#access

Why savings is key to the future of mobile money – Ignacio Mas
Reeta Roy on building Africa from the base of the pyramid
Innovation: the latest trends in mobile financial services
Challenges in regulation – Bank of Tanzania

Rural Banking
AB launches new agri-loan in Tanzania

Investment
Interest in African MFIs on the rise

IFC
International Finance Corporation
WORLD BANK GROUP
These are exciting times in Africa. Not only is the continent enjoying strong economic growth, it is also an innovator in applying new technologies to increase access to financial services for large parts of the population. We’re not just talking about M-Pesa, Kenya’s world-famous mobile money provider. Look at Tanzania, for example. In just four years, the rate of formal financial inclusion has increased from 15.8 percent to 57.4 percent, primarily because of the implementation of mobile financial services.

Why is this important? Because it holds the promise of even better things to come. When people have access to reliable and sustainable banking services, they are also able to make productive economic choices for themselves, their families and businesses. Access to finance promotes inclusive economic growth. It is a tool to reduce poverty and to help ensure that the growing prosperity in Africa is enjoyed by all.

To reach the goal of full global financial inclusion by 2020, we all have to work together and learn from each other. This magazine features some of the most prominent practitioners and thinkers in the field of financial inclusion, generously offering their varied perspectives on innovation, implementation, investment and the road ahead. If there is one thing they all have in common, it is a sense of optimism. We share that.
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ACRONYMS AND GLOSSARY

ANM  Agent Network Management
ATM  Automatic Teller Machine
BCEAO  Banque Centrale des Etats de l’Afrique de l’Ouest (Central Bank of West African States)
CDD  Customer Due Diligence
CEO  Chief Executive Officer
COO  Chief Operations Officer
DFI  Development Finance Institution
FSP  Financial Services Provider
G2P  Government to Person
GSM  Global System for Mobile Communications (originally Groupe Spécial Mobile)
IT  Information Technology
KYC  Know Your Customer
MFI  Microfinance Institution
MFS  Mobile Financial Services
MNO  Mobile Network Operator
NGO  Nongovernmental Organization
OTC  Over the Counter
P2B  People to Business
P2P  Person to Person, Peer to Peer
POS  Point of Sale
PSP  Payments Service Provider
SMS  Short Message Service
SME  Small and Medium Enterprise
SSA  Sub-Saharan Africa
Greenfield  Start-up local MFI backed by international holding company/network
CGAP  Consultative Group to Assist the Poor
GSMA  Global System for Mobile Communications Association
MIX (Market)  Microfinance Information Exchange, Inc.
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Building Africa from the base of the pyramid

By Reeta Roy, President and CEO, The MasterCard Foundation

Africa is in transition. Economic growth, increasing political stability and technological innovation have led many to hope for major transformation, one that will lead to a significant reduction in poverty and more inclusive prosperity. Today, these converging trends, including stronger financial institutions and the proliferation of new technology, hold the potential to help more people in poverty improve their quality of life.

Financial inclusion, ensuring that those living in poverty have access to appropriate financial services and instruments, is widely seen as a key building block towards the goal of a more prosperous continent. For this promise to bear fruit, however, we must first understand the needs of people, building the financial products and programs that earn their trust and encourage their participation in the financial sector.

According to estimates by the African Development Bank, around 75 percent of people on the continent live without access to services from formal financial institutions. Their incomes, often derived from a farm or a series of odd-jobs, are prone to wide fluctuations. To cope, they rely on an array of tactics. Money is often saved under the mattress. In times of need, people borrow from friends and family, or community-based groups that help pool available resources. In worst-case scenarios, families either sell assets or turn to local moneylenders, often paying exorbitant costs. As a consequence, basic financial decisions, such as when to buy food, pay for a relative’s funeral, or set aside money for education, become wrenching and complex.

With the exception of a few countries, the commercial financial sector has been reluctant to serve Africa’s poor, particularly its women, its young people and its rural populations. Start-up costs, higher risks and perceived low rates of return have made it an unattractive venture for many commercial institutions. Markets, however, should be inclusive of poor and disadvantaged people. The poor need a broad range of financial services that meet their specific needs. Where such services are available there is evidence that they help bring about a reduction of inequality and an increase in inclusive economic growth.

Beyond the moral imperative, greater financial inclusion and poverty alleviation have the potential to address the continent’s macroeconomic picture. Take the agricultural sector as an example. The African Development Bank estimates that improving access to finance for smallholder farmers could triple the value of the continent’s agricultural output from $280 billion to $880 billion.

Official development agencies, philanthropists and social investors have done important work supporting microfinance institutions across the continent to test business models and products to reach the unbanked. Despite some important successes, the sector had until recently been unable to reach large swaths of the population due to barriers of cost and distance.

Mobile technology, however, is bringing about enormous potential for change and new commercial actors have recently entered the market. The first generation of mobile technology has led to the introduction of digital money platforms that enable people to easily transact. In countries like Kenya, these services have become ubiquitous in just a few years. A second phase of more complex mobile platforms including payments, savings, micro-insurance and lending products is now emerging. Some institutions are having success in moving beyond standard “brick and mortar” banks by using mobile point-of-sale terminals that can be transported into previously unbanked communities. These innovations promise to offer a whole host of services that could be of benefit to those living in poverty.

The potential of appropriate financial services for low-income individuals, households and small businesses is now more tangible than ever before.

The MasterCard Foundation was established as an independent, philanthropic organization in 2006. Our portfolio has emerged at an exciting time for the sector and the continent, where the combination of technological innovation and a better understanding of the various needs of poor clients is pointing to new opportunities to bring about economic empowerment. Working in collaboration with partner organizations, our approach has focused on testing new ways, both at the institutional and community level, to encourage markets and systems to reach those that have been previously excluded.
Innovations like vaccines and high yielding crops have changed the future for billions of people. We are on the cusp of another breakthrough innovation; including the poorest in the financial system that increases instead of limits the value of their assets.

Transforming the underlying economics of financial services through digital currency will help those who live in poverty directly. It will also support a host of other development activities, including health and agriculture.

Bill Gates
Bill & Melinda Gates Foundation
**Access for financial inclusion**

**Targets and projections**

**Access Bank**
- Global network of 8 MFIs
- In Africa: Liberia, Madagascar, Nigeria, Rwanda, Tanzania, Zambia
- 55 branches
- $124.3 million loan portfolio
- $125.8 million savings
- 470,000 clients (September 2015)
- Partner in Tanzania, Nigeria
  - (The MasterCard Foundation, Development Bank of Austria)
- Pipeline project: Madagascar

**Finca DRC**
- Global network of 22 MFIs
- In Africa: Democratic Republic of Congo, Ghana, Malawi, Tanzania, Uganda, Zambia
- 106 service outlets
- $115.8 million loan portfolio
- $34,877 savings
- 15,089 clients (March 2014)
- Partner in the DRC
  - (The MasterCard Foundation)
- Pipeline project: Uganda

**Opportunity International**
- Global network of 45 MFIs
- In Africa: Democratic Republic of Congo, Ghana, Kenya, Malawi, Mozambique, Rwanda, Uganda, South Africa, Tanzania, Zimbabwe
- 676 branches
- $91 million loan portfolio
- $76.7 million savings
- 1,208,723 clients (September 2013)
- Partner in Rwanda
  - (Development Bank of Austria)

**MicroCred**
- Global network of 6 MFIs
- In Africa: Côte d’Ivoire, Madagascar, Mali, Nigeria, Senegal
- 61 branches
- $129.1 million loan portfolio
- $84.5 million savings
- 216,616 clients (December 2013)
- Partner in Senegal, Madagascar
  - (The MasterCard Foundation)

**Airtel Mobile Money Provider**
- Subsidiary of First Bank Nigeria
- Partner in Nigeria
  - (Bill & Melinda Gates Foundation)

**FirstMonie Mobile Money Provider**
- Subsidiary of First Bank Nigeria
- Partner in Nigeria
  - (Bill & Melinda Gates Foundation)

**Market Support Programs**

**Côte d’Ivoire**
- Advancing MFIs in ecosystem through research and pilot projects on mobile wallet inactivity, e-payments solutions for cotton farmers, and analyzing e-money data.
- Partners: MTN, Moov, BCEAO, CGAP
  - (The MasterCard Foundation)

**Tanzania**
- Facilitating a market-led approach between the MFIs providers in Tanzania to build consensus and create operating standards and business models for interoperable MFS transactions.
- Partners: Tigo, Airtel, Vodacom, Zantel, Bank of Tanzania, National Microfinance Bank, CRDB Bank
  - (Bill & Melinda Gates Foundation and FSDF)

**Targets and projections**

**Finca DRC**
- Target for program: 5,300,000 banked individuals

**Making progress**

**Finca DRC**
- # of clients: 135,870
- # of transactions via agents per month: 44,918
- % of registered users who used the channel at least once in last 30 days (active users): 14.22%
- Total deposits: US$13.8 million

* projections do not include potential pipeline clients: All Madagascar, Equity Bank, and Finca Uganda
An interview with Ignacio Mas, independent consultant

What do you think are the most important trends in mobile financial services at the moment?

We clearly see pent-up demand for remote payments and a lot of confidence in electronic payments. That’s not a problem. There is an immediate value proposition to customers in terms of convenience of remote payments – being able to send money to family who are far away, for example – and there are no big trust issues. What’s missing is digital money as a way of storing value. Many accounts are empty; they are just used for payments. It’s a more efficient way of transferring cash, but it’s not changing behavior. The challenge is to get people to leave money on their electronic wallet. The more money people store electronically, the more electronic payments they will make at the local shop. I see it as a virtuous cycle, and we need to get into that cycle.

How do we get there?

My hypothesis is that we need the e-system to replicate the way people think about money, and the way people do that is by separating it into different pots. Different pots for different purposes. People don’t keep all their money in one place, mentally and likely also physically. Digital accounts don’t give people an adequate sense of control over how they separate their money out. We don’t have a way of doing digital pots, conveniently and intuitively. That’s where the challenge is.

If this is what customers want, why are market players not providing this yet?

A lot of providers care primarily about profitability, which is contained in credit and payments, not in savings. But if you can’t capture savings, you will get fewer payments, and if you...
What will it take for an African microfinance institution to successfully implement mobile financial services?

In general, as a small institution you can't afford to build your own mobile financial services platform. You need to be more reactive and engage with a system that already exists. As soon as there is a viable mobile money system, the best option is to engage with that particular system in a constructive way – not just as a client, but to add value, for example through agent management. Microfinance institutions should also look into going cash-less. If I were a microfinance institution I would be very keen to take cash out of the system as a way of adding customer convenience, gaining real-time information on all operations, minimizing working capital requirements, and reducing fraud.

What do you think are the big issues regarding regulation of mobile financial services?

There has been much progress in many countries, but effecting change is difficult because regulators tend to converge to the mean, and few want to stick their head out and do something different. The regulatory barrier is too high for the smaller private sector players to respond to the opportunity. For example, cash-in/cash-out functions should not have to be handled by agents of banks. This is the biggest regulatory hurdle. If a bank or a mobile financial services provider only capture a few remote payments and little savings, you gain limited insight that’s usable for credit scoring. Savings is the engine that drives payments and credit. Most institutions are going for direct profitability rather than the engine.

We also need to design a system where multiple accounts are accessible on the phone, similar to Internet banking. We need to develop apps that are user-friendly. This was difficult to do with the simple mobile phones, but now we can start thinking in terms of smartphones. Smartphones are not yet cheap enough, but they will be in a few years. If people know that they can use a smartphone to control their finances, that might well be a reason to buy one. We don’t have to wait for smartphones to be everywhere before we start figuring out how to use them for financial services; we can actually help to make the shift happen.

Do you see any developments in the market towards these kinds of applications?

I don’t see a huge amount. I am working with an institution that is trying to use the notion of sending money to self, me-to-me payments, which is a way of helping people to separate money without having to open several accounts. I can send money, for example, to my own account at the end of the month when I need to pay school fees for my children. Or I can send money to Friday this week, when I want to pay off my microcredit. What’s missing is digital money as a way of storing value.
which is so ingrained in banking. Banks are not at all comfortable with franchise models. Coca Cola has a great relationship with its customers wherever someone buys a Coke. Banks don’t think in those terms. They should move from direct distribution to indirect distribution. But it’s like moving from a tricycle with support wheels to a bicycle; in the early days it feels very wobbly and uncomfortable. It’s a control thing for banks; it’s in their DNA.

Where will mobile financial services be in five to 10 years?

In my mind, it’s not possible to overhype the potential of mobile money. It’s clearly the way things are moving. Money wants to get off the paper the same way that music got off the disc and news got off print. It will happen. What you can easily overhype is the progress we have made so far against that vision. We know what the future will look like, but it’s not clear how quickly we will get there, who will take us there, and how.

In my view, and it might change, it will happen with a start-up, not an existing player. Someone Amazon-like. It will happen by disruption rather than reinvention. In a way that’s what happened with M-Pesa. It was not an existing player. I don’t think it’ll be an MNO though, but rather someone from the internet space. Once smartphones are more widely available, that’s when it’ll happen. Currently, Internet providers are too dependent on MNOs, which is another huge barrier. It would also help if regulation didn’t require players to set up their own cash-in/cash-out systems. The way it is set up, it dissuades the visionary “Steve Jobs” out there. The vision is really possible, but we need to reduce barriers to innovation and competition. We’re only at half time.
KINSHASA. At about 9 o’clock in the morning, Bertho Kongolo and his FINCA colleagues assemble a marquee under a tree along the road that divides Quartier Jamaique and Quartier Congo in an area of the Congolese capital Kinshasa called Sakombi. As the FINCA team arrange their red banners on the sandy ground and connect the DJ’s equipment to an extension cord from the shop of a nearby FINCA Express agent, the people of Sakombi begin a new day.

Diego Talani has been a FINCA Express agent for two years.

Saving [for] the future a dollar at a time

by Anna Koblanck

fincaexpressafrica.com
Across the street a group of young women arrange trays of fresh vegetables on offer to passers-by. Next to them, two elderly women sell freshly baked bread from plastic buckets on the pavement. On the main road, commuter taxis travel up and down, the conductors standing in the open doors to spot potential travelers.

This is not an area where traditional banks would spend their marketing money. The prospective customers in Sakombi are among the world’s poorest people, considered expensive and high-risk clients by most financial institutions. Some might even think that money is so scarce in this area that there is no need for banking services, but as the sounds of Koffi Olomide blare out from the speakers, the chairs under the FINCA marquee quickly fill up.

“I’m responsible for a large family and my money is not safe at home,” explains Patrice Ginakubundi, a father of six children who is one of the first new FINCA customers of the day, signing up for a savings account with an initial deposit of two dollars.

He sells bread and sausages from a plastic bag hanging on his arm, and earns an income of 100 dollars in a good month. Like many Congolese, he has found that the traditional non-formal savings groups, bwakisa carte, are not always reliable. Home is not a good alternative – once his hard-earned dollar bills were eaten by insects.

“I need to save about $2,500 because I want to buy a car. That’s my plan.”

Grace Kalambayi, 21 years old, is one of many new FINCA customers in Sakombi, Kinshasa.

“I’m saving for my children’s study, and one day I might buy a piece of land,” he says.

There are few other places in the world where access to financial services is as poor as in the Democratic Republic of Congo (DRC). Less than 4 percent of a population of 67 million use banks or other formal financial services, according to the latest estimates by the Central Bank. Following decades of conflict and fragile development, many Congolese have lost faith in the financial, legal and regulatory systems. Infrastructural challenges, including the lack of national identity documents and legal procedures to endorse even traditional collateral, continue to restrain the development of the financial sector and the provision of access to finance.
FINCA opened its doors in the DRC in 2003 as an NGO and credit-giving organization. It became a fully licensed microfinance institution in 2008. In the last couple of years it has expanded its services radically through a network of FINCA Express agents using biometric point-of-sale (POS) devices.

“The development of our POS agent network and savings mobilization are key components of FINCA DRC’s growth strategy. We estimate that at present, 3 percent of our potential market is served by FINCA or similar microfinance institutions, while 97 percent of the Congolese potential market is still unbanked. So there is a huge opportunity to provide financial services to a significant number of low-income Congolese and we really want to do that as fast as possible. The deployment of a cost-effective and scalable branchless network is a key component of that strategy,” says CEO Alejandro Jakubowicz.

“At an agent, our customers can perform all transactions that are possible at a branch.”

In late April 2014, 124,000 borrowers and savers had been biometrically registered for use of the POS device. At the same time, FINCA had 145 FINCA Express agents in Kinshasa and in six other cities in the provinces of Katanga, Bas Congo and South Kivu, as well as a small but growing network of master agents to help manage liquidity across outlets.

“Agents are selected based on proximity to potential customers and on their business record. Often banking services are only a complementary line to the individual’s original business, but some agents find the FINCA Express outlet profitable enough to make it their prime focus. Diego Talani has turned his brother’s currency exchange on the corner of a busy street in a part of Kinshasa called Kitambo into a FINCA Express.

“This is the second year I work as a registered agent with FINCA. Since it has been going well with FINCA, I ended all the other contracts I had before.”

“In the beginning I was making 200 dollars, then 300 dollars and then 500 dollars. I stayed there for a bit, at 500 dollars. Today, it is 700 dollars. Tomorrow it could go to 1,000 dollars.”

As Diego talks of his ambition to open a second FINCA Express outlet, a steady stream of customers files in behind him to deposit or withdraw money over the wooden counter. One of them is 21-year old architectural student Justin Ngola, who has been a FINCA savings account customer for three months. He decided to save his money with the bank because he was robbed on the street of nearly 50 dollars. He does not share the old generation’s skepticism towards the banking system.

“The country is modernizing. The old ways aren’t here.”

“Every time we do a sales drive, more and more people come. They are very interested in financial services, both in loans and savings,” Bertho Kongolo says.

“In general, people start accounts with just one dollar.”
**Why do PARTNERSHIPS IN THE MOBILE FINANCIAL SERVICES INDUSTRY struggle?**

by Aliza Mitha and Mark Flaming

Implementations of mobile financial services are complex, requiring expertise in banking, telecommunications, technology, marketing and distribution. Typically, they involve some combination of financial institutions, mobile network operators, agent network managers and payment service providers, linked into a seamless service delivery channel.

The success of these commercial partnerships is crucial to unlocking the great potential that mobile financial services hold for increasing access to affordable, mass-market financial services in developing markets and elsewhere. So why are so many of these partnerships struggling?

Looking at case studies from Cambodia, Ghana, Kenya and Pakistan, it is clear that only a small number of partnerships work well. No partnership is exactly like another, but we made a number of high-level findings that may provide some guidance to understanding the opportunities and challenges in the evolution of the mobile financial services market.

The deficiencies of partnerships are typically due to the fact that one or more of the partners is not playing a role that is key to their success and/or one or more of the partners is playing a role they are ill-equipped or unmotivated to play. There are a number of reasons for this, including the rapid evolution of mobile financial services businesses and the early stage of the industry.

The division of revenue and cost between partners also plays an important role in the progression of the implementation, as does the timing of accrual of value to the core business of each partner. Many implementations have taken a short-term view that focuses on the value generated by the implementation itself, rather than a long-term view that also encompasses benefits generated for the partners’ core businesses, which may require a more patient strategy.

Partnership roles must be aligned with competitive advantage and motivation. The motivation and ability of companies to play their roles are largely a function of competitive dynamics in the banking, mobile communication, payment services and agent-based industries. In any market, companies in these industries will have relative strengths and economic motivation to operate different parts of the supply chain. Partnerships may not be possible where companies have competing interests to control some part of the supply chain or a service component.

Regulatory restrictions appear to be the most consistent and obvious cause for poor partnership arrangements. Leveling the playing field for different types of institutions in terms of key factors such as issuing e-money, identifying and using agents, and accessing communications channels should be a priority for regulators in order to encourage the effective roll-out of mobile financial services.

With many new and established market players in the mobile financial services industry seeking partners, getting the partnership right is vital to ensuring business success as well as the effective roll-out of affordable financial services to the broader low-income market. For a partnership to be successful, each partner needs to enter into it with a clear understanding of its motivation, role, and expectations, particularly regarding the composition and timing of benefits likely to flow to it. A long-term view is certainly required, as is some degree of flexibility in managing relationships over time.

For further reading: Partnerships in Mobile Financial Services: Factors for Success, by Flaming, Mitha, Hansoub, Zetterli, Buld (IFC, 2013).
Mobile Money
Success Factors

by Margarete Biallas

As mobile money initiatives are being implemented on a world-wide scale, it is becoming possible to look at progress across the board to determine what makes some initiatives successful and others less so. A recent survey by GSMA, measuring success as the ratio of transactions to the size of the market, suggests that the market is a “three-tier landscape” with a number of fast-growing sprinters in the lead, followed by a middle ground of moderate growth, and a tail end of implementations that struggle to attract customers.

What makes the difference? The answer lies primarily in the way players approach investment, product development and agent network management.

Successful initiatives must not underestimate the levels of investment required for both operational and capital expenditures on staff recruitment and training, product design, network build-out, the information technology (IT) platform and marketing. Upfront fixed IT costs range from $1.5 million to $2.0 million, with modest ongoing investments to adapt the system to new products and client demand. Marketing costs vary based on the provider’s existing mass-market penetration, growth targets and agent network. Both upfront and sustained investment over time are important to maintain a high-quality service for customers.

A strong commitment to and belief in mobile financial services, backed by adequate resources and staff, are essential for the success of an initiative – most sprinters had at least 10 full-time employees dedicated to mobile money.

A successful marketing and customer acquisition strategy is necessary to raise awareness about the product and to draw customers. Marketing strategies tend to consist of “above the line” activities such as print, billboard, TV and radio advertisements, as well as “below the line” activities like street plays, field agents, and other on-ground campaigns which drive customer adoption. It is crucial to ensure that the shortest possible time passes between registration and activation – the sooner customers transact once they register, the more likely they are to remain active customers. The GSMA study found that in the case of 13 out of the 14 fast-growing initiatives, customers were able to transact immediately.

In order to be successful and scalable, mobile financial services providers must offer a product that addresses a customer “pain point”. This implies investment in market research and carefully understanding demand. Once the right product has been identified, it can be used to roll out and establish trust in the new channel. Typically, remittances and government-to-person payments have been used as “pull products” to bring potential customers into mobile money. Thereafter, the product offering can be ramped up to include other more complicated products and services. In the GSMA study, the sprinters began by focusing on one or two products, and then building the marketing and product message plan around these.

Appropriate agent network management spells the difference between success and failure for a mobile money operation.

Appropriate agent network management spells the difference between success and failure for a mobile money operation.

by population density and time to outlet. In denser cities, higher numbers of people can be supported by a lower number of outlets because of reduced time to outlet. In rural areas, much lower numbers of people can be supported per outlet because of the distances involved. We estimate that in a rural area, an outlet needs to be within easy walking distance to be used regularly. And in many cases, it is the marginal transport cost that will drive rural behavior.

It is also important to set up enough outlets to ensure a service “goes viral”. This means that users can effectively access the service broadly and easily enough so that everyone wants to have it. As a result, success is driven by the simultaneous growth of both outlets and users in a way that creates the necessary network effect. The required density to obtain this varies and needs to be carefully analyzed. In addition to maintaining the right ratio between agents and customers, adequate cash management mechanisms must be in place so that customers and agents are not inconvenienced. Timely monitoring and training of agents is also critical.

1 GSMA State of the Industry 2013: Financial Services for the Unbanked.
What is the new agri-loan product that you launched in the past year?

It is a mix between a sub-product and a new product, targeting a new market. It is a sub-product in the sense that it is similar to our standard microloan product, but adapted to a new consumer segment, farmers. It has the same basic features as our individual loan product in that the loan is based on an assessment of the customer’s cashflow and household expenses, with a 50% : 70% prudential ratio. It is based on monthly repayments because it helps us keep in close contact with the client; collateral is mostly for moral pressure. The difference is that for farmers, our assessment is based on a 12-month cycle, since the income of farmers is very variable. In the months when they harvest they make a lot of money, but some months they have very little or no income. Therefore, repayment installments are variable and adjusted to cash flow. We are much more flexible on the grace periods.

What has been the response to the new product so far?

The uptake has been very good. In early 2013 we launched a branch in Mwanza, close to Lake Victoria and in mid-2013 we opened a branch south of Mwanza in Kahama, which is where we launched the agri-loan product. We have clients calling us and even travelling from the villages and queuing at the branches, much more than for microloans. This seems to prove that we are supplying a service that is really needed, and we are proud to say that we are the only financial institution in Tanzania to provide individual loans to farmers. Now, after seven to eight months, we are launching a branch in Tabora in the same district, plus a second small branch 20 kilometers outside of Mwanza, which will serve only farmers. At the end of March 2014 (after seven months), we had 724 agri-loans outstanding.
What are the main challenges in terms of offering agri-loans?

There are no challenges in terms of competition, demand or internal processes for now. The only challenge is in terms of collateral. It is difficult to use crops as collateral, so we use cattle and home assets. But farmers are very poor, and you can't really reclaim the little that they have. So we are exploring alternative collateral, and I think we will make progress after a full-year cycle. Another challenge is the rather low average loan amount, making it difficult to grow a portfolio that will be of significant size compared with microloans and SME loans. Agri-loans are typically half the size of microloans, which is partly linked to the limited collateral coverage.

Is there a difference in risk profile when it comes to farmers?

It's a bit early for us to tell, but AccessBank Madagascar has been offering the same type of agri-loan for three years and there the agri-loan portfolio delinquency is lower than for the microloan portfolio. I think farmers are better risk managers than bankers. Bankers are just here to make money, but farmers do what they do to survive. What we have discovered in Madagascar is that they diversify in terms of sources of subsistence, especially microfarmers. They grow several different crops and run a small business, like a small shop, on the side for an additional regular income. It also helps to be the only institution offering agri-loans, because clients know they have nowhere else to turn if they don't repay their loans. In the cities, customers can go elsewhere.

Have you found anything unexpected in the process of launching this product?

What is interesting is that we are able to disburse more agri-loans per loan officer than microloans per loan officer, so our efficiency, despite the need for a more thorough assessment, is higher. This, I think, is because we have just launched the product, and our loan officers are still mainly issuing new loans and not spending so much time recovering loans. That will change in one to two years. Secondly, we have no competition, so we don't need to worry about multiple borrowing. Thirdly, even if we don't do group lending, there is a type of group assessment, because farmers living next to each other will have similar income cycles. In town, clients have more diversified businesses.

Do you expect more competition in the future?

We were pioneers in terms of individual microloans in the Tanzanian market when we started out six years ago, and also in terms of the design of our savings product. Now, other institutions have followed with similar products. Based on this, it seems we are enjoying a very nice position in the agri-loan market for now that might not remain.

What has your experience been over the past year in terms of tapping into a much larger multi-party mobile money solution?

Urwego Opportunity Bank's mHose mVISA product was launched in April 2013, exactly one year ago. Our experience has been very positive. The buy-in and sign-up by clients has been steady rising and more agents have been signing up. The number and amount of transactions have been increasing fast and the interoperable solution really works. There have been glitches here and there, but overall our experience has been very satisfactory.

An interview with Jeffrey Lee
CEO, Urwego Opportunity Bank

Jeffrey Lee is Chief Executive Officer at Urwego Opportunity Bank of Rwanda. He had more than 30 years of commercial banking experience when he joined the bank in 2009. Previously as Chief Executive Officer of Denver-based Premier Bank, Lee led its expansion from one to several branches and grew its total assets from $8.5 million to $136 million.
Training the lending staff and agents was somewhat challenging. Surprisingly, clients have been able to carry out transactions with confidence once they became familiar with the process that needed to be carried out within certain time frames. We have increasingly seen clients use agents from the other participating banks for transactions, thus proving the benefit of agent interoperability.

What have the benefits been?
Obviously, many loan clients do not have to spend a lot of time meeting or traveling to make loan payments anymore. Our clients also do not have to transfer money from their savings accounts to a wallet to do their transactions; rather, they are able to do the transactions straight out of their savings accounts. Their savings balances earn interest as well as free life insurance benefits based on their savings balance. So far, clients seem to value the loan repayment and free life insurance components most. Agents can sign up new clients, while clients are able to draw cash from ATMs without cards and to conduct e-commerce transactions using virtual prepaid credit cards. Clients appreciate the fact that they can use any telephone company to carry out transactions for anyone who may be using another telephone company’s mobile money program. That is the benefit of mobile network operator interoperability.

And the challenges?
The challenges included hiccups that we had to face and handle with third-party service providers, including the power wholesaler, one of the telecommunications companies and a provider of Internet services via the undersea cable. But together with mVISA we have tackled these issues one at a time and the system is getting stronger and more reliable. Liquidity supply and management to agents remains a significant challenge because agents, particularly in rural areas, have insufficient cash to accommodate all needs. We will have to continue to develop creative solutions in tackling this challenge.

Has it turned out as expected? What has come as a surprise?
The actual performance has been slightly lower than the original target, but still quite impressive because the target was set very aggressively.

Over the longer term, what does it mean for Urwego Opportunity Bank’s core business when everyone can tap into this new payments system?
Urwego Opportunity Bank’s initial approach to this interoperable mobile and agent banking system was to help relieve lending staff from handling cash. There are still challenges to achieving this goal fully, but we are moving in the right direction. We also aimed to expand our services outreach to unserved or underserved areas, in line with the bank’s mission, through agents who are able to open new accounts. On a long-term basis, many more applications will be developed, such as Government-to-Person push transactions and People-to-Business merchant transactions. In addition, the functional features of this interoperable solution will be expanded to the point of helping clients to do financial planning and management. Urwego Opportunity Bank will also be in a position to sponsor smaller organizations, such as microfinance institutions and savings and credit cooperative organisations to help bring their clients into formal mobile-based financial services.
New MFS regulation has been drafted and is awaiting approval. What will this new regulation cover?

The new regulation will enhance the MFS regulatory framework and enforce financial integrity and stability. It covers a range of issues, including approval and licensing, e-money issuance and circulation, security and operational reliability, the roles of service providers and mobile money agents and consumer protection issues.

How will this shape the market?

The new regulations call for three customer tiers for simplified Customer Due Diligence investigations, with Know your Customer requirements at different levels and set limits, and compliance with international standards and best practices. The regulations will bring more transparency to the licensing process and will ensure that all mobile network operators work to the same set of rules. They will also ensure compliance with regulations on anti-money laundering and combating financing of terrorism.

When do you expect this regulation to be approved and to take effect?

The regulation should be issued this year, 2014, following enactment of the National Operating Payment Systems Act.

What has been the impact of MFS on consumers, particularly low-income consumers, in Tanzania?

The impact has been enormous. Anecdotal evidence shows that low-income earners have benefited from cost savings, convenience, and access to financial services, especially payments services and bill payments. The service is also used largely as a transactional savings tool, enabling savings services to people in remote areas who have little or no access to banks and other financial services.

How do you, as a regulator, strike a balance between consumer protection and market development and innovation in terms of MFS?

In terms of balancing consumer protection and market innovations in MFS, the bank has ensured – through its regulatory requirements and with the cooperation of the telecommunications regulator – that mobile network operators adhere to consumer protection principles.

Is there a risk that regulations hamper innovations?

Regulations play a significant role in payment schemes implementations. They can either be a barrier or an enabler. Bank of Tanzania recognizes this and ensures that its regulatory approach fulfills the role of enabling to encourage the growth of innovative payment systems schemes, which ensures the provision of efficient and safe payment services in the country.

Tanzania is among the most mature mobile financial services markets in the world. In what areas do you think regulation has contributed to the development of this market?

Bank of Tanzania has taken three helpful steps in encouraging the development of the mobile financial services market. First, it has approved non bank-led models to operate in the market. Following the enactment of the Bank of Tanzania Act in 2006, which mandated the bank to supervise and oversee non-banks that offer payments services and products, the bank issued guidelines for introducing electronic payments schemes in 2007. These guidelines have enabled four mobile network operators to introduce MFS following approval from the bank. Secondly, the bank has continued to use a flexible regulatory approach to payment schemes that have an impact on financial inclusion, while at the same time being conscious of the potential impact on financial stability. Lastly, the bank, through its regulations, has encouraged fair market participation, which ensures that all players compete on a level playing field without creating monopolies; for example, agent exclusivity is outlawed.

What are the outstanding regulatory challenges, especially as the market moves towards interoperability?

Reaching consensus on the interoperable option is seen to be a major challenge. The bank’s policy is to support and encourage a market-based interoperability solution and to ensure that the challenges that may arise in the process are effectively managed when consensus is reached among key players.

What are the objectives of the interoperability platform?

The objectives are to increase access to and usage of MFS for a wider population base by offering a seamless payment experience which will increase convenience and reduce cost. Further objectives are to enhance the provision of financial services on the MFS platform through linkages with financial institutions, and to allow convergence to an electronic digital platform.

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INNOVATION

Mobile micro-insurance answers the call for broader access to insurance

by Peter Zetterli

Over the last three years there has been a rapid increase in the number of affordable mobile micro-insurance products launched in emerging markets. Could this be the start of a genuine revolution in access to insurance?

When her mother died, Beatrice Oforiwaa was devastated – first by grief, then by fear over what the financial blow would mean for her family. Supporting three children on her own on the meager income from an informal business selling small goods like soap and toilet paper, she was already struggling to pay school fees and make ends meet. Yet in Ghana, funerals come with strong social obligations and high expenses. Then she remembered that many months earlier, she had signed up for a free life insurance product offered by her mobile network operator, Tigo. With little hope but nowhere else to turn, she called the hotline and submitted a claim. When just a few days later a message came that she had been paid out $750, her sense of disbelief was matched only by her joy and relief: the money more than paid for all the funeral expenses.

Like Beatrice used to be, most people in the developing world are uninsured: nationwide penetration of insurance is typically less than 5 percent. Yet they live lives far more fraught with risk than their counterparts in wealthier countries, exposed to a higher likelihood of personal illness or accidents, theft of property or productive assets, crop failure due to drought or pests, and cattle morbidity due to disease or poor nutrition. With smaller savings, fewer coping mechanisms and considerably less access to formal safety nets, they also tend to be hit harder by such shocks, often resulting in the distress sale of assets, reduced spending on health or education and a general decline in income, wellbeing and productive capacities that could set the household back years on its way towards prosperity.

But like Beatrice, even fairly poor people in developing countries are increasingly being offered services that are designed and priced for them. The micro-insurance industry has been growing steadily for a number of years and is estimated to have reached around...
Regulators should welcome the arrival of new models and market participants that appear to hold out the promise of substantially expanding access to insurance.

500 million people in 2012.1 Recently, the emergence of new business models that leverage mobile channels in the design and delivery of insurance appears to be accelerating this growth. Where micro-insurance providers have typically added customers at rates similar to that of traditional insurers, these new models are expanding access at a remarkable pace. While still very new, there are already several countries where such mobile micro-insurance products have grown, in a year or less, to cover more lives than the entire rest of the insurance industry.

Of course, these products tend to be simple and come with coverage levels far below those offered by traditional insurance policies. Indeed, adjusting the design and characteristics of these products to match the means and needs of low-income households is an essential prerequisite for putting them within reach of the broader population in developing countries. The dramatically expanded geographical reach and lower costs of customer engagement made possible by the mobile channel presents another key element by not just slashing costs, but doing so for very large customer groups across vast physical distances.

Another important catalyst is the development of new business models that leverage the digitization of transactions to generate alternate revenue that can cross-subsidize products offered to end-customers at no direct charge. Tigo Family Care Insurance, the one used by Beatrice, is an example of this: by banking on reductions in customer churn and increases in airtime use generated by the insurance product, Tigo and its partner BIMA are able to offer free life insurance to any customer who spends more than $2 on calls and text messaging in a month.

It is becoming increasingly clear that the combination of these factors is a potent one. When Tigo Family Care was launched in 2010, the Ghanaian insurance industry as a whole covered 720,000 lives; three years later, the mobile micro-insurance product alone covered more than 1.3 million people, 93 percent of whom were previously uninsured. This pattern is being repeated in many countries as mobile channels transform access to insurance: a 2013 report on micro-insurance in Africa concluded that in eight of the nine countries south of the Sahara where insurance cover was provided to more than one million people, it had been done with mobile insurance models, while the ninth was South Africa.2

A recent global scan of the supply-side landscape for micro-insurance products using mobile channels, undertaken by CGAP, determined that the number of new products on the market has increased every year since the first ones were introduced in 2006, and the pace has increased substantially since 2010 with the emergence of mobile network operator-driven business models. Conceived and developed in partnership with MicroEnsure, Tigo Family Care was among the earliest products to use such a model, but there are now at least another 27 of them available across nearly 20 developing countries, two thirds of which are in Africa. Just fewer than half of these products are offered free of charge.

Insurance companies have also been exploring mobile distribution channels as a means to reach new customer segments, or simply to trim costs and add value to their existing ones: the global scan identified at least three dozen examples. These have typically not been able to expand as rapidly as the mobile network operator-driven ones, perhaps due to the limited experience of most insurers with engaging low-income customers and building a mass market retail offering, and perhaps because insurers have not yet found ways to cross-subsidize these products from alternate revenue, as nearly all of them still charge a premium.

These developments should foster great enthusiasm among insurers, but also a measure of trepidation. While the mobile network operator-driven products are always underwritten by an insurance company, which typically needs to do very little in return for getting this new business, the mobile network operator tends to own both the brand and the customer relationship. As a result, the insurer is in a weak bargaining position; there have already been instances where the mobile network operator summarily replaced the insurance underwriter without the customer even knowing about it.

Similarly, regulators should warmly welcome the arrival of new models and market participants that appear to finally hold out the promise of substantially expanding access to insurance. But regulators should also keep a watchful eye on these new developments and their providers, as they raise important new questions about risk. The flipside of the impressive ability of these models to scale is that any forms of fraud, failure or mismanagement will affect very large numbers of people – and might significantly weaken trust in insurance overall among these vast swaths of new customers.

Still, anyone who cares about inclusive insurance markets should be very excited about the rate at which these new models are reaching people who had no access before. We may be witnessing the beginning of a genuine revolution in access to insurance. Equally important, the apparent success is generating competitive pressures that should benefit consumers further by encouraging providers to improve on their products in order to compete on value. In Ghana, three of the four major mobile operators now offer insurance products, and Airtel recently launched a second one in partnership with MicroEnsure; a combination of life, accident and hospitalization coverage free of charge to all customers using more than $2 of airtime in a month. Possibly the best micro-insurance offer on the market, this product demonstrates the improvement in customer value that may be the result as operators fight for customer loyalty in an increasingly cut-throat voice market.

For further reading: The Emerging Global Landscape of Mobile Micro-insurance (CGAP, 2014).

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Integration tools are helping to connect small players, like microfinance institutions, to much larger mobile money ecosystems.

While not all of these innovations will survive and grow, they point to what is possible when basic infrastructure is in place. Much still remains to be done to fully realize the benefits of the digital revolution in Africa, but the directions are clear. MFS is an industry in its infancy which has made remarkable gains in a very short period of time. There will be unexpected twists and turns along the way, and the basic infrastructure that is required today may evolve into something completely different in the future. But one thing is certain: digital financial services are here to stay. The challenge is to make sure their delivery meets the needs of poor people and contributes to economic development in Africa.

For more information on innovations and trends in mobile financial services, please refer to the forthcoming IFC publication, “In the Fast Lane: Innovations in Digital Financial Services” 2014.

Africa’s rapid progress in mobile money solutions offers exciting possibilities

by Greta Bull

The mobile financial services industry has evolved with astonishing speed since the introduction of M-Pesa in 2007. It is an area in which Africa continues to lead, with 52 per cent of current deployments and 48 per cent of registered mobile money users located on the continent. While many deployments continue to painstakingly build the distribution infrastructure required to make mobile money work, innovations from Africa and beyond are contributing to more efficient growth and greater diversity of products available to consumers.

The field offers a dizzying array of innovative new products and business practices that are relevant for institutions delivering mobile financial services to the mass market. These innovations have the potential to substantially improve services – for operators, consumers and, increasingly, small businesses.

Distribution and technology innovations make it easier for consumers to access digital services and for providers to manage their networks efficiently. Field-force management tools are helping operators manage liquidity across broad geographical footprints, agent/merchant aggregators are building a case for interoperability in a number of markets, biometric tools are helping with rapid identification and authentication, and mobile imaging is making it easier for operators to support remote account opening.

New approaches to managing data and business processes are contributing to multiple innovations that have relevance for both consumers and businesses. Improved data analytics, including the use of alternative data sources, is being used for credit decisions and business intelligence. Data applications are helping businesses be more efficient, through in-store merchant payments, e-commerce, sales and distribution analytics and inventory management tools. Integration tools are helping to connect small players, like microfinance institutions, to much larger mobile money ecosystems with minimal system integration difficulty.

Innovators also begin to deliver goods and services needed by poor people – such as fresh water, solar power, health services and school fees – using pay-as-you-go business models and machine-to-machine technology that make it cost-effective for low-income people to pay for these services in small increments. Mobile microcredit, automated group savings and micro-insurance products are also increasingly common. Even micropensions are emerging in some markets. Financial education and simple financial management tools are beginning to be offered in parallel with these basic financial services.

Several of these innovations are being specifically applied to the agribusiness industry. Given the challenges of reaching the rural poor, it is not surprising that the donor community has embraced the possibilities of mobile services in rural areas. And commercial operators, recognizing that this is where the majority of Africans still live, have welcomed the possibilities for reaching new customers. Digital payments, index insurance, collective purchasing and selling, and distribution of inputs are all being experimented with in a number of markets in Africa.
Innovations and product solutions to improve customer registration and activation and agent network management, such as biometric identification.

Includes innovations leveraging alternative data sources, online and generated through the mobile money system, for business intelligence and development.

Innovations leverage technology to offer a wider range of consumer products, like pay-as-you-go water distribution for example.

“In the Fast Lane: Innovations in Digital Financial Services” IFC, 2014
What is your core investment thesis for mobile money?

According to CGAP, 2.5 billion people lack access to financial services. However, out of these 2.5 billion, 1.7 billion people have access to a mobile phone. This is probably the reason we are most excited about mobile money at Omidyar Network. It holds the promise of offering customers proximate access to services by solving one of the biggest impediments to reaching them – the huge cost of “brick and mortar” distribution. We see robust payment networks as key infrastructure for financial inclusion, as well as other potential mobile development efforts, because they can provide the “onramp” for products and services like bill payment, savings, credit, insurance and more.

Can you give us some examples of exciting developments in this space?

Three innovations come to mind: first, using mobile data, it is possible to build improved assessment infrastructure for understanding the underlying patterns of customer mobile usage behavior. For instance, in credit scoring, there are millions of people who have no official address, formal identification or credit history, rendering traditional credit scoring methods ineffectual. In direct response, we have invested in Cignifi, which can impute a credit score based on mobile data for customers with “thin” credit files.

Second, using mobile distribution, we believe we can deploy new products that are affordable and appropriate for low-income consumers. For instance, we see risk mitigation as a critical missing piece in the market. Omidyar Network has invested in MicroEnsure, which is working on innovative ways of overcoming the key barriers to offering insurance policies to the base of the pyramid – user familiarity with insurance, and the reach of distribution and payments collection. By partnering with mobile network operators like Telenor in Pakistan and Airtel in Africa, MicroEnsure uses a freemium model – customers become comfortable with the basic free product, and over time migrate to other forms of paid insurance. Mobile money is a critical element, enabling efficient premium collection and payouts.

What does Omidyar Network look for in its investments?

At Omidyar Network we are deeply rooted in a sector-based approach. We invest across the return spectrum, in both non-profit and for-profit organizations. For instance, we might ask ourselves: how do you move a whole sector like mobile money? We invest directly in organizations such as Pagatech in Nigeria, RUMA in Indonesia and Zooma in Zambia, as well as in ecosystem builders such as the GSMA Mobile Money for the Unbanked, CGAP, or the Better Than Cash Alliance. Given our Silicon Valley heritage, we do not shy away from early-stage organizations, especially those that look like they have real potential to scale. We look for organizations with strong teams, quality partners, and a deep understanding of their customer.

What are the key challenges that hinder financial inclusion in Africa today?

The financial landscape in many markets is plagued by the high cost of traditional distribution (for example, “brick and mortar”), the lack of customer assessment infrastructure (for example, proof of identity, customer assessment, and credit scoring), and the lack of appropriate, affordable, and responsible products and services for low-income consumers. How do you address these challenges? They will only be solved with the help of many players across the ecosystem. It involves governments and regulators creating a regulatory environment that is conducive to innovation. It requires early risk capital for innovation entrepreneurs. It necessitates incumbents and other ecosystem players to partner and adopt innovation. And, of course, we need many more entrepreneurs testing and scaling new ideas. A lot of collaboration will be needed, but we believe that these challenges can and will be overcome.

What do you think the industry is going to look like in 10 years’ time?

In 10 years’ time, we aspire to near ubiquitous access to financial services, through mobile and digital technology across Africa and beyond. Innovative financial products for the mass market will be developed. We will also see increased disruption in other industries – energy, water and commerce – all on the foundation of financial access. We are working towards a world in which low-income consumers will be offered a range of appropriate and affordable financial products and services, as well as be treated with the dignity and respect that they deserve.

Alexandre Lazarow is an investment associate focusing on financial inclusion at Omidyar Network. Prior to joining Omidyar Network, Alexandre was a management consultant with McKinsey & Co. Brussels and Washington D.C. offices, focusing on the intersection of finance, economic development and strategy.
For example, the development of new products (SME lending, agricultural lending, and lending in the housing market) can be supported through risk-sharing facilities whereby investors partially absorb the risk associated with the new products. Failure in new high-volume products could have major financial consequences for MFIs, so there is good reason to manage such exposures carefully. At the same time, structuring and pricing risk-sharing facilities correctly are not easy, so investors may need to strengthen their own technical capacity first.

Another topic that will surely receive increased attention among investors and MFIs over the coming years is the liability side of the balance sheet. So far, MFIs have been funded primarily by a straightforward mix of equity, senior debt and, to the extent that MFIs are allowed to mobilize deposits, simple savings products. This composition can in certain circumstances be improved by the addition of instruments such as subordinated debt, which can enable MFIs to grow further while enhancing shareholder returns. MFI shareholders (in many cases development finance institutions) have been very patient as investors, but will increasingly need to show reasonable financial returns in the sector. Expect the pressure to increase.

It is also probably fair to say that the growth and dynamism of the microfinance industry have begun to awaken the interest of other entities outside the sector. The push is mainly coming from payroll lenders based in Southern Africa, who are eyeing the microfinance industry as a possible field of expansion and diversification. Given that their financial strength is sufficient to acquire almost any MFI on the continent, it is likely that their interest will translate into new investments in the sector.

Despite all this dynamism and experimentation in the industry, many MFIs still struggle with a basic challenge: how to mobilize sufficient deposits to support a fast-growing loan book. This has major implications for costs, margins and, ultimately, shareholder returns. It also has implications for risk management and financial resilience, particularly in turbulent times. There are many reasons behind these difficulties, including small branch networks, unknown brands, modest wealth among target clientele, and an inability to attract corporate deposits, which make it a difficult problem to solve. Perhaps alternative channel development will help to address this bottleneck over time by increasing reach and lowering the cost of deposit mobilization. But if investors could also design an investment instrument that helps to promote deposits, many MFIs would queue to sign up.

The growth and dynamism of the microfinance industry have begun to awaken the interest of other entities outside the sector.

Growing African microfinance sector attracts investors

By Tor Jansson

Over the past seven to eight years, the African microfinance industry has grown considerably, expanding from mainly Kenya and Uganda to a geographically broad industry with additional centers of exciting and dynamic development in countries such as the DRC, Ghana, Nigeria and Tanzania, and increasingly also Madagascar, Mozambique and Senegal.

Local nonprofit microfinance institutions have transformed into licensed deposit-taking institutions, while several greenfield entities have been established by international sponsors, bringing new methods and practices into many markets. A number of MFIs are experimenting with new services and novel ways of reaching their clients, forging ahead with new loan products, insurance partnerships and mobile banking initiatives.

From an investor point of view, this is very exciting. The growing product and channel experimentation among MFIs, coupled with greater sophistication in financial and risk management, means that new double-bottom-line investment opportunities are emerging. But this will also require investors to be more sophisticated about the investment products they offer to MFIs.

The growth and dynamism of the microfinance industry have begun to awaken the interest of other entities outside the sector.
African greenfield microfinance coming of age

by Julie Earne and Antonique Koning

Increased financial inclusion requires sustainable institutions that serve the “base of the pyramid” – the largest, but poorest socio-economic group of people in the world. Could the experience of greenfield microfinance in Africa point a way to the future?

Banking services are scarce in Sub-Saharan Africa. Most low-income individuals and small businesses – the backbone of the largely informal economies on the continent – keep their savings at home or maybe in a savings group with neighbors. Transactions are largely in cash, and loans often provided by family or friends.

The financial service institutions that exist are a disparate group of relatively small providers, ranging from indigenous nongovernmental organisations and informal microfinance groups to commercial banks that offer a full range of banking products and services, but generally cater only for corporate clients. Between these two opposites are cooperatives, government institutions such as postal banks and other non-bank financial institutions, which fill some of the gaps, but have failed to achieve widespread sustainability and outreach. Only a quarter of adults in Sub-Saharan Africa have access to formal financial services.

OUTLOOK

EVOLUTION OF GREENFIELD MICROFINANCE IN AFRICA (2006-2012)

The financial service institutions that exist are a disparate group of relatively small providers, ranging from indigenous nongovernmental organisations and informal microfinance groups to commercial banks that offer a full range of banking products and services, but generally cater only for corporate clients. Between these two opposites are cooperatives, government institutions such as postal banks and other non-bank financial institutions, which fill some of the gaps, but have failed to achieve widespread sustainability and outreach. Only a quarter of adults in Sub-Saharan Africa have access to formal financial services.

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“Greenfields have been able to sustain fairly rapid growth over the first 5 years.”

Statistics from MIX Market show that in 2009, less than half of the microfinance institutions in Sub-Saharan Africa, of all institutional types, demonstrated financial sustainability. As a result, few of these institutions are likely to grow to meet the needs of the large numbers of households and enterprises that remain without formal banking services. Because of this situation, a number of global holding companies and investors, mainly development finance institutions, set out about 15 years ago to develop a group of well-managed, sustainable and commercially oriented financial institutions that offer a range of financial products through a scalable operating model.

Today, there are more than 30 greenfield microfinance institutions (start-up local financial institutions backed by international holding companies or networks) spread over at least 12 countries, including frontier markets such as the DRC and Liberia. These are regulated, mostly deposit-taking institutions, focused on low-income individuals, microenterprises and small businesses. While many of these new ventures in Africa are still young, the past 15 years has seen the development of financially sound microfinance providers that have also had a positive impact on the broader industry in terms of skills transfer, capacity building and responsible market behavior.

The holding companies that have created greenfield microfinance institutions in Sub-Saharan Africa, such as ProCredit, AccessBank and MicroCred, have found ways to address and overcome some of the key challenges of operating in difficult markets. They have done so by adopting a systematized approach that relies on strict procedures and standards, substantial investment in professional development and sufficient patience and resources. Typically, the greenfields have been able to sustain fairly rapid revenue growth over the first five years, becoming fully self-sustainable at about 3.5 years to four years.

It is difficult to attribute changes in a market to the intervention of one or more individual institutions, but quantitative and qualitative research from the DRC, Ghana and Madagascar – three markets where at least two greenfields have been operational for more than five years – shows signs of solid long-term institution building and some positive spill-over effects for local markets. For instance, in the DRC, the performance of ProCredit, which reached financial sustainability in three years, triggered banks such as BIC and TMB to downscale and serve the small and medium enterprises segment. To acquire the necessary expertise, the traditional banks partially relied on former employees from ProCredit to roll out these services.

Indeed, the most significant effect of greenfield microfinance institutions on market development appears to be their contribution to professional development in the banking and microfinance sectors. They employ and train an impressive number of young adults, typically with little previous work experience. In Ghana, the five greenfield microfinance institutions employed more than 2,000 staff members in 2011, while the entire mainstream banking sector employed 16,000 people. In Madagascar, in the same year, Access Banque and MicroCred had more than 1,000 staff members, which represented close to 19 percent of all banking sector employees.

Greenfield microfinance institutions typically have an intensive and systematic approach to staff selection, recruitment and training, and spend a significant part of their operating budget on staff development. Much technical assistance funding, provided by founding investors or development finance institutions, is used for these training efforts. The employees of greenfield microfinance institutions eventually

The big question is whether greenfield microfinance can be expanded to provide affordable financial services to the African mass market?
There are three promising paths to growth. The first is organic. Many greenfield banks have begun to successfully segment the market and tailor products and services for the micro, small and medium enterprise segments. Business models that span these diverse segments are often able to sustainably include a greater cross-section of the market, using revenues from larger clients to subsidize smaller ones. At the same time they cultivate a pipeline of clients that will eventually grow and graduate.

Partnerships is another possible route to expansion. These are often motivated by the emergence of alternative delivery channels and technology-based solutions, which require broader collaboration between banks, mobile network operators and third-party providers. Many greenfields are beginning to explore alternative delivery channels. To maximize this investment, partnerships can help expand reach and leverage complementary capabilities of partners. The regulated microfinance institutions provide credit risk analysis and secure regulatory-compliant deposit management, while technology partners bring best practice marketing, distribution and agent network management.

Thirdly, it is possible that the market will see more movement in the ownership of these entities. So far the shareholding of greenfield microfinance institutions has been very stable. Return on equity for some greenfield microfinance institutions is more than 25 percent, however, motivating interest from local investors. The significant initial investment from development finance institutions during the foundation stage may give way to local market players interested in minority or majority roles. It is also possible that the market could see sales of entire greenfield entities or networks as commercial banks seek to enter growing markets in Africa and look to the early success of pioneers for the combination of an immediate geographic footprint, license and staff with relevant skills for the market segment. After almost 15 years in the making, the greenfield microfinance model has laid down strong foundations in Sub-Saharan Africa. This should provide good ground for further growth.

This article is based on a joint research paper by IFC and CGAP: “Greenfield Microfinance in Sub-Saharan Africa: A Business Model for Advancing Access to Finance” (2013).
What do you see as the most exciting trend and the most exciting new innovation within your field of financial inclusion?

Design thinking has never been this accessible before, with today’s free online toolkits and Massive Open Online Courses, and organizations are increasingly seeing the value of using design methods to innovate. As a user-experience designer, I am obviously interested in all mobile solutions that make it easier and less expensive for people to use financial services, but to me the notion of improving people’s financial capability by providing clear information at relevant moments in their lives is even more exciting than technological innovation.

Astrid van der Flier
Independent Design & Innovation Consultant

How can your field of expertise be applied to increase financial inclusion in Africa?

Mobile money brings financial services out of banking halls and into shops in slum areas and remote villages – basically into the hands of poor people wherever they are. It is hard to imagine that any other region in the world will benefit from this as much as Africa, with its high proportion of people living in rural areas.

Claudia McKay
Financial Services Specialist
CGAP

What do you think are the greatest challenges to increased financial inclusion?

We have only seen a handful of services that connect deeply to the needs of poor people that have reached critical mass. More needs to be done to understand the financial needs of poor people and to design products that truly meet these needs.

How can your field of expertise be applied to increase financial inclusion in Africa?

An iterative design approach that incorporates low-cost prototyping and insights from qualitative research increases the chance of successful adoption and retention of (new) financial services.

Claudia McKay
Financial Services Specialist
CGAP

What do you think are the greatest challenges to increased financial inclusion?

One of the challenges to increased financial inclusion that I see is to design simple and rewarding products that are based on an understanding of people’s emotional relationship with money. Another is how we can offer the freedom of choice without burdening people with a myriad of options.

What do you think the industry will look like in five years’ time?

Looking through the lens of the hype cycle, I believe we have gone through the “peak of inflated expectations” in the past five years, as well as the “trough of disillusionment” when it comes to digital financial services. In the next five years, I expect the industry to reach a stable “plateau of productivity” with steady progress being made, and a few breakthroughs, but with no illusions about the amount of work still to be done.

My hope is that the products created to increase financial inclusion will be so easy and engaging to use that everyone in the world will want to have them.
What do you see as the most exciting trend and the most exciting new innovation within your field of financial inclusion?

The capacity to leverage data from private telecom and banking operators to address questions beyond regular industry coverage, such as mobility, financial inclusion and women segments. This runs through the capacity to develop and manage an end-to-end process, from raw data towards assessment of marketing campaigns. In terms of innovations, I am excited about mobile loans and credit scoring, as well as banks entering the financial inclusion space and mobile money industry.

How can your field of expertise be applied to increase financial inclusion in Africa?

Analytics addresses three types of questions around financial inclusion. First, it maximizes the impact of marketing campaigns by improving segmentation, offering real-time return on investment assessment, and allowing fine-tuning of the campaign set-up. Secondly, it forces the organization to build new management skills, focus on impact, and be stricter in its marketing processes. Thirdly, it allows the setting up of new data collection processes, for example mobile application, to mix operational business data with external data, and to create new algorithms taking into account more social interactions.

What do you think are the greatest challenges to increased financial inclusion?

Some key challenges include identifying required differences in business models to address differences in underlying market trends and developments, and moving up the scale of financial sophistication towards products such as savings, loans and insurance. Another challenge is making sure that telecom players see financial inclusion as a core business line as well as securing profitability of mobile money for banks so that the industry can move into more advanced products.

What do you think the industry will look like in five years’ time?

I think we will see more banks involved in the mobile money and payments industry, with fully integrated mobile banking as one standard channel. We will also see more advanced and sophisticated products, and more integration of different data sources from both banking and telecom industries. I think we will see two more countries showing critical mass in terms of mobile money usage, in addition to successful ecosystems such as Philippines, Kenya and Pakistan.
Globally, 9 countries in emerging markets today have more mobile money accounts than bank accounts, all of which are in Sub-Saharan Africa*. GSMA State of the Industry 2013.
Financial services are a means to an end; a means to prosperity, to build resilience, to end hunger. Financial inclusion cuts across sectors, enabling and accelerating progress toward many economic, social and development goals. As such, an inclusive financial system is essential infrastructure in any given country.

Queen Máxima of the Netherlands, UN Secretary-General’s Special Advocate for Inclusive Finance for Development (from speech at the UN Special Event for Millennium Development Goals, 25 September 2013)
www.ifc.org/financialinclusioninafrica

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