WSBI

LINKAGE BANKING FOR VILLAGES IN EAST AFRICA

Working with savings banks to double the number of savings accounts for the poor
June 2014

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LINKAGE BANKING FOR VILLAGES IN EAST AFRICA

LEARNING PAPER TO MAPPING PROXIMITY[1]

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CONTENT

WSBI published in 2013 a working paper that showcased the proximity challenge in rural Kenya and Tanzania and highlighted the limits as to how close financial services could be brought to the unbanked rural poor by setting up bank agent networks. This paper adds a case study from WSBI member PostBank Uganda (PBU) who pioneered linkage banking with local savings and loan groups. It describes how real banking can be brought to rural villages and how this model is being extended to all three East African Savings Banks participating in the WSBI Doubling Savings Accounts Programme.

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1 WSBI Working Paper: Mapping proximity - Bringing products and services close enough to the poor to be meaningfully usable and still keep them sustainable for WSBI partner banks, Authors: D. Forster, S.Peachey. L. Stahl, April 2013 available on www.wsbi-esbg.org

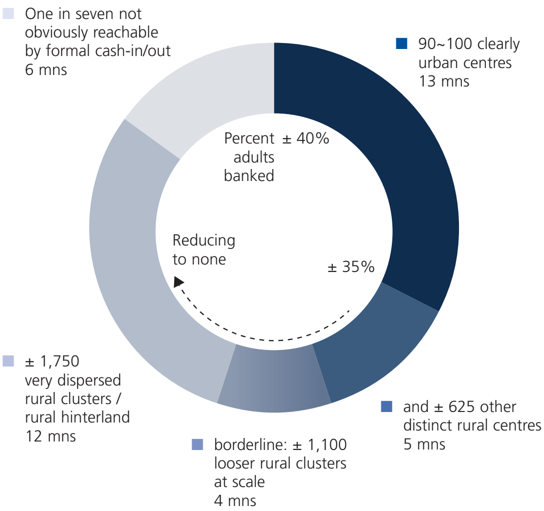
THE CHALLENGE OF RURAL OUTREACH ...

WSBI's April 2013 working paper on Mapping Proximity showed very clearly there were a limited number of locations across East Africa where we were confident that population density was high enough to support a bank agency model that needs about 600-700 client households per agent outlet to become sustainable.

For that paper we developed an analytical framework that mapped population against locations of different sizes. The mapping ran all the way from major urban centres through peri-urban and rural trading centres and right down to the loosest rural clusters. The two charts on this page show the two extremes we found we were facing.

The first shows Kenya where agent networks are well established and mobile money is used by over half the adult population and 77% of that population live within 5km of a mobile money outlet.

Figure 1: Kenya (41 million population)
±1,000 viable agent locations → 50% reach
Mobile money → 75-80% reach

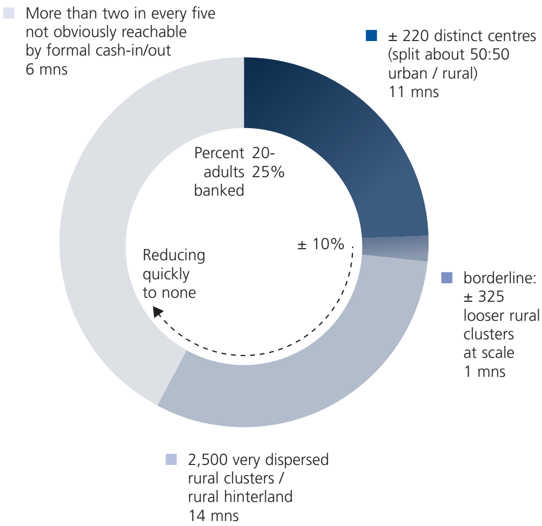


Already flagged in our earlier paper was the fact that people will easily walk 5km to pick up or send a transfer that might be as much as a week's living for a poor rural household. This means that mobile money will always reach further than a network of banking agents focused on savings mobilisation.

Our best guess is that people will barely walk a kilometre or two to deposit a surplus dollar or two they know they could spend more usefully next week or next month. This is at the heart of the savings challenge in Africa and indeed worldwide – all that changes with a country's development level is the number of dollars involved.

In Tanzania geography is much more challenging and even mobile money will struggle to become a doorstep reality for more than half the population. Current penetration on an occasional use basis is already approaching that level and as of 2013 only a third of the population lived within 5km of a mobile money outlet.

Figure 2: Tanzania (45 million population)
Cut-off for agency model: 2-300 locations
Mobile money currently reaching 35%



After doing this work it was clear we had to look for ways of reaching the half to three-quarters of the population for whom bank agents would only be useful when they travel "into town". Full standalone bank agencies are never going to be sustainable where they actually live and work.

The immediate response was to open up channels for people to move value between mobile money and a bank account but this has not worked to mobilise savings so clearly something else was needed.

MONEY IN THE VILLAGE ...

In retrospect, we needed to move up a gear from trying to finesse what was already being done in the sector, including by mobile money operators. We also needed to start engineering disruptive change to the whole retail banking offer by really putting the customer at the heart of product design. More could and should have been done early on to translate academic studies into usable inputs into the product design process.

We have looked again at a number of studies that were circulating at the time we were preparing our paper on proximity and one in particular stands out. This was a diary study of mobile money penetration and use in rural and peri-urban Kenya done by MicroFinance Opportunities in 2011. It includes a strikingly powerful distance and purpose segmentation that shows over 80% of transactions and over 70% of the value transacted taking place within a kilometre or where people live and work. For rural East Africans (75% of total population) that means by far the bulk of their money is moving around at village level.

Combining this with our earlier analysis suggests the majority of that money is moving around in small villages that at best share a mobile money outlet. The following graphic from the report shows that mobile money is too expensive for this sort of very local, very low value domestic transaction activity.

Our own calculations suggest this means roughly 50% and 60% of total national household consumption in these three economies must be taking place in poor/near-poor rural households – i.e. something like $10 million per day must be moving around the sort of small villages being discussed here for Uganda and perhaps twice this much in Kenya and Tanzania. This explains in part why tying up with village groups can significantly increase a bank's deposit base (see case study).

Village groups are very important to rural households' use of financial services even if they only operate at the margins of the formal system. The most recent FinAccess survey for Kenya and the FinScope survey for Tanzania both suggest that a quarter of all adults use this sort of method to save and it is second only to cash at home in its widespread use. Moreover the frequency of transacting is relatively high – most users of formal savings services will access a bank or MFI once a month but over 40% of users of informal groups transact weekly or daily.

This makes group business the second most active arena for financial transactions in countries like Kenya, Tanzania and Uganda. Moreover the amounts being saved are not trivial – in Kenya the FinAccess suggests an average for rural groups of about $5 per member per month and our experience in Uganda suggests that even twice this is possible.

Chart 1: Distances that money moves between households and businesses

DISTANCE

PURPOSE

LOCAL BUSINESS
- Median amount: KES 2,000
- Median fee rate: 2.75%
- Costs an issue on P2B, not on B2B
- Longer e-money loop

QUADRANT 1

LOCAL-DISTANCE BUSINESS
- Median amount: KES 2,500
- Median fee rate: 2.20%
- Longer e-money loop

QUADRANT 2

LOCAL HOUSEHOLD
- Median amount: KES 525
- Median fee rate: 11.00%
- E-money loop lengthens as network externalities take hold

QUADRANT 3

LOCAL-DISTANCE HOUSEHOLD
- Median amount: KES 1,025
- Median fee rate: 5.50%
- Short e-money loop

QUADRANT 4

Sources for this chapter: MicroFinance Opportunities, Cash-In, Cash-out Kenya, 2011
FinAccess Partnership, Profiling developments in financial access and usage in Kenya, October 2013
FinScope Tanzania 2013 (accessed via FSD Tanzania website)

LINKING WITH MOBILE MONEY ...

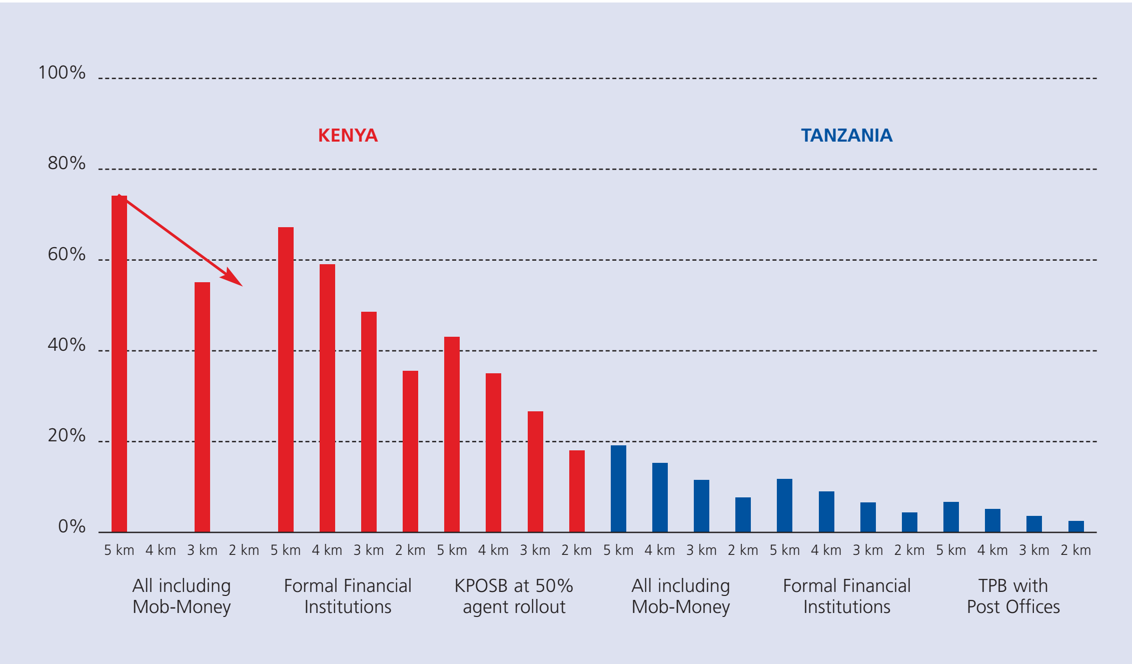
All three East African members participating in the Programme have established links with mobile money. Unfortunately moving money between accounts and mobile wallets is still very expensive (typically 20-30 US cents per transfer), which reinforces the idea that mobile finance is only about moving large amounts of money once from where it is to where it can be better used (see distance-purpose map above).

We have also come to realise mobile money as it is configured now is and maybe never will be a doorstep reality for large numbers of rural people. The chart below was put together using data from the new Bill & Melinda Gates Foundation supported FSP-Maps website.

The chart shows how many people outside the main town centres live within a given number of kilometres of different types of financial service access point, with surprising results:

- in Kenya half this population is beyond 2km of an access point even with mobile money in the mix and bank agents potentially reach 90% of those now reachable by mobile money;
- In Tanzania a large-scale bank agency model has yet to be established but even mobile money had by 2012 not yet put itself within 2km of barely 90% of rural Tanzanians. 2013 data suggests that even a year later it was still not a doorstep reality for 80% of villagers.

Chart 2: Share of population within 2-5 km reach by network



AND TO VILLAGE SAVINGS AND LOAN GROUPS

Our latest focus is to link up with village level savings and loan groups. They dominate the next level up from the purely informal rotating savings groups and most importantly of all we find they get right into the unserved villages. We are not alone in this – surplus balances at the peak saving phase can be hundreds of dollars. Most banks now offer mobile money links to group accounts and many promise gearing up credit capacity but this alone does not seem to be enough to boost either group or individual saving.

What the three Programme projects are now looking at is a group service that also encourages active individual saving with:

- a very low cost option for transferring funds between sub-accounts at the group and individual bank accounts to support low cost village cash-in/out;
- a very low cost or even free capacity to move small packets money downloaded from a bank account between phones to support cashless proximity payments;
- and adding in clear benefits to being a group member (by becoming genuinely banked) as well as clear efficiency gains for groups choosing WSBI members as their banking partner.

The case study insert describes the first of these projects, started at PostBank Uganda in 2012/2013.

Sources for this chapter:
http://www.fspmaps.com/ accessed June 2014 but data mostly relates to early 2013
For more on the WSBI Doubling Savings Accounts Programme please go to www.wsbi-esbg.org

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