

The Partnership For Financial Inclusion

Breaking Free of the Branch

Microfinance and Alternative Delivery Channels
in Sub-Saharan Africa

FIELD NOTES #6

Many microfinance institutions have actively embraced the potential of agent banking and rapidly developed and implemented their own agent banking models, with promising results for the expansion of financial inclusion. This Field Note summarizes the initial observations of a multi-year longitudinal study of eight MFIs in Sub-Saharan Africa that are clients of the Partnership for Financial Inclusion, a joint initiative of IFC and The MasterCard Foundation. It looks at the objectives of the MFIs for employing alternative delivery channels, and lessons learned from this first step.

The objective is for the alternative delivery channels to become part of a complete multichannel, real time, and 24/7 distribution.

INTRODUCTION

Digital financial services are currently poised as the main innovation enabling a rapid increase in financial inclusion. Between 2009 and 2014, mobile wallet accounts were the principal contributor to reducing the number of unbanked people in the world from 2.5bn to 2bn. DFS represent an alternative delivery channel that opens opportunities for microfinance institutions to facilitate savings collection and loan repayments. At the same time, MFIs seek to reduce operating expenses by equipping agents with point-of-sale devices or mobile phones to conduct customer transactions on behalf of the MFI.

In 2014, the Partnership for Financial Inclusion was launched by IFC and The MasterCard Foundation to help build and test new innovative alternative delivery channels for financial inclusion, and to follow a number of implementations to extract and share learnings for the public good. There are a total of eight MFIs in the study, with six institutions having launched an ADC, and two are in the planning stages. As well as providing funding and technical assistance for the ADC set up, the program aims to learn about: the determinants for scale and outreach for DFS, the impact of growth on sustainability of the institutions, and the development impact for the end users. This Field Note focuses on the MFIs initial objectives when they set out to launch ADCs and the lessons learned from this first step. This is the first partial results of what eventually will be a three-year longitudinal study on the development and implementation of alternative delivery channels by the enlisted MFIs, which aims to answer primarily two questions related to the learning focus outlined above: What are the determinants of scale and outreach? And, do DFS accelerate growth in the delivery of services?

The eight institutions include: Access Bank Madagascar, Access Bank Nigeria, Access Bank Tanzania, FINCA DRC, MicroCred Madagascar, MicroCred Senegal and Urwego Opportunity Bank in Rwanda.

Access Bank Madagascar (ABM): ABM is a microfinance bank in Madagascar which began the process of developing its ADC strategy in 2014. As of January 2016, it had successfully developed the technology and hired and trained staff, however it awaits regulatory approval in order to begin its pilot project. ABM plans to use local merchants as proprietary agents that will conduct cash in and cash out transactions on behalf of the bank, in exchange for a commission. Agents may collect Know-Your-Customer data, but will not open accounts.

What are ADCs? Alternative delivery channels are new distribution channels that financial institutions can develop to better serve existing and potential clients. Via ADCs, registered clients can, for example, deposit or withdraw funds or transfer funds to another client. The MFIs covered in this focus note almost exclusively developed their independent agent network by partnering with retail outlets that process transactions on their behalf. However, there are also other channel options such as partnering with proprietary agent networks managed by a third party and mobile banking applications that enable clients to transact directly from their mobile phone.

Access Bank Nigeria (ABN): ABN is a microfinance bank in Nigeria that launched its DFS service in the third quarter of 2015. ABN works with a payment aggregator, eTranzact, to service customers through mobile and card transactions. The service provides customers a link to ABN accounts using cards and mobile phones, with the objective of reducing transactions at branches, thereby reducing queues for the customers and operational expenses for the bank. eTranzact also has an agent network that ABN may link to in the future.

Access Bank Tanzania (ABT): ABT is a microfinance bank in Tanzania, which launched mobile banking in 2014, and its agent network in the second quarter of 2015. Mobile banking has grown faster than the agent network as there is integration between ABT accounts from any wallet (TigoPesa, MPesa and Airtel Money), while agent sign up is slow as the regulator has to approve each agent individually. As of the end of 2015, ABT had 43 agents registered and set up. The primary objective of the agent network is to provide convenient access to accounts for customers to deposit and repay loans.

Advans Cameroon (Advans): Advans Cameroon is a microfinance bank in Cameroon which is still in the planning and development stages of its ADC launch strategy. It expects to launch in 2016.

FINCA DRC (FINCA): FINCA DRC is a microfinance bank in DRC that launched its agent network in the third quarter of 2011. As of January 2016, FINCA had 670 agents servicing its 270,000 customers. Agents do not open accounts; only conduct cash in and cash out, however they may collect customer information and refer them to bank staff. FINCA is now servicing over 70 percent of its transactions through the channel.

MicroCred Madagascar (MCM): MCM is a microfinance bank in Madagascar and was the first to launch an agent network in Madagascar in the first quarter of 2015. As of January 2016,

MCM had 392 agents, which it sees as sufficient for supporting its client base for the next year. Customers are not charged for cash in but do pay fees for cash out. Agents may collect KYC data, but cannot open accounts. Forty percent of MCM's transactions are through the agent channel as of December 2015, which is seen as successful from a customer perspective, although it is increasing costs for the bank through increased commission fees.

MicroCred Senegal (MCS): MCS is a microfinance bank in Senegal that launched its agent network in the fourth quarter of 2014. The agent network business strategy and design is very similar to MCM and uses a shared centralized system and data analytics with MCM through its head office in France.

Uwego Opportunity Bank Rwanda (UOB): UOB is part of the Opportunity International network of microfinance banks. UOB launched its agent network in the first quarter of 2013. As of January 2016, UOB now has over 220 agents servicing its 350,000 customers. In addition to a proprietary network, UOB has also partnered with Tigo Rwanda, an international MNO to offer a joint savings product known as Tigo Sugira.

The baseline research has provided several insights into the thought processes of MFIs in their initial efforts to launch an ADC. Although some expectations may be unquantified, all of the MFIs developed financial models to support the new channel, albeit largely based on untested and uncertain assumptions about demand and costs. None of the MFIs surveyed use cost accounting methodologies to truly understand the costs involved in the deployment of the ADC. Typical financial models are built around transaction revenues and costs such as technology and commissions which are easily understood and pose very little risk to the soundness of their models. However, other costs such as staff, marketing and operating costs are based on broad assumptions and budgets, making a true assessment of the business case of an agent versus a traditional branch model difficult to ascertain upfront.

Most MFIs stated that reaching the unbanked market was the main reason for entering the agent model. However, other factors such as reducing the cost of funds ratio, meeting competitive pressures, and the expectations of holding companies seemed also to have played a major role in the decision making. Many commercial MFIs in Sub-Saharan Africa were started with the support of international networks. Initially, they tended to be credit focused and rely on international funding sources to service their portfolios. International debt interest rates, along

with the cost of currency swaps, can push an MFI's cost of funds ratio above 20 percent, compared to an average deposit interest rate of approximately 3 percent. Collecting and managing large volumes of micro-deposits can be costly, and without data it is difficult to measure what the real cost of funds is compared to international debt products which are easy to manage but bear high interest rates.

Financial models developed by the MFIs showed a typical break-even in three years of launching the network, based on predictions of transaction volumes, fee revenue and operating costs. The models do not incorporate the unquantifiable impacts of pressures coming from the competition and group level management, but in our research we hope to capture this information through supplementary annual qualitative interviews that will be used in addition to three years of data in the final publication of the full longitudinal study.

WHY DEVELOP AN ADC?

All participating MFIs shared the common goal to provide financial services to low-income segments, specifically previously unbanked clients, often in hard-to-reach environments. This could be low-income people, micro-entrepreneurs and smallholders farmers, who are often active in the large informal economy of many African countries. Such client-focused objectives typically involve expanding into new and untapped geographic areas, with the need to achieve greater market penetration at a lower cost than through traditional means. In the case of MicroCred Senegal, 10-15 percent of clients live 50 kilometres away from the nearest MFI branch. The agent network has improved the client value proposition by offering a more accessible and convenient channel (closer and with shorter queues), which reduces clients' transaction costs. Evidently, developing an ADC and bringing transactions closer to the end client can also be a way to distinguish an MFI from the competition.

In addition to improving the client value proposition, MFIs addressed institutional objectives through ADC implementation. Some had been very focused on microcredit and wanted to increase savings volume to reduce cost of funds ratios. Some had congested branches and wanted to increase branch profitability by moving certain types of transactions to the agent network. For example, FINCA DRC now drives over 70 percent of transactions through its agent network, reducing queues at branches and improving customer experience.

The main objective for Access Bank Tanzania on the other hand has been to lower the cost of funding through deposit mobilization. Access Bank Tanzania needs to borrow from institutional lenders

in USD at relatively high interest rates. It also bears other associated costs, such as hedging exchange risks, administration of funds etc. Overall, the cost of these funds exceeds 20 percent. By leveraging deposits through its agent network, Access Bank Tanzania can reduce the cost of funding with institutional lenders from more than 20 percent to around 2 percent.

Although MFIs also realized that the ADC would have an impact on fee income and operating expenses, they did not quantify this impact nor did they give it prime importance in the decision-making process. Some hoped for a reduction in portfolio at risk since the ADC would offer clients more accessible points to repay loans.

WHAT WERE THE MFIS' BUSINESS MODELS?

Setting up an agent network is an intensive endeavour that requires: strategic decision making; a good understanding of the regulations and strong relationship with the regulator; a competent team that can think outside the traditional microcredit box; new procedures; and staff and agent training. Different approaches were adopted by participating MFIs to develop agent networks, with some commonalities across them. Approaches were primarily based on applicable regulation, institutions' outreach objectives, and targeted client profiles. Strategies included:

Connecting first through another provider. Access Bank Tanzania initially launched its service using integration with mobile wallets from MNOs, which allowed clients to deposit to their accounts through a wallet. Deposits can be used for loan repayments (about 46% of transactions to date) or for savings (approximately 54% of transactions to date). Three months after the mobile banking launch, ABT launched its own agent network to conduct transactions without the need to deposit via the mobile wallet of a mobile network operator. MFIs can learn from working with an MNO and third-party agents before establishing their own agent networks.

Cloud-based and centrally managed ADC. The MicroCred institutions, with a holding company in Paris, opted for a centralized cloud-based approach. When establishing a new ADC in a MicroCred market, a holding-based team needs only six weeks to set up a fully operational platform to process transactions via an agent network, which is supervised and controlled out of Paris. This approach proved particularly helpful since the local management team can continue business as usual, while the holding team implements and delivers the ADC. Having said this, the local team must select, sign up and train agents to launch

the service. This part proved to be much more time consuming than the mere connection to the central platform.

Different MFIs collaborated with their holding companies to varying degrees for the deployment of ADCs. Whereas some MFI affiliates developed a vision of the ADC as "simply" an additional channel to better distribute existing products and services to more customers, holding companies were often more aware that the ADC would have a wide-ranging transformative impact on the institution. Medium to long term objectives for the networks included:

ADC to support a specific product. ABT launched a rural lending product and needed a channel for clients to repay loans. ABT's initial agent rollout has been concentrated in urban areas where it is easier to manage and pilot. The goal is to go beyond urban centres and use the agents to service rural lending.

ADC as a large payment platform to potentially support many types of transactions with different providers. FINCA DRC is currently developing a rapidly growing payment infrastructure, i.e. a network of agents developed under a waiver from the Central Bank. In the future, FINCA plans to link the network to other financial institutions and other transaction providers (e.g. utility companies, internet providers, etc.) which will help them potentially earn more revenue from the network.

RESULTS TO DATE

The Partnership for Financial Inclusion and the MFIs agreed on certain targets to measure the results of the investments and technical assistance for the ADCs. Each MFI has a different combination of indicators and targets, which also reflects the objectives of the ADC, funding and advisory assistance received from the Partnership program. The types of key performance indicators that are being monitored include:

- Number of new regions served
- Number of (active) agents
- Number of transactions via agents (per month)
- Value of transactions via agents (per month)
- Number of financial channels launched (ATM, POS, mobile, branch)
- Number of Registered Mobile Financial Services Users
- Percentage of registered users using channel at least once in 30 days (active users)
- Number of accounts linked to mobile banking systems
- Number of mobile banking accounts
- Value of deposits through agent channels

Overall, the MFIs are meeting or exceeding (sometimes significantly) most of their targets for the indicators measuring outreach (e.g. number of financial channels launched, new regions served, registered users, agents) and usage (number of accounts, transactions, active users). Although ABT had not met its target for number of agents as of June 30th 2015, the number of accounts linked to mobile banking systems and the number of transactions via agents and mobile significantly exceeded targets. As of June 30th, 2015, MicroCred Senegal had exceeded by 315 percent its target from inception to date in terms of number of agents, and exceeded the final project target by 51 percent.

LESSONS LEARNED

The main lessons that can be drawn from the design and pilot phases of the participating MFIs are:

Regulation and Partnerships

Regulation is a key factor when building an agent network. Central banks are taking very different approaches and display varying capacity in regulating agent networks. For example, in Madagascar, the central bank wanted to supervise each individual agent that MicroCred Madagascar recruited. This clearly slows down the process. By contrast, the regulatory environment in Senegal is much clearer and progressive and MicroCred Senegal could therefore roll out its network quickly, even though it still took six months to receive regulatory approval. In DRC, FINCA received a waiver from the central bank to use agents for transaction processing in the absence of regulation. As FINCA pioneered agent banking in the DRC, the Central Bank learned from this process and gained knowledge it can now use to launch enabling agent banking regulation.

Few MFIs entered partnerships to build agent networks. The MFIs established numerous partnerships with MNOs and technology companies. However, with regards to agent network management, the participating MFIs were eager to learn themselves how to set up, grow, and manage agent networks. All of the networks are proprietary and the MFIs manage them independently. Building an agent network requires more human, financial and technical resources than outsourcing the task to a third party. The main benefit is having better control over the agents: including the commission structure, agent liquidity, the quality of the service, branding, etc. Controlling the commissions can, for example, make savings collection financially viable which may not be the case when working with the agent network of a mobile network operator. It is important for MFIs to first assess

whether they have the required capacity and/or external support to develop proprietary agent networks. In some cases, establishing a partnership to offer the MFI's products and services via a third party's agents may be more in line with the strategy, objectives and capacity of the institution.

Time needed to develop and jointly validate the ADC strategy should not be underestimated. The MFIs required up to two years to fully launch an agent network. This was longer than initially anticipated. As part of their business case development, the MFIs worked with the Partnership for Financial Inclusion team to review and refine their strategies and ADC development plans. In some cases, this process resulted in changes to the initial strategy such as adding phased approaches to mobile banking and agent banking. Once the plans were in place, the MFIs began the process of developing technology, operational procedures and recruiting staff and agents, and seeking regulatory approval. In most cases, there were some delays in development, either due to technology developments, regulatory approvals or delays in staffing.

Marketing and Product Development

The culture and mentality of customers play a vital role. The MFIs made observations on the typical "Congolese", the typical "Tanzanian", or the typical "Malagasy" and how customer culture and mentality could impact the development of ADCs. Customers in different countries vary in openness and curiosity of new products and services, and acceptance level of poor customer service. These observations were not integrated into product design but were taken into account in communication and marketing of the ADCs, i.e. the kind of messages and images that would be used in marketing, where would they be shown, etc.

Various models for client sign-up. The strategies ranged from use of biometrics (FINCA DRC), to sign-up in branches via normal account opening procedures (ABT, MCM, MCS). Account opening by agents is often not possible due to Know-Your-Customer regulations. However, FINCA DRC signs up clients in the field by roaming staff collecting clients' fingerprints, pictures and signatures. There are no regulatory impediments to FINCA allowing agents to open accounts on its behalf. However, it feels more confident maintaining face-to-face contact with the customer during the account opening procedures. For ABT clients, accounts were opened in branches, a process that requires two trips to the branch, and each visit takes around 15 minutes to complete paperwork. This has been augmented by the launch of field staff equipped with smart phones in June 2015 to do remote account opening. Similarly, MicroCred Senegal is

using a “KYC on the spot” service, also by roaming staff members, a process that takes around seven minutes per client. In Madagascar, regulations do not allow agents to open accounts, however, they may collect the KYC documentation from clients, which is then picked up once a week by bank branch staff.

The group lending methodology had to be adapted to the specificities of the ADCs. UOB uses a group lending model and decided to retain weekly group meetings until all clients were able to pay at the agent on time and demonstrate proof of payment to the group treasurer. This represented a strong incentive for the group leaders and loan officers to support the education of the different members on the adoption of the ADCs. The reduction of the meeting frequency to monthly was seen by most of the members as a way to reduce the time spent collecting money and thus the “opportunity cost” of the loan.

The comparative advantage of banking agents against Mobile Network Operators may be fading. Initially, some thought that banks and MFIs would have a strong comparative advantage over MNOs offering mobile money services. Whereas MNOs provide deposit, transfer and payment services, MFIs can also offer savings and, especially, loans. MNO-wallets are not remunerated, while, for example, MicroCred Madagascar pays five percent interest on deposits. However, these distinctions are now changing. In many markets, MNOs are linking up with banks to offer credit services over the mobile money platforms (e.g., M-Shwari). In some markets, MNOs are also required by the central bank to pay back to clients a share of the interest earned on the mobile money float.

Distribution

Agent networks are an integral part of the MFIs distribution strategy: All MFIs developed agent networks as a complementary channel reinforcing overall distribution networks. To date, none of the MFIs has chosen to close branches and depend solely on the agent network. Once launched, the ADC can quickly become an important channel, as has been clearly demonstrated by FINCA DRC. FINCA is now looking to open up operations in new provinces by first launching the agent network, supported initially only by a few staff members periodically on-site to open accounts. FINCA will then open a branch in an area once a threshold number of clients have been reached.

MFIs use a hub-and-spoke model with shared agents. The means of network development can determine the speed of growth, the quality of client service, and agent monitoring, among other factors. All

participating MFIs were using a ‘hub-and-spoke’ model in which branches employed agent officers who took care of the 15-30 agents assigned to the branch. These agent officers were also supported by a head office department that oversees overall network growth. Agent networks were initially set up primarily to learn more about how the service would operate and to see how clients and agents would interact. The idea was to try to keep things as simple as possible. As the networks grew, most agents were also working with mobile network operators to provide cash-in and cash-out for such mobile money services. All MFIs still provide the same types of transactions on their ADCs as when originally launched. This might change in the future though, as some MFIs plan further product development. The current standard product offering includes: deposits, withdrawals, transfers, balance inquiry, and sometimes remittances or bill payments.

Agent and customer value propositions. Almost all MFIs chose a business model in which cash in services were offered free to clients, and for a fee for withdrawal, while agents received commissions for rendered services. For example, MicroCred Senegal agents were earning between a minimum of \$25 per week to up to \$500 per week, with charges for clients on withdrawal only. In Tanzania, ABT’s agents cited monthly revenues from the agent business as high as \$330, with the average revenue earned around \$100 per month. For FINCA DRC, agents receive a minimum of \$100 commission per month during the first three months of operation to support costs during the start-up phase. After the initial quarter, it is assumed that the agents will be earning at least \$100 per month from commission, and the subsidy is no longer required. For agent banking to be scalable, MFIs believe the service has to be free for customers as it will be difficult to attract new customers even with transaction costs as low as \$0.10. Original business plans showed the MFIs relying on increased deposits from active customers to support the channel, however, some MFIs have now considered increasing account fees for customers to cover the costs of agent commissions, including MicroCred Senegal which introduced transaction fees for deposits in 2016.

Agents, on the other hand, must earn sufficient commissions to make the partnership and business worthwhile for them. The challenge is to find the right balance so that the agent and client value propositions are strong enough to incentivize both agents and clients while building a financially viable channel for the MFI. In the initial pilot phase, it is important to be able to collect and monitor data on costs and revenues and maintain sufficient flexibility to be able to adapt the fee structure according to the results on the ground. MicroCred Senegal, for

example, found that it was necessary to adjust the agent commission structure to avoid overly high commission expenses.

Agents are benefiting from increased business. In almost all interviews, agents mentioned an increase in revenue from the non-agent business since they launched agent banking services. A FINCA DRC agent stated that 20 percent of his business was provided by the agent banking activity. An agent of MicroCred Senegal selling garments and ladies' dresses mentioned a 2 percent increase in revenue, although transaction numbers were still fairly low since the MFIs had just launched its services. In the DRC, FINCA initially had low transaction numbers, but after three months transactions increased to around 30 per day per agent. In MicroCred Madagascar's initial agent pilot, deposit transactions accounted for 18 percent of all transactions made at agents, while withdrawals made up for 82 percent of transactions.

Internal

Staff capacity was one of the main challenges in getting the ADC off the ground. Many MFIs hired either generalists or people with clear experience in agent banking from another provider. For example, the project manager of MicroCred Madagascar is an ex-Airtel Money staff member. Advans Cameroon, also an MFI supported by the Partnership but not part of the first group studied for this longitudinal study, has experienced significant delays in launching its ADC due to staffing and IT challenges. Although Advans Cameroon developed its strategy for an ADC implementation early, it has taken very long to launch its ADC. Access Bank Madagascar also reported delays in its ADC implementation due to difficulties in sourcing a project manager, as well as significant regulatory delays.

Liquidity management represents a key challenge with no easy solution. Even though all MFIs, with the exception of ABT, have overdraft facilities for agents, the number and volume of cash-in transactions are still higher than cash-outs. All MFIs have set up priority cash boxes where agents can deposit funds without waiting in a long queue. However, agents are often situated at least 20 to 80 minutes away from the nearest branch. The travel can take 1-3 hours. Most MFIs work with super-agents to manage liquidity. These super-agents are often experienced agents who have a larger overdraft limit and can therefore pick up funds from numerous agents. UOB has responded to the liquidity management challenge by sourcing a strong super-agent who receives 20 percent of the agent commission in exchange for providing liquidity management services on demand through a network of liquidity officers

that travel by motorcycles and are able to respond to agent's requests within one hour. Despite the provisions of overdrafts and super-agents, there is still evidence that agents sometimes have to turn away customers due to a lack of sufficient liquidity/e-money to service transactions.

Risk management was not a primary concern. Even institutions with rapidly increasing numbers of clients did not spend much time on the implementation of ADC-specific risk management infrastructure. In one case, the MFI registered more than 50,000 additional clients, yet the risk department staffing was unchanged as were the internal control processes. Some MFIs have received support from their holding companies to develop risk management frameworks. However, implementation is hindered by the lack of specifically mandated risk officers.

Initially the ADC development was often managed as a project. The MFIs had very different approaches to management of ADC development. For example, ABT put in place a front-office manager responsible for products offered to clients via the ADC, the merchandising at the agent, and supervision of the staff responsible for developing the agent network. The back-office project manager, on the other hand, is much more concerned with technology issues, accounting and agent network monitoring. FINCA DRC immediately created a full-time position at the head office to oversee the growth of the network, manage claims, and any other issue that could arise. As previously mentioned, the MicroCred institutions bring in a holding group team to set up the technology infrastructure, work with a locally hired agent network manager, and hire additional staff as required. While most MFIs initially chose a project management structure to put in place the ADC, they realized fairly quickly that the channel requires an integrated but dedicated team.

Technology

The initial choice of technical solutions was based on funding capacity and the availability of reliable solution(s). UOB benefited from an attractive offer from mVISA, including both a shared agent solution and a mobile banking application for its clients. FINCA chose to rely on a biometric POS solution connected to its own management information system, and received significant donor funding to buy the POS devices for its agents.

Most initial technical limitations have been overcome. UOB deployed dual SIMs for its agents to limit the impact of unstable coverage and quality of the telecom services. Similarly, FINCA is introducing a dual SIM solution, as well as using USSD

transmission to back up its broadband connection. UOB also changed its technology solution to favor a direct USSD and SMS connection to the local operators instead of relying on an international aggregator. They successfully reduced the costs as well as the delays of SMS delivery and the time-out of the USSD sessions.

In-house versus outsourced: Several of the MFIs including Access Bank Madagascar and Advans Cameroon worked with Software Group to utilize its UnderTree agent banking software, while FINCA used Flexcube software to link to its Orbit core banking system. Access Bank Tanzania and the MicroCreds developed in-house solutions to link their customer's accounts through agents. Both approaches required patience and adaptation, with both approaches sometimes encountering delays due to time constraints and capacity of developers.

POS and tablets versus mobile: Six of the eight MFIs chose to use POS and tablets versus mobiles for the agent device. Most POS devices are Ingencio devices, and tablets are Samsung. There has been few challenges with the hardware deployed, however connectivity in rural areas remains a large challenge, especially for FINCA. FINCA's POS are dual SIM, and agents still experience daily occurrence of inability to transact due to lack of network.

CONCLUSIONS

The MFIs supported by the Partnership for Financial Inclusion have actively embraced the potential of agent banking and rapidly grown their agent networks. They all developed proprietary networks, which some complement with the capacity to deposit and repay loans from mobile wallets in partnership with MNOs.

All of the MFIs have plans to expand this approach. The objective of the next phase is to fully integrate the ADC in the institution's operations as part of a complete multichannel, real time and 24/7 distribution. The agent banking and digital channel will thus no longer be "alternative" and will no longer be managed by a distinct or isolated project team. The expectations are to expand the reach, and significantly reduce financial (cost of funding) and operational costs, and thus enable lower lending rates.

Although it is still too early to say whether MFIs' cost of funding is cheaper through savings mobilization via ADCs, and whether the costs of transactions are decreasing, initial results of the MFIs that have progressed furthest point in this direction. To further understand this, data is being collected by the Partnership for Financial Inclusion

on an ongoing basis to confirm whether deposits and customer outreach can increase through agent channels and if agents can be a determinant for scale and outreach, as well as sustainability of the institutions.

The Partnership for Financial Inclusion continues to monitor the progress of these MFIs, and identify trends, lessons learned and best practices that can be leveraged by others adopting a new digital delivery channel. In the next study report, the program will focus on learnings from pricing, commission and marketing strategies in order to understand what will drive uptake and activity through the channel. This will be followed by a final publication of the full results on the business case for ADCs for MFIs to be published in 2018.

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The Partnership for Financial Inclusion aims to expand commercial microfinance and advance digital financial services to bring financial services to 5.3 million previously unbanked people in Sub-Saharan Africa by 2017. It is a \$37.4 million initiative of The MasterCard Foundation and IFC that brings together the intellectual and financial capital of the Foundation with IFC's market knowledge, expertise and client base. The partnership is also joined by The Development Bank of Austria, OeEB and the Bill & Melinda Gates Foundation and collaborates with knowledge partners such as the World Bank and CGAP. An important objective of the partnership is to contribute to the global community of practice on financial inclusion, and to share research and lessons learned. This publication is part of a series of reports published by the program.

To find out more, please visit www.ifc.org/financialinclusionafrica

