## Project Year

2011

## Region(s)

Southern AfricaEast AfricaSoutheast Asia

## Country(ies)

Kenya, South Africa, Tanzania, Philippines

## Project Description

Microfinance is a proven tool for fighting poverty on a large scale. It provides very small loans to poor people, mostly women, to start or expand very small, self-sufficient businesses. It is crucial to build upon this success in order to develop innovative solutions that reach the billion unbanked who have yet to benefit (Mary Ellen Iskenderian). MFIs face two very critical barriers to scale – service and operational inefficiencies – that can be addressed through technology. There are high operational costs associated with the high-touch approach which are generally higher for institutions that focus on the poorest customers. Phones, combined with organizational and social adaptations, can cut the cost of such transactions and make widespread microfinance economically feasible.

Developing a successful mobile initiative for poorer people entails managing a host of interrelated issues: technology, pricing, financial literacy, functionality, partnerships, delivery channels, etc. (Waterfield, 2004). A CGAP survey demonstrated the importance of marketing and of balancing technology with human interfaces in mobile microfinance (Rosenburg, 2008). With the introduction of mobile microfinance, there is much to be learned about business process re-engineering, changing business models, and customer acceptance. Insights today are gained through trial and error, a costly and slow approach that limits innovation. Grameen Foundation (GF) proposes to fund research investigating factors that influence the adoption by microfinance clients and the methodologies and best practices that mobile microfinance institutions have adopted to evolve their models, approach, and products to serve their clients. This study will use a combination of data collection techniques (focus group interviews, online surveys, and individual interviews) and qualitative methodologies.

## Researcher(s)

Fatima Yousif, Elizabeth Berthe, Olga Morawczynski

## About the Researcher(s)

***Fatima Yousif*** holds a Master's degree in Economics and Industrial Strategies from the University of Paris- Dauphine and a BSc in International economics from the University of Panthéon-Assas in Paris. She has participated in

several studies on SMEs and microfinance in both East and West Africa (Uganda, Senegal, Kenya, Sudan) and is well versed in survey and data analysis techniques.

***Elizabeth Berthe*** leads the effort in catalyzing affordable communications in rural areas through Village Phone as well as Mobile Money for the Grameen Foundation Technology Center. Prior to Grameen, she worked in various roles in corporate finance, strategic planning, negotiations and consulting in the U.S., China and France. She holds a master's degree in International Management from Thunderbird, the Garvin School of International Management, and a BA in marketing from USC. She is a member of the advisory council for Youth Assets, a non-profit empowering disadvantaged youth with information through technology in Swaziland, and is a founding member and current co-chair for Women Advancing Microfinance-Pacific Northwest Chapter.

***Olga Morawczynski*** spent four years studying the adoption, usage and impact of M-PESA as part of her doctoral degree. She has also studied mobile money and branchless banking systems in other countries including India, Pakistan, Tanzania, and Uganda. Olga has collaborated with several partners during her research including CGAP, Microsoft Research India and the Bill and Melinda Gates Foundation. Currently, Olga is working with the Grameen Foundation in Uganda. She is developing and piloting a mobile application that aims to enhance financial literacy at the bottom of the pyramid (BoP). She was awarded a PhD scholarship by Microsoft Research and completed her PhD in Science and Technology Studies at the University of Edinburgh. Her paper on M-PESA was also noted by the GSMA Development Fund Report as being in the "top 20" of the field. Olga continues to publish in peer-reviewed journals, present at international conferences and undertake consultancy opportunities.

## Synopsis of Research Results

**Executive Summary**

The development of mobile and branchless banking has been steadily gaining momentum over the last 10 years thanks to a highly innovative technological environment fostering the development of new mobile money platforms and applications.

The success of Safaricom's M-PESA in Kenya created high expectations with regard to the benefits of mobile payments. As a result, many donors, experts and MFIs became convinced that mobile financial services (MFS) are more convenient, efficient and less costly than the traditional high-touch model for delivering microfinance services, especially when targeting the unbanked poor living in remote areas. Indeed**,** MFS were seen as the alternative to brick and mortar branches, allowing MFIs to improve existing services in the short term while increasing their outreach in the long term. By serving a greater number of unbanked poor, it was – and still is – seen as a powerful means of achieving greater financial inclusion.

But attempts to replicate M-PESA's success in other countries have thus far been met with what can only be qualified as mitigated success. In Tanzania, the transfer costs have been too prohibitive to offset the users' cost to travel to an agent. In Cambodia, it was the limited geographical outreach of agents and the shortages of liquidity (e-float). In Senegal, the restrictive regulatory environment made it difficult to roll out and reach the scale of transactions needed to make the service viable. The research revealed that without an enabling market and regulatory environment, the cost-benefit equation for mobile financial services was no longer as obvious as initially perceived.

Through direct interviews and an online survey, the research team began by conducting an overview of MFI experiences with MFS in several geographical regions. This provided the basis for identifying best practices as well as the critical factors for successfully implementing MFS.

The key findings of the study are as follows:

**1. Market environment**

**Mobile network operators dominate the MFS market.** The online survey revealed that 58% of the respondents were operating in markets where MNOs had led the development of mobile payments, a figure confirmed by the direct interviews. This can be largely explained by MNOs' ability to leverage existing network infrastructure in order to quickly implement mobile money services and trust gained by consumers from electronic airtime top-up purchases.

**A market that is primarily urban and semi-urban.** Most MFS clients are located in urban and semi-urban areas. This is mostly due to the fact that these zones have better network coverage, a denser agent network and greater mobile penetration.

**A vibrant mobile payments market is a necessary condition for the success of mobile financial services.** Kenya remains the country with the most MFIs implementing MFS thanks to the success and expansive reach of M-PESA and clients demanding these services. The rapid development of first generation products and services such as money transfers is in fact a necessary step towards achieving the economies of scale necessary for successfully launching later stage products and services such as loans, savings or micro-insurance. **But it is not a sufficient one.** Without adequate products or an expansive agent network to allow easy accessibility to utilise mobile payments, the uptake of mobile microfinance services will be low.

**2. Low investment in research prior to launching**

The study revealed that overall MFIs are taking a "wait-and-see" approach, (particularly in markets where MFS is a new innovation). In Tanzania, South Africa and Sierra Leone, MFIs are waiting to learn from the early adopters. Lack of information and best standard tools to guide MFIs is a key contributor to this attitude. Another is the simple lack of adequate resources, both in terms of financing and qualified personnel.

Yet, surprisingly, MFIs also invest very little in researching the market prior to rolling out their services. Few MFIs take the time to carry out cost-benefit analysis, market research or pilots prior to implementing MFS. As a result, services are launched without a full understanding of the market environment or even the clients' needs thus requiring constant readjustments This is partly due to lack of funding, but also takes its basis in the misconception that MFS will pay for itself once it is launched.

**3. Limited innovation in products and services**

**The MFS market is dominated by money transfers, air-time top-up and bill payments.** The online survey revealed that 60% of the MFIs interviewed also operate as money agents, providing remittance and money transfer services. This is not surprising considering that these products are relatively easier to roll out, bring in new potential clients and are more likely to quickly generate income. As a result, products are developed around remittance and bill payment services, with little effort made to create innovative microbanking products.

**4. A need to advance organisational structure, training and communication strategies**

**Ensuring MFIs successfully implement MFS requires a carefully thought out change leadership strategy, starting with the compelling business or social mission case for adopting MFS.** Organizational structure and job content revisions, internal process re-engineering, assessment of the MFI's current ability to support these changes, and training affected employees on the new processes and procedures must all be part of the change leadership plan. Failure to carefully address these areas can negatively impact the uptake of mobile services. Our interviews revealed that MFIs often overlooked the importance of regularly communicating project progress to the entire organization to ensure internal support was built. Careful training of staff and clients alike must also occur.

**5. Challenges with IT/MIS integration**

**IT/MIS integration is one of the greatest challenges faced by MFIs today.** MFIs often lack the funds, skill-sets, or the understanding on how to successfully upgrade their IT/MIS to integrate mobile financial services. In order to successfully implement MFS, MFIs need to integrate their core banking systems to the mobile money service provider's payment platform, which could be owned by a telecom operator, bank or third party. Often MFIs hope to reduce or stagger costs by partially upgrading their system and conducting certain operations manually. This is a source of errors and ends up costing the MFI more in the long-term. Additionally due to the infancy of MFS, many vendors' products are either not fully developed or not designed for microfinance institutions.

**6. An expansive agent network**

**A well-established agent network is a key success factor for implementing MFS and it is one of the hardest elements to set up successfully.** In considering adoption of MFS, MFIs whose clients are not within reach of an existing agent network will need to carefully consider other options for making the service conveniently accessible to their clients. Although costly, the importance of an adequate agent network offering strategically located cash in/cash out points cannot be overlooked.

**7. Regulatory environment**

**The jury is still out on the best way in which MFS should be regulated and many supervisory bodies are cautious about writing regulations in stone at this stage**. Nonetheless, in most countries they tend to keep a close eye on the development of mobile financial services, especially with regard to protecting the clients. It is therefore a good practice for MFIs to maintain good relations with the supervising body responsible for regulating MFS in their country and provide them with a constant feedback loop on the development of MFS throughout the evolution of implementing mobile microfinance. Close collaboration between MFIs and regulators will ensure that the tricky balance between consumer protection and financial development is maintained.

**8. Recommendations**

**MFIs are still trying to fully understand all the implications of MFS.** More detailed recommendations are provided in the conclusion of this report, however there are four elements in particular that every MFI should keep in mind prior to implementing MFS:

1. **Be prepared** – MFIs should carry out all the necessary research, including a cost-benefit analysis, client-focused market research, assessment of their internal structure and market environment before launching their services.
2. **Communicate** – It is just as important for MFIs to communicate on their strategy to their staff as it is to brand the new product and/or service. Without the buy-in of the staff, especially the loan officers, the chances of success are significantly reduced.
3. **Test and monitor your services** – The MFS market is still relatively new, and therefore it is constantly changing with new technologies and developments occurring every day. MFIs must regularly test and monitor their market environment and be prepared to make the changes necessary to re-adjust their strategy.
4. **Timing is key** – MFIs should take their time in developing their MFS strategy in line with the market environment, however once the decision is made and the business case exists, they should act decisively so as to not miss out on market opportunities as new non-traditional entrants are competing in the space. Acting too late or not continuing to operate in status quo will result in decreasing market share.
5. **Innovation is needed around products** – As more MFIs offer repayment and disbursement and mobile financial services becomes more commonplace, there is a need to be more creative around the usage of the mobile phone for new product innovation and to remain competitive. This can come by bundling products, creating tools to increase savings, combining data sources for

alternative credit scoring or partnering with other channels to name a few options.

6. **Customer centric approach** – Mobile phones offer a unique opportunity to provide a tailored touch for clients and improving customer service.  Listening to customers offers keen insights on potential products or services and once adoption of mobile financial services takes place, customers began to have higher expectations of services.

Link to their white paper: Best Practice in Mobile Microfinance.