COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN MADAGASCAR

For Inclusive Growth

Executive Summary

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EXECUTIVE SUMMARY

Before the COVID-19 pandemic, Madagascar was on an upward growth trajectory and embarking on a reform plan to strengthen competitiveness and secure faster poverty reduction. Over the past five years, political stability translated into much-needed macroeconomic stability and accelerated growth in a country with a high level of extreme poverty. The country's development vision as announced in the Plan Emergence Madagascar (PEM) for 2019–23 is economically, environmentally, and socially sustainable development with good governance. The PEM pays particular attention to promoting the private sector and entrepreneurship at all levels and to improving competitiveness in global value chains.

This economic revival is threatened by the COVID-19 pandemic, with adverse economic, social, and fiscal impacts expected to result in the first recession in a decade. Gross domestic product (GDP) is projected to contract by 4.2 percent in 2020 (baseline), compared with a 5.2 percent growth pre-COVID-19 estimate. Impacts on the informal sector are expected to be even more severe because of limited access to finance. This outcome would undo three years of consecutive improvement in extreme poverty, with an increase in 2020 to 79.7 percent (from 76.5 percent in 2019; estimates as of February 26, 2021).

The government of Madagascar has prepared an emergency response to the crisis—le Plan Multisectoriel d'Urgence (PMDU)—and it is also adjusting the PEM to focus on areas that can spur the economic recovery. The World Bank Group (WBG)[1], International Monetary Fund,[2] United Nations agencies, and other international finance institutions[3] are supporting the government of Madagascar in the crisis response to save lives and protect vulnerable populations, safeguard jobs, reduce immediate financing pressures on companies, and ensure sustainable business growth for the recovery. The support takes into consideration weaknesses in capacity and governance.

The government has put in place measures to support the private sector and safeguard jobs, mainly framed in the PMDU (Pillar 3). Measures include tax relief (in the form of tax deferrals) and financial measures that have already provided important relief to many businesses around the country. Other measures in the PMDU include support to improve small and medium enterprises' (SMEs) access to finance, including the provision of credit lines to banks and microfinance institutions (MFIs) at concessional rates, expansion of credit guarantee programs, and grants to support SMEs in sectors most affected by the pandemic.

Thus, this Country Private Sector Diagnostic (CPSD) is timely, as it can inform the identification of short- to medium-term policy priorities during the rescue, restructuring, and recovery phases of the crisis. The CPSD follows a standardized methodology developed by the WBG that is being rolled out globally to identify policy actions and interventions in key sectors of the economy, with a focus on short- to medium-term reforms (up to three years) that could unlock much-needed investment and jobs. The CPSD will complement the recent Country Economic Memorandum (CEM) with a sharper focus on the private sector that takes account of the new challenges from the pandemic.

The COVID-19 pandemic raises the stakes when it comes to scaling up private investment. Madagascar had experienced recurrent political crises that put a brake on the economy, but the private sector continued to rebound, generating much-needed jobs in both traditional and new sectors. However, infrastructure bottlenecks remain formidable, and basic services like education and health care have not kept up with demand. This puts a ceiling on productivity and pushes the vast majority of Madagascar's workers and firms into informality. With the pandemic, public investment is under pressure, and it is even more important to crowd-in private investment to flagship transport and energy projects and into sectors of the economy in which Madagascar can build a competitive advantage.

The report is organized as follows:

- *The first part gives an overview of recent economic and private sector trends, followed by an in-depth review of the cross-cutting constraints that affect private sector participation.* The CPSD recommends putting a special focus on resolving three types of constraints: (a) deep-rooted governance issues (especially as they relate to policy unpredictability, red tape, and the uneven playing field in key sectors of the economy); (b) infrastructure bottlenecks, focusing on transport connectivity and energy; and (c) limited and poorly functioning factor markets for human capital, access to finance, and land.
- *The second part lays out opportunities and policy options to strengthen competitiveness in agribusiness, apparel, and tourism.* The three sectors reviewed are deemed to hold a high potential for job creation and growth and have been prioritized by the PEM and by the private sector stakeholders and development partners consulted for the report. The review puts a lens on addressing gender gaps, policies to promote sustainability, and opportunities to increase the impact of information and communication technology (ICT) as an enabler for development, where relevant.

ES.1 COUNTRY CONTEXT AND STATE OF THE PRIVATE SECTOR

In recent years, private sector–led growth demonstrated the potential of several value chains. The potential is reflected by robust private sector growth in tourism, agribusiness, light manufacturing, and mining; by the proportion of exporting firms to total firms; by the consistently higher level of private investment over public investment during the last decade; and by more diversified foreign direct investment (FDI) over the recent past (such as in extractives, ICT, manufacturing, and tourism).

But those same export-led industries that were strong contributors to Madagascar's economic growth over the past five years have been hard hit by the COVID-19 pandemic. The results of the first wave of the Business Pulse Survey conducted in June–July 2020 point to manufacturing (mainly textile and light industries), transport and storage, and other services (particularly tourism) as the sectors that are the most affected by domestic restrictions, external shocks, and higher volatility. Because major trade and investment partners are from Europe, the United States, and China, which have been substantially disrupted by the COVID-19 pandemic, the impact is likely to persist.

The financial sector has also been affected, putting downward pressure on the already low levels of credit available to the private sector by planned rescheduling of credit payments for vulnerable households and companies and growing nonperforming loans (NPLs). Before the pandemic, the banking sector was well capitalized, and NPLs had fallen from 7.3 percent in 2018 to 6.8 percent in 2019. The impact of the pandemic is likely to lead to further deterioration in the level of NPLs. Yet the banking sector represents only 18 percent of domestic credit provided to the private sector in Madagascar. Several MFIs face liquidity constraints, limiting their ability to take risks and expand their branch network into rural areas as had been expected.

The economic downturn will make it harder for Madagascar to address its development challenges. At the end of 2019, 74.3 percent of the population lived in extreme poverty (that is, below $1.90 per day, in 2011 purchasing power parity); food insecurity is high; life expectancies are shorter; and the country's position on the Human Capital Index is among the lowest globally. The economic fallout from COVID-19 (including falling employment and per capita income) is expected to increase extreme poverty by around 1.42 million people in 2020 (estimate as of February 2021), around 5.1 percent of the total population. Rural communities are increasingly vulnerable to unpredictable weather conditions associated with climate change, such as severe droughts. As of 2021, Southern Madagascar is in its fourth consecutive year of drought, which is causing increased food insecurity. Drought and food insecurity are longstanding problems, compounded by cyclones and floods due to the dependence on rain-fed agriculture, poor transport infrastructure, and the absence of affordable insurance mechanisms.

ES.2 CROSS-CUTTING CONSTRAINTS

Regaining the prepandemic momentum will require policy shifts and targeted investments to remove cross-cutting constraints to competitiveness. While a growing number of companies are integrated into global and regional value chains, the vast majority of firms and workers are informal and engaged in low-productivity activities—a reflection of myriad constraints. An estimated 94 percent of the population works in the informal sector (compared with 72 percent in 2001). Additionally, the pockets of competitiveness that were developed were largely driven by low labor costs and natural resources, and should be complemented by capital accumulation and higher total factor productivity. This was emphasized in the recent CEM, which noted that cross-cutting constraints are far reaching and that addressing them in a systematic way will be critical for the economy to deliver broad-based growth. A brief summary of how addressing these constraints could catalyze private sector development follows.

Governance

Different dimensions of governance challenges need to be addressed to attract new investors and give confidence to the private sector as a whole. First is policy unpredictability—for example, agribusiness investment is affected by abrupt changes in trade policy; energy policy has diverged from the least-cost electricity access development plan and sidestepped the public-private partnership (PPP) framework; manufacturing and other productive sectors suffer from a lack of transparency and delays in licensing and permit approvals that affect investment decisions. Second is an uneven playing field for the private sector and historical dominance of sectors by a few politically connected economic operators. The two are intertwined, as policy unpredictability is often associated with vested interests. Both create barriers to entry and uncompetitive markets—thus undermining productivity and job generation along value chains. Developing a more inclusive political and economic system is critical to addressing this problem—for example, through mechanisms for public-private dialogue (PPD) and effective competition and regulatory frameworks.

Business Environment

The CPSD emphasizes policies that can raise business confidence and lower the costs of entry and operation in Madagascar. As a "frontier market," and particularly in the current economic environment of slowing global growth, Madagascar must make visible improvements in the investment climate if it is to retain existing investors and attract a wider pool of investors. Further, making government services, such as obtaining business licenses available digitally would make Madagascar more business friendly.

Establishing policy predictability (particularly of trade policy, investment rules, and access to land) is critical to promote investment. Trade restrictions that have been introduced make it difficult for investors to make long-term plans. The government would need to review objectively the trade policy framework to incentivize competition and reduce the unfair advantages for certain incumbent firms. The multiplicity of laws and regulations that govern investment and the uneven application of them (because of the lack of secondary legislation, the bureaucracy, or poor governance) have also been a source of concern. Adopting an investment law that defines the different forms of investments, lists the activities reserved for local investment, and harmonizes the various laws and regulations would be a step in the right direction.

An overarching requirement to build investor confidence is to expand the country's institutional capacity for reform. A first step is to improve the ability of the Economic Development Board of Madagascar (EDBM) to carry out its mandate to promote investment. Currently its work overlaps with other agencies, it does not always collaborate with line ministries, and its one-stop shop is not always effective. The CPSD recommends presidential-level clarification of the mandate of the EDBM to improve coordination with line ministries and agencies. Further, the functioning of PPD mechanisms should be improved by strengthening the EDBM and the Commission de Reforme du Droit des Affaires (CRDA).

Other important areas are (a) fast-tracking investment climate reforms to address red tape and barriers to entry, starting with an assessment of fees for business registration, licensing, construction permits, and property transfers; (b) introducing government-to-business electronic services, including better case management and expanded availability of e-payment systems; and (c) improving the competition policy framework, following the recommendations in the CEM.

Infrastructure

Transport

Poor transportation connectivity cuts across all modes of transport and severely hampers business in Madagascar. Connectivity is lacking both within individual modes of transport and between them, a situation that increases the costs of transporting both people and goods. Transport costs are further escalated by a lack of competition. Furthermore, the transport sector is highly vulnerable to climate and natural disasters.

Public investment in expanding road infrastructure is critical, and the government should also seek public-private partnership (PPP) solutions for management and maintenance of infrastructure. Having 70 percent of the secondary road network in bad condition and, in most cases, dangerous, leads to long travel times and high transport costs. Tourists, for example, have difficulties reaching even some of the most well-known attractions such as the national parks, and agricultural products cannot be traded if they cannot reach markets. Simplifying and clarifying the roles of different stakeholders in road programs would help by holding the appropriate actors accountable. Performance-based road maintenance contracts would further ensure that investments yield results.

A functioning rail network could relieve the pressure on the nation's roads and lower transport costs, particularly along the country's main corridor between Antananarivo and the port city of Toamasina. If the rail infrastructure were revamped and maintained well, the rail lines could become financially viable.

The CPSD recommends that the government strengthen competition between the road and rail sectors and develop a multimodal transport platform to decongest Toamasina port. Modernizing and building free ports in Mahajanga, Antsiranana, Tolagnaro, Sambava, Vohemar, Toliara, and Manakara and creating intermodal transport links (through roads and railways) to the hinterlands would optimize port capacity. Doing so should also decrease the cost of seaborne trade, which remains high in Madagascar.

Energy

Costly and unreliable energy is a major constraint for the private sector and the nation as a whole. In 2018, only 26 percent of the entire population had access to electricity, among the lowest rates in the world. For firms that are connected to the electrical grid, frequent power outages and variations in the current damage production and result in lost sales. The problems have dampened companies' appetite to invest in more modern machines, which could quickly be damaged by the variations in current or force the firms to invest in a back-up electricity supply.

Increasing access and bringing down electricity costs are complicated by Madagascar's topography and climate, natural disasters, and the poor financial and operational condition of the state-owned utility, Jirama. The challenges largely reflect poor sector governance issues that include uncompetitive procurement practices and unsustainably high government energy subsidies, which limit private investment in the power sector and increase fiscal risks. As a result, arrears to suppliers (mainly independent power producers) and staff amounted to US$447 million as of June 2019, representing about 3.7 percent of the country's GDP. Jirama should accelerate and strengthen the implementation of a new electricity consumer tariff structure, reduce the technical and nontechnical system losses, and review operational practices to improve efficiency. Firm commitment to the implementation of Jirama's financial recovery plan, including the new connection and tariff policy (adopted in July 2020), is necessary to redress the financial situation of the company. The new policy aims to improve both social equity and cost recovery. The World Bank had supported these reforms under COVID-19 response development policy financing.[4]

More comprehensive renewable energy integration is required to reduce the cost of electricity. While Jirama has introduced solar power generation to its grid, there are no storage facilities. A modern dispatch center is critical, as the utility is struggling to manage the ramp up and ramp down sequences and intermittency of solar energy fed into a fragile and saturated grid.

It is important to correct the misaligned incentives for sector players through legal and regulatory reforms. New Electricity Law decrees should be put into place to allow the government of Madagascar to legally award production-related concession agreements to any private sector operator that would be competitively selected. Madagascar initiated the drafting of a new grid code in 2019. Any electricity concession agreement signed before the code becomes effective could lead to significant costs to the government if the concession agreements do not adhere to the new code. The grid code needs to be completed before Scaling Solar and the Volobe and Sahofika hydropower projects reach commercial close. Further, impediments to PPPs in the sector need to be removed through amendments in the PPP law.

Although such governance issues cannot be addressed overnight, bottom-up solutions, such as energy efficiency and conservation, fuel substitution, and off-grid renewable energy, could improve the situation. During CPSD consultations, the team identified private sector solutions that could help with access to clean energy. The government should work to promote demand-side and supply-side efficiency and conservation as well as substitutions of less-polluting fuels (for example, liquefied natural gas, liquefied petroleum gas, ethanol) and renewable energy (for example, solar power with battery storage system, hydropower) for higher-polluting fuels (for example, diesel fuel, heavy fuel oil, biomass, charcoal). Phasing out the kerosene subsidy would allow solar-powered lighting to compete on a level playing field. There are also opportunities to expand conservation through circular economy approaches and to install national recycling plants with potential energy generation.

For household energy, almost all households (99.2 percent) burn solid fuels (charcoal and fuel wood) for cooking—and at an increasing rate, which contributes to health problems and deforestation. Creating a larger market for cleaner cooking with liquefied petroleum gas (LPG) could be achieved with support from carbon (and health impacts) financing. The government of Madagascar and the private sector could partner to conduct a feasibility study for piloting investments in a project to promote cooking with LPG to increase penetration in the market at affordable costs and identify if specific policies are required. The government of Madagascar should streamline ethanol policy and regulations for cooking with ethanol.

Digital infrastructure

Digitalization and digital transformation are critical to Madagascar's development agenda. While the country enjoys among the fastest fixed broadband download internet connections in Sub-Saharan Africa and has dynamic business processing and information technology (IT) outsourcing sectors, the digital transformation in other sectors has been slow due to major challenges in electricity and internet access. Narrowing the digital divide will require actions to improve affordability, service coverage and quality, and regulation and competitiveness. It is also critical to have a sufficient and adequately skilled workforce to successfully manage digital transformation.

Improvements in digital infrastructure and digital skills are critical to close the digital divide and enable market access and growth segments in several sectors. While this report does not cover this area in depth, a 2019 World Bank Madagascar Digital Economy Assessment and IFC deep dive studies on digital infrastructure and digital skills as part of a second phase of the CPSD reveal that significant economic, social, and financial benefits would ensue with (a) a clear national strategy for digital infrastructure that embraces further steps toward liberalization and provides a transparent legal and regulatory framework for private sector players and (b) the development of programs to teach digital skills at scale through PPPs to create thousands of new jobs, as well as to train existing employees to acquire higher or new skills in high-potential industries.

Key policies to advance this agenda would include clearer regulation for infrastructure access and pricing combined with the revision of the Telecom Law, the introduction of a national ICT strategy, and other enabling legislation such as the Investment Code and PPP laws to provide more stability to the market.

Poorly Functioning Factor Markets

Human resources

Labor markets in Madagascar are characterized by large skills gaps stemming from the poor quality of both teaching and health care services, a high level of stunting among children, and high exposure by households to air pollution from cooking with solid fuel—the second-leading cause of death and disease in Madagascar. Large private companies have been training Malagasy workers in the skills needed for specific technical tasks, thus their own training programs are somewhat compensating for the deficiencies in the education system. The COVID-19 outbreak will exacerbate the need for increased support to the education system and for the repurposing of skills to serve a labor market expected to transform.

The key to improving education in Madagascar is enhancing the skills of teachers, especially at public primary schools and in key subjects such as mathematics and languages. The government of Madagascar should consider establishing an independent regulatory body to ensure the quality, efficacy, and efficiency of educational institutions. A possible route to improvements could be to further private investment in education and increase the use of educational technology to enhance the quality of public schooling and vocational training, particularly through teacher training. In addition, the government could move to provide digital payment of teacher salaries.

During the recovery phase, integration of digital teaching in education systems at all levels should be actively explored. A digital education system could reach remote and sparsely populated areas, including greater use of massive open online courses. The private sector could run the digital education programs or support the public sector in adopting digital education. Improved broadband connectivity will be needed for these initiatives to reach the majority of the population.

Access to finance

Only 18 percent of households have access to a financial account, substantially lower than the Sub-Saharan African average of 43 percent. Madagascar is characterized by (a) a high degree of exclusion of the informal sector to which many entrepreneurs, women, and the rural population belong; (b) a high concentration of lending activities among medium-sized and manufacturing firms; (c) a low level of financial literacy among the population; (d) the lack of an effective financial registry; and (e) difficulties in getting collateral, among other problems. Opportunities exist in several segments.

The microfinance sector, an important source of financing for micro, small, and medium enterprises (MSMEs), has also been particularly impacted by the crisis. Microfinance has become a viable source of financing for MSMEs and low-income populations in Madagascar (1 million customers, $US164 million of outstanding loans, $US110 million in deposits, and 710 services point as of May 2020). Due to the pandemic, however, MFIs have seen a 30 percent decrease in deposits and an increase in the share of NPLs from 15 to 30 percent of the total portfolio.

The Central Bank and the Commission de Supervision Bancaire et Financaire (CSBF) have adopted policy measures to mitigate COVID-19 impacts on the financial sector, including on MFIs. The CSBF has eased the credit institutions' guarantee requirements under the current prudential regulations, and the Central Bank has provided exceptional liquidity measures for banks but also MFIs (approved by CSBF). The size of the reduced-interest liquidity represents the equivalent of new credit granted to SMEs. Such efforts complement the scaling up of the existing Partial Portfolio Credit Guarantee Schemes under the World Bank-funded Madagascar Financial Inclusion Project.[5] Ensuring MFIs' stability will be important to support the financing needs of MSMEs in the recovery phase, which will likely increase, whether to restore or develop new economic activities.

Rapid expansion of digital financial services (DFS), including mobile money services, has become an emerging opening for financial inclusion in Madagascar, especially for poorer and underserved residents in remote areas. The authorities have invested in improving information in the credit industry, through the development of a public credit registry and the new private credit bureau, with support from the WBG. Some banks and MFIs have started leveraging a partnership with mobile money operators to improve coverage in previously non-banked areas. Approval of the pending license requests from e-money providers would increase price and quality competition in the sector, as there is only one e-money provider licensed by the regulator as of April 2020. To harness the potential of DFS, (a) the legal and regulatory frameworks for DFS need to be updated (for example, to allow for easy, remote account opening and enable unstructured supplementary service data [USSD] access[6] at fair prices), (b) cost and other entry barriers need to be addressed to attract new entrants, (c) capacity building on existing and potential DFS is needed, and (d) a financial literacy program and consumer protection framework are required.

Developing leasing instruments could also help leverage access to finance given that the current collateral system is complex in Madagascar. Changes in the legal framework are needed to promote leasing. For example, the current Leasing Law subjects the lessor to a double value-added-tax burden. The Central Bank needs supervision rules to monitor leasing operations. Further, the government should fast-track implementation of a new draft law on the use of movable assets to secure transactions and of a new collateral registry to allow more security in leasing. Both IFC and the World Bank continue to provide support in the area, and progress has been mixed.

Access to affordable housing finance is outside the possibility for most households, with more than 85 percent of households living in self-built residences. One objective of the PEM is to develop affordable housing in partnership with the private sector, in line with recommendations from IFC's advisory services on a potential PPP model for affordable housing development. To improve access to housing for a large number of households, there is a need to (a) increase long-term financing, (b) bring more people into the banking system, and (c) reduce the cost of housing finance instruments to provide loans at an affordable rate. Integrating a green building scheme could add climate co-benefits. This could be a game changer to reduce the large number of Malagasy currently living in vulnerable housing and slums.

Land

Land markets in Madagascar do not function because of an insecure land tenure system that constrains access to land for agriculture production and private sector business development. Land markets are largely informal, and the prices are normally set by negotiations. Moreover, the already limited capacity of the government to administer land and property is further challenged by the Malagasy culture, which values family property as a vector of identity for a lineage or a family and which views land as not marketable or useful as collateral. Critically for investment, foreigners cannot definitively acquire land, and the leasing framework does not provide sufficient security for long-term investment.

Updating the legal framework and zoning would be critical to facilitate investment, both in rural and urban settings. One area pertains to the Framework Law, which should be updated with specific statuses that clarify the procedure, the type of securing model, and the relationship between the ministry in charge of the land and sector ministries regarding areas for investment, including agricultural investment zones. Another legal reform involves the adoption of the Private Titled Property Law, which aims to ease land transfer procedures and establish the opportunity for land acquisition. To promote private investment on urban land, updating of the Detailed Urban Management Plan ("Plan d'urbanisme détaillé") would define the zoning of dedicated land use, particularly economic activities such as industrial and commercial districts.

More clarity on land ownership and transfer to the AGZEI (l'Agence de Gestion des Zones d'Emergence Industrielle) is a critical factor for the Moramanga Special Economic Zone (SEZ)/Textile City Project to proceed as planned. Streamlined regulations pertaining to land acquisition, ownership, and leasing opportunities are critical to structuring zone projects. The establishment of the AGZEI is now delayed but would be a major initiative to bring greenfield investors into the apparel value chain.

Review of High-Potential Sectors

Although private sector opportunities and job creation potential are different in the productive sectors reviewed in the report, some common findings emerge that are highly relevant for policymakers:

- **First, economic growth has been held back by the cross-cutting constraints discussed and, during certain periods, by policy reversals and external shocks.** Boom-bust cycles have hit MSMEs particularly hard, as they face the challenges of weak competitiveness, reliance on the domestic market, and limited access to finance. In the context of the COVID-19 outbreak, they have been highly affected, with a large part having to suspend operations or to exit the market compared to larger firms. Well-tailored measures to make international trade and investment easier, encourage banks to lend to small businesses, help companies survive (for example through grant mechanisms, reduction of government-to-business services costs such as licensing fees), support firms' recovery and resilience (including through the digitalization of business operations), and remove unfair advantages for connected firms, would soften the impacts of the demand and supply shocks caused by the COVID-19 pandemic and help avoid a protracted decline in jobs, investment, and GDP.
- **Second, the severity of cross-cutting constraints in some regions has led new investors to locate exclusively in the capital and close to larger urban areas, the only locations with the requisite connectivity, electricity access, skills pool, and other requirements.** Although many issues need to be solved at the national level, focalized spatial measures (such as SEZs located in high-potential regions), and cluster approaches to promote links are critical. It is also necessary to improve the management of infrastructure projects—in particular, PPPs—to catalyze investments in cities and regions where energy and transport bottlenecks are a binding constraint.
- **Third, the sectors provide examples of policy measures under implementation that have managed to crowd-in substantial volumes of private investment.** This is the case in tourism, which has benefited from a combination of (a) spatial interventions that enabled investment in new locations by new classes of investors, such as the upgrading of the country's two main international airports supported by World Bank PPP transaction support and IFC investment syndication and (b) reforms that increased airline competition and promoted new domestic and international routes. It is important to build on these foundations (especially avoiding policy reversals that could erode the gains made to date) and to replicate this approach to strengthen other sectors of the economy.
- **Last, but significant, innovative private solutions, and digital solutions in particular, have huge potential to address the needs of the poor while tackling environmental goals.** This report, for example, reviews options to introduce innovation through cleaner and more affordable sources of energy for households to reduce pressure on health and forest resources and through digital finance tools that bring financing to the informal sector.

At the sector level, this report highlights the following findings and policy recommendations:

Agribusiness

The agriculture and agro-processing sector is the largest contributor to employment and exports, but most farmers rely on subsistence farming of staple food. The agriculture and agro-processing sector supported 74.7 percent of the population in 2018 and accounted for 24.1 percent of GDP in 2020 (24.2 percent in 2018). Most farmers rely on subsistence farming of staples such as rice, which is cultivated on approximately 85 percent of farms.

Madagascar has a comparative advantage in several agricultural products that can be deepened and broadened to other value chains and to high quality and sustainable products. Vanilla, one of Madagascar's most competitive and resilient agriculture value chains, accounted for 20 percent of export revenue in 2018 and supports as many as 200,000 jobs. However, recent volatility in the price poses a risk to future growth. Several other value chains focused on export markets have grown, including lychees and cacao, and could expand much further with efforts to improve trade logistics, decrease nontariff barriers, and remove export quotas. The government should promote programs that develop the denomination of origin and organic certifications and sustainable practices in high-value crops.

In addition to produce-oriented agriculture, Madagascar has opportunities in aquaculture and livestock. The country's fisheries have been a source of employment and exports and could grow further in niche segments of aquaculture, such as shrimp and sea cucumber. Although the livestock subsector has contracted over time, recent IFC support to beef and poultry could spur that segment.

The government could help promote agricultural products sold both domestically and as exports by upgrading transport and logistics infrastructure. It could focalize resources to develop road and railway connections in regions with high potential (for example, crowding-in private sector investment in secondary ports). Improvements to the business environment would include increasing the availability of privately managed agro-logistics, such as storage facilities and the cold chain. To encourage market entry and contestability and encourage firms to become more competitive, the government should strengthen the competition law to explicitly prohibit cartels and rule against price fixing. The government should develop a legal and regulatory framework for reforms to the warehouse receipt system that would allow commodity financing and establish a supervisory agency for licensing warehouses that would further provide standardization and more flexibility in withdrawal periods and in trade between crops.

The agribusiness sector would be enhanced by further integrating subsistence farmers into domestic and global value chains. The CPSD team recommends using ICT to expand the ability of extension services and technical staff to instruct farmers on quality standards and sanitary and phytosanitary measures, which would expand the ability to export goods. ICT also could be used to expand market information and make finance more available to farmers.

Madagascar should further promote the use of inputs among farmers and advisory services in several ways: (a) reviewing seed registration procedures to incentivize investment in the seed industry and develop the seed trade; (b) avoiding non-market-smart input subsidy programs to raise investor confidence; and (c) developing an information system on the seed and fertilizer trade. In addition, IFC index-based insurance solutions are needed to protect poor farmers against climate-related disasters.

Apparel

The apparel sector is an important export sector for Madagascar, accounting for 15 percent of total exports in 2018. This sector faces the effects of the country's struggles with transportation, energy, workforce, and governance. Apparel and textile exports grew from nominal US$129 million in 1995 to nominal US$681 million in 2018. The country was the third-largest apparel exporter in Sub-Saharan Africa in 2017. Seventy-seven percent of firms are recipients of FDI, and most are foreign owned. The apparel industry is integrated into regional value chains—particularly with Mauritius—and into global value chains.

The Malagasy garment industry is a specialized niche export market whose main competitive advantage is a relatively low-cost labor force with high dexterity. The sector approach should mainly focus on supporting demand in the specialized garment industry by improving competitiveness and increasing sustainability, in direct links with energy sector reforms. Improving the investment climate, particularly trade logistics and infrastructure, and supporting domestic suppliers would strengthen the sector. In addition, it is important to pay attention to the needs of smaller apparel companies because cross-cutting constraints are more binding for these firms than for large firms.

The private sector can play a vital role in (a) improving resource efficiency, recycling inputs through the circular economy and performing energy, waste, and water audits, which could identify significant potential energy and water savings and increase reliability and cost competitiveness, and (b) providing supplier development and skills development programs focused on local MSMEs.

Before the government delves into reforms, officials need to prioritize and sequence the subsectors, areas, and activities that should be financed, doing so in consultation with development finance institutions (DFIs) and through PPD. The government should develop a PPD forum with textile producers to identify the demands of global value chains and the needs of exporters. The government and its partners need to guide the sector in meeting changing global demands, including resource efficiency; climate change; gender, social, and labor standards; sustainable sourcing and production; and speed to market. To expand the sectors' export potential, the government of Madagascar should leverage the access the country gains through free trade agreements and generalized systems of preferences (including with the United States under the African Growth and Opportunities Act [AGOA], the European Union under the Economic Partnership Agreement, and regionally under the Tripartite Free Trade Agreement) by ensuring compliance with the requirements of each trade agreement. The government should help MSMEs as well as larger firms meet these requirements.

The government can enhance the sector by promoting vocational training and reviewing the curriculum to ensure that training meets the needs of the private sector. The apparel industry is labor intensive and accounts for 20 percent of formal employment. The sector's workers are predominantly women; thus initiatives that advance the provision of childcare, equal pay, and gender equity will contribute to the success of the sector.

In the short term, as the COVID-19 crisis continues, the production lines of apparel companies can be repurposed to produce masks and other personal protective equipment (PPE) to keep workers employed and meet the needs of the public.

Tourism

The COVID-19 crisis is affecting the tourism sector worldwide and strongly affecting Madagascar. Global travel restrictions, the near-complete closure of Madagascar's borders since March 2020, and domestic confinement measures implemented at the beginning of the pandemic have devastated Madagascar's tourism sector. The latest estimates by the Tourism Confederation of Madagascar suggest that tourism businesses saw a 90 percent drop in sales in 2020. The grounding of flights has been exceptionally challenging for the struggling national airline, while its domestic subsidiary faces significant losses while operating only limited domestic services. A lack of visibility on eventual border reopening left tourism operators and airlines with unclear prospects for recovery. While the government has put in place some mitigation and recovery efforts, resources are limited and many enterprises, particularly SMEs, will struggle to survive.

Survival and recovery of the industry is vital to Madagascar, given the sector's economic and social contributions. Tourism and travel accounted for 5.1 percent of GDP and for 4 percent of employment in 2018. The government's ambition for the sector has been to make its contribution much larger: the draft PEM has a target of reaching 500,000 international arrivals by 2023 from the 256,872 international arrivals registered in 2018. This target will inevitably be impacted by the crisis, as well as long-term constraints such as investment climate issues, weak competitiveness, health risks and poor infrastructure.

The World Bank and IFC have been supporting a tourism growth strategy in recent years by focusing on improvements to connectivity and establishing infrastructure for tourism investments. The World Bank's support, implemented through PPPs, targeted the two main international airports and Air Madagascar's recovery plan and boosted domestic traffic flows—prior to the pandemic—to levels approaching those seen in the past. World Bank and IFC support led to a large international hotel group, the first in Madagascar, signing in 2019 to operate three hotels (254 rooms). The World Bank has also invested in strengthening the tourism value chain in three regions of the country, in an integrated, spatial approach.

However, a number of constraints hindering sector growth need to be addressed, in particular a challenging investment climate. Often, complex or uncomprehensive sector-specific legislation and regulations hinder investment in high-potential or niche tourism markets. For instance, despite long-term donor support, the country continues to lack a regulatory framework for private concessions in national parks—some of the country's strongest tourist draws. Similarly, regulation of the arrival and registration of leisure boats is not aligned with international standards, stunting investment and arrivals in a potentially high-value marine tourism market. Alignment with international best practices for both types of regulation would open up visitation and investment opportunities.

The high cost of air travel to Madagascar, which further limits destination attractiveness and arrivals, must be reduced. The monopoly of jet fuel supply in Madagascar causes fuel prices to be among the highest in Africa, limiting competitiveness. Flights to Madagascar are not only expensive but also limited in number and origin. Domestic connections from the capital, operated by the subsidiary of the national airline, are infrequent, unreliable, and expensive, and the future of the domestic airline is in question as a result of a lack of transparency over the fate of Air Madagascar. Additionally, airport equipment and standards at secondary airports are inadequate to allow any significant route development. The government of Madagascar should consider reviewing the current jet fuel policy and air transport competitiveness policies, including implementing an Open Skies policy, particularly in the new global aviation context. The CPSD also recommends increasing the government's capacity to implement PPPs for secondary airports.

Improved public-private collaboration will be critical to defining sector planning and marketing priorities, particularly in the post-COVID context. Historically, limited collaboration has eroded trust and left the private sector largely reliant on its own marketing resources and efforts. State resources for sector promotion are limited and often not aligned with private sector priorities. Through strengthening the National Tourism Board's setup and resources, reconvening the Route Development Committee, and engaging more systematically with the Tourism Confederation of Madagascar, the sector can ensure an integrated approach to its repositioning and marketing in the post-COVID landscape.

The government should collaborate with the private sector and education authorities to develop a skills development policy framework for the hospitality sector. The tourism and hospitality industry in Madagascar lacks qualified labor, and training opportunities in the country are limited, conditions which lead to high operating costs and poor experiences for tourists. The private sector is burdened with (a) hiring unqualified labor, which hampers the visitor experience and (b) providing in-house training, with related risks of a high turnover of trained staff. The government should further implement compensation or incentive mechanisms for the private sector to train workers.

A heatmap summarizing the main constraints in each sector and a table with short- and medium-term recommendations is presented below (figure ES.1). Following the publication of this report, the next phase of the CPSD will undertake deep dives to support private sector reforms in three sectors: the digital economy, apparel, and tourism. The objective of the next phase will be to produce just-in-time analytics and technical advice that can help craft and implement new policies, in close coordination with the government of Madagascar, other DFIs, and private stakeholders. These deep dives will look at the new challenges faced by companies in the "new normal" brought on by COVID-19, as travel restrictions and lockdowns are expected to continue for the foreseeable future and will require new approaches and business models, with increasing reliance on ICT.

FIGURE ES.1. HEATMAP OF CONSTRAINTS IN THE AGRIBUSINESS, APPAREL, AND TOURISM SECTORS

	AGRIBUSINESS	APPAREL	TOURISM
Business Climate	High fees, prolonged time and unclear decisions for key business registration, licensing and permits		
	Inconsistent trade policy and trade barriers, domestic market distortions	Overlapping investment laws and regimes	Absence of regulations on private concessions and marine tourism, health security
Transport	Roads, ports, agro-logistics limit growth and exports of emerging value chains	Road congestion and limited rail, sea and air freight increase export costs	Limited coverage of the road and airport infrastructure
Energy	Lack of energy for cold-chains, storage, food processing	Unreliable power, energy inefficiency	Jet fuel policy raises cost of flights; high electricity tariff zones affect location decisions
Human Capital	Limited extension services, quality certification	Managerial and soft skills hard to find and hamper MSME productivity	Shortage of tourism, digital and business skills
Access to Finance	Nascent warehouse receipt system, limited leasing, digital financing, climate insurance	Expensive access to credit for domestic MSMEs and limited network coverage	
Land	Land tenure limits investment by commercial producers	Current investment locations have deficient infrastructure	Legal framework discourages ownership and long-term leasing by foreigners

Note: The color orange indicates the most urgent reforms. MSMEs = micro, small, and medium enterprises.

TABLE ES.1. RECOMMENDATIONS

SHORT-TERM (UP TO 1 YEAR)	MEDIUM-TERM (1–3 YEARS)
Business climate: Government as an enabler of the private sector	
• **Assess procedures for business registration, licensing, and construction permits to examine the possibility of simplifying and reducing the time and cost of launching and operating a business, particularly in light of the devasting impacts COVID-19 has had on private businesses (EDBM, Ministry of Economy and Finance, communes, other relevant line ministries and agencies).** • **Improve communication and targeting of measures to support companies.**	• Support the introduction of G2B electronic services for a selected number of services such as business registration, licensing, construction permits, and property transfers (EDBM, Municipality, Ministry of Spatial Planning, IT agency, Private Social Security Institution, Private Health Insurance Agencies, MICA).
• **Adopt and enforce the updated Investment Law with its implementing decrees. The updated law should define the different forms of investments, address the scope for investment to clarify the framework for FDI, and list the activities reserved for local investment (MICA, EDBM).**	• **Harmonize the investment legal framework, such as definitions of the type of investment covered by the Investment Law and by the Foreign Exchange Code, to build investors' confidence. Also, clarify the applicability of investment law to various sectors' legal and regulatory texts (such as in mining, petroleum, telecommunications), specific regimes (such as export processing zones), and public areas (state-owned enterprises, military-related affairs, and so on). The list of activities reserved for local investment also should be clarified (MICA, EDBM, and relevant line ministries).**
• **Clarify the responsibilities of MICA over the investment regime, which currently is shared with other ministries.** • **Improve the functioning of PPD mechanisms by strengthening the EDBM and the CRDA.** Strengthen the mandate of the EDBM to de facto be the entity under the presidency coordinating the reforms agenda with line ministries.	
	• **Strengthen the Competition Law to prohibit cartels and outlaw price fixing and to establish an effective Competition Council and regulatory agencies that are independent.**

Note: Priority reforms are highlighted in bold. Organizations in parentheses are those that should be involved in the reforms.

SHORT-TERM (UP TO 1 YEAR)	MEDIUM-TERM (1–3 YEARS)
Infrastructure as a cross-cutting constraint	
Transport	
	• **Implement a long-term strategic, multimodal plan for the transport sector that helps decongest the Toamasina port and strengthen competition between the road and rail sectors to improve the service offered (Ministry of Transport).** • Improve public investment in road infrastructure. Implement performance-based road maintenance contracts where feasible (Ministry of Transport).
Energy	
• **Improve the financial and operational performance of the state-owned utility company (Jirama), including competitively procured IPP contracts, tariff rebalancing, and reduction of fuel subsidies.** • Introduce an electricity decree to allow the government to legally award any production-related concession agreement to private sector operators (government of Madagascar; Ministry of Energy, Water, and Hydrocarbons). • **Complete the grid code under development before new private sector power generation projects (including Scaling Solar and Volobe projects) reach commercial close. Any electricity concession agreement signed before the code is enforced could cause significant fiscal costs due to legal changes** • **Accelerate the implementation of the new connection policy and new residential tariff structure.**	• **Adopt the new PPP Law to address current inconsistencies and remove legal impediments to PPP implementation. Build capacity within the government to manage PPPs (government of Madagascar; Ministry of Energy, Water, and Hydrocarbons).** • Develop dispatching centers and build capacity to operate the centers to enable additional generation of solar and wind energy.

Note: Priority reforms are highlighted in bold. Organizations in parentheses are those that should be involved in the reforms.

SHORT-TERM (UP TO 1 YEAR)	MEDIUM-TERM (1–3 YEARS)
• Insist on large electricity and water users such as industrial customers conducting energy and water audits (because water systems consume significant energy) and promote demand-side energy and water measures.	• Eliminate the kerosene subsidy to allow solar-powered lighting and other solutions to compete on a level playing field (government of Madagascar). • Clarify and streamline the ethanol policy and regulations, in particular, remove or reduce ethanol's excise duty rate (government of Madagascar.) • Conduct a feasibility study for piloting investments in projects to increase the use of LPG for cooking to increase penetration in the market at affordable costs and identify if specific policies are required (Ministry of Energy, Water, and Hydrocarbons; the private sector).
Digital	
• Introduce a national ICT strategy. • Revise the Telecom Law to increase the independence of the regulator, allow it to perform market reviews and equip it with more effective enforcement powers. • Issue a spectrum roadmap to allow for a more coherent spectrum pricing.	• Introduce enabling legislation, including the Investment Code and new PPP Law. • Roll out a digital skilling program to address the demand for skilled professionals in the IT/BPO sector.
Factors of production: Improving access to skills, finance, land	
Human capital constraints and skill needs of the private sector	
• Integrate digital education at all levels, including through partnerships with the private sector. • Support workers to reengage with more productive activities through refreshing and retooling skills (including through vocational training) and upgrading to adapt to a post-crisis context (for example, increased digitization of operations). • Revise the underinvestment and low budget execution in the social sectors (particularly health, education, and social protection)	• **Establish an independent regulatory body to ensure the quality, efficacy, and efficiency of educational institutions.** • Provide digital payment of teacher salaries (Ministry of Education and Technical and Vocational Training). • Revise labor regulations to enable women's equal access to employment opportunities and pay; promote policies help reduce the cost and increase the availability of childcare (government of Madagascar).

Note: Priority reforms are highlighted in bold. Organizations in parentheses are those that should be involved in the reforms.

SHORT-TERM (UP TO 1 YEAR)	MEDIUM-TERM (1–3 YEARS)
Expanding access to finance through digital financial services, leasing, and affordable housing	
• **Fast-track the issuing of e-money operator licensing requests (Central Bank).** • **Fast-track the implementation of the new draft law on movable secured transactions and collateral registry to allow more security for a leasing registry (government of Madagascar, Central Bank.)** • **Develop and approve new regulations that govern e-KYC platforms and enable access to the USSD protocol at fair prices.**	• Leverage the data from the new credit bureau and invest in new tools, such as market-sharing data or an e-KYC platform and database, that could help monitor the market; increase the credit bureau's capacity to supervise new DFS providers. • Develop MFIs potential to use DFS to foster financial inclusion. • **Amend the leasing law to remove the double VAT burden for the lessor. Develop supervision rules to monitor leasing operations (government of Madagascar, Central Bank).** • **Implement the law on an electronic centralized collateral registry for movable assets and implement judicial reforms for stronger collateral enforcement (government of Madagascar).** • Develop and implement policies to provide incentives for developers to develop affordable housing, such as properties for low-income households based on a leasing-sale type model, under PPPs.
Land: Enabling a more dynamic market that can serve the needs of different sectors	
• **Approve and implement the proposed Private Titled Property Law to establish a clear framework for renewable land leases and transfer of land into a special purpose vehicle (Ministry of Justice, cabinet, Parliament, and other relevant line ministries).** • **Update the Framework Law on specific statuses, clarifying the procedure, the type of securing model, and the relationship between the ministry in charge of land and sector ministries regarding areas dedicated to investments.** • Reduce the gender gap in women's land rights by allowing women to register under their own names.	• Update the Detailed Urban Management Plan ("plan d'urbanisme détaillé") to define the zoning of dedicated land use, particularly economic activities such as industrial and commercial districts. • Update obsolete titles for land whose owners cannot be traced, and allow the municipal land offices to issue land certificates to secure the property rights of families who have lived in these areas for decades. • Set up a land catalogue with information on state public land available for greenfield investment. • Streamline regulations pertaining to land acquisition, ownership, and leasing opportunities critical to structuring zone projects, including the Moramanga SEZ/Textile City Project.

Note: Priority reforms are highlighted in bold. Organizations in parentheses are those that should be involved in the reforms.

SHORT-TERM (UP TO 1 YEAR)	MEDIUM-TERM (1–3 YEARS)
Sectoral assessments	
Agribusiness	
• **Review the trade policy framework specifically to enable imports of fertilizers and improved seeds, remove export quotas for high-value commodities, and lift the export ban on zebu meat to allow export of identifiable and traceable zebu meat.** • Revise the floor price on vanilla for Madagascar to retain its competitiveness on the vanilla global value chain. • Increase the use of digital tools for market information and access to finance, including mobile money transfers.	• Upgrade transport and logistics infrastructure along agricultural corridors, and work with DFIs to support the private sector to develop and manage agro-logistics. • **Develop a legal and regulatory framework for warehouse receipt system reforms to allow commodity financing and establish a supervisory agency for licensing warehouses and standardization and to provide more flexibility in withdrawal periods and trade between crops.** • Scale up public and private extension and business development services, with greater use of ICT and redesign the services training curricula to meet to market needs. Make more intensive use of traditional media (such as radio) for agricultural extension and market information systems to reach remote and poor areas. • Promote programs that develop the denomination of origin and organic certifications. Support sustainable practices in high-value crops that can lead to certifications and a price premium. • **Promote the use of inputs among farmers and advisory services by (a) reviewing seed registration procedures to incentivize investment in the seed industry and enabling introduction of improved seed varieties; (b) avoiding non-market-smart input subsidy programs to raise investor confidence; and (c) developing digital seed and fertilizer information systems to enable access to information on demand and supply in real time.** • Enlarge farmers' access to risk mitigation measures such as index-based insurance against climate-related disasters.
Apparel	
• **Develop a medium- to long-term industry strategy based on a PPD on textiles to (a) understand the grievances of the exporters in the sector, (b) raise awareness of policymakers on the demands of global value chains, (c) assess the blocking factors that limit the development of the textile sector, and (d) provide recommendations on the support to the sector.** • Define the technical and managerial needs gap of companies and promote vocational training curricula to meet those needs.	• Provide technical input to advocating for the extension of market preferential access, particularly with regard to renewing the AGOA trade agreement after 2025. Set up a public-private task force to ensure that Madagascar textile export companies continue to comply with AGOA requirements beyond 2025. • Focus on capacity building of MSMEs, especially to improve their business functions, strengthen their management, and design their trade strategy, while taking into account the social and environmental sustainability requirements they will need to uphold to service some of the major international buyers. • Develop a framework for apparel manufacturers that directs them to complete energy, water, and waste audits, which could identify significant potential energy savings and increase energy reliability.

Note: Priority reforms are highlighted in bold. Organizations in parentheses are those that should be involved in the reforms.

SHORT-TERM (UP TO 1 YEAR)	MEDIUM-TERM (1–3 YEARS)
Tourism	
• **The public and private sectors should strengthen collaboration on planning for the safe post-COVID reopening of key destinations, including through improved implementation of health protocols and standards.** • **Particularly given the COVID-19 context, the National Tourism Board, MTTM, EDBM, and the private sector should base planning and marketing efforts on evidence of changing tourist preferences and behavior and shift their marketing and promotional activities further to digital channels.** • The public sector should leverage the growing CTM to collaboratively set and implement strategic tourism priorities, particularly for the relaunch and repositioning of tourism, accompanied by complementary investments in infrastructure, marketing, or both, based on data and market intelligence. • The institutional setup of the National Tourism Board should be reviewed to optimize effectiveness and efficiency, including an assessment of how the tourism "vignette" is collected. • **Particularly given the COVID-19 context and uncertainty over the national airline, the public-private Route Development Committee should reconvene and collaborate on implementation of an Open Skies policy.** • The government of Madagascar should put in place planning and measures to guarantee the continued operation of the domestic airline.	• **The government of Madagascar should clarify the legal framework governing land titling and investments in protected areas and in Réserves Foncières Touristiques and also update the legal framework for marine tourism.** • **To improve competitiveness of the air transport sector, the government of Madagascar should review the current jet fuel policy and regulation to generate competition among suppliers.** • ADEMA should continue to seek private sector partners for improving secondary airports, ensuring transparent processes. The government of Madagascar should continue to allocate funds and seek donor funding for large-scale road investments, with a focus on connecting existing regional tourism hubs. • The government of Madagascar should better match tourism and hospitality training supply to private sector needs through improved PPD, integration of tourism into technical and TVET programs, and more partnerships between training institutes and private sector.

Note: Priority reforms are highlighted in bold. Organizations in parentheses are those that should be involved in the reforms.
ADEMA = Aéroports De Madagascar ; AGOA = African Growth and Opportunities Act; BPO = business process outsourcing; CRDA = Commission de Réforme du Droit des Affaires; CTM = Tourism Confederation of Madagascar; DFI = development finance institution; DFS = digital financial services; EDBM = Economic Development Board of Madagascar; e-KYC = electronic know-your-customer; FDI = foreign direct investment; G2B = government-to-business; ICT = information and communication technology; IPP = independent power producers; IT = information technology; LPG = liquefied petroleum gas; MFI = microfinance institution; MICA = Ministry of Industry, Trade and Craft; MSMEs = micro, small and medium enterprises; MTTM = Ministry of Transport, Tourism, and Meteorology; PPD = public private dialogue; PPP = public-private partnership; SEZ = special economic zone; TVET = technical and vocational education and training; USSD = unstructured supplementary service data; VAT = value added tax.

NOTES

1 Through adjustment to the Country Partnership Framework to support COVID-19 response (with an envelope of US$226 million for the relief phase, US$302 million for the restructuring phase, and US$450 million for the recovery phase).

2 IMF rapid credit facility (US$166 million agreed in April 2020; US$172 million agreed on July 30, 2020). In addition, an Extended Credit Facility Arrangement amounting to US$312 million was approved by the IMF Executive Board on March 29, 2021.

3 Including additional emergency budget support by the Agence Française de Développement and African Development Bank ; US$58 million in total.

4 Additional activities supporting the energy reforms are the Madagascar Power Sector Financial Sustainability Advisory Services and Analytics (ASA) (P168776), which was initiated in 2018, and the ongoing Least-Cost Electricity Access Development (P163870) Investment Project Financing (IPF).

5 The current Partial Portfolio Credit Guarantee Schemes (PPCGS) is a guarantee mechanism for loans extended by banks and MFIs to MSMEs and was established in July 2014 with the support of the World Bank. The scale-up is related to focus on expanding the PPCGS's scope and risk coverage, expanding eligibility criteria to include additional sectors, and providing capital relief for financial institutions making use of the credit guarantee. It will also open two new windows for the PPCGS for temporary restructuring of loans and guarantee on new credits to provide needed cash.

6 USSD ("quick code") liberalization and pricing controls are needed to allow nontelecommunications companies to use this channel for digital transactions to remote or underserved populations at an affordable cost.

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