow purchases e-money from MMOs and distributes it together with cash to MMAs, who use both to serve the end customers. For this service Flow and the MMAs in its network earn a commission paid for by the end customer. The main targets for the project period of November 2022 - November 2023 were:

Flow - Register 1,248 MMAs in its network of whom 1,040 should be active and of at least 780 should be women
MMAs in Flow’s network - Serve 234,000 retail clients, increase MMA’s commission and activity by 20%
MMA in Flow’s network - Increase monthly transaction volumes by 30% and for Flow to transact a minimum of USD 4,100,000 per month

The above targets were to be reached with a SCBF contribution of CHF 149,000 with Flow Global matching those funds. During the project Flow has launched its own distribution application (unique in Madagascar) to increase accountability and transparency for each transaction and has trained 1,140 agents and 35 staff in basic financial literacy.

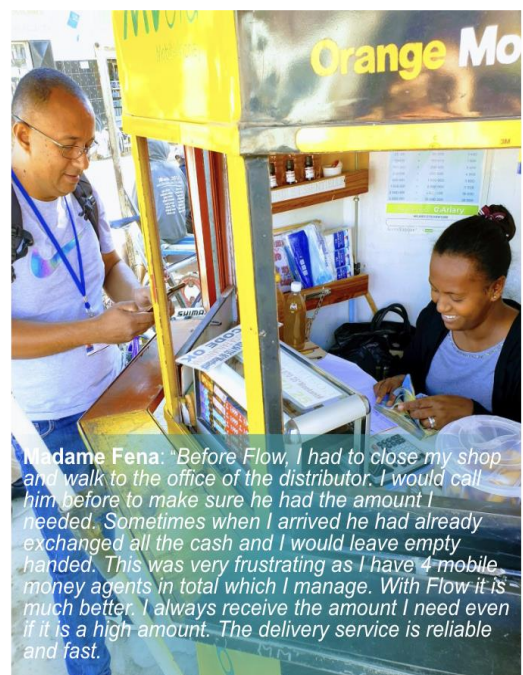
3. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

With the SCBF intervention, Flow Madagascar was able to set up distribution services in two new locations where there were no distribution services before (Fianarantsoa Nord and Ambohimahasoa), consolidated and expanded services in other three locations (Fianarantsoa centre, Farafangana and Vangaindrano), thus, creating an avenue for serving the financially excluded or underserved communities.

The immediate effects for the MMA and their clients were three-fold: **1)** Mobile Money agents cut costs and time to exchange e-money/cash at distribution centres which were located far away (Ambohimahasoa 50km = 6h return trip with public transport + USD 4.00 transport/subsistence costs); **2)** With reliable access to e-money and cash for agents guaranteed, retail customers were able to send and receive money reliably, cutting costs of transport and time; **3)** Flow doesn’t charge illegal fees, which in turn are not being passed on to retail customers. This not only increases MMA activity but also the trust and credibility for mobile money services.

However, it should be noted that the practice of charging illegal fees within the Flow network still exists on occasions. Flow



Madame Fena: "Before Flow, I had to close my shop and walk to the office of the distributor. I would call him before to make sure he had the amount I needed. Sometimes when I arrived he had already exchanged all the cash and I would leave empty handed. This was very frustrating as I have 4 mobile money agents in total which I manage. With Flow it is much better. I always receive the amount I need even if it is a high amount. The delivery service is reliable and fast."

actively informs both retail clients and MMAs about negative consequences of any additional fees being charged and encourages to speak out against it. Together with MMO staff we follow up on any irregularities. On the south-east coast of Madagascar, Flow has been an active partner of Orange since 2021. Over the project duration, Flow was able to build a strong network of agents from 91 in November 2022 to more than 2,300 in October 2023. Distribution agreement sign-off with Telma has been instrumental in this as it is the most used operator in Madagascar. Flow was able to reach far-off or remote areas along the coast and in-land in and around the agricultural hub of Vangaindrano. This meant that smallholder farmers in the vanilla, cinnamon, cloves and pepper sectors, were able to rely on mobile money services to sell their products and buy inputs for the first time ever. Flow organised a weekly route to MMAs in remote places ensuring liquidity and airtime.



One of the retail customers (a farmer) in Vangaindrano told us:

"Now it is harvest season. Cloves had a very good harvest. It will last from September to December. The collector comes and pays in cash. I come to Mama Josin (MMA within Flow network) to get MVola (Telma Mobile Money service) and send it to buy farm inputs from the capital city. Earlier, it was not possible. It was high risk to keep cash. Now it is possible to change it to e-money."

Not all demands for liquidity provision can be met by the Flow staff. We estimate that more than 95% of requests for either cash or e-money can be met immediately or until the end of business the same day while the rest - usually very high amounts or requests from remote areas - is managed within 24 hours.

Financial Sector Partner/s level

As explained in section 2, Flow achieved the overall objective of proving its business model of offering reliable mobile money distribution services to MMAs. This is shown by the additional long-term distribution contracts signed with Airtel and Telma (along with the existing contracts with Orange). Importantly, the success in Madagascar serves as a model for market entries into

other sub-Saharan African countries. As Flow Madagascar is ready to scale up its product to the whole island, talks are ongoing with private (impact) and other institutional investors. The company believes that its value proposition could attract private capital.

KPI (project target)	Result
Number of registered customers for Orange, Telma and Airtel overall (1248)	2,343
Number of active customers with at least one money transaction in the last 30 days (1040)	1,897
Number of active women agents (780)	1,251
% of active women agents	73%
Number of retail clients served (234,000)	367,250
Percentage of active customers in distribution zones (80%)	81%
Percentage increase in mobile money agents' commission as compared to initial data (20%)	22.5%
Number of Flow distribution transactions per month	6,176
Average value per transaction in USD	332,00
Monthly e-money transaction volume in USD (4,100,000)	4,227,503
% increase in e-money transaction volume compared to initial data (pre SCBF)	1179.54%

Another result manifested itself in the growth of our network, when the SCBF intervention started, Flow had registered 91 Orange agents with activity level of 70%. This was already 10% higher than the objective set by Orange. Now, activity rates for MMA s(min. one transaction in the last 30 days) are at 81%. In March, Flow was awarded a mobile money award by Orange and our numbers are increasing each month. Furthermore, distribution contracts were signed with Airtel Money and MVola distributors for Telma which makes Flow Madagascar now the biggest mobile money distributor in terms of agents registered in Madagascar (+2,300). Our transparent and non-discriminatory service benefits each FSP by removing obstacles in MMA activity and raising confidence in the mobile money ecosystem. Flow actively signs up new MMAs for each MMO which

contributes to their reach. In addition, Flow was able to serve new areas where mobile money services were unreliable which increases usage of these services for each MMO.

Additionally, a new partnership model has been developed during the project period. In August 2023, Flow Madagascar signed an MoU with Orange Madagascar to develop and test a unique and innovative digital credit product for MMAs. From November 2023, agents in the south-east of Madagascar will be able to apply for mobile money advances. This pilot involves a local MFI and is projected to be scaled up to the whole island by mid-2024, underlining the vision for a long-term partnership between Flow and Orange Madagascar. Flow has always seen a credit product for agents as an important step to lift the mobile money ecosystem to the next level and to meet their ever-growing demand. The lending product will be available from 4th December and will be fully implemented by Flow Madagascar.

4. LESSONS LEARNT

The mobile money sector in Madagascar is dynamic and benefits from the competition of the three operators. Within this context service providers such as Flow Madagascar found an opportunity to enter the market and improve an informal distribution setup. However, dealing with three different operators and distribution rules and regulations, challenging infrastructure in terms of hard-to-reach areas and heterogeneous MMAs makes it hard to plan ahead. So what have we learnt in the past 11 months?

- **To plan ahead is challenging:** MMO assign zones to their distributors depending on their need or availability. It is always possible to enter zones where no distribution is in place (possible at higher costs and lower profitability). Profitable zones with existing distributors are harder to enter. As planning in advance is difficult, Flow focuses more on developing those zones where it is already active.
- **Building a strong and active network of agents is challenging and takes time:** Flow was very successful in the past 11 months to register agents into our network as our services are appealing and the company has a good reputation. However, for agents to really use the Flow services fully and build trust takes time as they need to change their behaviour. A strong and active agent network is worth more than a large and inactive one. Therefore, if we were to plan the intervention again we would put more focus on the quality of a network which is reliable for its customers and achieves more quantitatively than a larger but less reliable one. In this respect SCBF's focus on financial literacy for agents paid off dividends as not only trust is being enhanced but also the quality of mobile money services for retail clients.
- SCBF's intervention enabled Flow to support hard-to-reach areas and zones that were underserved. These zones are financially less profitable, challenging for the cashflow management (with local bank partners) and demand higher investment costs, hence distributors avoid those areas.
- **Multiple partnerships are a necessity:** SCBF's intervention started with Orange Money agents. After the project started Flow was able to attain its objectives by adding partnerships with Airtel and Telma. Relying on only one partner is highly risky as it limits market access and profitability.
- **Diversification is key:** Thanks to SCBF's support of Flow, the company was able to expand its operations to new zones and build the biggest agent network in Madagascar. Consequently, Flow struck a deal with Orange Money and a local bank to not only offer a much sought after credit product for agents, but also to create an additional revenue stream for Flow.

Overall, all objectives have been achieved ahead of time as good relationships between Flow, the mobile network operators and the MMAs proved to open doors to new areas in zones where Flow was already active. One objective has not been achieved. To set up a HQ and distribution network in the capital city Antananarivo. These have been the main reasons for the same: 1) During the time of the planned move, demand for cash/e-float in the existing zones was so high that a new zone would have compromised the service for our existing customers. 2) The upcoming elections have caused some disruptions in the capital city which we deemed serious enough to postpone our expansion until after the votes have been cast at the end of December 2023.

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