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USAID/MADAGASCAR

CAISSE D'EPARGNE DE MADAGASCAR

FINAL REPORT

APRIL 15, 1993

Office of Government Services
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Price Waterhouse

April 15, 1993

Mr. Frank Martin
USAID/Madagascar
Villa Vonisoa III - Anosy
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Antananarivo, Madagascar

Dear Mr. Martin:

RE: *AID/PRE Financial Sector Development Project*
Contract No. PDC-2206-Z-00-8191-00
USAID/Madagascar - CEM Assessment
PIO/T No. 687-0510.03-3-20008

We are pleased to present you with ten copies of our Final Report for the CEM Assessment (English version) prepared by the Price Waterhouse team and reviewed by Price Waterhouse, Prime Contractor under FSDP. Additional copies have been forwarded to Ms. Rebecca Maestri, AID/PRE/PD.

It has been a pleasure working with USAID/Madagascar. We look forward to further collaboration with the Mission.

Sincerely,

J. Richard Breen
Director, Director

Attachments

CAISSE D'EPARGNE DE MADAGASCAR
FACT SHEET

Year Founded	1918
Number of Outlets	461
Number of Employees	45
Number of Depositors at December 31, 1992 (est.)	260,000
Value at December 31, 1991	
• Customer Deposits	FMG 10,567,532,047 (approx. U.S. $5.9 million)
• Total Assets	FMG 10,335,953,271 (approx. U.S. $5.7 million)
• Net Worth	-FMG 727,946,668 (approx.-U.S. $400,000)
• FMG Per U.S. Dollar	FMG 1,800
Standard Deposit Rate	6.65%
Premium Deposit Rate	8.45%
Interest Received on Deposits with the Treasury (CDC)	11.5%
Interest received on Deposits at BNI (via Treasury)	12.0%

CAISSE D'EPARGNE DE MADAGASCAR

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I. INTRODUCTION

A. Background

USAID/Madagascar intends to participate in a comprehensive multi-donor program for financial sector development. The main themes of the program are detailed in a World Bank document entitled Madagascar, Financial Policies for Diversified Growth: Choices for a Market Economy, two volumes, dated March 16, 1992. USAID/Madagascar will take the lead in the policy formulation and institutional strengthening of the Caisse d'Epargne de Madagascar ("CEM" or "the Caisse"), the national savings bank affiliated with the post office. The CEM Assessment is a component of the Mission's Financial Market Development Project. This project is intended to enable USAID/Madagascar to achieve Target 1.2 of its Country Program Strategic Plan - "Financial market reforms increase domestic resources for the private sector."

CEM is a public savings institution with 461 post office outlets distributed throughout the country and approximately 260,000 depositors. CEM is mandated to deposit its funds with the Treasury, for which it receives a below-market interest rate, 11.5%, compared to 17.75% for term deposits in private banks[1]. The CEM has total deposits of approximately $6 million. It does not make loans.

With the largest distribution network in the country of any financial institution, the CEM can play a major role in mobilizing savings, particularly in rural areas. The CEM's ability to mobilize savings, however, is constrained by its minimal marketing resources and delays in posting interest to customer accounts. FMD policy technical assistance will focus on the CEM's policy and institutional framework, strengthening its asset management and marketing efforts and exploring the feasibility of establishing credit operations.

B. Objective

As stated in the Scope of Work, the objective of the Price Waterhouse consultancy is to assess the CEM to determine the current organizational and operational state of the institution. Based on the assessment, the consultants are to develop a step-by-step strategy to improve the productivity of the CEM so that it begins to operate more autonomously and eventually as a full-service savings institution.

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[1] About half of CEM's deposits have been deposited by the Treasury at a commercial bank, BNI, at 12.0% (as explained in Chapter V).

C. Project Management and Staffing

The consultants on this project were Ms. Julia Philipp, a Manager at Price Waterhouse, and Mr. Edward K. Dey, a former banker and consultant to Price Waterhouse. The field work was conducted over a three week period in January 1993. The consultants conducted interviews with CEM management and with senior officials representing the Ministry of Finance and the Privatization Delegation. In addition, they visited two CEM outlets in Antsirabe and one CEM outlet in Betafo.

II. LEGAL AND INSTITUTIONAL FRAMEWORK

A. Ownership and Legal Status

The Caisse d'Epargne de Madagascar was established in 1919, when Madagascar was a French colony, as a local branch of the French Caisse d'Epargne. The decree of November 3, 1918 establishing the Caisse does not state the purpose of the Caisse. Presumably, it was to be identical to that of the parent organization in France. Further, it functioned as a unit of the post office.

Upon Madagascar's independence in 1960, the CEM continued to function much as before. For example, it maintained its main deposit with the Caisse d'Epargne in France until 1975, when Madagascar left the CFA franc area.

In 1985, Madagascar promulgated Decree No. 851/061 of March 6 governing the Caisse (see Appendix A). This decree is signed by the President, the Prime Minister and the two oversight ministers, the Minister of Posts and Telecommunications (PTT) and the Minister of Finance. No further laws or decrees concerning the CEM have been published since 1985.

The 1985 decree established the CEM as a "public establishment of industrial and commercial character" (an "EPIC"). Furthermore, it is a "public establishment with corporate status and financial autonomy." Thus, the CEM is a state-owned enterprise intended to function as a quasi-commercial company, no longer strictly as an agency of the PTT.

The EPIC form of organization was established in Madagascar in 1968. Today there are twenty-six EPICs, including a hospital, the national map-making firm and the tobacco monopoly. The CEM is the only financial organization with EPIC status. Unlike the commercial banks, however, it does not have the regulatory status of a "financial institution."

As additional background, there is one other main form of state-owned enterprise in Madagascar: the Société Anonyme d'Etat. This is identical to a privately owned S.A. (limited liability corporation) in legal structure, accounting requirements, and so on with one exception: the required minimum number of shareholders. A private S.A. must have at least seven shareholders; an S. A. d'Etat has only one, the State. The railroad in Madagascar is an S. A. d'Etat.

The 1985 decree contains two important articles relating to the CEM's reserve fund and its use of funds. Article 21 requires the CEM to create a reserve fund from the surplus of receipts over expenses, plus gifts, unclaimed accounts over 30 years old and any interest earned on the reserve fund itself. The CEM's minimal capital expenditures have been financed from this reserve fund. Article 22 states that the CEM is authorized to use up to 50% of its reserve fund and of money taken in as deposits for the following purposes:

- Contribute to loans for construction or acquisition of social (i.e, public) housing for the benefit of holders of an "Epargne-Logement" passbook
- Participate in investments in companies in which the State is a shareholder
- Participate financially in financial institutions (banks and national investment funds)
- Finance other "economic or social" operations.

At present, the CEM has no loans or investments of these types, as all of its funds have been deposited with the Treasury.

B. Board of Directors

The structure of the CEM is set forth in the 1985 decree. According to this decree, the CEM is governed by a Board of Directors which meets, in principle, at least once each year at a meeting called by the President. The last three meetings of the Board of Directors were held in December 1985, August 1990 and June 1992, or three times in eight years. The next meeting is expected to be held in March 1993.

The Board of Directors is composed of twenty members. The President and Vice President are the Minister of Finance and the Minister of Postal Services respectively. The other eighteen members are as follows:

- Minister of Agricultural Production and Agrarian Reform
- Minister of Animal Husbandry, Water and Forests
- Minister of Industry, Energy and Mines
- Minister of Public Works
- Minister of Economy and Planning

- Representative of the National People's Assembly
- Director of the Treasury
- Director of Financial Control
- Director of Postal Services
- Director of Postal Financial Services

- Eight CEM client representatives.

The CEM client representatives change every two years and are expected to play a role in increasing the number of accounts in their respective areas.

The role of the Board of Directors is to approve the CEM's budget, inspect and approve its accounts, settle any questions concerning its organization and functions, and decide on the appropriate use of the CEM's reserve capital and the investment of customer deposits (within the decree's guidelines).

Reporting to the Board of Directors are the Director of the CEM and the Chief Accountant (who is also the Chief Inspector). The Director is nominated by the Minister of Postal Services (responsible for technical supervision) while the Chief Accountant is nominated by the Minister of Finance (responsible for financial supervision) and the Minister of Postal Services. Significantly, the Chief Accountant reports to the Minister of Finance and not to the Minister of Postal Services.

C. Relationship to the Treasury

All EPICs are mandated to deposit their receipts at the Treasury. In the specific case of the CEM, according to the decree all funds received from depositors are transferred to the Treasury and the Central Bank of Madagascar (BCRM). Within the Treasury, the CEM's deposits are lodged with the Caisse de Dépôts et Consignations (CDC). A large deposit, formerly at the Central Bank, has been re-deposited at the National Bank for Industry (BNI) for reasons explained in Chapter V on the CEM's financial situation. While Article 22 of the decree allows the Caisse to use a portion of its deposits for investments and loans, since 1985 this has never been put into effect.

Significantly, the Caisse is the only EPIC in Madagascar that receives interest on its deposits with the Treasury because the CEM carries out a financial function. The Treasury sets the interest rates it pays the CEM for deposits. This means the CEM is not able to shop around for the most advantageous rate of return which could then be passed along to its customers. The Treasury also approves the rate the CEM may pay its depositors.

While there is no formal written guarantee by the Treasury or the State of CEM deposits, the CEM enjoys a strong implicit or "moral" guarantee. This was confirmed by the Directeur General of the Treasury in a meeting with the consultants. The implicit guarantee stems from the fact that the State is the sole owner of the CEM. Furthermore, while there is no formal or informal system of deposit insurance in Madagascar, since all deposits of the CEM are placed with the Treasury, by definition they are riskless for the CEM.

D. Relationship to the PTT Ministry

As mentioned above, the PTT Ministry is responsible for technical supervision of the CEM and nominates the CEM's director. In addition, the PTT has three seats on the CEM's board belonging to the PTT Minister, the Director of Postal Services and the Director of Postal Financial Services. The PTT Minister, by decree, is the board's Vice President. The Director of the CEM meets with the PTT Ministry on average once a week.

The operations of the CEM depend in many ways on the PTT's personnel and facilities as shown in Figure 1. In particular, the CEM has no independent sales force or distribution network. All personnel of the CEM are post office employees and all CEM outlets, with the exception of the main office (known as "A1"), are inside the post offices.

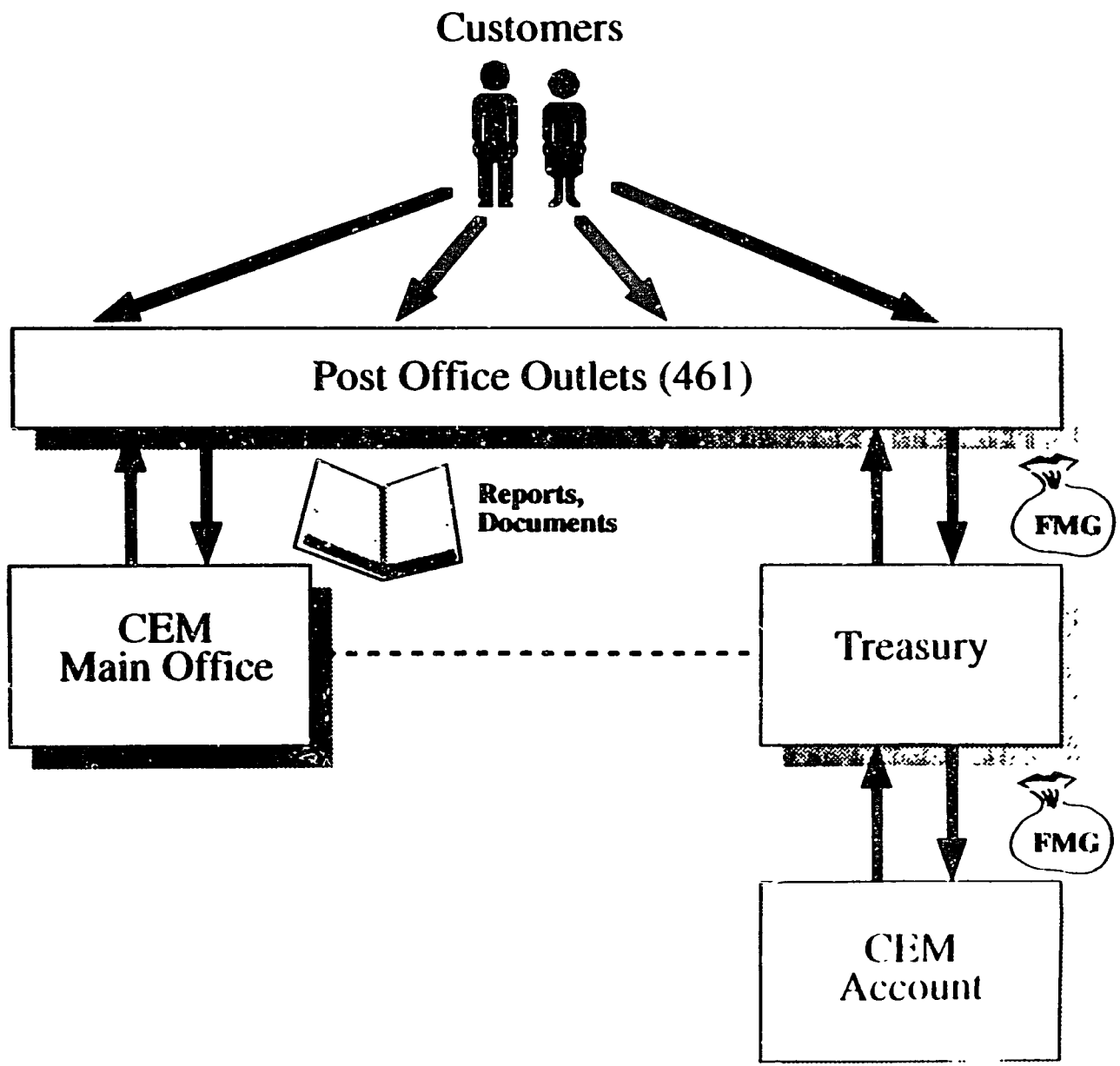
As of January 1993, several proposals had been made regarding restructuring the PTT. A common theme has been to separate the PTT's telecommunications services from the rest of the post office's operations and to create an independent telecommunications company. The remaining services - the CEM, the postal checking system ("CCP") and the traditional postal services (stamps, packages, letters, money orders) - might become separate subsidiaries of one large EPIC. Also under consideration is the creation of a nationwide payments clearing system or "girobank" that would include the CCP and/or the CEM. The CCP, traditional postal services and money order system ("mandats postaux") operate within the PTT and are not independent EPICs. Some of these proposals call for the CEM to lose its status as an independent EPIC. In addition, certain proposals for financial sector reform could have an impact on the CEM.

E. Relationship to the Ministry of Finance

The Ministry of Finance is responsible for financial supervision of the CEM and, along with the PTT Ministry, nominates the CEM's Chief Accountant. The Chief Accountant is the only person within the CEM who reports to the Ministry of Finance. This

Figure 1

Relationship Between CEM, Post Office, and Treasury



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reporting relationship helps to ensure compliance with EPIC accounting and other regulations, as well providing more general financial control over the Caisse's operations.

F. Relationship to the Central Bank ("BCRM")

Other than being a repository for CEM funds (per the decree), the Central Bank has no formal relationship with the CEM. The BCRM does not carry out any supervision of the CEM, even though the Caisse performs the bank-like function of accepting customer deposits. According to the CEM, the BCRM does not have any plans for such an examination.

One reason to perform a bank examination is to form an independent judgment of the quality of a financial institution's risk assets. Since the CEM's assets are deposited with the Government, it effectively has no risk assets. A further explanation for the absence of Central Bank examination, as described in the World Bank's March 1992 report (op cit), is that the BCRM's examination capabilities are, at present, quite rudimentary.

G. Strengths and Weaknesses

Following is an assessment of the CEM's principal strengths and weaknesses with respect to its legal and institutional framework.

1. Strength: EPIC Status

Because the CEM is an EPIC, it has its own Board of Directors to provide guidance and oversight and it must use quasi-commercial accounting principles much the same way a commercially-oriented company would. This facilitates a degree of business-like management and control of the enterprise, especially in comparison to state-owned Administrative Enterprises.

2. Strength: Implicit Government Guarantee of Deposits

Through Government ownership and the requirement that all of the CEM's deposits be at the Treasury or the Central Bank, customer deposits at the CEM enjoy a strong implicit Government guarantee. This risk-free status of customer deposits facilitates the CEM's efforts to mobilize savings, as customers incur no placement risk.

3. *Weakness: Determination of Interest Rates by the Treasury*

As market conditions change, the CEM is not free to negotiate the best return on its deposits (or the rates paid to savers) because the Treasury essentially determines this rate. Historically, the Treasury has preferred to keep this return at relatively low rates. In addition, the Treasury's review of these rates occurs infrequently at best (as discussed in Chapter III) which, in turn, constrains the CEM in adjusting the rates offered to savers.

4. *Weakness: The CEM May Make Loans and Investments*

According to Article 22 of the 1985 decree, the CEM is allowed to use a portion of its funds for loans and investments, potentially putting customers' deposits at risk. While this permission to make loans and investments has not been used since the March 1985 decree was issued, the only safeguard against risky or imprudent investments appears to be the self-restraint of management and the Board. Given the CEM's role as a popular savings institution and its lack of expertise in making credit and investment decisions, the surest way to avoid putting customer deposits at risk would be to eliminate Article 22.

5. *Weakness: Lack of Supervision by the Central Bank*

As mentioned earlier, since it is not a "financial institution," the CEM receives no supervision or examination by bank examiners, nor has it been the subject of review by the Chambre des Comptes or the Inspection Generale de l'Etat (see Chapter IV). As long as the CEM does not make any loans or investments, this weakness is not a serious one since its deposits are with Government institutions. If Article 22 is not eliminated or made more restrictive, the absence of supervision by the authorities will remain a potential weakness.

6. *Weakness: Composition of the Board of Directors*

The composition of the Board of Directors, consisting of twenty members, no longer reflects the current needs and realities of the CEM. For example, represented are the Ministries of Animal Husbandry, Water and Forests; Industry, Energy and Mines; and Public Works. Although the consultants did not have an opportunity to see the Board of Directors in action, we believe a smaller board would enable it to meet once a year as scheduled and would avoid inevitable delays in decision-making.

III. PRODUCTS AND SERVICES

A. Product: Passbook Savings

The CEM provides essentially one product, passbook savings. The Malagasy CEM is the only Malagasy financial organization to provide customers with their own passbook showing physical evidence of that person's savings.[2] This plays an important psychological role in attracting potential customers to the formal economic sector. Anyone, including foreigners, may open an account with the CEM at no cost. To open an account, a customer may either go to one of 46 main post offices ("section offices") distributed throughout the country for same-day service or apply for an account by mail at one of 415 other postal outlets. The minimum deposit is FMG 100 or approximately five US cents.[3] Prior to July 1, 1992, individual accounts could not exceed a balance of FMG 5,000,000. Currently, there is no ceiling on account balances. Only one account is allowed per person, with the exception of public accountants who may hold a second account for their professional use.

As discussed earlier, the interest rate paid on deposits is negotiated between the CEM and the Treasury. Historically, the rate has been below the rate of inflation, resulting in a negative real interest rate. From 1977 to 1980, the interest rate on deposits was 4.25%. This rate was increased to 4.5% in 1980 and remained at that rate until mid-1992. As of July 1992, the CEM began offering depositors two interest rates: a standard rate of 6.65% and a premium rate of 8.45%. To be eligible for the premium rate, the average account balance must be greater than FMG 50,000, must have increased during the year (when compared to the previous year's average account balance) and the customer must have made a maximum of four withdrawals. The premium rate was introduced in July 1992 in order to encourage greater savings.

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[2] Union Commercial Bank, a foreign bank which recently opened its doors in Antananarivo, also offers a passbook savings account with a minimum deposit of FMG 100,000. UCB is said to be studying the market in Madagascar before establishing a permanent presence.

[3] This calculation is based on the rate in effect on January 15, 1993 which was US $1 equals 1,892 FMG.

Evolution of Interest Rates at CEM	
1950	2.50%
1951 - 1963	3.00%
1963 - 1971	3.25%
1971 - 1977	3.75%
1977 - 1980	4.25%
1980 - 1992	4.50%
July 1, 1992	6.65% standard rate 8.45% premium rate
Source: CEM	

The interest earned on deposits at the CEM is tax free. In addition, the CEM passbook holder's taxable income can be reduced by a portion of the balance in the passbook.

The CEM only accepts deposits of cash, money orders or certified checks. Personal checks that have not been certified are not accepted. Depositors are allowed unlimited deposits but must wait for fifteen days between withdrawals.

The value date for a deposit (the date the deposit begins earning interest) is the sixteenth of the month for deposits made during the first half of the month (the first fifteen days) and the first of the following month for deposits made in the second half of the month. The value date for withdrawals follows a similar pattern.

Interest is calculated as follows:

(1) the account balance at the beginning of the year is multiplied by the applicable interest rate to produce anticipated interest income;

(2) as of their value date, deposits made during the year are multiplied by the applicable interest rate to produce additions to interest income;

(3) as of their value date, withdrawals made during the year are multiplied by the applicable interest rate to yield deductions from interest income;

(4) the anticipated interest income is adjusted by the additions to and deductions from interest income to produce total interest income for the year. This amount is then added to the account balance at the end of the year to produce "capitalized interest" (the account balance or "capital" plus interest).

In principle, interest is posted to an account (entered into the passbook) at the beginning of each year for the preceding year. The CEM, however, is just now posting interest for the year 1991. In August 1993, it intends to post interest for 1992. Beginning in 1994, the CEM anticipates that it will be back on schedule and will be able to post interest for the year 1993 in February 1994.

Interest is calculated and entered into all CEM passbooks at the head office in Antananarivo. This means that once a year, on average, all customers must give up their passbooks and send them to the capital. Depending on the remoteness of the location and the frequency of postal deliveries, the period during which the customers passbook is not available may range from two weeks to one or two months. According to CEM management, the time required to post interest is generally two weeks, such that the most important variable affecting the amount of time a customer must wait to have the passbook returned (i.e., the weakest link in the chain) is the speed of postal service.

The CEM conducts a nationwide advertising campaign to notify customers when it is time to turn in their passbooks to have their interest added. During the last campaign, the CEM placed advertisements in the newspapers, on the radio and on television over a six week period. The customer is given a receipt for the passbook and is entitled to make one withdrawal of not more than FMG 15,000 until the passbook is returned. According to some postmasters, this is a great inconvenience for the customer.

B. Delivery System

Compared to the five commercial banks, the CEM has available the largest delivery system in Madagascar. As of January 1993, the total number of post office windows handling CEM activities was 461. This includes the main office in Antananarivo, 46 full-service "section" offices, 100 local account offices ("bureaux à compte locaux"), 71 smaller satellite offices ("bureaux satellites"), 139 reduced-hour post offices open only four hours per day ("bureaux de poste restreint") and 104 reduced-hour "Class One" postal agencies open only two hours per day ("agences postales attribution AP1").

Total Number of CEM Outlets	
Main Office (#A1)	1
Section Offices	46
Local Account Offices	100
Satellite Offices	71
Reduced-Hour Post Offices	139
Reduced-Hour Postal Agencies	104
Total	461
Source: CEM	

A section office offers the most complete range of services on the spot, including opening an account ("premier versement"), making subsequent deposits ("versement ultérieur") and withdrawals ("remboursements"). The section offices are also responsible for collecting, reviewing and forwarding to the main office many of the transaction reports prepared by the individual local account offices and satellite offices.

The local account offices allow customers to make a deposit or a withdrawal on the spot, usually within fifteen to thirty minutes. The satellite offices allow customers to make deposits of up to FMG 25,000 or 10,000 (depending on the grade of the office) on the spot, but in order for the deposit to be recorded, the passbook and deposit slip must be sent to the section office.

Services Provided On the Spot By Type of Outlet			
Type of Outlet / Service	Section Office and #A1	Local Account Office	Satellite Office
Open Account	X		
Withdraw Funds	X	X	
Deposit Funds	X	X	X
Source: CEM			

For other transactions, such as making a withdrawal from a satellite post office or opening an account at a reduced-hour postal agency, the customer must fill out the appropriate forms and have them sent by mail to the appropriate section office for handling. The amount of time required to complete the transaction depends primarily on the frequency of mail delivery and the remoteness of the post office. A deposit can be made in two to three days if the section office is nearby and mail is delivered daily.

As the volume of CEM business at a post office grows, the CEM may request that it be turned into a section office or a local account office. In 1992, four satellite offices were converted into local account offices. In general, about four satellite offices are converted into local account offices each year.

Although Madagascar is said to have one of the largest networks of post offices in all of Africa, some villages are as much as 60 kilometers away from the nearest postal outlet. In such remote areas, mail may be delivered once a week on foot. As a result, making a deposit or a withdrawal may take as much as two months to complete, especially if it is the rainy season. This is partially because once the rural postal outlet receives the customer's documents, the postmaster must forward them to the appropriate section office handling the customer's account which may be several hundred kilometers away. This means that the CEM's ability to mobilize savings depends greatly on the rapidity and quality of postal services.

In the case of an urgent need for funds, a customer may go to the nearest post office and request a telegraphic withdrawal of up to FMG 25,000 at a cost of FMG 3,000 to 5,000. This, however, is expensive and is generally done only in an emergency.

The CEM expects to receive authorization to offer emergency withdrawals ("remboursements de dépannage") beginning February 1, 1993. This will allow a client to go to the main office (#A1) or any of the section offices to make an immediate withdrawal from his or her available account balance.

C. Historical Data on Accounts

The number of passbook savings accounts has grown steadily over the last eight years, despite weaknesses in the overall economy. From 1985 to 1991, the number of accounts increased from 196,722 to 245,763 or 25%. The volume of deposits increased from FMG 6.6 billion to FMG 10.6 billion or 61% as shown in the following table. The total number of passbooks at the end of 1992 is estimated at 260,000.

Growth in Total CEM Accounts and Deposits, 1985 to 1992		
Year	No. of Accounts	Total Deposits
1985	196,722	6,571,344,459
1986	205,299	7,204,984,459
1987	211,935	8,352,458,550
1988	221,366	9,193,901,514
1989	230,523	10,270,685,803
1990	239,881	10,986,540,590
1991	245,763	10,607,917,137
1992 Est.	260,000	Not available
Source: CEM		

The largest concentration of accounts is in Antananarivo where there are 176,000 accounts (72% of all accounts). It is estimated that one person in six in Antananarivo has a passbook. The most important provinces in terms of the total volume of deposits held by customers are first, Antananarivo; second, Tamatave; third, Fianarantsoa; and fourth, Mahajanga.

D. Marketing

The CEM's most important marketing tool is the symbol of the ant carrying grains of rice on its back which appears on every passbook and is used in promoting the CEM. This symbol should be prominently displayed at the post office to allow visitors to immediately identify which window handles CEM transactions and to increase the CEM's profile. At one of the largest post offices in Antananarivo, the consultants had to ask for assistance to find the window handling CEM transactions since "Caisse d'Epargne" was handwritten at the bottom of a small sign advertising another service. At the post offices visited outside of the capital, the signs indicating the CEM were even smaller and harder to read. This lack of publicity at the post offices should be remedied.

The CEM's ability to attract additional savers is limited by the lack of any full-time marketing personnel. The top three managers of the CEM have had some training in marketing, however no one individual is able to work on marketing on a full-time basis.

Management has planned the following marketing activities for 1993:

- Visits to fifteen post offices in the south to encourage an increased level of client service.
- Training of all postmasters handling CEM transactions (or the 46 section office postmasters, depending upon the availability of funds) to encourage increased customer service among their employees.
- Visits to towns in various parts of the country on market day to describe the benefits of having a savings account and to open new accounts.
- Visits to schools and companies to open new accounts (under consideration).

While these activities appear to be very worthwhile, CEM management needs to prepare a comprehensive long-term marketing strategy. This strategy should include specific targets and activities for at least the next three to four years and should take into account the CEM's available financial resources and personnel.

CEM management recognizes that in order to increase its client base, it needs to aggressively search for new clients rather than to wait for clients to come to the CEM. The CEM's marketing strategy should be based on a careful analysis of its existing and potential clientele. The CEM is in the process of entering information into a computer on the age, occupation and gender of customers whose accounts have registered at least some activity in the last five years. Missing, however, is information on the total population for each of the 46 sections, the average salary per section and the proportion of CEM accounts to the total population (as a measure of market penetration). Some of this information may be available from the Malagasy government. The analysis of this information will be important in developing a multi-year marketing plan.

1. Advertising

In 1992, after the CEM introduced the premium rate of interest for steady savers, it conducted a large nationwide advertising campaign. It sent circulars announcing the new rates to postmasters throughout the country and printed calendars for distribution to

customers. It also ran television ads, both to advertise the new rates and to announce that customers should turn in their passbooks to have their interest posted.

According to CEM management, the volume of net deposits grew substantially in the months following the increase in interest rates. Although August and September are usually months during which withdrawals exceed deposits (because of school year expenses), in August of 1992, net monthly deposits totalled FMG 121,000,000 (against average net monthly deposits of FMG 30,000,000 to 40,000,000). Net deposits for the first twenty days of September 1992 were FMG 95,000,000 which, at a monthly rate, implies a total of FMG 142,500,000.[4] The response to the increase in interest rates was most notable in the center and north of the country.

E. Competition

Among the following four commercial banks in Madagascar - the National Bank for Rural Development (BTM), the Bank of Commerce (BFV), the National Bank for Industry (BNI) and the Banque Malgache de l'Ocean Indien (BMOI) - the largest and the least profitable is the BTM. BTM has the largest rural branch network and might be considered CEM's greatest competitor except that it does not offer passbook savings. In fact, the only Malagasy financial institution that offers customers a passbook, which provides physical evidence of the customer's savings, is the CEM. In attracting first-time savers, the importance of the passbook cannot be underestimated. One foreign-owned bank, Union Commercial Bank (UCB), which recently opened an office in Antananarivo, also offers passbook savings, but the minimum deposit is FMG 100,000, or approximately one month's wages for the average civil servant.

Three banks in Madagascar offer savings programs that allow the customer to withdraw money as needed (as opposed to offering certificates of deposit and "blocked savings accounts"). These three are BNI, BMOI and UCB. Compared to the CEM, which requires a minimum deposit of FMG 100, the BMOI requires a minimum deposit of FMG 300,000; the BNI requires a minimum deposit of FMG 200,000; and the UCB requires a minimum deposit of FMG 100,000. The CEM, therefore, is really the only financial institution in Madagascar that is accessible to virtually everyone.

[4] Figures for the full month of September 1992 were not available as of January 30, 1992 when the consultants departed.

In addition, compared to BNI, BMOI and UCB, the CEM pays the highest rate of interest on passbook savings and has the largest rural network as shown in the following table.

Comparative Savings Account Terms and Conditions				
Institution / Terms & Conds.	BNI	BMOI	CEM	UCB
Min. Deposit to Open Acct (FMG)	200,000	300,000	100	100,000
Maximum Withdrawals	Every 15 days	No limit	Every 15 days	No limit
Annual Interest Rate	5.5%	5.5%	6.65% standard 8.45% premium	6.0%
No. of Outlets	22	6	461	1
Source: Price Waterhouse Market Survey, January 1993				

Significantly, during the nationwide strike in 1991, which lasted for seven months, the CEM was the only financial institution in Antananarivo to keep its doors open, although for only three days a week. According to CEM management, when the leaders of the strike threatened to close down the CEM, the CEM's customers opposed the effort, thus keeping the doors open. The commercial banks, meanwhile, were closed. In Betafo, the post office, including the CEM window was open every day for eight hours a day. BTM, the commercial bank, stayed open for only two hours a day.

F. Strengths and Weaknesses

Following is an assessment of the principal strengths and weaknesses noted with respect to the CEM's products and services.

1. *Strength: Low Minimum Deposit Requirement*

The CEM requires a minimum deposit of FMG 100 to open an account, compared to FMG 100,000 to FMG 300,000 at the local banks. Thus, virtually anyone in Madagascar can open an account at the CEM.

2. *Strength: Large Distribution Network*

Through the postal system, the CEM has the largest network of distribution outlets of any financial institution in Madagascar. Moreover, it has the exclusive right to offer savings accounts through the postal system.

3. *Strength: Comparatively High Interest Rates*

The CEM has the highest interest rate of any financial institution in the country on a savings account offering withdrawal privileges. In order to earn a higher rate of interest at a commercial bank, the customer may buy a certificate of deposit or open a blocked savings account, however, the minimum requirement tends to be prohibitively high and the customer loses withdrawal privileges. At the BFV, for example, the minimum for either a certificate of deposit or a blocked savings account is FMG 500,000. At the BTM, the minimum requirement for a six month certificate of deposit yielding 6.5% is FMG 500,000 and for a one year certificate of deposit yielding 7.5% the minimum requirement is FMG 150,000.

4. *Strength: Use of a Passbook*

As mentioned earlier, the CEM is only financial institution in Madagascar (other than the UCB) which provides customers with their own passbook showing physical evidence of that person's savings. This plays an important psychological role in attracting potential customers to the formal economic sector.

5. *Weakness: Delay in Posting Interest*

The CEM is only now beginning to post interest on accounts for the year ending 1991. Since interest payments are one of the principal motivating factors for holding a passbook savings account, this discourages increased savings.

6. *Weakness: Lack of Continual Access to Savings*

During the period that interest is being posted to the account and for fifteen days after any withdrawal, the customer is denied access to his or her savings. In an emergency such as a death in the family or an unexpected medical expense, this is a serious hardship for the customer. As noted, however, the CEM expects to receive authorization to offer emergency withdrawals beginning February 1, 1993.

7. *Weakness: Dependence on the Postal Delivery Schedule*

Another weakness of the CEM is its dependence on the PTT to handle the delivery of passbooks and account information between customers and the appropriate CEM outlet, and between the CEM outlets and the main office. The amount of time required to make a withdrawal, for example, may take up to two months if the customer lives fifty or more kilometers from a satellite office and the postal agent only delivers mail once a week on foot. Providing these postal agents with bicycles or mobylettes would accelerate mail delivery to distant areas.

In addition, the main CEM office is dependent on the PTT to receive regular transaction reports from the various outlets. This causes a substantial delay in producing financial reports for the CEM as a whole.

8. *Weakness: Lack of a Multi-Year Marketing Plan*

Although management has developed a sensible approach to marketing, the CEM needs to develop a long-term marketing strategy to better mobilize savings in rural areas and throughout the country. This should be based on a careful assessment of existing and potential customers in each geographical region.

9. *Weakness: Lack of Promotional Material*

A potential customer seeking information on opening an account at the CEM will find that no printed material is available. In fact, when the consultants requested information on the CEM's passbook savings at a large post office in Antananarivo, they were told they had to go to the main CEM office one to two kilometers away for information. By comparison, a potential customer visiting one of the commercial banks in Antananarivo is directed to a sales agent for information and is given a glossy brochure (at BMOI and BNI) or a simple information sheet (at BTM and BFV) with basic product information. While the CEM has opened a customer service window at its main office (#A1), at a minimum, other postal outlets should offer printed basic product information.

10. Weakness: Lack of Advertising at Each Outlet

During visits to two section offices and one satellite office outside of Antananarivo, the consultants found that the window handling CEM transactions was poorly marked and that the circular announcing the increase in interest rates was not posted. A poster advertising the CEM appeared in one section office but it reflected the old interest rate of 4.5% instead of the new rates. Post offices should receive periodic visits to see that the CEM services are adequately advertised.

11. Weakness: Lack of Marketing Personnel

The responsibility for marketing is currently being shared by the Director, the Chief Accountant, and the Section Chief for Control and Operations. Given their other duties, no one is able to take on full-time responsibilities for developing promotional materials, organizing marketing trips or training postal agents in providing better service.

IV. ORGANIZATION, MANAGEMENT AND OPERATING PROCEDURES

A. Organizational Structure

As shown in the Organizational Chart (Figure 2), there are two services reporting to the Director of the CEM: the Service of Information and Relations and the Service of Control and Operations. The Service of Information and Relations is responsible for processing information relating to customer accounts, as well as performing such services as marketing, procurement, training and personnel management. The Service of Control and Operations is responsible for accounting, auditing, budgeting and finance. Many of these activities overlap with a third department, as yet unnamed, headed by the Chief Accountant. This department is responsible for auditing transactions and periodic reports, overseeing and posting interest to accounts, tracking funds deposited with the Treasury and preparing annual budgets and financial statements.

B. Management

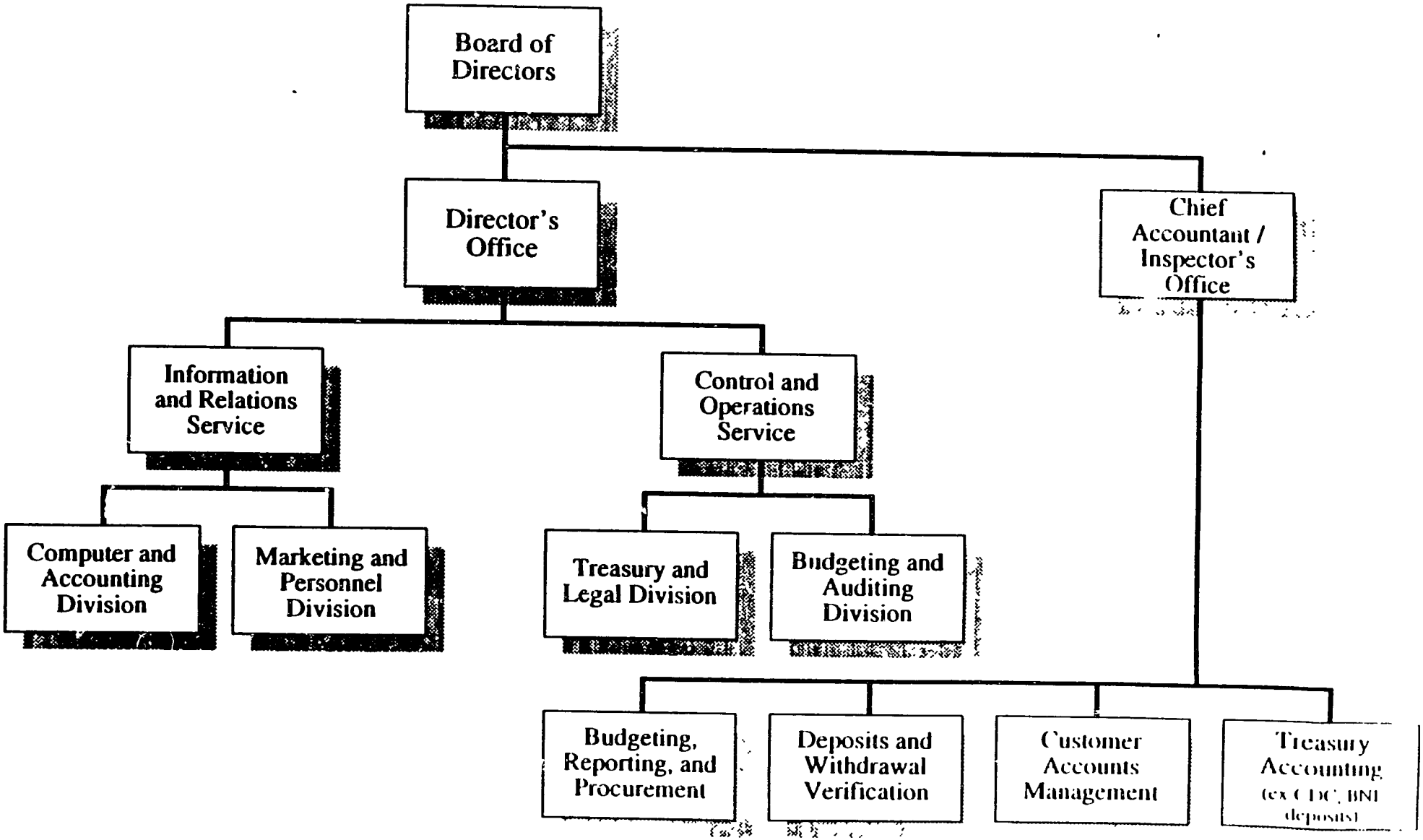
The current Director of the CEM is Mr. Paul André Andriamamonjisoa, who has worked for the postal service for 24 years and has held this post since 1986. The Chief Accountant and Inspector is Mr. Fulgence Rakotondrahaja who has worked for the postal service since 1974 and has held his post since April 1992. The next highest ranking person is Mr. Dominique Rajerison, the Chief of the Control and Operations Service. All three are highly qualified for their positions, extremely knowledgeable about the CEM and eager to see it improve. Although they would like the CEM to begin to offer credit services, it should be noted that none of them or their staff has received any formal credit training.

C. Personnel

The CEM currently has 45 full-time employees based at the headquarters in Antananarivo, compared to about 40 CEM employees five years ago. In addition to the staff at the main office, the equivalent of approximately 350 full-time postal employees handle CEM transactions in the main office (#A1), local account offices and satellite offices. An additional 243 postal employees handle CEM transactions on an occasional basis at the reduced-hour post offices and postal agencies. Thus, approximately 638 employees work for the CEM on a full-time or occasional basis, out of approximately 5,000 total postal workers.

Figure 2

Current CEM Organization Chart



2/a

Certain staff grades (those with diplomas) are recruited by competitive examination. The degree of competition is sometimes so great that an applicant has a one to two percent chance of being hired. Staff turnover at the CEM is reported to be low.

A significant feature of the CEM is that its services are provided primarily by post office employees who do not report directly to the CEM. As a result, the CEM depends on another organization, namely the post office, to collect deposits, issue repayments, open new accounts and provide accurate reporting. On the one hand, this denies the CEM control over the hiring, firing and compensation of employees. On the other hand, it relieves the CEM of the burden of managing a large bureaucracy. In addition to paying the salaries of the 45 staff in its main office, the CEM pays the social charges of postal service employees, whose salaries are paid by the Ministry of Postal Services.

The CEM used to have an incentive program for postmasters and postal agents to encourage improved customer service. Until June 30, 1992, each postal agent was given a fixed bonus of FMG 1,000 per month and each postmaster was given FMG 1,200 per month, regardless of their level of effort. The CEM has proposed to replace these fixed bonuses with an incentive program based on the volume of transactions at each post office.

D. Operating Procedures

The basic operations of the CEM pertain to: (1) opening an account, referred to as making a "first deposit" ("premier versement"), (2) making a subsequent deposit ("versement ulterieur"), (3) making a withdrawal, (4) posting of interest, and (5) closing an account. The CEM has adopted a multi-step process for handling these operations that provides a number of checks and balances against customer error, employee error or fraud. Throughout this process, movements of cash are handled directly between the post office and the Treasury. The basic procedures for each of the operations are described below.

1. Opening an Account (Making the First Deposit)

To open an account, a customer must complete and sign a one-page form in duplicate with the applicant's name, address and other particulars and show proof of identification. This form is then signed, dated and stamped by the postmaster. As mentioned earlier, a minimum deposit of FMG 100 is required to open an account. Only the 46 section offices can open an account on the spot. Applications from the other postal outlets must be sent to the nearest section office.

2. Subsequent Deposits

To make a subsequent deposit, the customer fills out a small form with his or her name, address, account number, date and the deposit amount and presents it to the teller along with the sum to be deposited. The teller records the amount in the passbook in writing, then cuts along a special form to represent the amount of the deposit. One half of the form is pasted in the passbook; the other half is sent to the main office in the capital for control purposes. This operation is often done with a pair of blunt scissors and a dark, somewhat messy but inexpensive glue. A better method would be to enter the deposit amount with a key-pressed machine if these were available.

Next, the passbook, form and deposit money are presented to a supervisor for review. Once approved, the amount of the transaction is entered into the teller's logbook and the customer is called to retrieve the passbook.

3. Withdrawals

The procedure followed to make a withdrawal is somewhat more complicated: to make a withdrawal, the customer must fill out and sign a one-page form and present the passbook and a form of identification to the teller. The signature on the form is checked against the signature card kept on file for each customer. The teller completes the rest of the form, stamps and dates it and forwards it to a supervisor for review. The customer's account balance is verified to make sure that there are sufficient funds available in the account. Once the teller is authorized by the supervisor to make the payment, the details of the transaction are recorded in the teller's logbook and the customer is called to retrieve the passbook and cash.

The length of time necessary to make a withdrawal depends on what type of office the customer goes to and the customer's relationship to that office. For example, if the customer goes to the section office where his or her account was originally opened, a withdrawal can be made on the spot in as little as fifteen minutes. However, if the customer goes to a local account office or satellite office where his or her passbook information and signature card are not on file, the postmaster must send the request for a withdrawal to the appropriate section office to verify the account balance and request authorization for the withdrawal. This can take anywhere from a few days to a few months, depending on the remoteness of the location. In the meantime, the customer is given a receipt for the passbook.

4. *Posting of Interest*

In order to get credited for the interest earned on an account, the customer must take his or her passbook to the local post office once a year. The post office gives the customer a receipt and mails the passbook to the CEM head office in Antananarivo where the interest on each and every CEM account is calculated and posted. During this time, the customer does not have access to his or her savings except for a one-time FMG 15,000 "loan" from the Postal Checking Service. Customers are notified by radio or newspaper each year when it is time to turn in their passbooks to have their interest credited.

Accelerating the posting of interest should increase the CEM's ability to mobilize savings. To this end, the CEM installed a computer system which it used to calculate interest payments for the first time last year. In previous years, this task was subcontracted.

While computerization has helped to reduce the time required to post interest, the CEM is still at the mercy of the PTT to carry passbooks to and from the capital. Until postal delivery services are improved, some customers will still be denied access to their savings for as much as several months.

5. *Closing an Account*

In order to close an account, the customer must fill out a form which is mailed with the customer's passbook to the main office in Antananarivo. There, the customer's account balance is checked, the amount of interest earned is calculated and posted to the account, authorization to withdraw the total balance in the account is given and the passbook is marked "closed" and kept on file.

E. Reporting Procedures

Reports are prepared by each CEM outlet on a daily, bi-monthly and monthly basis. The local account offices and satellite offices send daily reports on deposits and withdrawals, along with the relevant back-up documentation such as deposit and withdrawal slips, to their particular section. The section office collects and forwards this information, along with their own daily reports, to the main office in Antananarivo. Every fifteen days, each of the 461 CEM outlets prepares a bi-monthly report which is sent directly to the main office and is checked against the information forwarded by the sections for any discrepancies.

In addition, each postal outlet in the country completes a monthly report and sends it to the PTT in Antananarivo. This report is sent, first, to the national office in charge of money orders; second, to the CEM; and third, to the offices in charge of other postal operations. While this four-page report includes over fifty line items pertaining to postal transactions (sales of stamps, money orders, etc.), it also contains three line items relating to the CEM:

- Total monthly initial deposits (for new accounts)
- Total subsequent deposits
- Total disbursements (withdrawals).

F. Accounting

Although closely tied to the postal network, the CEM produces separate financial statements and budgets. This is because the CEM is an Industrial or Commercial Public Enterprise ("EPIC") instead of being an Administrative Enterprise like the PTT. As mentioned in Chapter II, EPICs must follow certain prescribed rules of accounting which are closer to commercial accounting than government accounting standards. The CEM has benefitted greatly by having its own accounts. In particular, it was not until the CEM became an EPIC with its own accounts that it discovered the lack of interest earned on a major deposit with the Central Bank (as discussed in Chapter V).

G. Auditing

The Chief Inspector is responsible for verifying the CEM's accounts and is directly responsible to the Chambre des Comptes (similar to the U.S. Government Accounting Office). In theory, both the Chambre des Comptes and the State Inspector General examine the CEM's accounts. The Chambre des Comptes, however, has not reviewed the CEM's accounts for the last fourteen years and is so behind in its work that it has refused to accept more recent financial information on the CEM. It should be noted that the CEM has never had an external audit to verify its accounts.

H. Management Information Systems

The CEM currently has one micro-computer and six computer terminals linked to one mini-computer. CEM staff are in the process of entering account records for customers in Antananarivo into the mini-computer using software developed by a local firm. The hardware is made by an American firm, National Cash Register (NCR). When completed and tested, this should reduce the customer's waiting time at the window at the main office (a known customer irritant) by as much as 15 minutes, since tellers will

be able to instantly pull up a customer's record instead of searching for it in a separate storage room. The computer system will also generate reports on daily deposits and withdrawals, enabling rapid verification of the cash drawer position. Furthermore, it will reduce the amount of time it takes to prepare periodic reports used by management.

In addition to Antananarivo, the CEM is computerizing customer accounts in Fianarantsoa, Madagascar's second largest city, using a micro-computer and plans to install similar systems in five other centers. Even after all of those systems are operational, however, data transfer with the CEM's main office in Antananarivo by diskette will still be subject to the vagaries of the mail delivery system.

Computer services at the CEM are managed by a Computer Engineer who was specially recruited for this purpose. The Engineer is responsible for supervising the entry of account records, training staff and handling any software problems. The Engineer also supervises the use of a second software program to track the collection and movement of funds at each of the CEM outlets.

I. Physical Resources

At the CEM's main outlet (#A1), which conducts more business than any other single office, a customer may go to one window to open an account, two windows to make a subsequent deposit and four windows to make a withdrawal. An attendant in the information booth distributes the necessary forms and directs customers to the appropriate window. This main office, as well as all other CEM outlets (section offices, local account offices, etc.) are physically part of the postal system.

Depending on the size and importance of the section office, a customer may go to one window to open an account and make subsequent deposits and a second window to make withdrawals. At smaller offices, one window generally handles not only CEM transactions but other post office business.

The headquarters of the CEM are badly in need of renovation. Plaster from the ceiling is missing in several places, the floors and walls are worn and the #A-1 teller windows and CEM back office are extremely cramped and poorly lit. Unless additional space is found soon for recordkeeping and storage, the CEM will be so cramped that it will have difficulty in storing the records associated with opening any new accounts. Through age, handling and lack of adequate storage space, certain records (especially those pertaining to accounts opened twenty or more years ago) are faded and difficult to read.

The CEM has two vehicles, one of which has four wheel drive and is used intensively for visits to offices outside the capital.

J. Security

Cash flows into post offices through CEM deposits, the sale of postage stamps and mandats and other transactions; it flows out of the post office through CEM withdrawals and transfers to the Treasury. If a post office is short of cash, it may contact another post office to replenish its drawer. In Antananarivo, this cash is frequently put in a sack and taken to the cash-short post office by foot. Postal agents in rural areas are also entrusted with customer deposits. While there have been no reports of theft, this raises an important concern relating to security and should be further examined.

K. Strengths and Weaknesses

1. Strength: Management Team

One of the CEM's strengths is its hardworking, dedicated management team. As mentioned earlier, the three most senior officers are highly qualified, extremely knowledgeable about the CEM and hardworking.

2. Weakness: Lack of an Independent Audit

Although the Chambre des Comptes and the State Inspector General are supposed to review the CEM's accounts, in practice the CEM is not subject to any sort of independent audit. According to CEM management, the Chambre des Comptes has not yet completed its review of the CEM's 1979 accounts and has refused to accept any more recent financial information.

While the CEM's operating procedures provide a number of checks and balances against error and fraud (having adopted the French system) which may be adequate, there is no way of knowing this without at least a review of its control systems. In our judgment, this is one of the most serious weaknesses encountered at the CEM.

3. Weakness: Lack of a Clearly-Defined Organization Structure

There is considerable overlap between the CEM's two main departments and a third department, as yet unnamed. In addition, the responsibilities handled by each of the two main departments are extremely broad, creating unnecessary ambiguity.

4. *Weakness: Reliance on Postal Employees*

As mentioned, the CEM's services are provided primarily by postal employees who do not report directly to the CEM. This denies the CEM control over hiring, firing and compensation of employees. It also prevents employees from gaining a sense of loyalty or dedication to the CEM.

5. *Weakness: Procedures for Posting Interest*

Once a year, all passbooks are sent to the main office in Antananarivo where the accrued interest is calculated and posted. During this time, the customer does not have access to his or her savings, creating considerable hardship in the event of an emergency. Although computerization has helped to reduce the time required to post interest, this does not reduce the amount of time required for the passbook to travel to and from the capital through the postal system.

6. *Weakness: Physical Resources*

The CEM's main office is extremely cramped and in need of renovation. Additional space is need for recordkeeping, as well as basic office equipment such as filing cabinets and bookshelves.

7. *Weakness: Security*

As mentioned, transfers of funds between post offices are frequently made by a courier travelling on foot, involving considerable risk of theft.

V. FINANCIAL SITUATION

A. Overview

Through 1985, annual reports on the CEM's activities did not include complete balance sheets and income statements. After the CEM became an EPIC, however, management revised its accounting procedures, adopted the standard chart of accounts used by EPICs and began producing annual income statements and balance sheets. Subsequently, a major error in the earlier reports was noticed: over the years, the CEM's revenues and assets had been overstated by approximately FMG 2.5 billion, amounting to over 30% of reported total assets at the time.

The explanation for this major oversight dates back to the period when Madagascar left the CFA franc area in 1975. Until this time, the CEM's deposits were maintained with the Caisse d'Epargne in France. Upon leaving the CFA franc zone, the CEM's deposits, totalling approximately FMG 2.5 billion, were repatriated and deposited in an account at the Central Bank. Subsequently, the CEM recorded interest on this deposit as if it were earning the same rate as it earned on its deposit with the Caisse de Dépôts et Consignations (CDC) during this period, or 7% per annum. As of December 31, 1985 the amount of this deposit plus accrued interest was as shown as FMG 5.0 billion in the CEM's annual reports.

After the CEM became an EPIC, management had direct access for the first time to statements on its two main deposit accounts at the Central Bank and the CDC. In preparing the CEM's accounts for 1986, the Chief Accountant noted that the statements from the Central Bank showed a total of FMG 2.5 billion instead of FMG 5.0 billion. In fact, the CEM had never earned any interest at all on the deposit at the Central Bank for over 10 years. Investigating the matter further, the Chief Accountant ascertained that the Central Bank's statutes prohibit it from paying interest on such accounts. The deposit was therefore moved to the Treasury in 1987.

In order to make up for the years during which it earned zero interest, CEM management argued successfully with the Treasury that the rate on this deposit should be set higher than the 7 % p.a. being paid on the CDC deposit. As a result, the Treasury placed the funds at a commercial bank, the BNI, where they earn a rate of 12% per annum.

Management subsequently decided to revise its accounts for the prior years to have an accurate picture of the CEM's financial condition. This task was completed in 1990. The restated accounts show that the CEM had paid more interest to its depositors than

it had earned on its deposits throughout the ten year period that the FMG 2.5 billion deposit was at the Central Bank. This resulted in the CEM having accumulated losses of FMG 1.2 billion as of December 31, 1985 and FMG 1.5 billion as of December 31, 1987. At December 31, 1991 the total amount of the FMG 2.5 billion deposit had grown to FMG 4.3 million, still well below the FMG 5.0 billion that the CEM thought it had six years earlier. This episode explains much of the CEM's current financial weakness.

B. Financial Statement Review

The CEM's balance sheet and income statement have been restated in Appendix B in a format that more closely resembles U.S. financial statements. It should be noted that these accounts have not been audited and do not conform to Generally Accepted Accounting Principles, nor have the accounts received any other independent outside review in over a decade. Notes on the methodology used to restate the accounts are presented in Appendix C.

1. Balance Sheet

Assets

The CEM's total assets, in nominal Malagasy francs, increased from FMG 6.1 billion in 1985 to FMG 10.3 billion in 1991 (approximately US $5.7 million). As illustrated in Figure 3, deposits at the Treasury make up over 90% of total assets. The balance in the CDC account varies throughout the year with changes in net customer deposits and withdrawals made to cover the CEM's operating expenses and capital expenditures. The balance in the BNI account only changes to reflect accrued interest.

In 1991, during the seven month general strike, customers made net withdrawals. The amount withdrawn was not fully offset by interest income for the year. This, plus a slightly increased level of capital expenditures, explains the decline in deposits at December 31, 1991. Management expects net customer deposits to increase in 1992 for two main reasons: first, the strike has ended, and second, the interest rate on customer deposits was increased from 4.5% p.a. to 6.65% (standard rate) and 8.45% (premium rate), which has already begun to attract additional deposits.

In 1961 the CEM made a thirty-year loan to the State in an original amount of CFA (now FMG) 120 million at an interest rate of 5.5% p.a. However, the balance sheet for 1991 shows FMG 7 million for this loan corresponding to the current year's installment only, The final installment of the loan was repaid in 1992.

The CEM's most valuable fixed asset is its five-story office building in central Antananarivo. The ground floor is rented to the CCP. The second floor houses the eight CEM customer windows (Bureau #A1) plus the CEM's own office and archive space. The remaining floors are used by CEM and senior PTT officials as apartments. Other major fixed assets include the CEM's computer equipment and two vehicles.

Liabilities and Net Worth

The CEM's total liabilities, in nominal Malagasy francs, increased from FMG 6.6 billion in 1985 to FMG 10.6 billion in 1991 as shown in Figure 4. Customer deposits constitute virtually all liabilities. They declined in 1991 as customers withdrew their savings during the seven-month strike. Otherwise, these funds have proven to be quite stable.

Net worth is presented in Appendix C as the sum of the Special Reserve Fund and retained earnings. Retained earnings, in turn, reflect two distinct elements: net loss carry-forwards and the current year's net profit or loss. The net loss carry-forward is due to the zero interest earned on the CEM's deposit at the Central Bank as described earlier, which generated a loss carry-forward of over FMG 1 billion. This amount exceeds the amount in the Reserve Fund account, thus producing negative net worth as of December 31, 1985. This net loss carry-forward has been reduced somewhat as the CEM began to make operating profits but remains significant. In 1991, net worth declined by FMG 361 million due to the purchase of computers (FMG 320 million).

Finally, it should be noted that the CEM does not set aside any portion of the Special Reserve Fund as permanent reserves, as required of banks. In fact, the 1985 decree and subsequent Board and management policies contain very few restrictions on the Fund's use.

Balance Sheet Weakness

Because of the zero interest episode, the balance sheet is still heavily burdened by the inherited loss carry-forward. Two aspects of balance sheet weakness should be distinguished: liquidity and leverage/net worth.

The liquidity of the CEM can be defined in two different ways, depending on the treatment of the portion of the Treasury deposits which the CEM attributes to the Special Reserve Fund. First, "gross liquidity" can be defined as the sum of the Caisse's two deposits at the Treasury minus deposits from customers. Gross liquidity was slightly positive in 1983 (despite zero interest on the account at the Central Bank). It turned negative in 1984 but began to improve once the zero interest situation was remedied,

and by 1989 was again slightly positive. The positive gross liquidity position achieved in 1990 was eroded in 1991 under the pressure of net customer withdrawals and computer purchases.

Second, "net deposits" can be defined as the sum of the Caisse's two deposits at the Treasury minus the amount of those deposits earmarked for the Special Reserve Fund minus deposits from customers. Under the operating procedures the Caisse uses for the Special Reserve Fund, it is the net deposit figure that can be considered freely available if necessary to meet customer withdrawal requirements. Over the nine years for which comparable figures are available (1983 to 1991), "net deposits" have been negative, declining by FMG 100 million in 1991 to reach minus FMG 1.1 billion.

Total leverage on the balance sheet is also unfavorable because of persistent negative net worth, as described in the preceding section. Until net worth becomes positive, calculation of a debt/equity ratio is meaningless.

Although it may take several years to absorb the operating loss carry-forward and reach a position where net deposits and net worth are positive, there is room for more optimism on the gross liquidity position. Improvement here will depend on the CEM's success in raising interest income further and in keeping growth in capital expenditures, - which is essential for development after years of neglect, in line with growth in cash flow.

It is worth recalling that in theory all of the Special Reserve Fund can be spent, if the Board and management so decide. The March 1985 decree and subsequent Board and management policies contain no other basic restrictions on the Fund's use. Specifically, in its accounting and in its practices the CEM does not earmark or set aside any portion of the Special Reserve Fund for "permanent" retention.

2. *Income Statement*

Net interest income

Net interest income, reflecting the spread between interest received and interest paid out, is the basic source of revenue generation for a financial institution. Using the CEM's net interest revenue figures, once the CEM began to receive interest on the

deposit that had previously been lodged at the Central Bank, net interest income became positive as shown in Figure 5.[5] The income statement in Appendix B shows interest revenue both gross and net of interest on the Reserve Fund portion.

Net Income (Profit and Loss)

Net income, as reported by the CEM and as shown in the income statement in Appendix B, presents a somewhat erratic picture because the annual lump sum administrative fee paid to the PTT is accounted for on a cash basis (i.e., the year in which the payment is actually made) rather than on an accrual basis. Accordingly, the administrative fee due to the PTT for 1990 was not deducted until paid in 1991 and the fees for 1991 and 1992 have not been deducted because they will be paid in 1993. Adjusting this on an accrual basis, net income in 1990 would be FMG 43.9 million (less than half the reported figure) and net income in 1991 would be FMG 69.7 million (5% less than reported).

As expected, the trend in net income and in profit net of extraordinary items, especially the latter, follows very closely the trend in interest income received from the Treasury. Once the zero interest episode was discovered and corrected, net income quickly became positive. Further improvement is expected in 1992 and 1993 because of an increase in the amount of interest earned on the deposit with the Caisse de Dépôts et Consignations at the Treasury from 7% to 11.5%.

Finally, as an EPIC, the CEM is normally not supposed to pay the TUT[6] (similar to value-added tax). Many of the CEM's suppliers continue to charge the TUT to the CEM, requiring the CEM to claim a refund from the Finance Ministry. To date, the Ministry has not responded to the CEM's requested refund of FMG 92 million.

C. Budgeting and Financial Targets

The CEM presents an annual budget forecast to the Board of Directors for approval at the annual meeting. Through the process of negotiating with the Treasury at the annual meeting on the interest rates to be paid on its own deposits and on its passbook accounts, the Caisse sets a target net interest margin, albeit in an indirect manner. Otherwise, it sets no financial performance targets.

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[5] The CEM does not include interest on the portion of Treasury deposits attributable to the Reserve Fund in arriving at net interest income.

[6] Taxe unique sur les transactions.

D. Assessment of Financial Performance

To date, the CEM's financial performance has been weak, primarily due to the lack of interest paid on the FMG 2.5 billions deposit at the Central Bank. Recently it achieved a positive net interest margin after years of unsuspected losses. Meanwhile, the CEM has deferred many capital expenditures that would have enabled it to improve the quality of its service.

To its credit, the Caisse's management uncovered and remedied the zero interest situation not long after it obtained EPIC status. As soon as its cash flow permitted, the Caisse started its overdue computerization program. This, however, creates further delays in improving its liquidity and balance sheet strength.

Fortunately for the Caisse's financial position, management and the Board so far have not used the leeway to make loans and other investments that is allowed under Article 22 of the March 1985 decree. Now that the thirty year low interest loan to the State has been completely repaid, there would appear to be no major concerns at this time about asset quality.

It is too early to estimate when the Caisse will reach a sustained level of profitably that will permit durable balance sheet strengthening. However, its cash flow position is likely to improve considerably in the wake of the increase in the rate paid on the CEM's deposit at the Treasury.

E. Strengths and Weaknesses

1. Strength: Interest Rate Received on the Deposits with the Treasury

The CEM's management has at last obtained an interest rate close to market on all its deposits with the Treasury, the key to improved financial performance. It should be possible for the CEM to enjoy sustained profitability, albeit modest, in the future.

2. Strength: Improvements in Accounting and Financial Reporting

Since the CEM became an EPIC in 1985, management has progressively improved its accounting techniques and financial reporting, allowing for easier interpretation of its financial results.

3. *Weakness: Current Financial Condition*

Viewed as an independent savings institution, the CEM's financial condition is very weak. Following years of losses, it has an inadequate physical plant, negative liquidity and negative net worth. This is primarily due to the lack of interest income on the deposit at the Central Bank, representing half of the CEM's total assets, over ten years. In addition, the CEM has had to carry on its balance sheet a thirty year loan to the Government at low rates. The CEM has no policy prohibiting similar unproductive use of funds in the future.

4. *Weakness: Lack of an Audit*

The CEM's accounts have not been subject to an audit or other independent outside review for over fourteen years. Additional work in this area is needed before the accounts have the level of credibility one would desire for a truly independent savings institution.

5. *Weakness: Lack of Transparency in Establishing the Administrative Fee*

A major issue is the extent to which the administrative fee paid to the PTT reflects the actual value of the facilities and services used by the CEM. At present, the administrative fee is set at a rather arbitrary rate which is negotiated between the CEM and the PTT.

6. *Weakness: Payment of TUT*

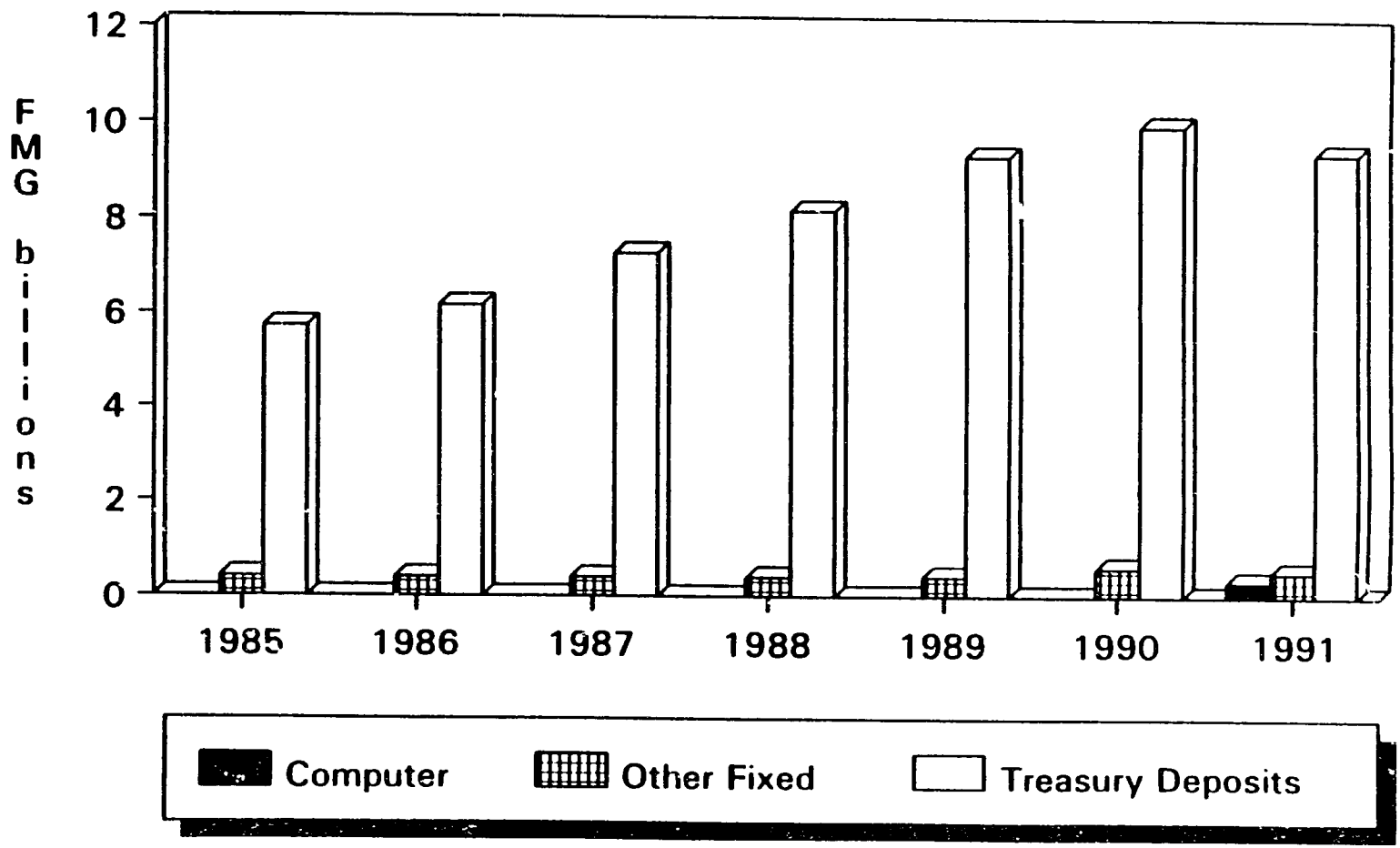
The CEM has not yet found a way to obtain timely reimbursement of TUT from the Ministry of Finance nor a means to minimize the problem in the future. This situation adversely affects earnings.

7. *Weakness: Lack of Financial Performance Targets or Policies*

The CEM has no formal or informal targets or policies for strengthening its balance sheet and earnings. For example, management does not earmark any portion of the Special Reserve Fund as "permanent" capital. Without such an accounting practice, and a related financial policy decision, a deliberate policy of balance sheet strengthening is likely to remain a low priority.

Figure 3

Total Assets at December 31



Caisse d'Epargne de Madagascar

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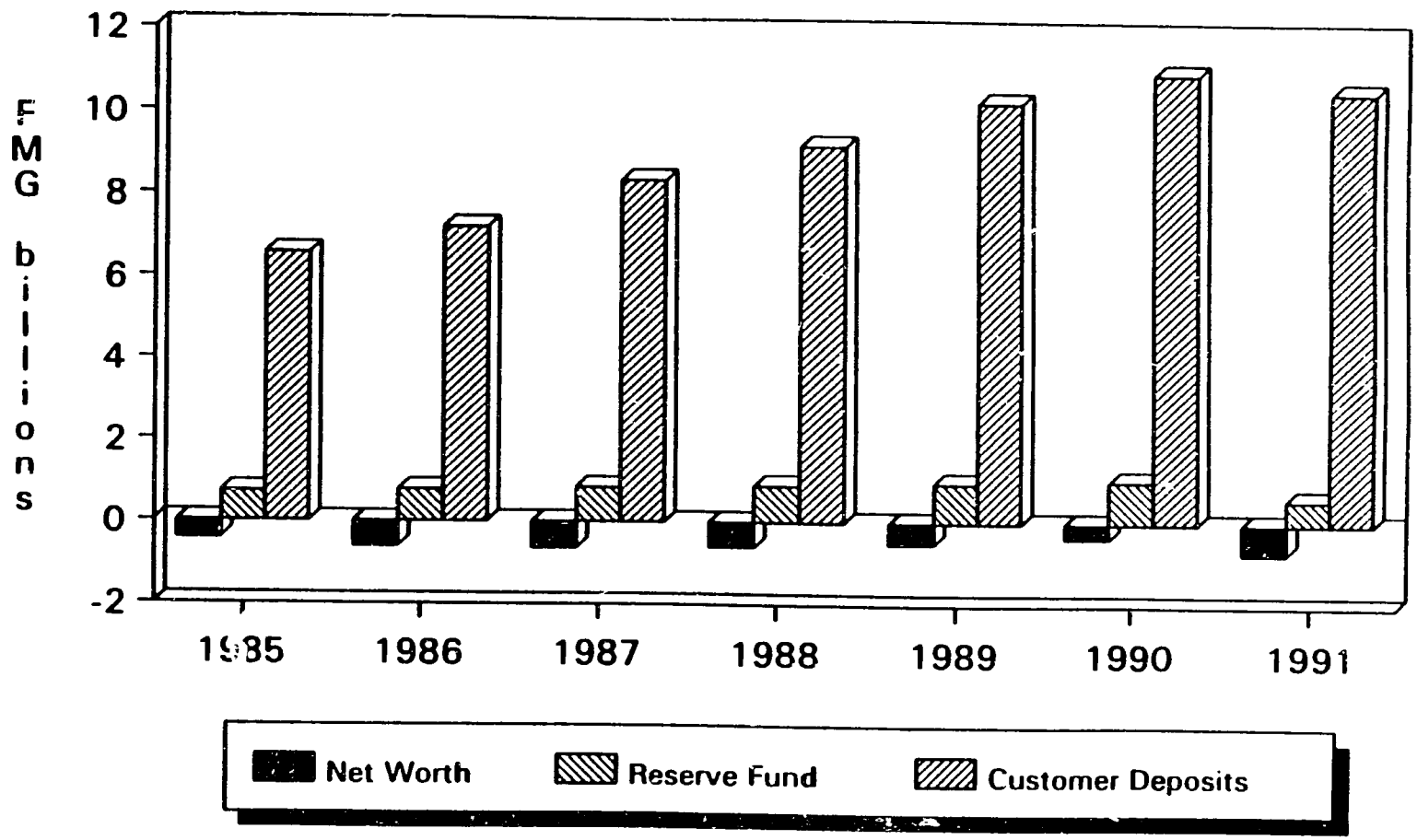
Figure 4

Total Liabilities + Net Worth at Dec 31

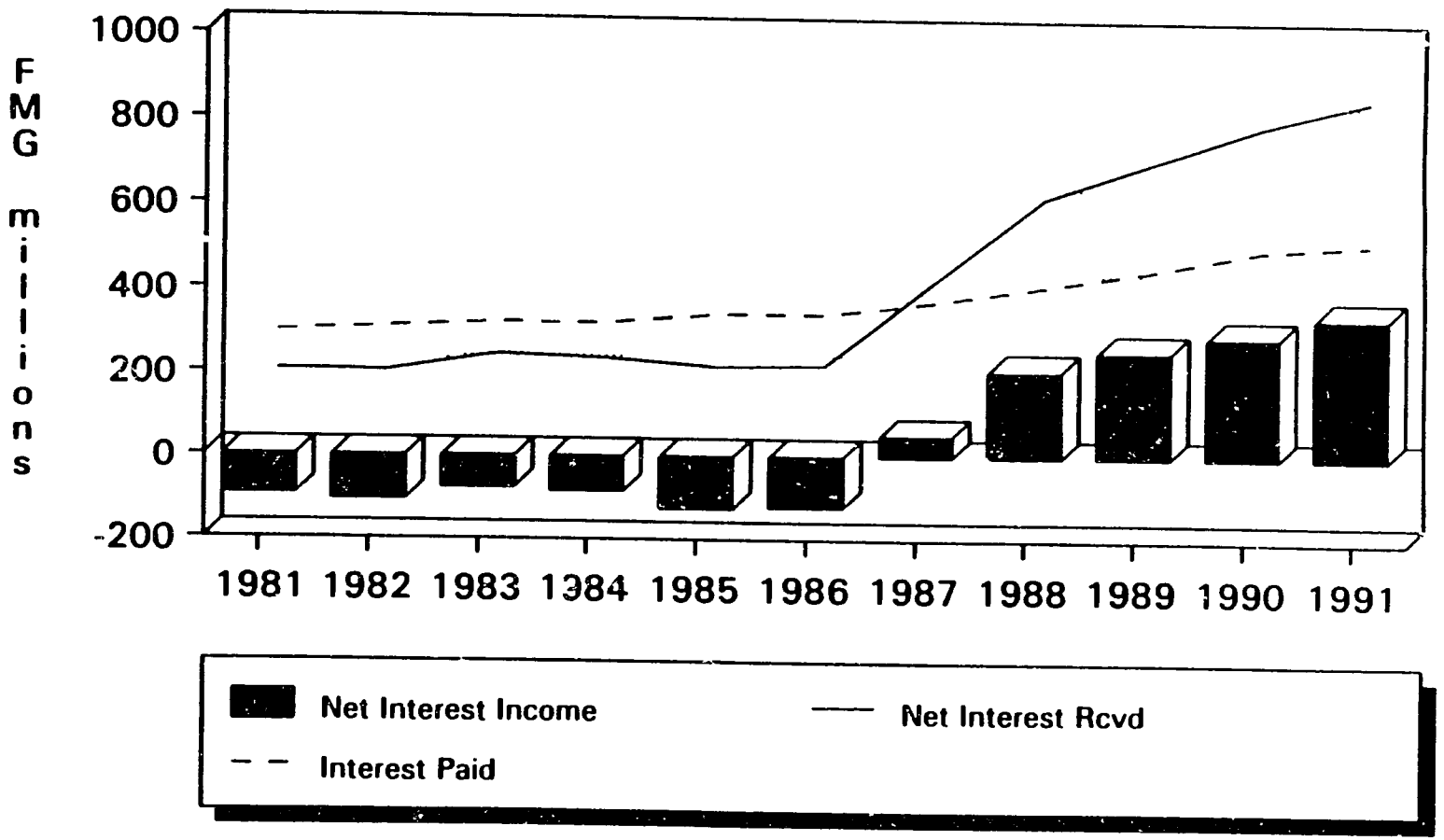


Caisse d'Epargne de Madagascar

356.

Figure 5

Net Interest Income



Caisse d'Epargne de Madagascar

VI. THE CEM'S CURRENT DEVELOPMENT PROGRAM

At the annual CEM Board meeting in June 1992, CEM's management obtained approval for an aggressive development program subject to future funds availability. This chapter summarizes that program, which in turn helps set the stage for the consultant's recommendations presented in the final chapter of this report.

A. Asset Management: Improve Return on the CEM's Deposits

As seen in the preceding chapter, the interest return on deposits placed at and through the Treasury is the key to the CEM's financial condition and to its growth possibilities. In June 1992 the CEM received approval to try to obtain a better rate on the Treasury's deposit at the BNI than the current level of 12% p.a. The Treasury will conduct the actual negotiations with the BNI, albeit with argumentation provided in part by CEM management.

Second, the CEM obtained agreement from the Treasury to an increase on the rate paid on the deposit at the CDC from 7% p.a. to 11.50% p.a., effective July 1, 1992. This is the first increase granted in over ten years. Without commitment, the Treasury representative indicated that this rate would be subject to revision in the future. A number of reforms in the capital markets in Madagascar are currently underway. The Treasury would like to see the structure of interest rates emerging from this reform process before setting a new rate for the CEM's deposit at the CDC.

B. Capital Expenditures

Approval was given to spend up to FMG 210 million to extend computerization of accounting and back office functions to a total of five more provinces. This expenditure can probably be funded from the existing balance sheet, although with some difficulty.

CEM headquarters, already cramped, will need additional space merely to complete the CEM's current computerization project. The PTT will be able to offer several solutions to the CEM's space shortage once certain PTT construction projects have been completed, probably without requiring expenditures from the CEM's own resources. However, the premises currently envisaged for the CEM are located in the PTT Ministry, not at all close to the CEM offices and overall not a particularly desirable solution to a pressing need. Improved equipment (desks, lamps, etc.) will be needed, however, funding is not yet available.

C. Product Improvement

The Board of Directors approved an increase in interest rates on CEM passbooks to 6.65% (standard rate) and 8.45% (premium rate). In addition, the Board gave approval in principle for management to study the possible introduction of a number of new products and services, some representing a considerable departure from the traditional passbook savings, and to present them for consideration by the next annual meeting. Potential products and services include higher rates, similar to savings bonds, and lending services. Management believes that providing lending services would help attract new customers as well as strengthen existing relationships.

Short term loans could be made for household appliance and furniture purchases, home improvement supplies, and the like. Such loans could be secured by the customers' passbooks, which would be held as security at the CEM head office until final loan reimbursement. Reimbursement techniques could include agreement with a customer's employer to transfer a portion of monthly salary payments to the CEM during the life of the loan.

Longer term loans for housing finance might be offered under a "Plan Epargne-Logement" scheme already on offer at some of the commercial banks in Madagascar. This program is patterned after the Government-sponsored and -regulated scheme in France, whereby a low-rate loan is offered after a contractual period of savings. CEM management notes that security for such loans would likely present a problem in the present state of collateral security legislation and enforcement in Madagascar.

Management's plans to introduce "emergency reimbursement" and "reimbursement without prior notice" are fairly well advanced. These services will enable a customer to obtain funds away from home, as described in Chapter III.

D. Marketing

Management is fully aware of the need for a genuine marketing effort and improved customer service. An incentive plan for PTT personnel handling CEM accounts is a vital part of this effort. CEM management was in the process of drafting details of a new plan during the consultants' mission. It will have three key features. First, payments will be based on the volume of deposit growth at the post office in question. Second, at each post office meeting established growth targets, payments will go to both the postmaster and designated counter personnel. Third, the global budget for these payments will be 0.15% of the interest on the CEM's deposits at the Treasury (almost FMG 16 million based on year end 1991 figures).

E. Operate Own Savings Windows

For several years, CEM management has sought authorization to operate its own windows in active locations with CEM personnel instead of postal employees. As described earlier, the specialized savings counters adjacent to the CEM's head office in Antananarivo (Bureau #A1) account for at least two-thirds of the CEM's activity, and the operating links between the savings counters and the head office are considerable. In fact, Bureau #A1 will soon receive a direct connection to the new mini-computer in the CEM's offices.

This post office unit is likely to be the first one "acquired" by the CEM. Because of the discussions now underway for restructuring the Madagascar PTT, these plans are in abeyance for the moment. The cost of acquiring this unit to the CEM budget and management load, however, would be significant.

F. Personnel

In order to carry out the changes described above, management sought approval at the June 1992 annual meeting for a new organizational structure, including a new marketing section. The total head count associated with this structure is 92 people, an increase of over 100% from the existing numbers. The Board approved this plan, although it is not clear where the funding will come from nor, as a result, when it will take effect. It should be noted that this expansion concerns only the CEM's main office activities and personnel; it does not include absorbing Bureau #A1.

G. Growth and Financial Targets

As a result of all these improvements, CEM management seeks growth in customer deposits of FMG 800 million annually, FMG 100 per person of the country's work force. In ten years, management expects the number of customers to grow to 25% of their population of Madagascar. Today the proportion of customers is approximately 2.5%.

The key target market segment consists of the young and rural classes of the population. A skillful marketing campaign will be needed since, despite the significant number of passbooks that have been opened by these sectors of the population, management estimates that the amount deposited with the CEM constitutes only 20% of its assets.

Finally, management expects to operate within a financial and budgetary framework (assuming that the Treasury remunerates the CEM's deposits at a rate of 11.5%) according to the following breakdown:

Average rate paid to customers	7.55%
G & A (2.50% for staff, 0.15% incentive)	2.65%
Transfer payment to PTT	0.80%
Allocation to the Reserve Fund	0.50%
TOTAL	11.50%

Although the term is not used in CEM parlance, this approach involves a net interest margin of 3.95%. This approach, modified somewhat from management's original proposal, is the one adopted at the June 1992 annual meeting.

H. Strengths and Weaknesses

Evaluation of the ideas in the CEM's current development program are given in the following Chapter.

VII. DEVELOPMENT PROGRAM FOR THE CAISSE D'EPARGNE DE MADAGASCAR

A. Major Findings from the Assessment

From the assessment of the Caisse d'Epargne de Madagascar, several key points emerge which form the context for the consultants' recommendations:

1. The post office delivery system drives the entire CEM operation.

The PTT network is essential for the delivery of the CEM's passbook savings "product" to the public. This extensive network of post offices and postal delivery system is both an asset and a liability for the CEM. On the one hand, through the post office, the CEM has the largest distribution network and sales force (the postal employees) of any financial institution in Madagascar. On the other hand, the CEM has no control over either its sales force or the postal delivery schedule. In some areas of Madagascar, for example, mail, which may include a savings passbook, is delivered only once a week by a postal employee who travels as much as 60 kilometers on foot.

2. The implicit "guarantee" of the State is essential to the public's confidence in the safety of their deposits at the Caisse.

Madagascar has no formal system of deposit insurance. On its own, the CEM's balance sheet does not offer full security for its customers' deposits. For the foreseeable future, the CEM will have to rely on the Treasury's implicit deposit guarantee.

3. The flow of funds is handled almost entirely by the PTT and the Treasury, bypassing the CEM.

The CEM has no direct access to customer deposits which are deposited by the PTT with the Treasury. Instead, it plays the role of a funds overseer and administrator. In fact, the CEM only recently obtained its own checking account for the direct payment of suppliers, eliminating the need to request payments through the CCP.

4. *The CEM has benefitted from operational autonomy gained since becoming an "Etablissement Publique à Caractère Industriel et Commercial" ("EPIC") in 1985.*

Until it became autonomous from the post office, the CEM did not discover that it had not earned any interest on almost half of its deposits (i.e., customers' deposits held at the Central Bank) for the previous ten years. As an EPIC, the CEM became responsible for preparing annual income statements and balance sheets, resulting in increased transparency and discovery of the missing interest payments.

In addition, the CEM's relative autonomy as an EPIC puts it in a better position to negotiate with the Treasury on the rate earned on deposits. This puts increased pressure on the Treasury to offer more market-oriented rates, the benefits being passed along to the customer and, thus, helping to spur savings growth.

Many of these benefits are due to the CEM's small, conscientious management team which was drawn from the postal inspectors corps but is able to act with a certain degree of autonomy.

B. Recommended Strategy: Build on the Caisse's Existing Autonomy in a Two-Stage Process

The two most important recommendations concerning the CEM are as follows:

1. *Retain Autonomy*

In planning for future growth and development, the CEM must retain its autonomy and not be folded back into the post office or submerged in a new postal services company, postal bank, or giro bank. By far the most practical solution for the next 12 to 36 months (at least) will be for the CEM to remain an independent EPIC. The CEM should not be transformed into a "Societe Anonyme d'Etat" (which also has autonomy) because this type of legal entity is subject to commercial law and has the expensive burden of complying with more stringent accounting and auditing standards. Nor should it become an "Etablissement Financier" because, in its current state, it would probably not be able to comply with the ensuing reserve requirements.
Seeking financial autonomy from the Treasury, although no doubt desirable in the long run, is problematic for the foreseeable future for reasons mentioned above related to maintaining deposit safety. Modest steps are recommended below to make the relationship with the Treasury more beneficial, but they stop well short of aiming at financial independence.

USAID/Madagascar can play an important role in discussions with the World Bank and PTT Ministry in allowing the CEM to retain its autonomy.

2. *Solidify Capabilities (Keep it Simple)*

The essential near-term goal of the CEM should be to solidify its capabilities as a successful and self-sustaining popular savings institution with nationwide reach. Moreover, the goal of the CEM should be to offer only a few products well to a growing number of customers, while taking advantage of economies of scale. This will enable the CEM to develop a strong foundation from which it can offer a range of banking products later on.

Two key features of the CEM's "style" should be: (1) leanness (i.e., it should avoid the bricks and mortar approach to increasing the customer base), and (2) unsubsidized profitability. To achieve these goals, management should concentrate on strengthening its back office operations, improving its balance sheet, developing a three to four year marketing strategy and other activities (discussed below) before branching out into banking, credit or investment management activities. Indeed, USAID/Madagascar can condition its assistance to CEM on its not branching out into other activities until certain benchmarks are met.

Only when the initial stage of strengthening the CEM's existing capabilities is well in hand should the CEM move to the second stage of adding banking services. In this way, CEM's management will avoid undertaking so many initiatives that it finds itself spread too thin. With support from USAID/Madagascar in key areas and timely support from the Government, we would estimate that the first stage would be completed in two and a half to three years and that the second stage would take at least an additional 24 months.

C. Specific Recommendations

Following are the consultants' specific recommendations for solidifying the capabilities of the CEM. The recommendations in this section (Section C) are intended for a two and a half to three year period referred to as "stage one." They are organized under the following headings:

- Organization
- Management
- Customer Service

- Marketing
- Financial Performance
- Back Office/Operating Procedures.

The recommendations for the subsequent 24 months and beyond, referred to as "stage two," are presented in Section D. Further analysis is needed before adopting certain recommendations (as discussed below) given the limited time of the consultancy.

Organization

1. Reaffirm explicitly the unstated mission of the CEM - a popular savings institution with nationwide reach.

The CEM should have an unambiguous mission statement to help with its internal planning and external relations by keeping it focused. At present, it has none. CEM management should draft this statement and have it approved by the Board of Directors early in stage one.

2. Revise Article 22 of the March 6, 1985 decree concerning the CEM's utilization of funds.

This article gives the CEM open-ended use of up to virtually 50% of depositors' funds, including the introduction of lending and investment activities. In the consultants' view, however, the placement of depositors' funds should be in risk-free, government-backed assets or deposits. This is especially important given the CEM's balance sheet and the need to build up permanent reserves. The consultants further believe that revising Article 22 is an important step in clarifying the Caisse's mission and should, therefore, be addressed early in stage one. A revised decree would need formal approval by the Government.

USAID/Madagascar and the World Bank, which advocates this change in its March 1992 financial policy report, can work together in this arena in the context of their dialogue with the Government.

3. Revise the organization chart and develop a staffing plan.

The CEM should revise its organization chart more along the lines of a commercial organization. Instead of having two departments, Information & Relations and Control & Operations, handle too broad a range of activities, some of which overlap with a third department as yet unnamed, there should be a slightly increased number of distinct

departments. The revised organization chart should be prepared by CEM management and should include departments for Marketing, Accounting, Auditing, Human Resources, Management Information Systems, etc. At the same time, the CEM should develop a realistic staffing plan for the recruitment and training of additional personnel over the next two and a half to three years. This staffing plan should be reflected in the CEM's budgets and in its development plan.

4. Consider streamlining the Board of Directors.

The composition of the Board of Directors no longer reflects the current needs and realities of the CEM. For example, represented are the Ministries of Animal Husbandry, Water and Forests; Industry, Energy and Mines; and Public Works. Although the consultants did not have an opportunity to see the Board of Directors in action, we believe reducing the Board from its current size of twenty members would help to accelerate the decision-making process and keep the annual meetings on schedule. In effect, the Board has only met three times during the last eight years: in 1985, 1990 and 1992.

The CEM should also consider creating an advisory committee to the Board of Directors, including the Central Bank, CEM personnel and representatives of the business community (such as the Chamber of Commerce). The committee would not have voting rights but would advise the Board of Directors on important policy matters.

5. Continue improving the transparency of "transfer pricing" with the Ministry of PTT.

At present the CEM does not pay directly for its postage stamps or for its telephone calls. The PTT pays the CEM what is said to be a very below-market rental for use by the CCP of the entire ground floor of the CEM's building. The net amount of the inter-agency payment is negotiated annually on an undefined basis (i.e., there are no written terms for its calculation), with the CEM making one lump sum transfer to the PTT.

The payment to the PTT for 1991 was FMG 48 million, and is expected to rise to FMG 68 million for 1993. In support of the goal of becoming financially self-sufficient, the CEM should pay a realistic price, but not more, for the services it obtains from the PTT. A set of written guidelines would benefit both the CEM and the post office as they become more autonomous.

6. *Study in detail the feasibility, costs and benefits of absorbing the CEM branch (#A1) in Antananarivo.*

The post office unit within the CEM building (Bureau #A1) - as the lead unit in the Antananarivo section - handles over two-thirds of the CEM's nationwide volume. Its employees do no post office work at all. Eventually the CEM should take direct budgetary and management responsibility for this unit.

However, the conversion would bring a fundamental change in the nature of the CEM's operations, not only in matters of staff and budget but also of controls. The Caisse will want to ensure it has appropriate means of applying its controls for the expanded organization, no doubt incorporating any comments made in the pre-audit reviews (see recommendation #17), before absorbing Bureau #A1.

On balance, it would seem prudent to defer a detailed study of the matter until later in stage one of the development program, when the budget is likely to be less strained. One prerequisite would be a record of successful operation of the computer terminal link between the Caisse and Bureau #A1 (see recommendation #22).

Management

7. *In the context of its development plan, management should add key specific performance targets.*

Fundamentally constrained by a tight overall budget, management's main quantitative planning technique at present focuses quite naturally on annual spending targets. Like any organization, the CEM is likely to make sustained progress toward its goals if a few key quantitative measurements are set and monitored regularly. Annual targets for the five indicators below (two of which are already recorded) would be useful ingredients to add to the CEM's stated development plan:

a. Growth in total number of accounts
b. Growth in total volume of deposits
c. Geographic distribution of accounts
d. Financial liquidity: ratio of Treasury deposits/customer deposits
e. Financial strength: ratio of net worth total customer deposits.

USAID/Madagascar may want to review periodically the Caisse's progress in meeting these targets.

8. *Consider membership in the International Association of Savings Institutions.*

The CEM has already considered membership in this association which should provide a valuable exchange of ideas with senior managers of other savings institutions and access to a wide range of information. These professional associations frequently offer executive education courses in management, marketing, accounting and other subjects. The CEM has decided to postpone membership in the IASI because of the cost involved. USAID/Madagascar could assist the CEM in becoming a member of this or a similar professional association.

Customer Service (this includes products)

9. *Accelerate posting of interest to passbooks.*

The CEM is only now beginning to post interest on accounts for the year ending 1991. Until the CEM posts interest to customers' passbooks on a more timely basis, this will continue to be a customer irritant and marketing handicap. The CEM has developed a set of targets for posting the interest that would put it back on schedule at the beginning of next year. This, however, will require the customer to send his or her passbook to the main office in Antananarivo twice in 1993 and to give up access to his or her savings both times. Accelerating the posting of interest at the main office will require continuing the computerization process. USAID/Madagascar could play an important role in enabling the CEM to implement the computerization program (see recommendation #22).

10. *Continue refining the incentive program used to reward/motivate PTT managers and counter personnel.*

When the CEM introduced its first incentive program for postal employees providing service to its customers, it noticed an increase in the level of CEM activity. This program involved giving a flat sum to all postal employees handling CEM transactions. CEM management is searching for a better, but relatively simple, formula to motivate employees and has obtained Board approval for a threefold increase in the total sum to be allocated. Management should continue to refine this well-directed program and put it into effect as soon as possible.

11. *Pursue the effort to improve inter-regional withdrawals.*

Currently, a customer travelling outside of his or her geographical region ("section" in CEM terminology) is not able to withdraw money from his or her account without waiting for a set of documents authorizing the withdrawal to travel to and from that customer's home section. It is anticipated that beginning February 1, 1993, a customer will be able to request advance authorization for a withdrawal from another section. This provides an important service to the customer in the absence of a nationwide account information network. The CEM should pursue this effort, as well as other initiatives, to facilitate inter-regional withdrawals.

12. *Establish procedures enabling post office managers to advance a portion of passbook savings for emergency purposes.*

The CEM expects to receive authorization to offer emergency withdrawals ("remboursements de dépannage") beginning February 1, 1993. This will allow a client to go to any main post office and make an immediate withdrawal from his or her available account balance. The CEM should develop procedures and set authorization limits for postmasters to make such emergency loans. Currently, customers do not have access to their savings for fifteen days after a withdrawal and during the interest posting period. This would be the CEM's first quasi-loan product and should be developed, tested and evaluated during the first half of stage one.

13. *When in a position to offer a new product, the first one should be a savings bond.*

A logical extension of the CEM's product line would be to offer savings bonds to the public. This has the advantage of being a simple, low risk product for the CEM that does not require the development of credit analysis and lending skills. By offering a CEM bond (presumably bearing the ant logo), the CEM avoids potentially cumbersome bookkeeping involved in offering a non-CEM bond (such as a Government savings bond) and can use the opportunity to launch a nationwide marketing campaign.

An appropriate benchmark for this activity is: (1) evaluation of the results of the CEM's offering a premium rate of interest (which began July 1, 1992), and (2) satisfaction with the process used to set the interest rates on deposits at the Treasury, as explained in recommendation #20 below, since the CEM's ability to offer an attractive market-oriented interest rate will depend on its negotiations with the Treasury.

This product should be developed, tested and evaluated during the second half of stage one before the CEM starts to offer any banking products. USAID/Madagascar could play an important role in offering consulting services to the CEM in the development and marketing of the savings bond.

Marketing

14. Recruit a Marketing Specialist/Develop a marketing capability as a top priority.

The responsibility for marketing is currently being shared by the Director, the Chief Accountant and the Section Chief for Control and Operations. Given their other duties, no one individual is able to take on the full-time responsibility for developing promotional materials, organizing marketing trips or training postal agents to provide better service. The CEM should recruit a Marketing Specialist and one or two junior marketing personnel to develop a bona fide marketing capability. This should include making better use of the CEM logo, for example, displaying it prominently in every postal outlet offering CEM services; evaluating the effectiveness of advertising in the press, by radio or television; developing advertising and promotional campaigns; and conducting a market survey (explained below).

15. Conduct Market Surveys.

The CEM is in the process of entering customer information into a computer that will enable it to analyze its customers in such terms as age, gender and occupation. The CEM should also prepare and track information on as many of the following items as possible throughout the country:

- Population trends
- Average income
- Proportion of CEM accounts to the total population in various parts of the country (as a measure of market penetration)
- Products competing with CEM savings passbook
- Customers' product needs and preferences.

This database should be prepared and maintained by the marketing staff early in stage one.

16. *Develop a three to four year marketing strategy.*

The CEM should develop a three to four year marketing strategy based on a careful analysis of its existing and potential clientele. The Marketing specialist should be involved in developing and implementing this strategy. The strategy should take into account the results of the market survey and the marketing team's research and analysis on such topics as the cost effectiveness of advertising through various media and demographic and macroeconomic trends.

The CEM should begin to develop this marketing strategy as soon as the marketing team is in place and the results of the survey have been analyzed. USAID/Madagascar could assist in the preparation of a marketing strategy through the provision of technical assistance and perhaps materials.

Financial Performance

17. *Initiate independent review of the accounts as a top priority, aiming toward the stage two goal of audited accounts.*

The CEM cannot become a truly self-sustaining institution without audited financial statements. The accounts have not received a review from the Chambre des Comptes in over fourteen years. Audited accounts probably are several years away for the CEM, if only because its present size may well not justify the cost. Nevertheless, a start should be made in that direction without delay, as an indispensable step to continue improving the quality of the financial statements.

In the first stage, a reliable auditing firm could study the Caisse's control procedures plus a sample of its documents, and interview accounting management, with the aim of identifying quickly where careful examination seems most appropriate. A detailed study of just those areas could then be conducted. The results of the study would indicate how and when to develop a program of progressively more complete independent reviews of the accounts. Even this relatively modest approach would likely consume a major portion of management's time and will need to be structured and phased carefully to avoid overload.

USAID/Madagascar could assist the CEM with preparation for and implementation of this priority activity through technical assistance.

18. *Obtain reimbursement of TUT from the Finance Ministry; establish procedures to minimize the problem in the future.*

As described in Chapter V, although theoretically not liable for the TUT[7] on its purchases (it does not charge the TUT to its customers), the CEM has had persistent difficulty in obtaining timely reimbursement of the amounts of TUT it has been obliged to pay numerous suppliers. At year-end 1991 the amount claimed from the Ministry of Finance had risen to FMG 92 million. Invested in Treasury deposits at 11.5% p.a., this sum would yield FMG 10.6 million, equivalent to 14% of net profit for 1991.

Even if the currently outstanding amount is reimbursed promptly, the underlying problem will need to be addressed in order to improve the CEM's cash management in the future. Closer coordination with the tax authorities should produce suitable suggestions for convincing suppliers that they are not obliged to bill this tax to the Caisse. For example, the Caisse may be able to obtain from the tax authorities a letter confirming its TUT-exempt status to present to its suppliers.

19. *Obtain market-based rates on deposits at the Treasury to improve net interest margin.*

The return obtained on its deposits at the Treasury is fundamental for development of the CEM. The rate increase granted by the Treasury in June 1992 on the CDC deposit will give a significant boost to cash flow. As discussed earlier, it is not clear, however, that the current rates of 11.5% and 12% p.a. are optimum. In the future, the CEM must be able systematically to obtain rates close to market in order to offer competitive rates to savers and also to finance its growth soundly.

The consultants recommend that the Treasury and the CEM energetically seek an approach to setting deposit rates that is more responsive to market signals than the present arrangements, while maintaining the essential feature of a riskless placement. Two elements of such an approach could be:

[7] Similar to a value-added tax.

- For deposits re-placed by the Treasury in commercial banks (with the credit risk approved beforehand by the Treasury) the CEM itself could seek the best rates for appropriate maturities. If an attractive rate were found at another bank, the Treasury could move its deposit to that bank and pass the new rate on to the CEM but minus a mutually acceptable fee (e.g., ½% p.a.) in return for, in effect, giving its guarantee to the CEM.[8]

- When the Treasury bill auctions resume, the Treasury could place the CEM's funds directly in Government paper. (A fee would probably not be justified in that case).

By such techniques the CEM will be able to optimize its revenue without incurring credit risk.

20. Simplify arrangements for adjusting passbook interest rates, to permit more timely response to changing market conditions.

The CEM and the Treasury also will need to find a simpler, quicker way to formalize decisions on passbook rate changes. Any changes in passbook rates require a decree from the Finance Ministry following a decision at a Board meeting (per Article 18 of the March 1985 decree). In the future the CEM will probably have to adjust rates paid to savers more often than six times in forty years.

A move to a more flexible rate approval procedure presumably could be accomplished in one of several ways. One would be more frequent meetings of a streamlined Board (see recommendation #4 above), with an unchanged approval process. Alternatively, at its next (annual) meeting the Board could decide that changes in passbook rates could henceforth be recommended to the Finance Minister by the Director of the Caisse and the Minister of PTT. In turn, such a Board decision could then become the subject of an amendment to the decree.

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[8] Example: CEM management shops among the banks and locates a rate for a 1-year deposit of 13% p. a. The deposit, still in the name of the Treasury, is switched to the new bank. Result: the CEM receives a net rate of 12-½% p.a. on the deposit at the Treasury (instead of 12% currently) and the Treasury receives fee income of ½% p.a. Based on the estimated size of its balance sheet on December 31, 1992, the CEM would earn FMG 60 million additional income as would the Treasury.

21. *Develop a comprehensive financial strategy at the end of stage one.*

Once the CEM reaches minimum levels of balance sheet strength, it will be time to plan a more comprehensive financial strategy. Otherwise, the goal of financial autonomy could remain elusive.

CEM's Board and management will need to decide on the target levels of net interest income and administrative expenses, return on assets, short- and medium-term liquidity requirements (a prerequisite for good asset management), leverage, and growth in net worth. Capital expenditures will have to be tailored to fit these constraints. Comparison with savings institutions in other countries as well as commercial bank competitors will become useful. More frequent budgeting and monitoring of progress against budget will be needed, based in the first instance on the financial plan.

Recommendation #7 above lists two simple financial performance targets that could usefully be added to a list of key management targets.

USAID/Madagascar could provide technical assistance to help the CEM in developing its comprehensive financial strategy, as well as related training.

Back Office/Operating Procedures

22. *Continue the computerization program as a top priority.*

The CEM is in the process of entering account records for customers in Antananarivo into a mini-computer using software developed by a local firm and National Cash Register (NCR) equipment. When completed and tested, this should reduce the customer's waiting time at the window (a known customer irritant) by as much as 15 minutes, since tellers will be able to instantly pull up a customer's record instead of searching for it in a separate record storage room. The computer system will also generate reports on daily deposits and withdrawals, enabling rapid verification of the cash drawer position. Furthermore, it will reduce the amount of time it takes to prepare periodic reports used by management. In addition to Antananarivo, the CEM is computerizing customer accounts in Fianarantsoa using a micro-computer and plans to install similar systems in five other centers.

USAID could play an important role in assisting the CEM in the computerization of those section offices with the greatest volume of transactions. This could include assessing the CEM's current equipment and computerization plans, devising appropriate back-up systems, procuring equipment and testing the reliability of both the hardware

and software under various scenarios (power failure, data entry error, etc.) This effort should be undertaken as soon as possible in stage one given the immediate payoff in data reliability and customer satisfaction that it should bring.

23. Upgrade the CEM's premises.

Even a cursory visit to the CEM's office gives convincing proof of the need to improve the equipment and premises, so as to meet an adequate standard of record maintenance as well as working conditions. Employees are overcrowded, important records are kept in stacks on the floor (for lack of shelf storage space) and the archives are overflowing. According to CEM management, the main office will soon lack the necessary space to store records for newly-opened accounts. In addition, it lacks proper filing cabinets and storage closets.

The CEM is not alone among government institutions in need of additional space. If appropriate, USAID could assist the CEM by calling attention to its particular needs. In addition, based on a needs assessment, USAID could provide material assistance in supplying such items as filing cabinets, adding machines and a photocopier.

24. Conduct a pilot program involving the use of a smaller, more durable passbook and mechanized transaction entries.

The Minister of PTT is anxious for the CEM to adopt a smaller format passbook to reduce mail costs - especially when over 200,000 passbooks come to Antananarivo for annual interest posting. CEM's management is aware that mechanized processing of passbook transactions at the counter, using a modern passbook format, would raise productivity and customer satisfaction. Management also would like to install processing equipment, similar to that used by the largest savings bank in France, that could be linked to computer terminals with access to up-to-date customer records. Even after computerization has progressed, budget constraints will likely hold up testing such systems.

Implementation should be preceded by a pilot testing program, either at Bureau #A1 or at a smaller provincial city (where there would perhaps be less risk of disrupting a huge number of customer records). Study of the project probably could begin once the first phase of the computerization program is successfully completed.

USAID/Madagascar could assist the Caisse by engaging a consulting firm to assess feasibility and possibly assist with equipment purchases.

25. *Study the cost-effectiveness of procuring an additional vehicle for expanded marketing and operational support programs.*

As the CEM increases its marketing and operational support programs outside the Antananarivo area, it will likely incur higher travel expenses. In due course it may be possible to justify the increased capital and maintenance costs of an additional (4 X 4) vehicle to facilitate and speed some of that travel. At present the CEM's small size and budget priorities argue against such a purchase. Several years' growth and financial progress might change the calculations.

This matter may become timely near the end of stage one of the development program. USAID/Madagascar may find it appropriate to assist with such an equipment purchase.

D. Longer-term Development Possibilities (Stage Two)

With what we have termed stage one of its development program well in hand, including a smoothly functioning computer system, a professional marketing approach, and a stronger balance sheet, the Caisse d'Epargne de Madagascar can move confidently to a second stage of development as outline below. The ultimate objective of this stage would be to prepare the groundwork for becoming an independent full-service savings institution, possibly working closely with the CCP.

1. *Conduct a professional review of internal organization and operating methods, preparatory to decentralizing selected operational processing.*

The CEM's existing operating procedures are based on methods that date from colonial times. Many are no doubt still quite suitable today for the purpose of protecting the savings of a diverse population of small savers, many of whom live far from major population centers. With the sharp growth in the customer base, however, the Caisse will want to consider in particular the feasibility and desirability of decentralizing some operations now handled centrally.

The shift to the second stage of the development program appears the logical time for the Caisse to consider a major review of its procedures. There will be a significant base of new experience on which to build such a study, ranging from computerization of existing procedures in six provincial centers and review of control procedures as part of preparation for regular audits, to exchange of ideas with savings institutions in other countries. The organization and methods review logically would precede most of the other new developments recommended below.

2. *Study operation of its own premises in key centers.*

After completing the feasibility study of absorbing the specialized post office savings unit in Antananarivo (Bureau #A1), the Caisse will be able more easily to develop specific criteria to govern the expansion of its own network elsewhere. The CEM should no doubt pay rent for its dedicated counter or office space at the post offices concerned, unless low-cost alternate premises can be found. Nevertheless, the cost of absorbing smaller units should be substantially less than for the Antananarivo unit.

3. *Expand the range of its own products and services: credit.*

A key ingredient of the Caisse's marketing and product enhancement efforts is to develop customer loyalty. Inevitably, the CEM will be called upon to extend credit. This will represent a major turning point in the Caisse's development. Developing credit skills at the staff and management levels will require training as well as recruitment.

In this context, it would make sense to have the first credit products based on the security of the savings passbook (or savings bond). That will simplify the task of setting other criteria on purpose, term, and pricing of loans. For the first credit products, the Caisse also should restrict its lending to the short term, for emergency purposes and perhaps small household purchases. Housing finance will require careful planning both to minimize credit risk and loan administration and also to ensure a proper funding profile, and should be initiated only after experience has been gained with simpler types of lending. (Servicing of such loans by a commercial bank may facilitate start-up of this service.)

4. *Distribute simple, low-risk investment products such as Treasury bonds.*

In the past the post offices have occasionally sold small denomination interest-bearing Treasury securities. When the Treasury securities market has been revitalized, and after experience in marketing its own savings bonds, the CEM may want to consider offering Treasury securities or similar low-risk investments to complement its own product range. Depending on arrangements with the Treasury, a servicing fee could be arranged to cover extra costs. Although the concept may be somewhat futuristic at the moment, in this stage of its development the Caisse might be an appropriate distributor for mutual funds or other securities instruments generated by the Government's privatization program.

5. *Study the benefits and costs of offering checking and payments services jointly with the CCP.*

The authorities are now considering whether, when, and how to make the operations of the CCP more autonomous. Once the organizational strategy has been formulated it will likely require a few years for the CCP to revamp its operations in the new pattern. At that point it would be desirable for the CEM and the CCP, which of course both deliver services to the customer through post offices, to review in detail how and where they can offer services jointly. It certainly would enhance the attractiveness of a savings account if the customer could enjoy some form of linked checking account, however rudimentary, that would simplify his or her payments transactions.

6. *Study active participation in an improved nationwide payments system such as a girobank.*

As part of financial sector development in Madagascar the authorities are seeking ways to improve the interbank and other payments system throughout the country. One model is patterned on experience in Scandinavian countries, the so-called girobank. Particularly once the CEM's relationship with the CCP is articulated, it would be beneficial for the CEM's own operations, with ultimate benefits for its customers, to investigate active participation in a modernized central payments system or other clearing arrangements in cooperation with the banks.

7. *Establish a rudimentary asset and treasury management function.*

As the CEM grows, the amount of depositors' savings that can safely be considered "stable long term savings" will become a relatively significant sum. Successful marketing of savings bonds will further increase the proportion of stable funds. Under those conditions it will be possible to seek higher yields from longer-term placements for a portion of its assets. If properly managed, such placements could be conducted prudently, consistent with the CEM's mission of protecting savers' funds.

Development of a simple treasury and asset management function within the Caisse can evolve progressively from the experience of seeking optimum yields for one-year bank deposits under Treasury guarantee. (See recommendation #19 in Section C above.) This activity would develop more quickly if and when short-term Treasury securities are used in lieu of deposits with the Treasury.

8. *Complete an external audit of the financial statements.*

An audit of the financial statements will be indispensable for further development of the organization. In view of the likely expense, it may be appropriate for USAID/Madagascar to assist with the first audit. The cost of subsequent audits should probably be borne directly by the CEM.

APPENDIX A

CAISSE D'EPARGNE DE MADAGASCAR

DECREE NO. 85/061

OF MARCH 6, 1985

MINISTERE DES POSTES
ET TELECOMMUNICATIONS

REPOBLIKA DEMOKRATIKA MALAGASY
Fanindrasana-Toloampiavotana-Fahafahana

DECRET N°85/061

portant organisation de la Caisse d'Epargne
de Madagascar.

LE PRESIDENT DE LA REPUBLIQUE DEMOCRATIQUE
DE MADAGASCAR,

Vu la constitution,
Vu l'ordonnance N°62-075 du 29 Septembre 1962 relative à la gestion de la Trésorerie,
Vu le décret N°82-352 du 20 Octobre 1983 portant nomination du Premier Ministre,
Vu les décrets N°83-353 du 21 Octobre 1983 et 85-037 du 21 Février 1985 portant nomination des membres du Gouvernement,
Vu le décret N°82-366 du 30 Août 1982 modifié par le decret N°83-284 du 27 Juillet 1983 fixant les attributions du Ministre auprès de la Présidence de la République, chargé des Finances et de l'Economie, ainsi que l'organisation générale de son Ministère,
Vu le décret N°76-035 du 3 Février 1976 fixant les attributions du Ministre des Postes et Télécommunications ainsi que l'organisation générale de son Ministère,
Vu le décret N°68-080 du 13 Février 1968 portant règlement général sur la comptabilité publique,
Vu le decret N°75-087 du 17 Juillet 1975 portant réglementation des hauts emplois de l'Etat,
Sur le rapport du Ministre chargé des Finances et du Ministre chargé des Postes,
En Conseil des Ministres,

DECRETE :

TITRE 1er

ORGANISATION GENERALE DE LA CAISSE D'EPARGNE

ARTICLE 1er.- Il est institué sur le Territoire de la République Démocratique de Madagascar une Caisse d'Epargne, établissement public à caractère industriel et commercial placée sous la tutelle financière du Ministre chargé des Finances et sous la tutelle technique du Ministre chargé des Postes et Télécommunications.

ARTICLE 2.- La Caisse d'Epargne est un établissement public doté de la personnalité morale et de l'autonomie financière.

ORGANES DE LA CAISSE D'EPARGNE

ARTICLE 3.- Les organes de la Caisse d'Epargne sont :

- Le Conseil d'Administration,
- Le Directeur,
- L'Agent Comptable,

...../...

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1°)- Du Conseil d'Administration

ARTICLE 4.- Le Conseil d'Administration a qualité pour :

- voter le budget de la Caisse d'Epargne
- examiner et approuver le compte administratif de la Caisse d'Epargne
- deliberer sur toutes les questions relatives à l'organisation et au fonctionnement de la Caisse d'Epargne ordinaire et l'Epargne-Logement
- prendre les décisions nécessaires sur l'utilisation éventuelle des fonds (fonds social de réserve et fonds en dépôt pour des investissements, conformément aux dispositions de l'article 22 du présent décret).

ARTICLE 5.- Le Conseil d'Administration est composé des membres suivants :

- Président : M. Le Ministre chargé des Finances
- Vice-Président : Le Ministre chargé des Postes
- Membres :

MM.- Le Ministre chargé de la Production Agricole et de la réforme Agraire, ou son représentant
- Le Ministre chargé de la Production Animale (élevage et Pêche) et des Eaux et Forêts, ou son Représentant
- Le Ministre chargé de l'Industrie, de l'Energie et des Mines, ou son représentant
- Le Ministre chargé des Travaux Publics, ou son Représentant.

MM.- Le Représentant de l'Assemblée Nationale Populaire
- Le Directeur du Trésor
- Le Directeur du Contrôle Financier, ou son Représentant
- Le Directeur des Postes
- Huit Représentant des Epargnants nommés par Arrêté du Ministère chargé des Postes sur proposition du Directeur de la Caisse d'Epargne, le nombre de représentants par Faritany étant proportionnel au nombre des épargnants du Faritany, avec un minimum de Un représentant.

ARTICLE 6.- Le Conseil d'Administration se réunit au moins une fois par an et sur convocation de son Président.

Le quorum des délibérations est fixé aux trois quarts des membres du Conseil.

Les délibérations du Conseil sont prises à la majorité absolue. La voix du Président est prépondérante en cas de partage.

Le Secrétariat est assuré par le Directeur assisté de l'Agent Comptable.

...../....

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2°) - Du Directeur

ARTICLE 7.- Le Directeur de la Caisse d'Epargne est nommé par décret pris en Conseil des Ministres, sur proposition du Ministre chargé des Postes.

ARTICLE 8.- Le Directeur met en oeuvre le fonctionnement de la Caisse d'Epargne sur le Territoire de la République Démocratique de Madagascar.

A ce titre il veille à l'exécution des délibérations du Conseil d'Administration.

ARTICLE 9.- Le Directeur est ordonnateur du budget et prépare les travaux de réunion du Conseil d'Administration.

3°) - De l'Agent Comptable

ARTICLE 10.- L'Agent Comptable de la Caisse d'Epargne est nommé par arrêté du Ministre chargé des Finances.

Il tient la comptabilité générale de l'Etablissement par application des dispositions du décret N°68-080 du 13 Février 1968.

ARTICLE 11.- Il est chargé de la comptabilité des fonds en dépôts. Il assure la vérification des opérations effectuées par les bureaux des Postes. Il tient le double des comptes des déposants.

Vis à vis des Receveurs des Postes et Télécommunications, la responsabilité de l'Agent Comptable est limitée à la régularité des opérations qu'il a autorisées :

- remboursement intégral,
- remplacement d'un livret perdu ou volé,
- changement de section,
- transfert,
- remplacement d'un livret rempli ou hors d'usage.

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a) contribuer aux prêts à la construction ou à l'acquisition de logements sociaux au profit des titulaires de livret "Epargne-Logement",

b) participer éventuellement aux investissements des Sociétés à participation de l'Etat.

c) effectuer des apports éventuels de financement auprès des institutions financières (BANQUES et FNI)

d) le financement d'autres opérations présentant un caractère économique ou social.

TITRE VII

SAISIES-ARRETS ET OPPOSITIONS

ARTICLE 23.- Les fonds déposés à la Caisse d'Epargne peuvent faire l'objet de saisies-arrêts et oppositions conformément aux dispositions des articles 557 à 702 du code de procédure civile.

ARTICLE 24.- Les saisies-arrêts et oppositions de toute nature formées auprès de la Caisse d'Epargne n'ont effet que pendant trois années à partir de leurs dates. Si elles n'ont pas été renouvelées dans l'intervalle, elles seront rayées d'office à l'expiration de ce délai.

TITRE VIII

DISPOSITIONS GENERALES

ARTICLE 25.- Des arrêtés conjoints du Ministre chargé des Finances et du Ministre chargé des Postes fixant les modalités d'exécution de service et de la comptabilité seront pris en application du présent décret.

ARTICLE 26.- Le présent décret abroge toutes les dispositions contraires notamment celles contenues dans le décret du 3 Novembre 1918.

ARTICLE 27.- Le Ministre chargé des Finances et le Ministre chargé des Postes sont chargés, chacun en ce qui le concerne de l'exécution du présent décret qui sera publié au Journal Officiel de la République.

Fait à Antananarivo, le 6 Mars 1985

Par le Président de la République
Démocratique de Madagascar,
Le Premier Ministre,

Didier RATSIRAKA

Le Colonel Désiré RAKOTOARIJAONA.

Le Ministre auprès de la Présidence
de la République, chargé des Finances
et de l'Economie,

RAKOTOMAVO Pascal

Le Ministre des Postes
et Télécommunications,

RAKOTOVAO Andriantiana.

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APPENDIX B

CAISSE D'EPARGNE MADAGASCAR

FINANCIAL STATEMENTS

(RESTATED)

BALANCE SHEET (in FMG millions)

	1983	1984	1985	1986	1987	1988	1989	1990	1991
ASSETS									
Treasury – CDC	3,584	3,199	3,190	3,641	4,581	5,139	5,923	6,164	5,140
Central Bank	2,535	2,535	2,535	2,535	–	–	–	–	–
Treasury – BNI	–	–	–	–	2,706	3,031	3,394	3,802	4,258
Total Deposits	6,120	5,734	5,726	6,176	7,287	8,170	9,317	9,966	9,398
Receivables	–	–	–	0	1	3	7	44	92
Due from State	–	–	–	7	7	7	7	7	7
CURRENT ASSETS	6,120	5,734	5,726	6,183	7,295	8,180	9,331	10,017	9,497
Supplies and Equipment			10	8	14	23	21	224	179
Computers			–	–	–	–	–	–	321
Buildings			402	394	385	377	388	379	340
Net fixed assets			411	402	399	401	409	602	839
TOTAL ASSETS	6,120	5,734	6,137	6,585	7,694	8,580	9,740	10,619	10,336
LIABILITIES									
Due to Savers	6,543	6,303	6,571	7,205	8,352	9,194	10,271	10,987	10,568
Due to Suppliers			–	5	1	1	–	–	
CURRENT LIABILITIES	6,543	6,303	6,571	7,210	8,354	9,195	10,271	10,987	10,568
Eqpt. Subsidies Recvd									496
Reserve Fund	620	666	716	768	830	892	958	1,030	595
Retained Earnings			(1,151)	(1,393)	(1,490)	(1,506)	(1,489)	(1,597)	(1,323)
Net Worth			(435)	(626)	(659)	(614)	(531)	(567)	(728)
TOTAL LIABILITIES + NET WORTH			6,137	6,585	7,694	8,580	9,740	10,619	10,336
LIQUIDITY									
Gross Deposits	6,739	6,400	6,442	6,944	8,117	9,061	10,275	10,996	9,993
Gross Liquidity	196	97	(129)	(260)	(228)	(123)	18	60	(476)
Net Deposits	(424)	(569)	(846)	(1,027)	(1,059)	(1,015)	(940)	(970)	(1,071)

INCOME STATEMENT (in FMG millions)

	1983	1984	1985	1986	1987	1988	1989	1990	1991
Interest Received:									
Treasury – CDC	244 9	238 7	222.2	230.4	267 1	314 1	369 1	415 8	421 4
less: Interest on Reserve Fund	(41.6)	(44 6)	(47.7)	(51 3)	(55 9)	(61 3)	(66 1)	(71 7)	(61 9)
Treasury – BNI	0 0	0	0	0	170 7	324 7	363 7	407 3	456 2
Total Interest	203.3	194 1	174.5	179 1	381 9	577 5	666 7	751 4	815 8
Interest Paid	(280.3)	(278 8)	(300.5)	(300 5)	(331 7)	(369 6)	(411 0)	(459 9)	(476 1)
Net Interest Income	(77.0)	(84.7)	(126.0)	(121 4)	50 2	207 9	255 7	291 5	339 6
Other Income	1.5	0.0	1.5	1 5	0 1	3 7	0 1	1 6	0 2
Operating Income	(75.5)	(84.7)	(124.5)	(119 9)	50 2	211 6	255 8	293 1	339 8
Salaries & Charges				29 9	30 7	37 8	39 0	44 5	52 7
PTT Payment				32 5	34 9	43 6	47 1	0 0	48 0
Other Expenses				66.8	81 2	146 6	164 4	156 7	165 4
Total Expenses	(77.1)	(106.9)	(101.9)	(129.3)	(146 8)	(227 9)	(250 4)	(201 2)	(266 1)
Profit net of ext'y items	(152.6)	(191.6)	(226.5)	(249 2)	(96 6)	(16 3)	5 4	91 9	73 7
Extraordinary income									
Govt loan Int /reimb.	6 9		6 9	6 9					
Work For Own Account							21 6	-	-
Net Profit (Loss)	(145.7)	(191 6)	(219 6)	(242 3)	(96 6)	(16 3)	27 0	91 9	73 7

APPENDIX C

NOTES ON RESTATEMENT OF

CEM FINANCIAL STATEMENTS

APPENDIX C:

NOTES ON RESTATEMENT OF CEM FINANCIAL STATEMENTS

1. Balance Sheet

Two adjustments have been made to the CEM's balance sheet. First, through 1989 the CEM carried accumulated losses as an asset; starting in 1990 the losses were carried as a liability, which had the effect of reducing stated total assets. To be consistent, the post-1990 practice of recording accumulated losses as a liability has been used throughout. Second, the sum of the Reserve Fund and retained earnings (losses) has been labelled "net worth".

It should be noted that in the CEM's accounts, the Reserve Fund is credited directly with the interest on its share of the Treasury deposits, without going through the income statement. The Reserve Fund is debited by capital expenditures.

Related to the Reserve Fund, the balance sheet in 1991 also shows a reserve taken against the Reserve Fund, labelled "Equipment Subsidy". This is a misnomer and should perhaps have been entitled "reserve for contingencies" as it corresponds to capital expenditures made from the Reserve Fund.

2. Income Statement

Two adjustments have been made to the CEM's income statement. First, interest expense is presented immediately after interest revenue, to simplify the presentation of net interest income. Second, certain non-recurring revenue items are presented as extraordinary items. This does not affect net profit but reduces net interest income somewhat.

It should be noted that for 1991, interest income on the CDC account at the Treasury as reported on the income statement differs from the number reported in the annual report. Management commented that the annual report was prepared after the financial statement, thus the figure in the annual report is the correct one.

For ease in interpretation, two elements of income are presented as extraordinary items in the Income Statement: income from a thirty year loan made to the State, and FMG 21.6 million of other income related to remodelling the CEM's archive space using its own employees instead of outside labor labelled "Work for Own Account".