The MasterCard Foundation Symposium on Financial Inclusion:

Clients at the Center

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This document presents transcripts from the plenary conversations and presentations during The MasterCard Foundation Symposium on Financial Inclusion: Clients at the Center 2013. The statements made and views expressed are solely those of the authors and do not necessarily reflect the views of The MasterCard Foundation, the Boulder Institute of Microfinance or the symposium participants. Some have undergone minor adjustments, but in general we preserved the tone of the panels and presentations to provide the reader with the content of the symposium.

Session 8: Audience-driven discussion of critical issues.

The moderators will facilitate an audience-driven discussion on the core concepts of the Symposium and highlight the key issues that emerge.

Moderators:	Piyush Tantia – Executive Director, IDEAS 42
	Tilman Ehrbeck – CEO, CGAP
Commentators:	Selected speakers from different sessions

Tilman Ehrbeck

Ann and Bob have asked us to facilitate some peer learning, which is based on some of the issues on your mind, questions that you asked yesterday. So this is a little bit of a challenging session, but we want to open it up. So Ann, thank you for the challenge.

Here's what we did. We collected these cards yesterday where you wrote down some of the things that you were wondering, and that you would like to discuss more. So what we did is we sorted these cards yesterday night, Piyush and I, we got some 100 cards, and in a very highly scientific fashion, we chose four topics, which pretty much hit the highest frequency mentioning. So we are going to discuss peer discussion with you on those four topics. What we also want to do is help you make a commitment on what to do maybe differently on Monday morning. So I use that to give Piyush a chance to introduce himself and to mention the card that you should have gotten when you came in. So Piyush, over to you for a second.

Piyush Tantia

Thanks. So I'm Piyush Tantia. I'm Executive Director for IDEAS42, and a couple of you know us. We're relatively new. We're a small shop, kind of a design lab. We use behavior economics and psychology to design products, but also to solve behavior change problems in existing products or services. So you know, problems like low uptake or dormant accounts, things like that. We work with academics from schools like Harvard, MIT, Princeton, etc., who are doing the research, and then my team translates that research into real world solutions. Before that, I spent 14 years as a strategy consultant focused on financial services. I did a lot of work in microfinance. So that's where some of my experience also comes from.

So with that introduction, I want to make sure everyone has a card. You should have received two cards when you came in. One of them has five questions on it. The first one says, "One conversation I will have with my senior staff when I return." If anyone doesn't have it, please raise your hand and someone can bring some down. Looks like it's just over here, so we'll make sure you get one. But we saw that some of you had already started to fill these out, and I can't resist. I have to use behavioral economics and psychology wherever I go. It's become an addiction now. So this card is actually a behavioral technique that I'm guilty of using on all of us, where once you write these simple things down, you've made a specific plan. And we see from a lot of research that when you make a specific plan, you're much more likely to follow through on it. So let me now turn it back over to Tilman to go over the first two topics.

Tilman Ehrbeck

So what we will do is many of you are extremely knowledgeable and we would like to hear from you. The room would like to hear from you in a peer dialogue, and what we would like to hear from you are actually answers to some of the questions that we're going to pull up in a second. The notion of solutions, insights, whatever you feel like sharing that will help your colleagues advance their own thinking. What we will also do, I want to be very transparent around this, and we didn't quite know whom we would call on because we didn't know the topics until this morning. But we have asked a few people that we know to be knowledgeable about these topics to get us going, and we will call on two or three of you first. And then we open it up to the Boulder group, and as we said, we want to hear from as many of you as possible. But we will also keep it somewhat fast paced. So the more concise, the more insight for you, all the better. So without further delay, let's get going.

So the first topic is mobile financial services and MFIs. So here are some of the questions that were on the queue cards that you gave us yesterday:

- How safe are mobile financial services?
- What's the role of culture in the acceptance of mobile financial services?
- And then a series of questions of how on how MFIs can participate, integrate mobile payments into their lending activities:
- How can MFIs make use of mobile money?

You see sort of the drift of the questions. So we will start with Arijit Dutta from BASIX in India. Arijit, really briefly, tell us what Sub-K is, and give us an insight or two around what you are achieving.

Arijit Dutta: Thank you, Tilman, and peers. Let me first explain what does it mean, Sub-K? Sub-K India, in Hindi language, it means for all, for everyone. That means we want to involve or we want to provide financial services to all the households. And second, the K means thousand. So we want to reach to the households, to the villages. We are having thousand populations, so that we can penetrate and we can walk with all the thousand households. Third meaning of Sub-K is the transaction, it can be as minimal as a thousand rupees around your $20, like that. And the fourth one, and the important thing is that the customer or households, or the clients, he or she has to cover a distance of thousand meters from where he or she is going to access these services.

So now, how we do it, and I'll also explain a little bit about our technology. As you know, the government of India has given much more importance for the financial inclusion and all these things. And the Bank of India, as well as Minister of Finance, they have told the private sector bank as well as public sector banks to go aggressively on the financial inclusion because it's a part of India policymaker's inclusive growth, what they call it. So we have become the business correspondent of some private banks, as well as public sector banks. And as you know that business correspondent has already started in India, but our model is different. Why I am saying our model is different because we are not going to do, we are not going to establish, we have not established our own branch network or staff to provide these financial services to the business correspondent.

So what we have done is what we call a BCO, that is Business Correspondent Outlet, and this Business Correspondent Outlet is in the village, and the village people who have some business already. So he or she has become the Business Correspondent Outlet, and why we have selected the existing persons in the village who are doing some businesses in the village? Because this will be his or her additional income. And he or she will not be totally dependent on BCO business correspondent revenue, and all these things.

What is the technology? So the technology is very simple. It's basically, initially, we thought we would include both voice and finger-based biometrics, and all these things. But when we started doing the pilot, as you know that in rural India, and rural areas, a lot of disturbances, and the voice authentication and because when something is new in the rural areas, there will be huge gatherings and all these things, and there will be disturbances. So we have not given that much importance for voice-based authentication, but fingerprint authentication we have started, and we are doing that, and it works with GSM, GPS as well as your web-based channel and all these things. And through indirect deposits …

Tilman Ehrbeck: Can I ask you a question? Is it fair to say that it's essentially an agency business technology-enabled? Is that a fair description of Sub-K?

Arijit Dutta: Yeah.

Tilman Ehrbeck: And is it a standalone business or is it a channel for BASIX, the MFI?

Arijit Dutta: Let me explain that. The BASIX MFI company, we're not authorized to accept deposits. So this is a separate company within BASIX group we have floated, and as of now, we have started providing savings and deposit services, and in one of BASIX's MFI operations earlier, we had done the recovery. Recovery of BASIX MFI through this…

Tilman Ehrbeck: Okay. So it's an agency business that is an agent for other regulated entities on the deposit-taking side and on the insurance side, and it's also an agency that is being used by the MFI for some lending-related activities.

Arijit Dutta: Right. And, basically, …

Tilman Ehrbeck: In the interest of time, I would love to hear from a few other people. So is that okay? Okay. So I picked one other person. Thank you so much Arijit. The folks from CARE, they're here, Tanzania and Kenya seem to be doing interesting things. So you're from CARE? Okay, so my understanding is you also do interesting things using the mobile technology in support of the MFI business. Please introduce yourself and share an insight with your colleagues.

Sybil Chidiac: Alright, so my name is Sybil Chidiac, I'm with CARE Access Africa based in Tanzania. And actually, we do some interesting things with Equity Bank, so I know there's three Equity Bank colleagues here, and Andrew is one that was just on stage. So basically, what we do is we've developed products with Equity Bank, savings products, which allow the groups to open Equity Bank savings account in the village. And they do this through Equity Bank Orange agents. Orange is a mobile network operator in Kenya. So the groups are able to open their accounts in the field, and they're able to transact in the field. So making deposits, making withdrawals in the field.

Tilman Ehrbeck: And you do it exclusively for your own business? You're not an agent for anybody else?

Sybil Chidiac: That's correct.

Tilman Ehrbeck: Okay, so very different from the Indian story. Any insights on this? Sybil, stay on for a second. Any insights on some of these early questions? How safe are the mobile transactions? And how safe are they being perceived by your clients?

Sybil Chidiac: Well, one thing that stood out for me was, it was only today that we started mentioning financial education. Yesterday, it wasn't mentioned at all, and in the cultures that we work with, mobile banking is entirely new. So you have to educate these populations, not only on how to transact, but what it means, and why would you even want to save your money on a phone. I mean, that's still very foreign. So financial education is a key driver that has been something that we've been doing through our agents or our trainers of our village savings and loans associations, and we also do it with the mobile network operators. So in Tanzania we do it with Vodacom, and in Kenya we do it with Orange and Safaricom.

Tilman Ehrbeck: When you do that education piece, that costs money. So you save some by being electronic in your transactions, and you have to spend some on the financial education, if you will. How do you come out in that? Is it still a good value proposition?

Sybil Chidiac: Well, the thing is these agents are interacting with the groups anyways. They're interacting with the groups that train them on the basic village savings and loans methodology. So we infuse it at the same time.

Tilman Ehrbeck: Very good, Sybil, thank you very much. We take one from the audience further in the back. We would love to hear from an MFI that does work with the mobile channel. I see a hand up there to the left, all the way to the left, the lady. Okay.

Margaret Chipunza: Thank you. My name is Margaret. I'm from Zimbabwe. We are an MFI, and we've got a mobile platform called EcoCash, which was introduced in our country, and our clients are able to repay us, repay their loans using EcoCash, and we are also able to disburse loans using EcoCash. So we're finding that we don't have to be bound by closing and opening times of banks because we can always use this platform to do the transactions with our clients.

Tilman Ehrbeck: Stay on one second. Can you share with us what your transaction cost savings might have been in the context of your operations? Do you know that?

Margaret Chipunza: Yes, I think in terms of the cost savings, I could say that I think compared to doing a bank transfer, you're probably saving about 50% of the cost by using … 50% of the cost by using the EcoCash.

Tilman Ehrbeck: Okay, excellent. We have time for one more. An MFI that uses, either as a parallel business, or as a channel to mobile. Please introduce yourself.

Rolando Victoria: I'm Rolando Victoria from ASKI Philippines. And we are working in partnership with Globe and Banco. We are releasing loans to farmers using mobile phone, and their mobile phone is connected to their own ATM account, and we are also getting payments. We are now evaluating the impact to the organization. At the same time, we are participating in the government program on conditional cash transfer wherein the poor receive cash using their mobile phone, and we're getting sort of certain income for every transaction. But the overall impact is still being evaluated by the organization right now.

Tilman Ehrbeck: Tell us a bit about the economic impact? What transaction cost savings did you achieve? Can you tell us?

Rolando Victoria: One is all the clients were able to save money because of the transportation costs. It's so important to them. And also when they transact to other businesses, they can just use their ATM and mobile phone. So it's really expanding even at the suppliers, and that is also true with us. At ASKI, we're now promoting the use of mobile phone in all different transactions that we have because we said we have to practice what we preach. So that's the concept of ASKI.

Tilman Ehrbeck: One last question for you. How important is the fact that you process government payments for the viability of the channel?

Rolando Victoria: Actually, on the government side, they're really engaging MFIs when you talk about conditional cash transfer because of the limited resources within the government, and limited banks available, that whole aspect, and they know that MFIs are everywhere. So they would like to expand the outreach through MFIs.

Tilman Ehrbeck: So the government likes the MFIs. Do they pay you for your service?

Rolando Victoria: There is a corresponding fee for every transaction that we process.

Tilman Ehrbeck: Okay, very good. Let's move on. We realize we can't go too deep, but we want to hear from you, and we want you all to pick up that your colleagues are doing things, and that you can learn from each other. So one of the tasks for the Institute and the Symposium will be to create the connectivity and the follow up. So I guess you pick that up later.

Let's move on to agent banking, which is somewhat related actually I think. So we heard quite a few of those challenges also this morning, but you anticipated them when you wrote them down yesterday. So on the queue cards that you gave us, you wrote about, how do we overcome the challenge of the decreased direct customer interaction in a low-cost way? How do we train agents who are the interface for us as financial services institutions, that they actually represent our values, do the right thing, and how do we do that in a cost-effective fashion? Who should bear the costs, and how do we—this is a different topic—how do we manage, how do you manage cash liquidity at the agent level? What do you do, if you run out [of cash], to settle?

I call on Graham, where are you? Oh, here he is. Microphone over there please. Graham, you have done research in probably more than one geography on the agency channel, agent channel. So share with us a few insights that are practical and relevant to your colleagues. And introduce yourself. So this is Graham Wright from MicroSave.

Graham Wright: Yeah, so I'm Graham from MicroSave, and yes, we've worked on the agent networks actually across Africa, Asia, and indeed, Latin America. And I think there are two or three key things that we need to bear in mind when we come to agent networks, but before we do I want to make one comment on the MFI discussion that's just come. Essentially, MFIs have three options.
One is to set up and run the platform; don't do it. Two is set up and run the agent network; maybe do it. Three is to use the rails that other people are offering; much easier option to execute.

So when you're thinking about that, think about those three options, and really evaluate the strategy and the business case for each of the strategies that goes with those three options because it's a make or break decision. And even running your own agent network requires extremely deep pockets to do well. Sorry, deviation over.

So, I just said you need deep pockets to run an agent network, and that's because it is a complicated business. You listen to Andrew from Equity Bank, seven thousand agents, millions of customers, a lot of those are existing Equity Bank customers. But if you talk to Seema about what her partners, the MNOs have been doing, very often they've invested at least a dollar per client recruited on to the platform. So you need a lot of resources. And then selection of agents as we've heard earlier around the trust imperative is really key, and we've seen very often that people struggle to identify the right type of agents, those that are trusted in the community.

Then, of course, you need to train them, and again that requires a certain level of understanding of exactly what they're going to do. We began to move towards a discussion of two different types of agent, what I would call sales agents—those are the more sophisticated ones that will actually sell your product—and the simple cash-in, cash-out agents, which will service your products.

That differentiation is really important, really very important. Now, the vast majority of your agents are likely just to be cash-in, cash-out agents. They're going to service the products. But in the long run, as we run out new products across these agent networks, we will need sales agents who are capable of communicating and selling simple products, and that's something that we've been doing a lot of work with Equity Bank and a couple of others in South Africa or in Colombia and so on in partnership with BFA.

And I think at the bottom, the really tough question is the liquidity management piece of agent networks. And that's easier in urban environments, of course, because the bank branches are nearer. But as soon as you get into rural environments, then there's a big trade-off that the agents have to manage which is how much either e-floats or cash notes do I need to run my business without having to go to the bank every three minutes, because going to the bank will necessarily probably require me to either close my shop or have someone else look after my shop while I rebalance. And that decision is extremely difficult to make.

We're going through a discussion with one bank right now where we would like to actually reduce the fees and the CEO of that bank is actually worried that the rural agents don't have the liquidity to respond to the surge in demand that is likely to happen as we reduce the fees. Those sort of trade-offs are actually really important. I would like to believe that if we reduce the fees and the commissions stay the same for the agent that they will then increase the amount of liquidity that they hold because one of the biggest challenges is that clients in rural areas very often have to split transactions and go to two or three agents to make large scale withdrawals because agents hold too little liquidity for them to manage those withdrawals. So liquidity is a real challenge.

And what you will see is over time agent networks will evolve in structure in order to respond to the evolution of the business that's being run across them. So initially they might be managed direct. Over time, you will have a separate layer of what are called aggregators who are managers of agents, and one of their key roles of aggregators is indeed to manage that liquidity and help the balance between e-money and cash throughout the evolution, or throughout the business day for the agent.

Tilman Ehrbeck: So you manage the cash as close to the local as viable, and it might come down over time as the market expands.

Graham Wright: Yeah, and it might go up as the usage of the platform increases.

Tilman Ehrbeck: Quick two follow up questions. First one. How important is the regulatory environment in all of this?

Graham Wright: It's hugely important because it affects what agents are allowed to do, and we were talking about G2P earlier, the cash benefit transfers as a possible way of initiating enough business through an agent network. Because one of the things that you will struggle with at the beginning of an agent network is enough business to keep the agents interested and making enough money not to close shop. If we go to the average agent network together right now, we'll find that 40 to 50% of the agents are dormant. They are simply not operating anymore. We did a lot of work on this in India. There was simply not enough money going through the system, so we had agents literally handing their sign boards back to my stuff saying, take this back to the telco, we can't use it anymore. There's no business in this.

Tilman Ehrbeck: So second follow up question, real short answer. If the regulatory environment is very important, and differs a lot across countries, how generalizable are these lessons actually, or is this something you have to figure out in your context, both economic, but also regulatory context?

Graham Wright: I think it's similar to some of the client insights that we've been talking about. There are some key principles that stretch across geographies, but there's some detail that you need to understand in individual markets.

Tilman Ehrbeck: Okay, thanks so much Graham. Andrew, we didn't get a chance to ask earlier a few of the nitty-gritty questions. Can you spill a few secrets? How do you make sure the agents who represent you do it in the right way? How do you train them? How do you do it in a cost effective way?

Andrew Wakahiu: Thank you, Tilman. I think for us it starts at the point of recruitment. The recruitment criteria for an agent at Equity Bank is very, very rigorous. We took a very long time to develop the recruitment criteria, and because we have a lot more people knocking to be appointed as agents than we think should be agents. So we are very, very tight on that. Maybe I should just tell you …

Tilman Ehrbeck: The secret data on his … (laughter)

Andrew Wakahiu: It's very scientific. We have devised a way, processing tool. We have the quantitative factors, and we have the qualitative factors. Now, the location where an agent is based, we weight on a scale of up to 20%. And it will contribute to 20% of the final score. The more remote you're located, the bigger the demographics that you're intending to serve, then the higher you score. Then, we also look at the business turnover, because one of the requirements is that you must have been in business for two years, and we put a minimum turnover for each business depending on the geographical area, which again, scores 20%.

Then, we look at the physical infrastructure. Do you have the capacity to make clients when they're been served feel private, feel safe, and feel comfortable? So if you have this infrastructure in place, then that will score you 10%. Then we look at your business structure. You may have been in business for 10 years, you may have been turning over a lot of money, but the business processes that you use are completely rudimentary and your survival is more by chance than by design. So we look more at the kind of business processes that you have instituted, and that will give you 10%.

Then, we also look at your financial management, not just the financial capacity, but the financial management. What kind of staff do you have? What quality do you have? Do you have staff who at least understand basic accounting, basic reconciliation, what are their academic qualifications? You as the business owner, how well do you understand basic business functionalities and documentation? That will give you 20%.

Then, the other bit, which scores 25% is the intangible or the soft qualitative factors, and these we get from third parties. Suffice to note that all our agents are hubbed to a branch. So it is the branch that recruits the agents. So the branch manager knows these people. At Equity Bank, we have some people we call brand ambassadors and community advisors. These are people who for free are willing to give us advice at the branch level, and they're generally respectable people at the community level. So we will go and ask them, Bob has pledged to be an agent. "What do you think about Bob?" And they'll tell us, "Oh no, if you appoint Bob as the agent, sorry no pun intended, but if you appoint Bob as the agent, your customers won't go there because Bob has money, Bob has a good business, but Bob, it is known, that every other day he's having domestic quarrel, so not every customer wants to go there." Something, sorry. (laughter) So this accounts for 25%. It's the single most powerful factor that we have.

And for you to be appointed as an agent, you must, of the initial 75%, you must score 50%, and on the 25%, you must score 22-1/2%. If we were a bit lenient, we wouldn't have 8,000 agents; we would probably have 40,000. But for us, quality supersedes quantity.

Tilman Ehrbeck: Maybe this is a bit unfair, but it's an impressive list of requirements to make sure that Equity Bank is good from a financial perspective. What about the soft element? How do you make sure the agents treat the customers the way that you as Equity Bank would like them to be treated?

Andrew Wakahiu: As I was saying, the first part is we make sure that the recruitment is right, and then secondly, we invest very heavily on training. We have a very robust agent management and training.

Tilman Ehrbeck: How much do you spend on that?

Andrew Wakahiu: Well, in terms of the number of staff that I have for the agency model, in each of the branches, we have two staff who look after the agents. The case load per staff is 50 agents. So if a branch has 100 agents, then they have two staff. If they have more than 100 they have three staff. So on average, apparently, we have about 200 staff whose single KPI is looking after their agents. And what they do primarily is to train these agents continuously.

I will give you an example of our central bank governor visiting one of our agents, incognito, and going to try to do a transaction without proper identification just to test the agent. And the agent flatly refused, and then he said, "Oh by the way, I am the governor of the central bank. The money in this country belongs to me." And he identified himself and he had his security there. And the agent told him, "Yes, I know, but even if Dr.Monge came here, I wouldn't serve him without his ID, and I know him." And the governor was very impressed that we had transformed some guy who was selling spare parts who was actually a mechanic into a formidable banker. So it takes a lot of training, we've invested a lot in training.

Tilman Ehrbeck: I'm sure he was happy that you guys followed the KYC requirements. Good. Okay. We have time for one comment or story from the floor. Anybody out there who is working with agents and has an insight to share with … now, the gentleman. Okay, here, and it looks like French. So why don't you tell the story to your colleagues, and will you ask in English?

Joseph Ndam: *Translated:* My name is Joseph Ndam, I am from Cameroun. I am the director of a microfinance consulting firm that provides different types of support to the industry. My question is about the second point. I want to reinforce it. I am from a place in Central Africa where the independent MFIs were started by people who first and foremost want to make a profit, which is about 70% of the market. The intention of these people from the beginning is to get rich; and the employees come looking for work in an environment where unemployment is endemic.
With this logic, the client is often much more of a beast of prey, whom they have to put pressure on. I said the client is often considered as a beast of prey to put pressure upon, in order to squeeze out a maximum amount of profit. The client himself becomes an adversary, if he doesn't repay. [They make a] loan to a client who doesn't pay back, then he becomes the adversary to these employees who then see him as the person who could make the employee lose his job.
My question is, in this context, how to encourage these people – I'm talking about people who do microfinance, and these employees - how to get them to integrate client protection and integrate client centeredness into their operations, because as I said, they represent 70% of the market.

Tilman Ehrbeck: So this is peer dialogue. Andrew is walking out. Anybody among you who has a point of view on client protection? Anyone of you with a point of view on client protection in the context of agent banking?

Zaineb Saeed: Hi I'm Zaineb Saeed from Pakistan, from Kash Foundation. And we actually do agent-led banking in our organization. So if you were just to look at the numbers, we have 40% of our transactions going through the agent network, and 60% still happening through the branch. So what that really sort of explains or shows, as something that we were talking about yesterday in terms of complementarity, and how both of these systems are complementing each other, and it's not a substitutability per se or it's not substituting each other.

I have some interesting comments to make, especially sort of based on the other comments that we had earlier, especially on costs. So, we got a comment on how an organization in Zimbabwe could actually decrease costs because of the agent banking network. That has not really been our experience. We have decreased costs, but those have come as an opportunity cost that we've saved off handling all 100% of the transactions at the branch. So an employee cost or an added cost of infrastructure that we might have had to add to the branch.

But it has increased costs for us in terms of the transactional costs that we have to pay on each transaction that goes through the retail network or through the agent network. Also, we've had to do an investment in training the agents that are working on these networks, which kind of ties into the question that the gentleman here raised in terms of what are we doing for consumer protection. So it's very important to train the retail agents on how to deal with our clients.

What we also do to ensure consumer protection is that we have a help line or we have a complaint mechanism at our head office which actually deals directly with the bank whose agents are working. So we have the opportunity and the ability to blacklist agents who have either not been good in their service provision or have been dormant are have other issues related to other infrastructure, etc.

Also, something that I'd like to mention is that this entire debate about touching clients and not touching clients, and how mobile technology sort of comes in. So what we're trying to do to overcome this is that we're making sure that the acquisition of the client is still done at the branch, done at the home in the branch by the MFI itself, by Kash Foundation itself. So what that does is it has that sort of touch point which we're kind of losing with the agent.

Also, we're investing a lot in financial education, and financial education other than the great things that it does by teaching clients about savings, borrowing, debt management, etc., it also increases the touch points that we have with the client. So we've had to invest in that for two purposes. One of them is to indeed increase the amount of touch points that we have with the clients now that, you know, 40% of the clients are not coming to the branch.

Although, I mean, in terms of some of the other things that were raised, in terms of the dormant agents, that's been a problem. So 10-15% of our agents go dormant, and so dealing with that is an issue. But as an institution we feel that maybe for those agents, the banks need to provide better incentives to remain working or sort of not going to dormancy. So that was a lot of points.

Tilman Ehrbeck: One quick clarification. So when you say your costs went up, relative to what?

Zaineb Saeed: So we basically have to be a transaction cost on each transaction made at the retail bank agent.

Tilman Ehrbeck: Okay, but if you did it yourself in your own branch, would that be cheaper or more expensive?

Zaineb Saeed: It would be cheaper, but the opportunity cost of that would be high in terms of we'd probably have to add stuff, add infrastructure. Because, you know, currently with the 60% that we're handling, we're pretty full.

Tilman Ehrbeck: Okay, so the business case not that obvious. Thank you so much. And sorry I didn't see you. You and I hide with the light. In the interest of time, we switch over to the next two topics. Well, let me make … one thing I do have to say to you. On the agent channel, quite a bit of work and research has been done, including by CGAP. So please look that up as well. The clock is counting backwards from one hour, so we will add 30 minutes. We have 90 minutes. I just want to make sure we manage it. So we'll add the 30 minutes. Piyush, over to you. Ag finance.

Piyush Tantia: Thanks, Tilman. So I don't think I can do this with the German efficiency that Tilman just did. So, here are the questions that came up on agriculture, and broadly I want to focus on kind of the first two, and get practitioner examples of how they've handled some of the challenges of reaching into rural areas and lending to small holder farmers or providing other products to small holder farmer. So I'd like to start with Dennis Ripley from Opportunity that does a lot of work in this. And Dennis, if you could focus on one or two challenges that are top of mind for you guys, and how did you solve those. That would be great.

Dennis Ripley: I'm Dennis Ripley from Opportunity International. About four years ago, we launched a pilot project in cooperation and partnership with the MasterCard Foundation to finance smallholder farmers. We started with two major challenges. It's the 50% challenge, and the 40% challenge. First of all, African farmers basically farm at about 40% productivity rates. We wanted to find some ways with financial services and non-financial services to see if we could increase the productivity for small holder farmers. The 50% is even more serious. What we were finding as we were listening to small holder farmers, and tracking what was happening to them, they were losing about 50% of the income that they earned on the 40% production through side selling and borrowing from loan sharks. A huge problem. So we tried to address both of those problems in very specific ways.

On the productivity side, first of all, we said we want to find the farmers who actually have enough land to be commercial farmers. We did not want to lend to farmers who did not have enough land. So we did GPS mapping of farmers' land and then we also took a look at the number of people within their household to see if they had a combination of enough land, and that they did not have so much demand on the land for basically food security that they could really take a loan from Opportunity, use it to increase production that could repay the loan, increase their income, and continue to grow.

A lot of people that took our loans not only used it for inputs, but they used it to purchase contract plowing, contract transport. So we've been able to address it that way. The second way in the productivity that we felt was extremely important was to partner with a high quality extension service provider, and we find quite a mix of extension service providers where we work. We have two groups that we would prefer not to work with—government extension service providers on the whole, and project based extension service providers who may get a grant, they go into community, and in three years, they provide great extension services, and then they're gone. They're not embedded permanently within the community.

Opportunity is a community bank. We're embedded permanently in rural communities. So we've been trying to find partners who are willing to develop models that can lead to sustainable commercial provision of extension services. Our best project so far has been in partnership with the Grameen Foundation in Uganda. We've created the Network of Community Knowledge Workers who are embedded in the community, and they're getting close to becoming sustainable through fees-for-service. We feel that that is one of the major barriers to financing small holder farmers. So that's how we addressed the productivity issue, lending the right amount of inputs to the right farmers who can farm commercially, and then partnering with high quality extension service providers, who have the capacity to be embedded in the community in a sustainable and permanent way.

Now, what did we do about the 50% of the side selling? Two basic theories that we used and two basic services and products. One was commitment, commitment savings accounts. That works really well. But we also took a look at what were some of the financial demands on farmers during the growing season. We recognize that a lot of them have school fees at the wrong time if you're a farmer. So we provide school fee loans. We provide education accounts for our farmers. We do everything that we can to understand their cash flow needs during the growing season and when they're not in the growing season, and craft products and services that preclude side selling or borrowing from money lenders. So those are the things we did.

One other thought. We asked ourselves, what's the end game in terms of rural finance, and what role can a community bank play in turbo-charging rural economies in sub-Saharan Africa? We've done this in five sub-Saharan countries. What role can we play? That caused us to start thinking about what's next? Contract plowing is next, transport is next. So we've just signed a partnership agreement with the John Deere Company. We are going to finance their small tractors for entrepreneurs who want to do contract plowing within their communities. So we're starting to look at some of the small businesses within the agricultural ecosystem to finance them as well.

Piyush Tantia: Thank you. One follow up question. Do the extension workers act like your agents, or do you have your own loan officers go out as well along with them?

Dennis Ripley: No, we prefer our loan officers simply to be loan officers. We don't think it's good to combine lending and the extension service provision. So we would typically prefer to go to a community where there's been a good extension service provider there for a while. They've grouped people into groups, the farmers into groups, and then our loan officers would go in and do the assessment of the household and the land.

Piyush Tantia: Thank you, that's fantastic. So really you're thinking about the business as growing the farm's productivity, not just lending, which is very holistic. Actually, Renée, I would love for you to react to the same questions. The key challenge in this sort of business, and how.

Renée Chao-Beroff: Good afternoon. My name is Renée Chao-Beroff from PAMIGA. So I'm really happy to be talking about agriculture finance and how we can do financial inclusion in the sector of agriculture finance because I think that what has been said during the last two days apply very well to rural finance and agriculture finance.

First, the segmentation. I feel that those who say that all farmers are alike are absolutely wrong. And you know that because all the farmers are not alike. You have all different type of farmers, and they don't have the same needs. So I will say a few words about needs also. And of course, if you segment and you take care of the needs of each segment of that market, then it will end up having some consequences on the organization of your institution and, at the end, you will have to find the right type of financial education that will fit all these different types of clients and empower them. So just a few words.

Segmentation. Well, of course, it can be much more complicated than what I'm saying, but at least everyone will understand that subsistence farmers and market-oriented farmers who are linked with the agriculture value chain do not have the same kinds of models, do not have the same risk, and probably in this case, if we are talking about risk management for those farmers, they will have very different needs, financial needs, but also all kinds of different types of needs. So at least, we should go and try to segment that market, understand what falls into … or more I will say, subsistence farming is not exactly what I want to say because we know that people are not any more into subsistence farming anymore, passively subsistence farming, because they have already diversified. But at least, they are not dependent on agriculture for their living.

So this is one type of farmer, and these will have already their own strategy, financial strategy to make up for a whole household income. It will come from remittances, it will come from salary, it will be a little bit of agriculture, and there will be many other sources of income. So for these, you know, savings will be very important. But maybe also health insurance will be very important because what are the most important risks for these subsistence farmers is if someone gets sick in the family, then they will lose everything. This is the major risk.

Now on the other end of that spectrum, you will have the market-oriented farmers who are already considering farming as a business, and they are already linked with a very good value chain, maybe in contract farming, maybe in some other things. These will be, of course, very different because what are their risks? Risk is probably linked with productivity, with price, with market, and therefore, for these, you know, risk management will have a very different meaning also. And for them, not only they will need working capital, which usually microfinance institutions are very used to provide, but they may have investment needs. You know, medium-term investment needs. And probably all kinds of crop insurance, livestock insurance, and all these different things because they have other prospects in terms of risk.

Now, taking all these needs, and this segmentation into consideration, the microfinance institution who wants to serve these agricultural farmers will have to organize themselves, because it will probably become, if the market is large enough, it will become a business line for themselves. They might want to have a dedicated staff, a business line, [for] a product that will be targeted to that kind of market. So it will be a big change for you as an institution. You'll have to think about it before you make that option.

And ultimately, I just want to say that for all these different types of clients, they will need all kinds of different types of financial education that will serve their needs and empower them.

Piyush Tantia: Thank you very much. So it sounds like quite a wide range of products that you offer to solve this problem. I would like to also Gerhardt to comment and maybe react to what you have heard based on all of your deep experience.

Gerhardt Coetzee: So I'm not going to repeat, and I think the segmentation focus is very good, and I know there are people who want to say something. So I'm going to pose this thing is that we always have this bland approach from, and we say rural and agricultural finance, or agricultural and rural finance. I think we must stop that. I think we must focus on agriculture because rural is nicely covered by many other things as long as you remember that you are in the context of a rural setting with agriculture, and you can be in the context of an urban setting with agriculture. In my country, 44% of all small farmers are in urban areas, and I think it's very similar for many countries that I know and have worked on in the continent.

The second important point about segmentation that I just want to add to what Renée said is that if you segment your market, and you have focused approaches for segments, a lot of commercial institutions think about this waterfall, you come from the low segment to the highest segment, and then the following one. But don't forget the clients who stay in this segment, because you must have a solution for them as well. And the clients that we often forget are the subsistence or the only people who only strive for food security, the real, real rural poor. And unless you have a solution for them, you are missing a wide range of our people that are active in agriculture, or participating on a part-time basis, or partly in agriculture for the income strategies.

The third thing I want to mention, and I'm rushing this because Tilman is looking at me, and he's scary. (Laughter) The third thing I want to say is that the importance of what we have today discussed in topic one and two is highly, highly linked with what we do in agriculture. So for example, the flavor of the month at the moment is value chain finance. So the point is that in that value chain finance approach, don't forget branchless banking, don't forget agent-based banking. See how you can integrate this to ease the payments, etc.

And the next point is, don't think mono-line credit in agriculture. We can solve a lot of problems for very poor people by just bringing transactional service to them to be paid for what they sold, to be able to pay for inputs. So that integration is extremely important. And the big thing about branchless banking, coming back to the second point, is that branchless banking doesn't mean that we must close all the branches.

Piyush Tantia: Thank you very much. So I have time to take one comment from the floor, an MFI or bank or institution that actually does small holder lending. Maybe there; it looks like it's requiring French translation perhaps.

Lamarana Sadio Diallo:

Translated: My name is Diallo Lamarana Sadio, I am the CEO of Crédit Rural de Guinée, and President of the Professional Association of Microfinance Institutions of Guinea. Our experience in financial inclusion for agricultural finance, is that because of the low level of infrastructure in the Republic of Guinea, to reach poor clients, poor farmers in very remote areas, we stared what we call Village Contracts.

Piyush Tantia: So do you mean you hire an agent, somebody in the village acts as an agent for you?

Lamarana Sadio Diallo:

Translated : We recruit personnel to reach the very poor. We have organized it such that the agent is not permanently at the remote village, because access is difficult, the regions are very remote. The agent goes there on market day once per week. This model is being extended in West Africa with the support of CIF and we also want to integrate mobile telephony to facilitate repayment of loans to the poor in rural areas, all of that with CIF and also financing from the European Union.

Piyush Tantia: Great. Thank you very much. So let me in the interest of time move on to the last topic that we had. So this one we wanted to have enough time to talk about and this is on how do you embed innovation into an organization? I'll take comments from the floor from various folks. Just a couple of things I wanted to add from my own experience. I've spent the last four years building a company that does innovation in partnership with practitioners, and we do that in financial services, but also in other areas like healthcare and education.

I wanted to share a couple of different models that I've seen for how people really build the culture within their organizations. Because we don't have to reinvent the wheel, we can look at what other people are doing and learn from that. There's a very interesting one. Many of you may have heard about this, but Google has something called "20 Percent Time," and what that is every engineer at Google is allowed to spend 20 percent of their time on some project that's outside of their main job description. So believe it or not gmail came out of a "20 Percent" project.

Google News came out of a “20 Percent” project. So there are lots of new launches that Google is doing that comes out of this time, and they’re just committed to spend that money in effect by allocating about one-fifth of their employees’ time.

Another very striking thing that if you look at technology or healthcare or consumer goods, all of these companies have a research and development department where they all have an R&D budget. It’s earmarked; there are labs, people just spend time developing new things. But I haven’t really come across that very commonly in financial services, but there are few exceptions like Capital One Bank in the US and I think Equity Bank has a division focused on this also.

So just a few different types of models, and in all of these, they prototype very, very quickly. They test very quickly. So these are not expensive rollouts. They don’t go and reprogram their systems for every new test. They’ll do it mannerly, they’ll do it quickly somehow. They’ll do it on the side. They’ll try it out, and then they launch.

So let me now ask Dave from IFMR and KGFS in India who actually leads innovation for them to talk to us about he and IFMR think about embedding innovation within an MFI, which is resource constrained, and there’s lots of day-to-day work to do, and how do you sort of balance that?

Dave Wallack: So a lot of what we’ve done is to, both with the people who are in the center, who are managing the organization—when somebody comes into our organization, the first thing they do over the first four weeks of their time in the organization is that they go directly to the field, and they play the role of a front-line employee, and then they step up and take the role of that person’s manager, and step up in the organization for the first few weeks so that when they come back and they’re involved in any kind of product design or training design that they’re doing it from the perspective of the front line officer.

At the same time, we also do it in the opposite direction as well. So when a lot of our agricultural lending and our enterprise lending is done on the basis of templates. And so for our front line employees, to get promoted, it’s seen as a very positive thing that they’ve taken some time out of the branch, and have been a part of developing these templates. So a lot of it is trying to take people out of their day to day role and put them into another role to get them thinking outside of their comfort zone.

One thing that we have done is, over the course of our … well, let me tell you about three things. First, in the first three years of the work we’re doing, we set about qualitative research effort, and we ended up having about 10-15 of our folks coming in and out of this effort. And we interviewed a thousand households in our customer set, and a long interview, a two and a half, three hour interview, really starting to get to understand about how they think about risk, how they think about money, how they think about a lot of different things. And it was a fairly unstructured episode. But we'd gotten huge dividends from this, because that perspective really creeps into everything we do, and we hear about these insights all the time from the employees we have kind of referring back.

Another thing we do is we have a process that we go through in the field with each of the customers, where we go through, and show them what we call a financial wellbeing report, where we talk to them about their financial lives. And our front line employees give financial advice and counseling based on this report. Well, in every single branch of our institution, we have the front line employees once a week sit down and go through a case, and talk about that case, and put information up to the front office. We also do this in our headquarters. All of our staff rotate through and go through customer cases. And to some extent, what I'm really trying to say is that it's not that we do one thing. It's that we do a lot of small things to try and get people thinking outside of their box.

And the final thing, and I think this one is maybe the one I'm the most bullish about, is—and we've done it in a lot of different topics—is spending some time where we use a technique called the "appreciative inquiry." And what "appreciative inquiry" is about is where we start to harvest information about what it is we're doing right, from people in the system that we're touching. And some of those people are employees or are customers. But some of them are also people who are interacting with us beyond our system.

So in terms of the insurance companies we work with, it's crucial for us to understand what it is they see we're doing right in terms of really anybody in our system. And we've done this with regulators, we've done this all over the map. And what we do is start to get to a sense of what are the root causes of what we're doing right, and then how can we amplify that in other places across the organization. So instead of looking for what we're doing wrong, and trying to stamp it out, it's much, much easier to figure out what we're doing right, and figuring out how we can amplify that up. And that's a way of being that is extremely innovation friendly, and has a huge impact on our organization. And that's something that we've done from the field officer level all the way up through the organization.

Piyush Tantia: Thanks, Dave. All of this that you're doing, it takes time, it takes people's time. How do you think about the cost and the investment? Do you measure it specifically, and do you earmark a certain amount of funds for this? Or, do you just not like to think about it because it's scary?

Dave Wallack: You know, I look at it kind of like I assume the way that Google looks at it, that I see the benefits coming out of it so dramatically that I know we need to invest some time and energy into it. And I try to be very creative about when somebody comes with the need of any kind of a creative or design task to try and wrap it in some sort of activity that has the feel of qualitative research, and I find that the need for it to be so structured is not as much as just to get out and do it and to build that intuition into our people so they're thinking from a different perspective. I guess I look at the 20%, and bank it in my head.

Piyush Tantia: Thank you. So thinking about innovation from a different perspective, somehow the picture that comes to mind is something completely new, built from scratch, someone had a single idea, and there it was. But often it's not that. I mean, often, it's incremental changes to something over time. Often, it's a combination of lots of ideas coming together. And yesterday we heard a fantastic story about bKash. We heard these amazing results that are so inspiring. But when I hear those sorts of results, what I really want to know is how did Kamal get there? What were all the challenges that he had to solve over the two or three years to get there? Now, he's unfortunately gone back to Bangladesh, but it turns out his brother who's at MIT, but himself quite an experienced entrepreneur, is with us. So I'll ask Iqbal or maybe comment on from an entrepreneur's perspective on innovation and how you think about challenges and pivoting and some of these metaphors like running through walls that entrepreneurs talk about.

Iqbal Quadir: I was in a very listening mode, and I was enjoying it. Confronted with this issue, of course in Bangladesh, we have BRAC as a partner for bKash, and that has been very helpful. But generally, we have been able to assemble a team of brains together, both from cell phone experiences that I have had, or Kamal had through his cell phone experience, and also the banking side coming from BRAC Bank. So we have brainstormed a lot, and so we try to incorporate all these ideas, and bring it all together, and also see what is executable. So of course, there are needs out there, but certain things you cannot do.

So you have to find the intersection between what's feasible to do with relatively foreseeable future, and what fundamental needs there might be. And within that, you of course see what's the biggest headache that the customers have? What's the biggest pain point? And therefore, you can then think about what's the aspirin you can deliver at a reasonable cost so their headache is relieved. But of course as it expands, you can embrace other lesser malaise, and also provide other medicine. So it's a question of really sorting through all of these things.

Piyush Tantia: Is it true what a lot of entrepreneurs say, that the idea that you start with often changes completely by the time you're in the field?

Dave Wallack: That is true. In fact, Colin Powell said that no battle plan survives the meeting of the enemy. So if you see the enemy as the reality, indeed the battle plan has to be constantly reprogrammed.

Piyush Tantia: So you have to be kind of used to failure, because you see failure as a queue to just change and go in a different direction. That's what it takes to do innovation, and it's probably the hardest part for an institution because you have to think of investing that money into it and be prepared to lose some of it. Because otherwise, you're not taking enough risk, you're not pushing hard enough.

Dave Wallack: Persistence is a very important key.

Piyush Tantia: Thank you very much. Comments from the audience? Is there anybody who has embedded innovation into their organization and would like to … here's one in the front. Thanks.

Female: So good afternoon. I'm with Opportunity International. Just a couple of comments about innovation that really I think very much follow on the comments that have been made. That is so much research has been done around the importance of innovation or adaptation being really a critical part of any business success, and we either will innovate and adapt, or we will not continue to evolve as a sector. So that's point one I would make. We have a lot of innovation that's gone on—I've only been with Opportunity about 10 months—but as we began to think about MicroInsure five years ago, who would have thought that today insurance would be offered around the world to over five million people at a run rate of about 175,000 clients a month. And so just a few thoughts around that that I've observed over the course of my career. And that is as opposed to looking at innovation as failures, eight out of ten ideas actually don't make it. And so it's better to set up a culture that really looks at innovation as continuous improvement, and to really create that in your organizations.

I think the other thing to consider is to have the innovation team, if you will, be separate from the day to day operations. So I'm a big believer of Jim Collins, get your core business right, but then you invest in innovation and you do what you were talking about, and that's rapid prototyping. If you really set up a budget such that you can rapid prototype several ideas, it doesn't really cost that much money, and you can actually perfect it over the course of time with rapid prototyping, and that's really what happened with MicroInsure.

The final thing I would say is my experience in this very important part of our work is that it must be supported by the chief executive officer, or it really can't take off with any kind—I see a lot of heads nodding, so I guess we all agree with that—it can't really take off with any degree of real impact around our work without the CEO being involved in the organization. So those are just a few thoughts.

Piyush Tantia: Thank you very much. One follow up question. So tell us a little bit about … actually I have a follow up question for you before you disappear. Concretely rapid prototyping of say microinsurance, did you actually go out and test it with a few customers? What size sample? Give us a sense for one or two of those tests, how they looked, and what you did.

Female: So I can't actually give the exact size sampling that we did. I know we did a lot of it because it took us over the course of about three years to perfect today what I think is a good product, and I know there are a lot of good products with regard to insurance across the audience. Dennis was involved in that. Dennis, do you know the exact amount of tests that we did before we launched?

Dennis Ripley: I think the most innovative product that we've launched is in partnership with TIGO in Ghana where life insurance and now some small amounts of health insurance are being offered to subscribers of TIGO. And the amount of insurance grows as the use of airtime grows with the company. It was innovative for us because we could not reach scale through traditional sales channels, that we could for loans and savings. We did a lot of experimentation in terms of how to communicate with TIGO. We've made some mistakes along the way, but I think we found the formula with them, and we're launching a similar product in Asia through another major telco. So I think it was just experimenting with all the different features and facets of a product and a delivery channel until you found out that you could make it work for all of the actors in the value chain, that it could be profitable.

Piyush Tantia: How many tests would you say you ran before you rolled out?

Dennis Ripley: Well, I sit on the board, and Richard Leftley our CEO, I don't think always told us how many tests were going down. But Richard was a creative guy. He was rushing to fail, fail, fail, and then find something that would work. So I really don't know how many times.

Piyush Tantia: So you're telling us, the lesson is don't tell the board what you're doing. (Laughter)

Tilman Ehrbeck: But have a supportive CEO. (Laughter) Let's take one more maybe from the back of the room.

Mike Quinn: I'm Mike Quinn from Zoona in Zambia and South Africa. Just on innovation, kind of from entrepreneurs' perspective to share from, like Iqbal said, two comments. I think one, resource constraints are really good and effective mechanism to stimulate innovation. And following from Seema's presentation earlier, and I was absolutely astounded by the lack of activity on mobile wallet accounts. And to me, it stinks of these giant companies that have like very long-term perspectives and deep pockets where they can roll out and sign up thousands and thousands of accounts, but they actually don't care about usage because they can figure out how to get the usage later.

Whereas, if you're an entrepreneur, we don't even measure inactivity of our agent network because every single one of our agents has to be active or else we cut them. So really being focused on if you don't have a lot of resources making every dollar count, and being very quick and learning what's getting traction in the market and then continue iterating on that. And if you run out of money or if you're facing a cliff, you'll figure out how to do things quickly in a hurry.

And then second comment is we have kind of a guiding principle that we call "traction by action," and when you want to innovate and you have hunches and ideas, you don't need to do a lot of market assessment and set up a randomized control trial.

Sometimes you just need to try something.

And we had a product that wasn't getting any traction for Coca-Cola distributors doing payments back to their suppliers, and we said we're hearing that all of these distributors are under-capitalized, so why don't we just give them unsecured loans? And we actually started giving $3,000 on average unsecured loans to these distributors, and about nine months later, we've got $350,000 outstanding in the channel and we've scaled this up to about $4 million per month in payment value. And it was purely just based on this quite large volume financing.

And the other thing I was going to say is when people say an idea is crazy, it usually means that you're on to something. Because when we first went to the supplier and said we're going to finance your channel with unsecured loans, they just laughed at us and said, "Good luck, we've tried that for years and it never works." And now it's actually becoming a core product. So those are mine - resource constraints and traction by action.

Piyush Tantia: Fantastic. Tilman, do you want to close us out?

Tilman Ehrbeck: To bring us to a German precision landing. Three things to do. So fill out this card with a commitment. It's scientifically proven behavioral economics. Second thing I want to quickly do is acknowledge that there were many, many more topics that you raised in the cards. We keep them and the symposium will think about follow up. So people asked about financial literacy. Islamic microfinance was mentioned quite a bit largely in French. I suspect that's West Africa. Risk management and market segmentation, SME saving and usage. So none of what you gave us yesterday as input will be lost.

And then I want to say one last thing. I spent 20 years in the private sector, and I'm relatively new to this community. I think what really resonates are some of the things that you all just mentioned. Don't reinvent the wheel. There's really a lot that we can learn, and sometimes maybe this community was a little isolated and siloed and has reinvented the wheel. So there are companies out there who are world class in understanding clients and innovating, and even the financial services companies now have caught up to some degree. So by next year, we should really bring in a bit more of those external learnings.

And the second thing I wanted to say is you are not alone in maybe being a little doubtful about some of these things. Innovation is possible, it can be done. Thinking big can be done. So I'll give you three quotes from people who were doubtful, and ultimately overcame those doubts. So I'll let you guess.

Who said this? "I think there is a world market for maybe five computers." IBM, you knew this one. I knew you would know this one. Thomas Watson, President of IBM 1943. So that was an easy one, the first one. Second: "There will never be a bigger plane built than this 10-seater." Who said that? We have an answer? Boeing, very good. It was the chief engineer of Boeing. I have to go to the English side. He said that in 1933 at the inaugural flight of the Boeing 247. So they have a long tradition with the naming of those numbers. "Who the hell wants actors to talk?" And I think this might be the PG-13 version of the quote. (Laughter) Who did say that? Yes, you guessed right. The Chairman of Warner Brothers. So innovation can be done. These people proved it. Over to you. (Applause)