

The logo for GENESIS, featuring a vertical line to the left of the word "GENESIS" in a bold, sans-serif font. The "G" is black, and the "ENESIS" is a light green color.

# GENESIS

**Can Alternative Service Delivery Mechanisms (ASDM's) enhance the profitability of African MFIs?**



# G:ENESIS

- Specialist consulting firm providing strategic consulting services to Financial Institutions in Africa and Middle East
- Clients include the large commercial banks, smaller specialist banks and MFI's

## Outline

1. African MFIs are unprofitable
2. How can they become more profitable?
3. The role of technology
4. What's most likely to work?



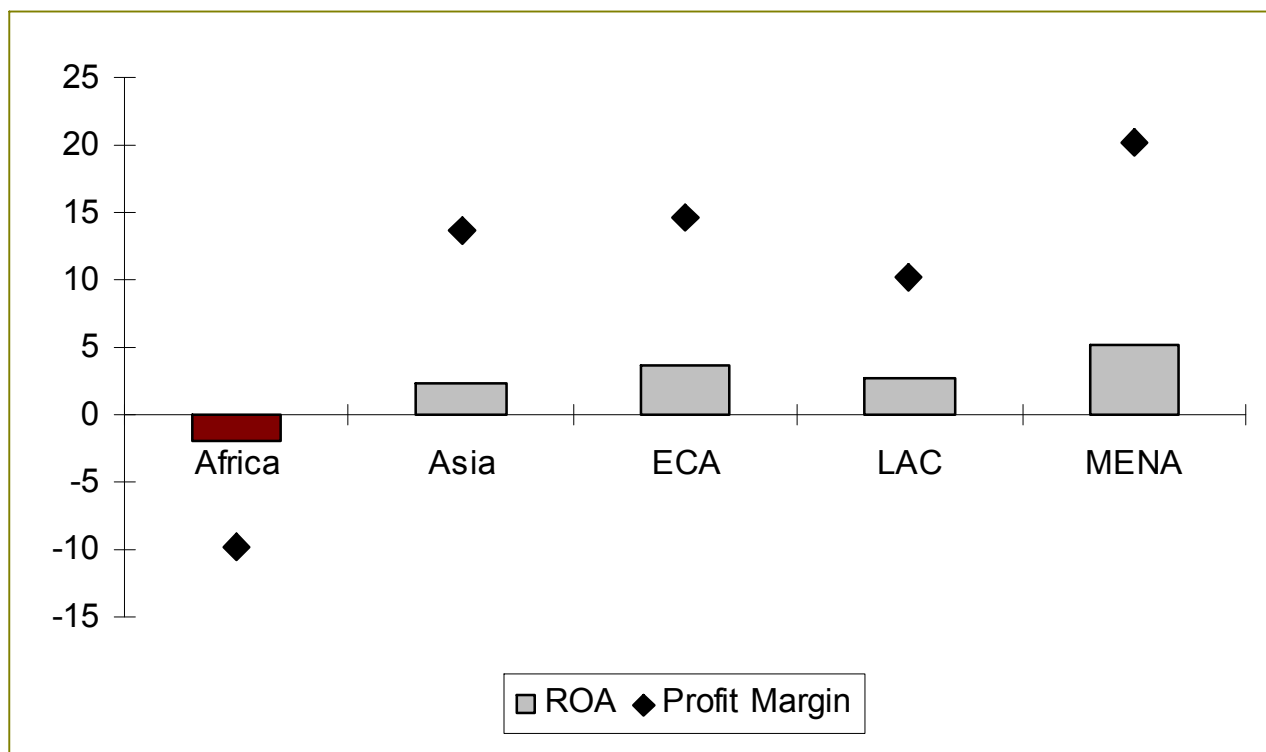
Image Source: Finca


# 1

African MFIs are Unprofitable

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**... African MFI's had average losses of 2% and negative profit margins of 10% (2005 estimates)**





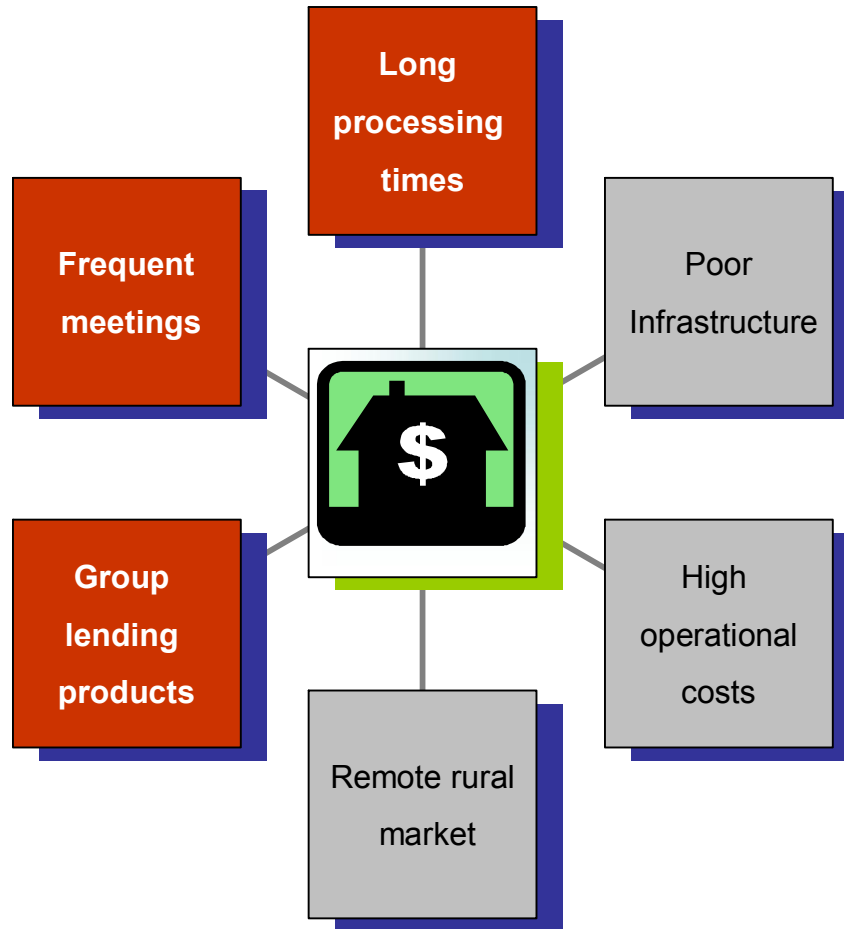
# WHY?

- 
1. **A High Cost Environment**
  2. Inefficient Delivery Systems

# Causes of poor profitability



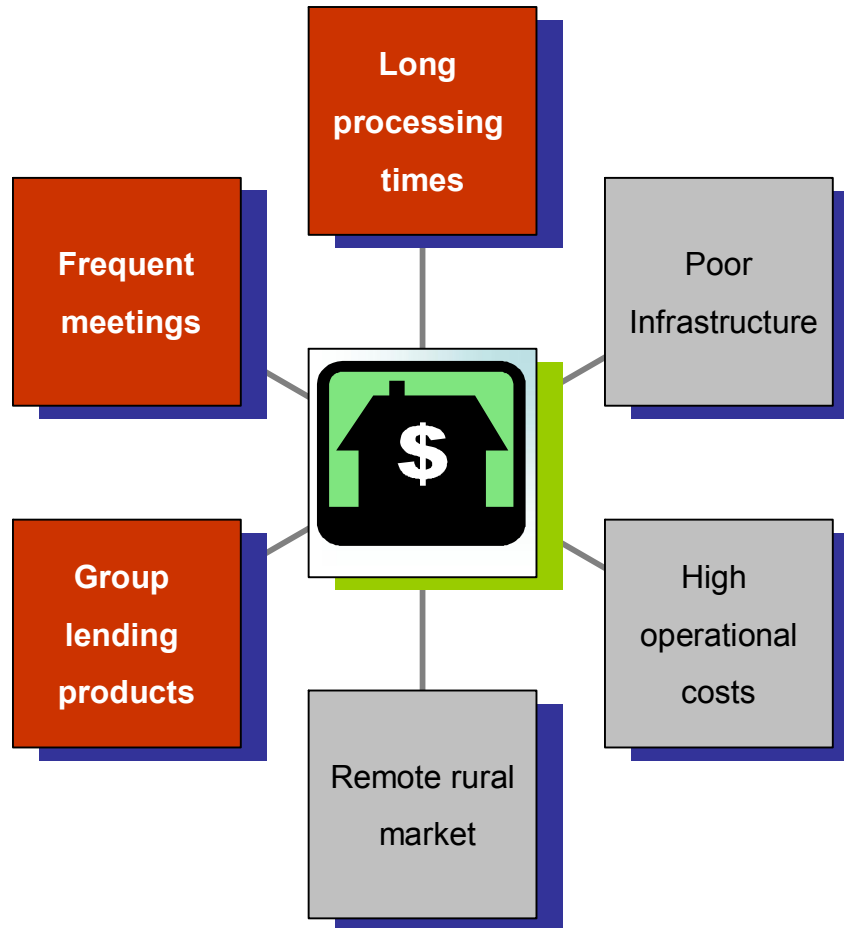
Inefficient  
Delivery  
Channels



High cost  
environment

# Causes of poor profitability

**Costly to use**

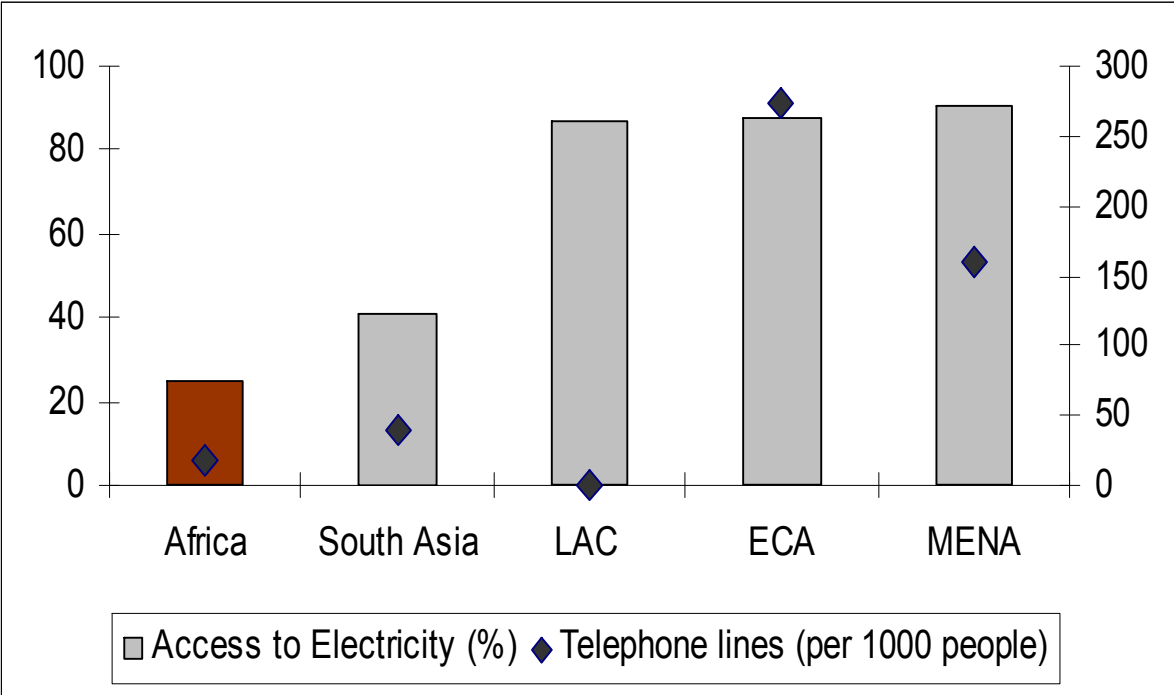


**Costly to deliver**



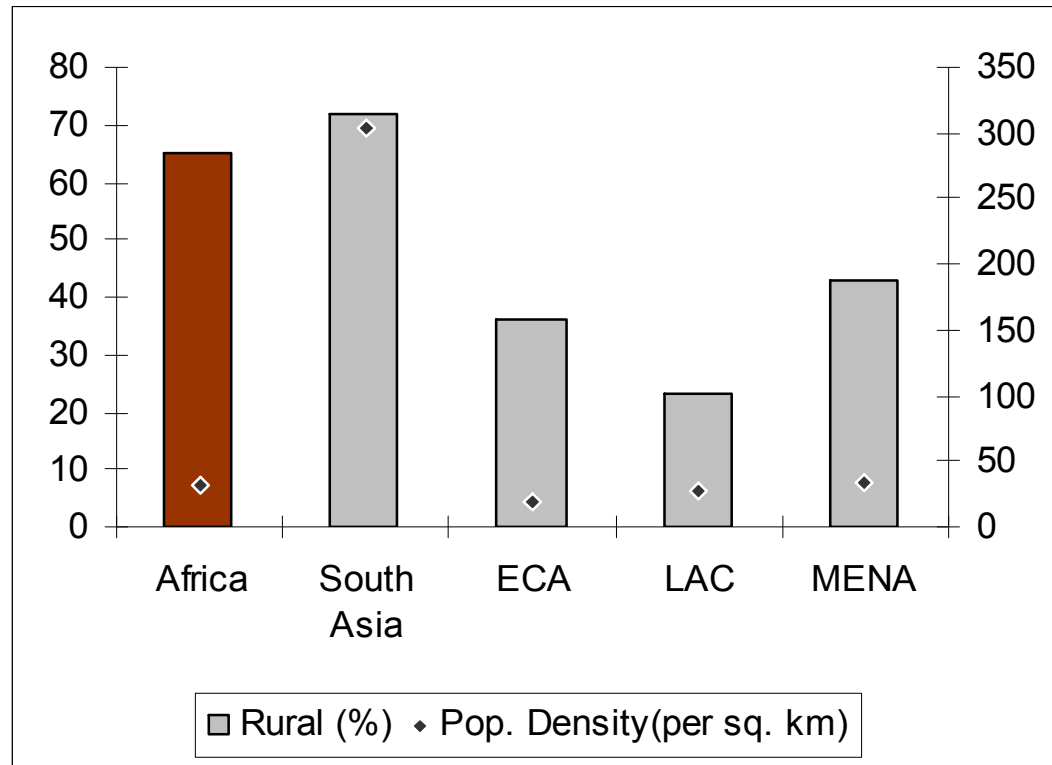
**Weak  
Infrastructure**

# Poor physical infrastructure contributes to the high cost environment



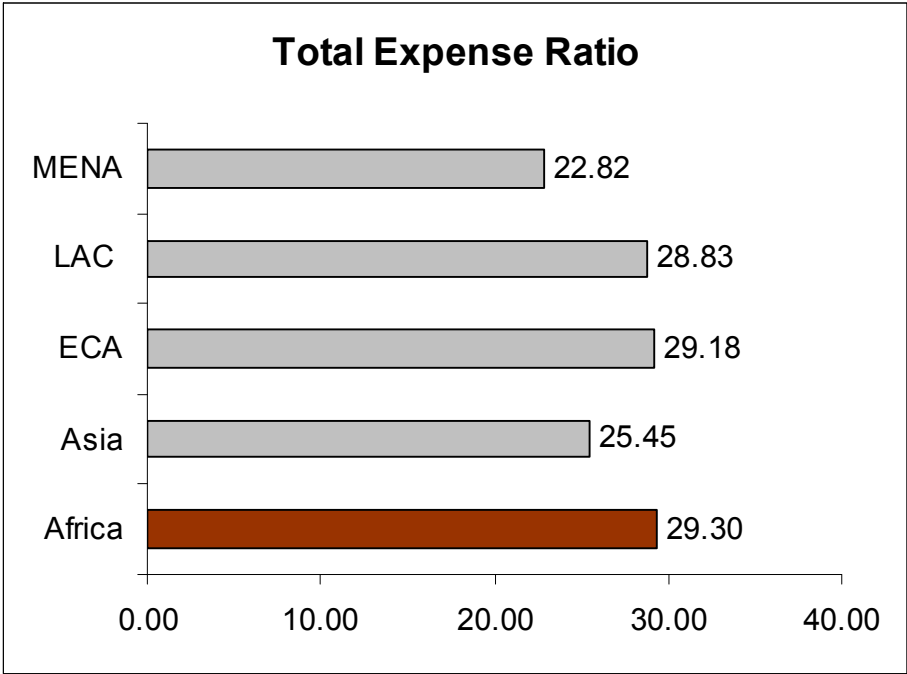
Remote rural  
market


**Predominantly rural population and low population density means that loan officers must travel long distances to reach rural clients.**



High  
operational  
costs

**Total Expenses are higher in Africa than in any other region comprising almost 30% of total assets.**



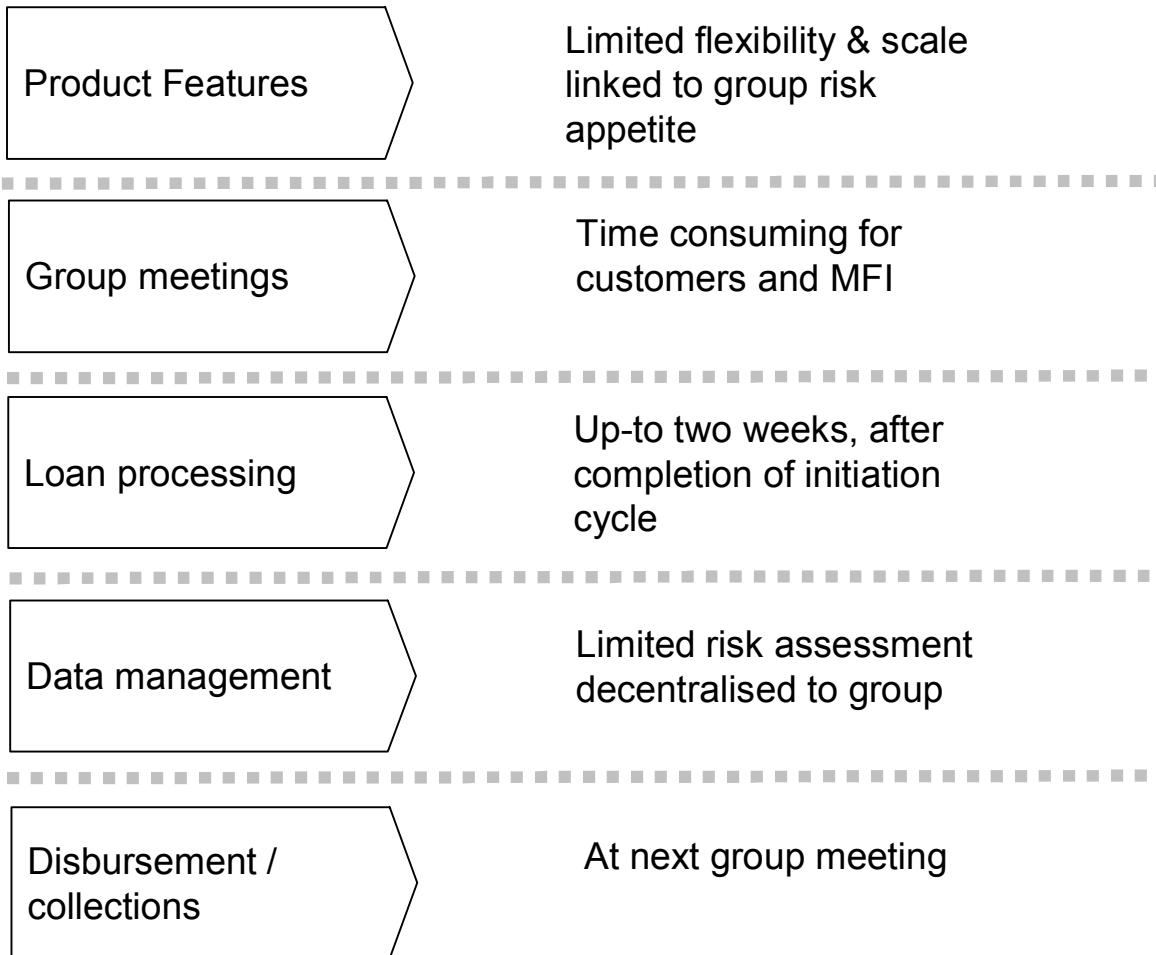


# WHY?

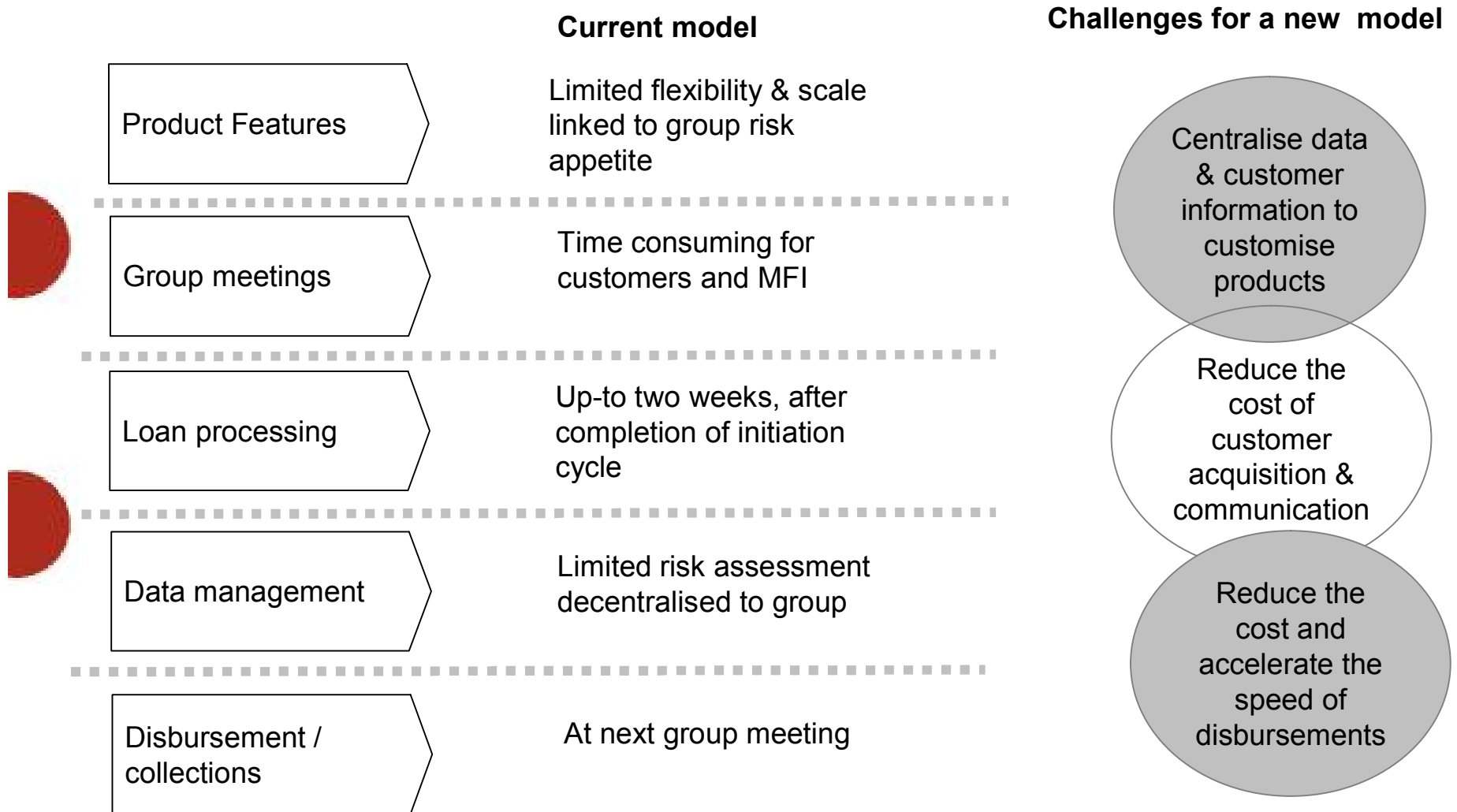
- 
1. A High Cost Environment
  - 2. Inefficient Delivery Systems**

## 2. Most African MFIs offer group loans - delivery systems/distribution channels used in this model are costly

### Current model

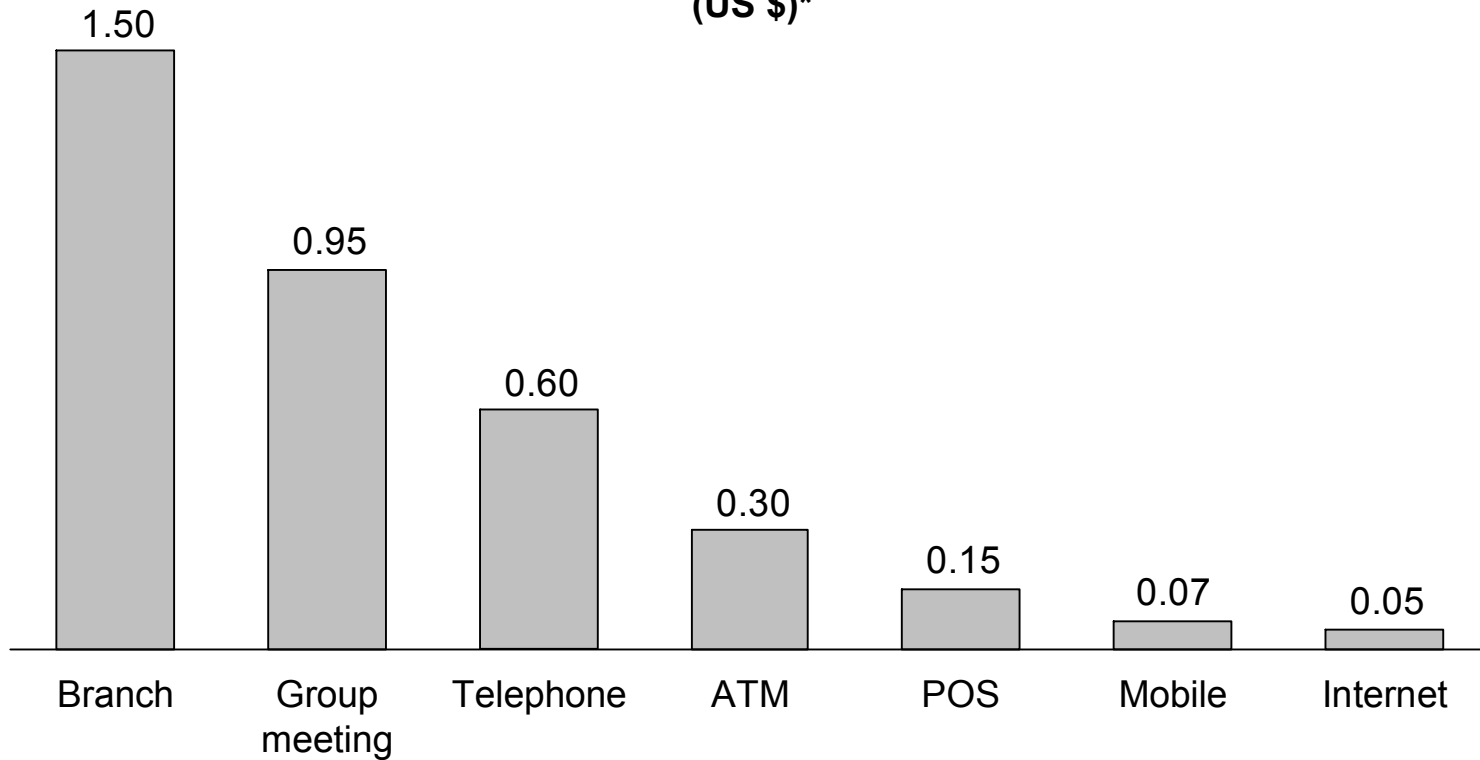


## 2. Most African MFIs offer group loans - delivery systems/distribution channels used in this model are costly



# MFI'S use the most costly channels to service very low income customers!

Estimated cost to an institution of supporting transactions through different channels (US \$)\*

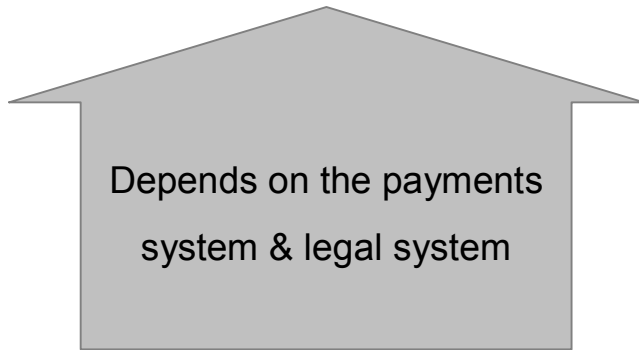


\*Source: BAI, Genesis Analytics, based on sample of medium size banks

# MFI's can learn a lot from the credit card business model

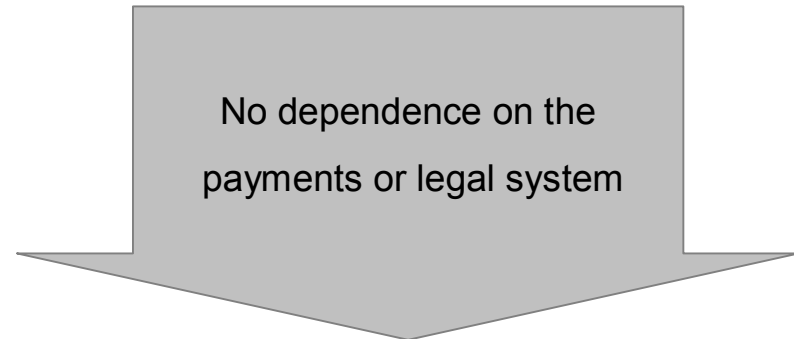
## Developed Markets

Credit cards = key source of credit to low income households in developed market



## Less - Developed Markets

Group loans = key source of credit to low income households in less developed market



***Is this changing?***



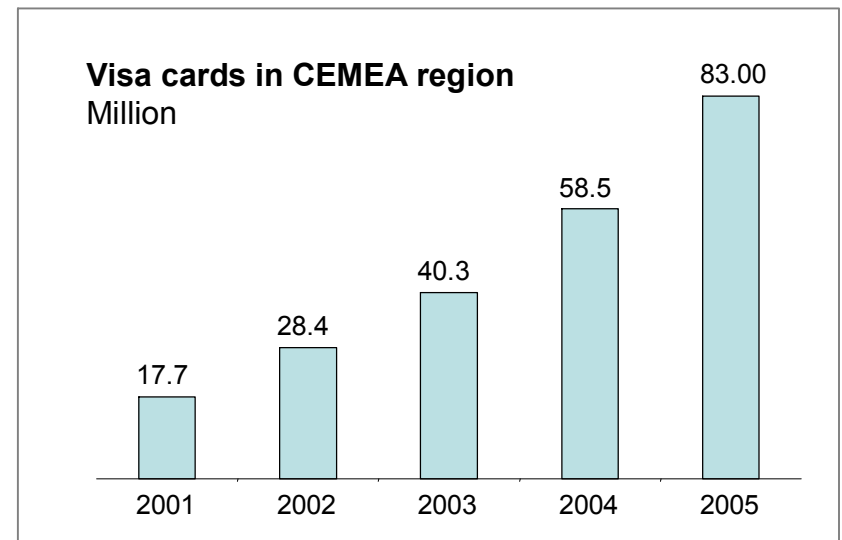
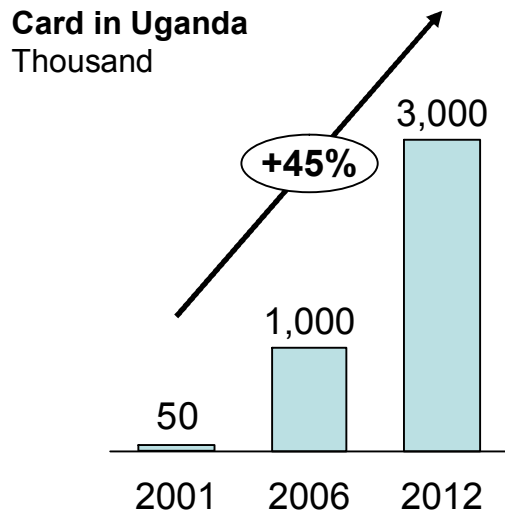
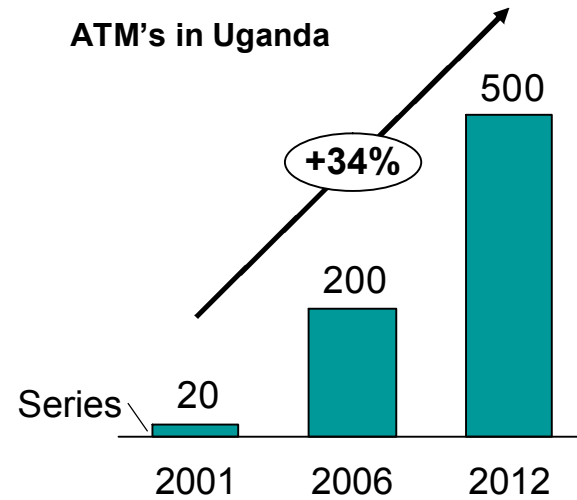
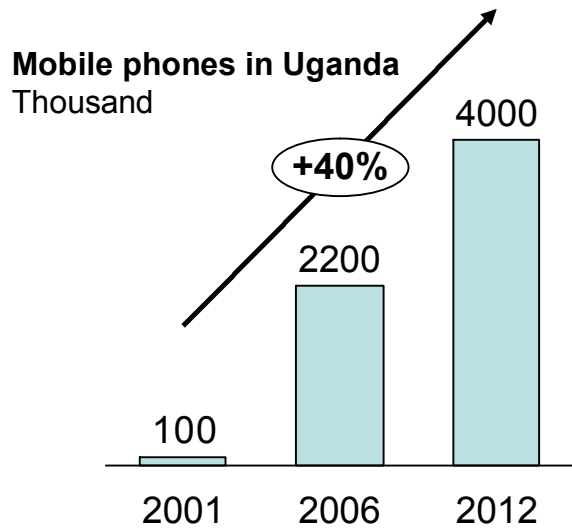


Image Source: CGAP

# 2

How Can African MFIs Become More Profitable?

# A card and phone revolution is happening across Africa



Take advantage of the changing environment..




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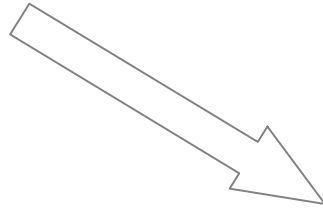
# But what combination?

- 
1. **A High Cost Environment**
  2. Inefficient Delivery Systems


# Opportunities to Reduce Costs



Poor  
Infrastructure



- **Piggyback** on existing payments infrastructure (ATM, POS, Airtime distributors) to reduce direct costs to MFI

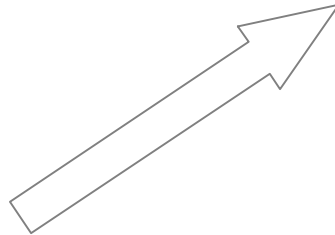


High  
operational  
costs




- **Capture data once & electronically** and store and manage centrally to reduce administrative and labor expenses (paper, ink, transportation, multiple data entry)

Remote rural  
market

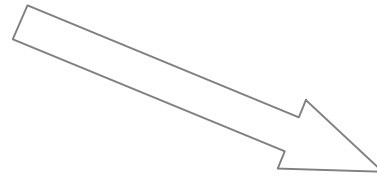


- Introduce **remote transaction support services and call centres** to reduce cost & improve quality of servicing


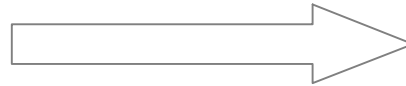
## To Become More Efficient



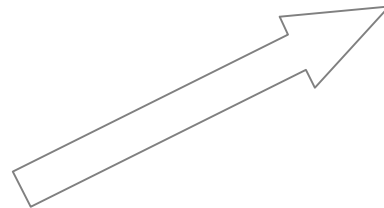
Long  
processing  
times



Frequent  
meetings



Group  
lending  
products



- Capture and **approve loan applications electronically** for faster processing
- **Disburse to cards, or e-vouchers**
- **Increase speed and flexibility of payment** and cash withdrawal options
- Capture **individual client data** (even with group lending) to introduce flexibility in loan balances, terms and repayment options



Image Source: Sevak Solutions

# 3

## Leveraging Technology

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## Technology decision rules

1. Don't build – borrow / use
2. Be part of the biggest network / don't create your own network
3. Focus on what you do best – (risk management)
4. Use information and technology to which people already have access

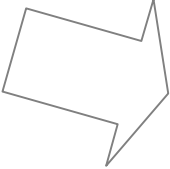


# 1. Don't build - borrow

Use other peoples cash infrastructure :



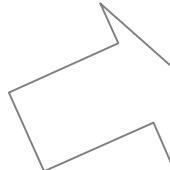
- E-vouchers



Money transfer companies  
Airtime distributors  
Post offices



- Prepaid cards

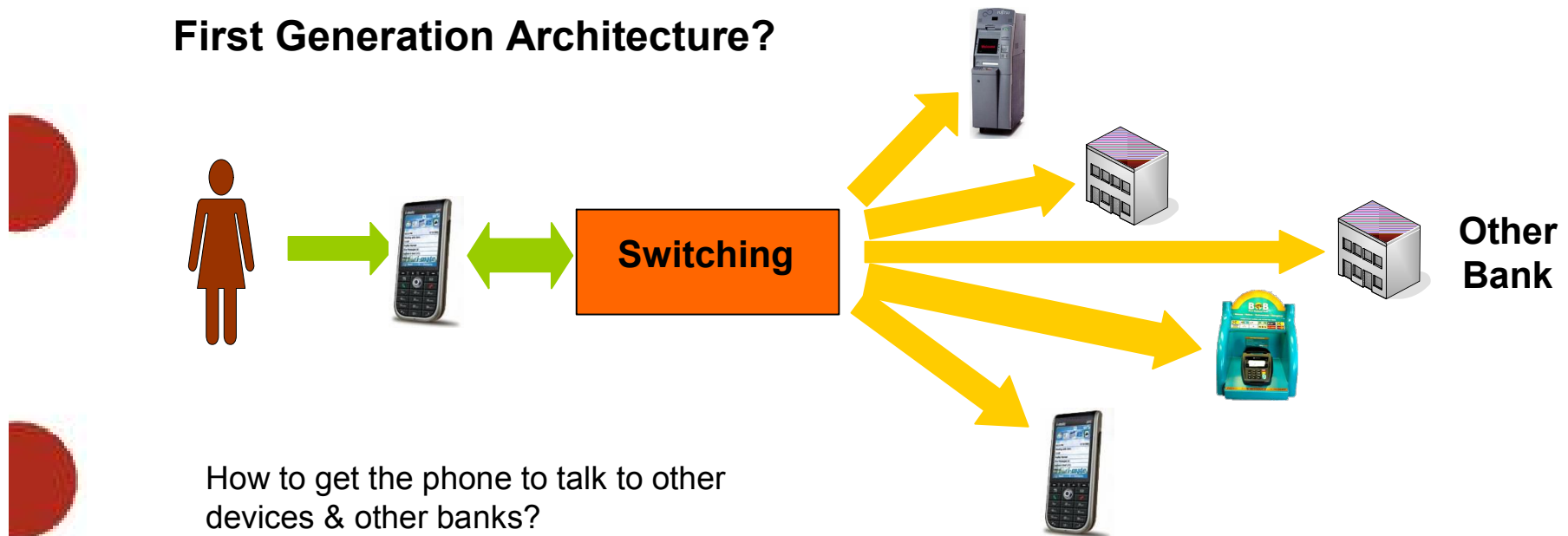


ATM & POS

- Debit cards

## 2. Be part of the biggest network

### First Generation Architecture?



### 3. Don't create your own network

- E-voucher technology is becoming widespread
  - Send PIN to individual
  - But where can the individual draw the cash?



### 3 cont. Rethinking the architecture

#### Second Generation Architecture?



View phone as another channel, the card is the key to talk to devices & phone enables card to card payments

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## 4. Focus on what you do best



- MFI's typically lack the skills to manage large complex IT systems or services, by relying on other providers, management and staff can focus on clients and risk management

### Web 2.0

Web based services allow MFI's to have zero investment in technology – all they need is “thin computers” with access to the internet

## 5. Use technology that people have access to..

- An increasing number of clients have mobile phones

**But..**

.... Surprising few MFI's run call centres to manage officers or borrowers

....Bulk SMS is a cheap and effective way of preparing borrowers for repayments or meetings

....Disbursement to a bank account can be managed centrally at low costs





Image Source: Sevak Solutions

# 4

Conclusion

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## Key Points

- African MFIs are unprofitable because they operate in a high cost environment and have an inefficient business model
- The environment is changing in ways that allow modifications of the business model
- African MFIs can overcome the limitations of their operating environments to build lower cost businesses that are:
  - More centralised

& leverage existing technology (mobile phones, ATM's, internet)

.....Allowing MFI's to get smarter & cheaper