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making markets work for all



Digital Financial Services (DFS) Market Strategy

March 2017





1. Market Trends & Overview

2. Opportunities

3. Market System Analysis

4. Vision & Interventions

Annexes



1. Market Trends & Overview

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BoP remains a largely untapped market in Ethiopia

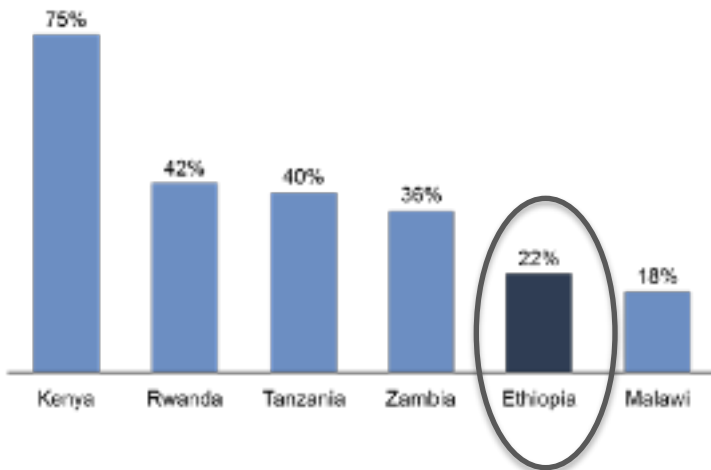


Fig. 1: Subsaharan African comparison: percentage of adults reporting having an account at a financial institution

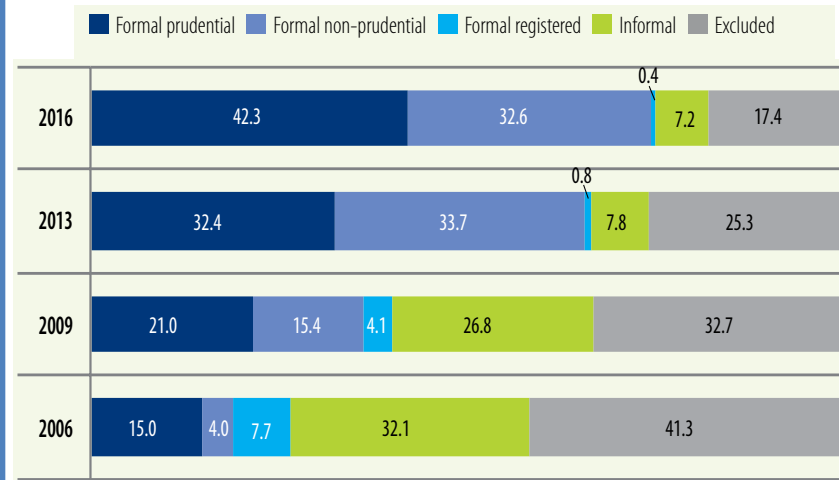


Fig 2: Kenyan comparison: percentage of adults reporting having an an account (formal, informal, excluded)

➔ The figures indicate a **doubling of financially included in Kenya over the last decade.** Banks and NBFIs overtake informal institutions.



The BoP live far from FIs & MFI branches, making it unattractive to use formal financial services

BoP lives in an **cash-based environment**, being more expensive

- BoP are **geographically remote**, have **lower** levels of **(financial) literacy** but need a portfolio of formal & informal financial services
- Branches per 100K inhabitants: **2.95**
- Withdrawal through Bank Teller: **82.87%**
- **97% of farmers** received payment in **cash**
- BoP have a need for **“an amount of money”** to fulfill certain needs:
 - Life cycle events
 - Emergencies
 - Business opportunities
 - Acquire assets



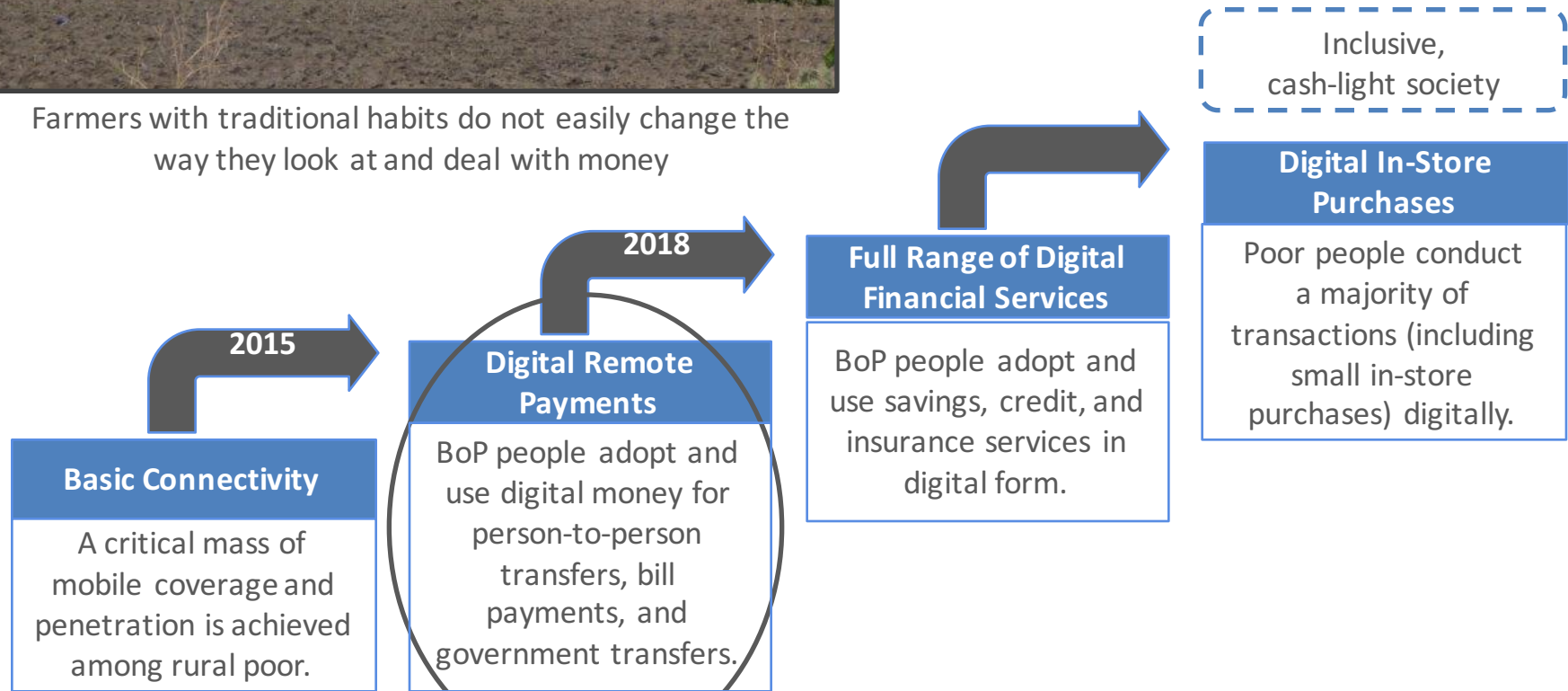
Average Savings Balance
in cash ETB 3,311
in kind ETB 4,279



Addressing the needs of BoP requires innovation in financial channels and products



Farmers with traditional habits do not easily change the way they look at and deal with money





DFS is a core enabler of a digital economy, where access to finance is a primary area.

Promotion of electronic transactions to drive a cashless economy.

Two major areas of support include

- the development of agent networks and
- the digitization of P2P P2G and G2P payment

Low-Barrier formal accounts

- Lower KYC than bank account
- Remote sign up via agents or directly on a mobile phone

Convenient access to services

- Transact on phone 24/7
- CICO at thousands of points

Rapidly expanding offering

- Data driven credit and insurance
- Evolving ecosystem of services

Value proposition for DFS being provided by non Banks

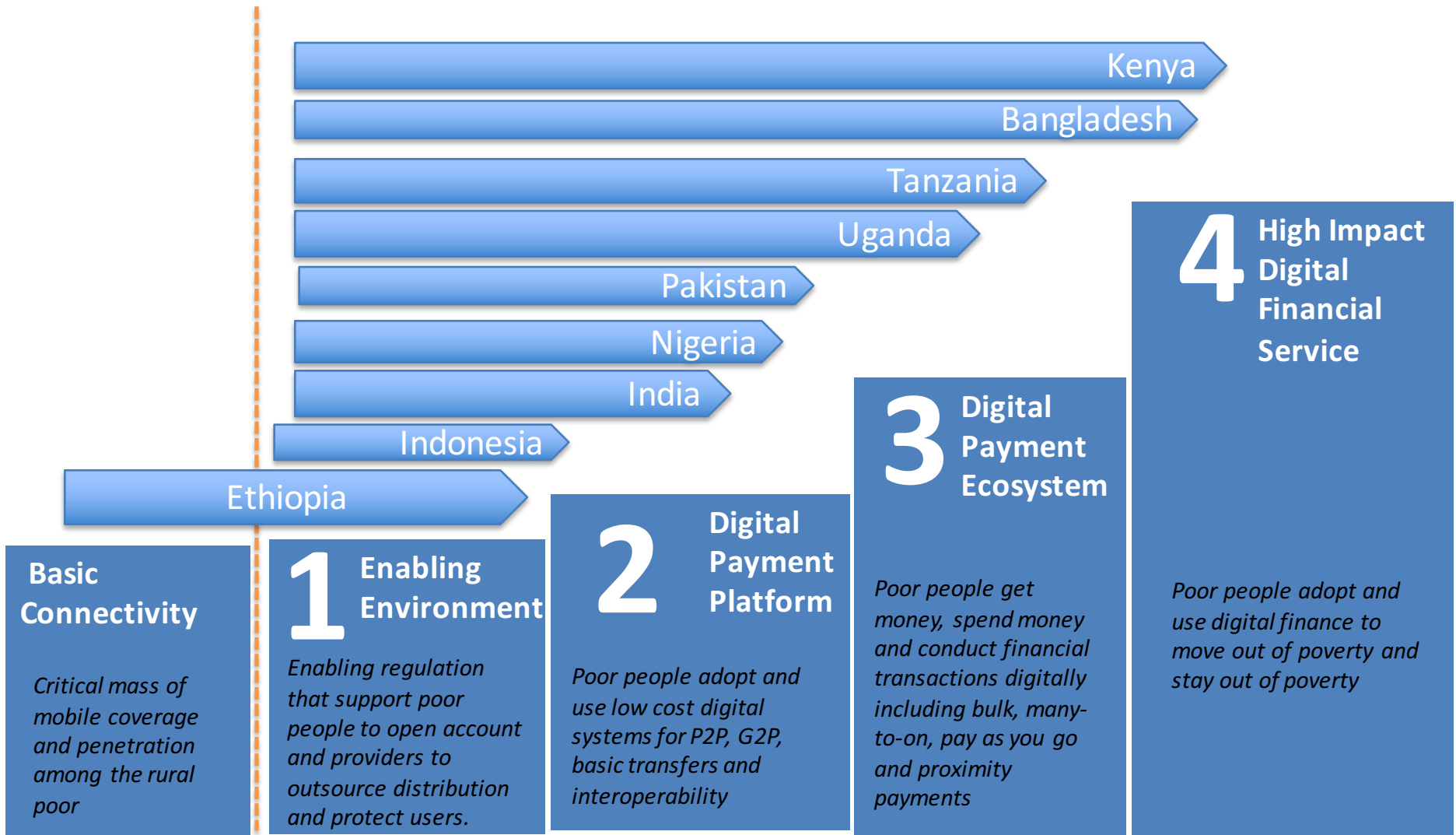
Advantages to DFS

- DFS drives significant reduction in the cost of physical infrastructure
- DFS can generate significant cost of funds reduction

These adjacencies enable banks to offer cheaper transactions.



DFS has various Stages of Market Development and Ethiopia is in an early stage





Financial inclusion, through digital financial services, results in reduced vulnerability and improved resilience

Ms Tsigereda, 46, from Libo Kemkem Amhara, receives electronic Productive Safety Net Programme (PSNP) payments for two years now at Yifag.

“Now I can access the money with my finger and no one else. I have been able to save some and I trust it”



Digital financial services to target unbanked Ethiopians with a focus on BOP (87% of the population)

Financial inclusion will result in:



- Improved livelihood & income opportunities (from savings & increased return on investment)



- Reduced vulnerability from economic shock



- Increased ability to smoothen cash flows



Women are particularly marginalised.

Financial inclusion will result in

- Access to resources and assets
- Opportunities to earn a living
- Increased bargaining power and reduced vulnerability



In the Ethiopian context Banks and MFIs are meant to lead by regulation, but are not currently driving DFS

Poor incentives weakening supply-side deployments

- Banks have been reluctant to develop extensive agent networks
- Banks reluctant to make investment in new developments
- Some TSPs made investment, did all the work but were limited by the regulation.

Banks and MFIs have generally been overly cautious and slow in rolling out agent networks, despite the fact that they can more easily chart an incremental path anchored on purposeful business expansion strategies with a clear business case.

Managing indirect channels over which they have less than full control does not come naturally to bankers.



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NATIONAL BANK OF ETHIOPIA
 ADDIS ABABA

Regulation of Mobile and Agent Banking Services

1. Directive No. FIS/01/2012
2. Circular FIS/01/2014

1. PROCLAMATION No. 718/2011
2. A PROCLAMATION TO PROVIDE FOR NATIONAL PAYMENT SYSTEM

BANKING BUSINESS PROCLAMATION P NO. 592/2008



NBE allows TSPs to only provide their technology to FI on a lease basis, or transfer the technology over a defined period of time.

Basic Regulatory Enablers in DFS

Broad Consensus about short list of most critical topics

- E-money issuance →
- Agents →
- AML/CFT →
- Competition →
- Consumer protection →

Main Issues

- Non bank players permitted?
- Bank and non bank agents?
- Tiered, risk based KYC structures?
- Different types of institutions?
- Tailored to specific risks?

N.B.

Despite the hype, many telcos have struggled to create viable mobile money propositions.

Where it has been successful, the market has usually been taken by the largest operator.



DFS market in Ethiopia has yet to move in a decisive way having a clear road map



In line with seizing the broader purpose of DFS, there is a need to reset some of the basic assumptions on which DFS policy is premised.

A review is required to assess the laws, regulations, directives, and circulars guidelines.

Increasing the knowledge and capacity of government/public institutions particularly regulators and policy technocrats can chart the course

Legislative gaps need to be identified to foster harmonization

It is important to draw clear lines between payment, e-money and deposits

	Payment	Electronic Money	Deposit
Definition	Transfer between two parties	Special type of repayable funds with transaction focus	“repayable funds” Intermediation
Who can issue?	Payment service providers	E-money institutions; regulated financial institutions	Regulated financial institutions
Prudential Requirements	Low	Medium	High
Deposit Insurance	NA	In most cases Not	Typically Yes



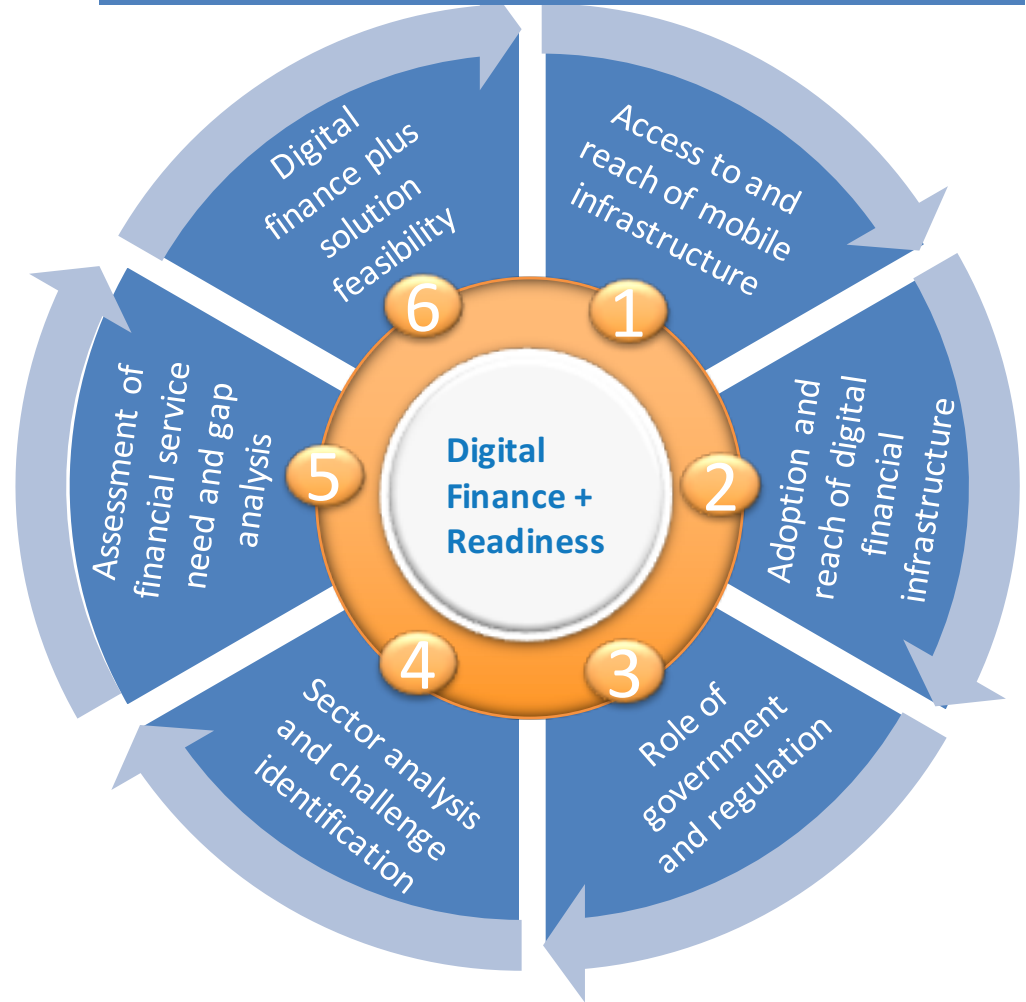
A healthy DFS Ecosystem requires specialized players complementing each other

Building full DFS systems requires a very broad range of competencies, and involves components with very different economic characteristics.

Interoperability has usually been taken to be a “second generation” issue, rather than a core enabler of a branchless banking/mobile money market.
- This has tended to reinforce the feeling that mobile money may be a “natural monopoly.”

For most countries, DFS is largely about making payments.
- Most digital accounts are empty: the electronic store-of-value proposition does not seem so compelling to people.

Dimensions to Assess Readiness for DFS





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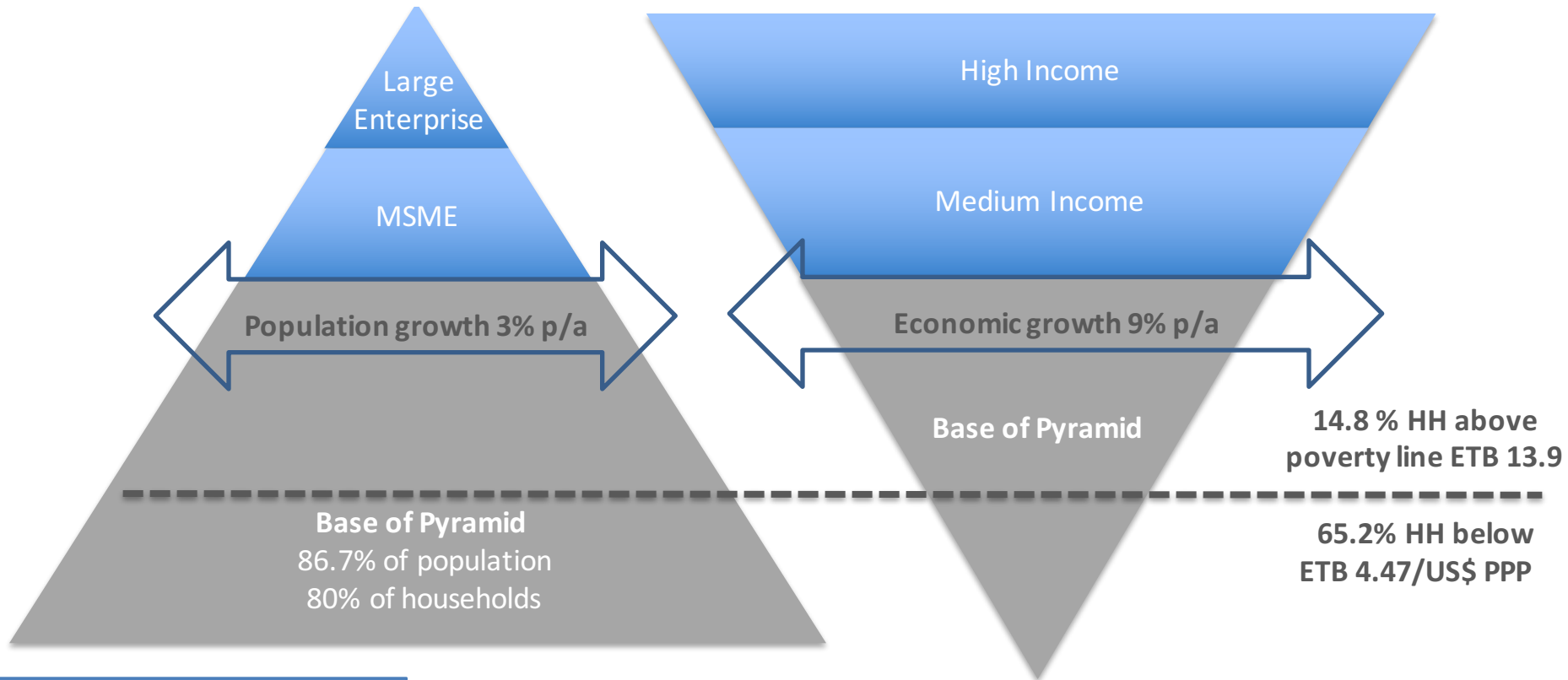
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Even though the BoP has a low individual income, added up, it is a significant market segment

ENTITIES

INCOME LEVEL



Only **22% of adult population** (and 21% women) have access to formal financial services

Due to its sheer size (20 million HHs) , despite their low assets (ETB 7590) → Total assets at the BoP is **ETB 151 billion (US\$ 6.9 billion)**, as attractive as higher segments of the pyramid.

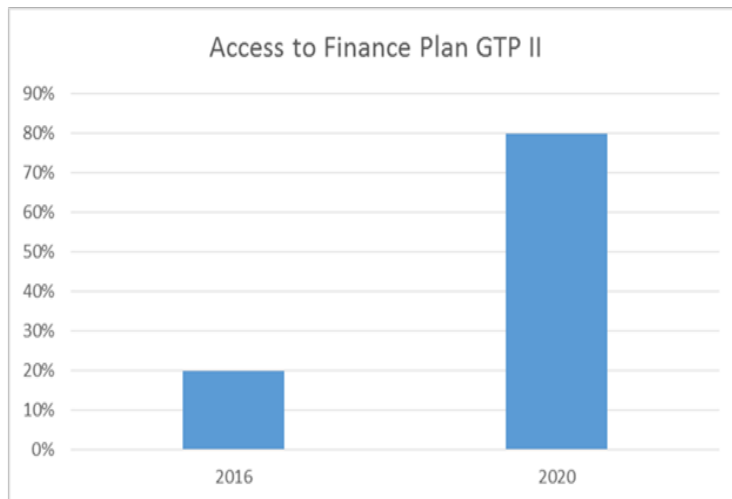


There is a large potential to stimulate change, and many actors are already involved

GTP II & National Financial Inclusion Strategy (NFIS)

A clear need for financial services that extend beyond branches

Increase financial included adults to 80%



Active stakeholders involved in the sector

Regulatory (Macro)

Coordinating efforts of **NBE, GoE**
Agent and Mobile banking regulation 2012

Donor Community, Telco & TSP (Meso)

World Bank / DfID

- WEDP / SME development funds
- Support National Financial Inclusion Strategy

Also includes:

UNCDF, ILO, IFAD, CIDA, IFC, BMGF
US Aid, IFC, KFW, SNV and others

ETC, Technology Service Providers

e.g. M-Birr, Belcash, Kefiya Financial Technology

Financial Institutions (Micro)

Private financial technology grows or enters market - FIs feel pressure to act

➔ DFS market has yet to move in a decisive way



Opportunity

Government has set ambitious targets for access to finance and mobile penetration under GTP II

Encouraging underlying conditions

50% Youth literacy rate

43% Mobile phone ownership

Improved mobile network allowing for digitizing additional payment streams.

Huge G2P payments
PSNP Rural and Urban
14 million HHs

GTP II Plans for 2020



103.7 million
Subscribers



56 million
Internet
Subscribers



85%
Mobile
Network
Coverage



50
Agent/year
Expansion
by Banks
(NBE)



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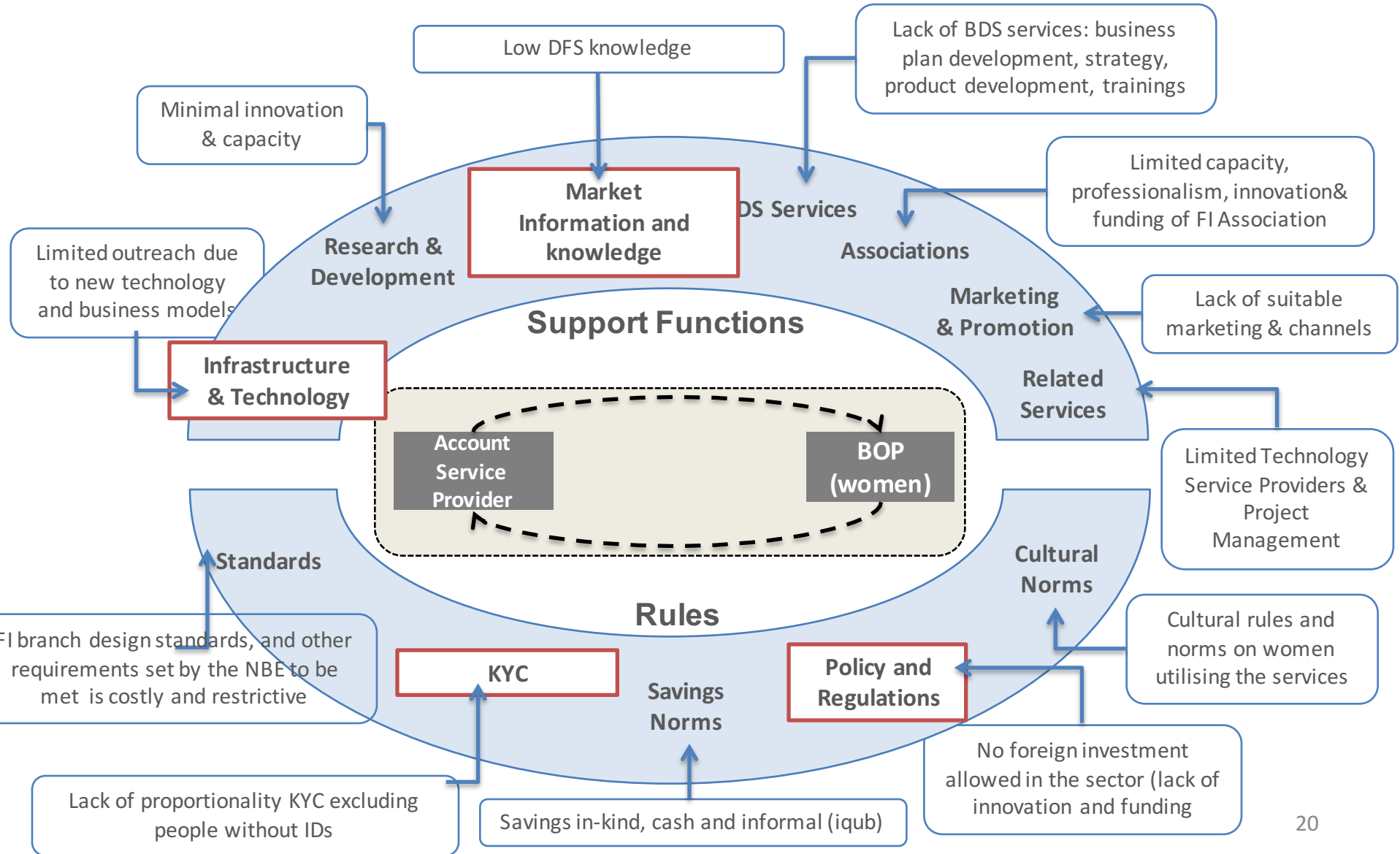
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Knowledge, technology and policy are key issues in DFS

 Critical constraint





It is unsustainable to operate branches in rural areas for the BoP

Support Functions

Infrastructure (Branch)

- High cost of opening and operating bank branches in rural areas
 - Rural transactions are of low value though high volume
- Hence it is unsustainable to operate branches in rural areas

Infrastructure (Telco)

- Network coverage improved substantially over 2015/16 however reliability is still challenging in rural areas

Technology

- Inadequate front- (e.g. tellers, agents) and back- office (e.g. core banking systems) technology
- Lack of investment capital for technology / no appetite to innovate
- Lack of technical and IT skills to upgrade or use systems and technology

Research & Development

- Lack of innovation in reaching the rural poor with savings products, due to lack of incentives and competition
- Lack of innovation due to limited competition and restricted foreign ownership, limiting product innovation and incentive for increase outreach



Knowledge and market information limits DFS eco-system

Support Functions

Market Information

- Lack of demand side market information (e.g. information on transaction types, price points, use cases)

DFS Training & Knowledge

- Lack of general understanding of DFS eco-system (e.g. agents, management, product uptake, market information, technology)

Marketing & Promotion

- BoP has limited information and knowledge of the offer of products and services of FIs

Finance

- To achieve required density of agents in the market, substantial investment in agent network is needed



Regulation constrains the environment for growth of DFS

Rules

Regulation

- Restrictions in foreign ownership, results in less innovation and less capital
- Technology and agent ownership restricted to FIs only
- No clear road-map for DFS ecosystem

Norms

- Saving practices oriented on informal local providers e.g. Iqib, but carries more risk and is limited in terms of long term savings and asset accumulation.



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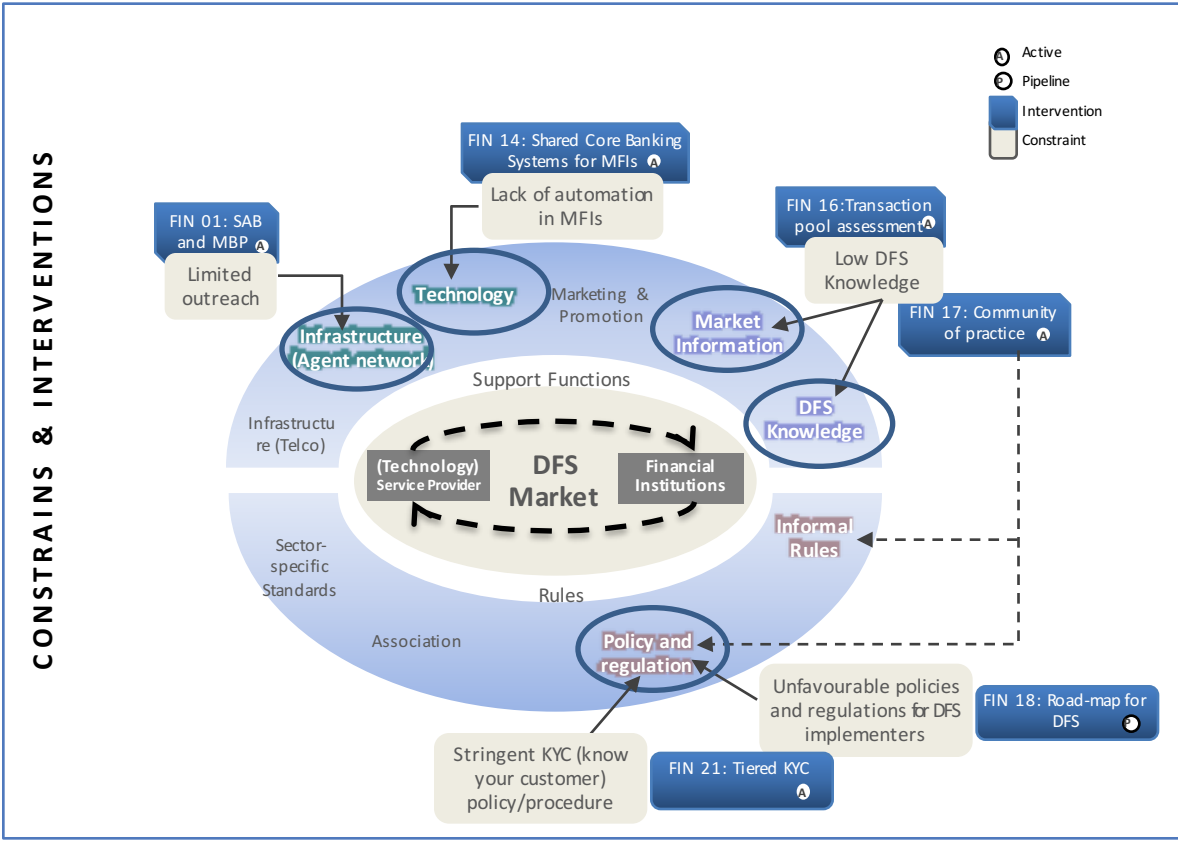
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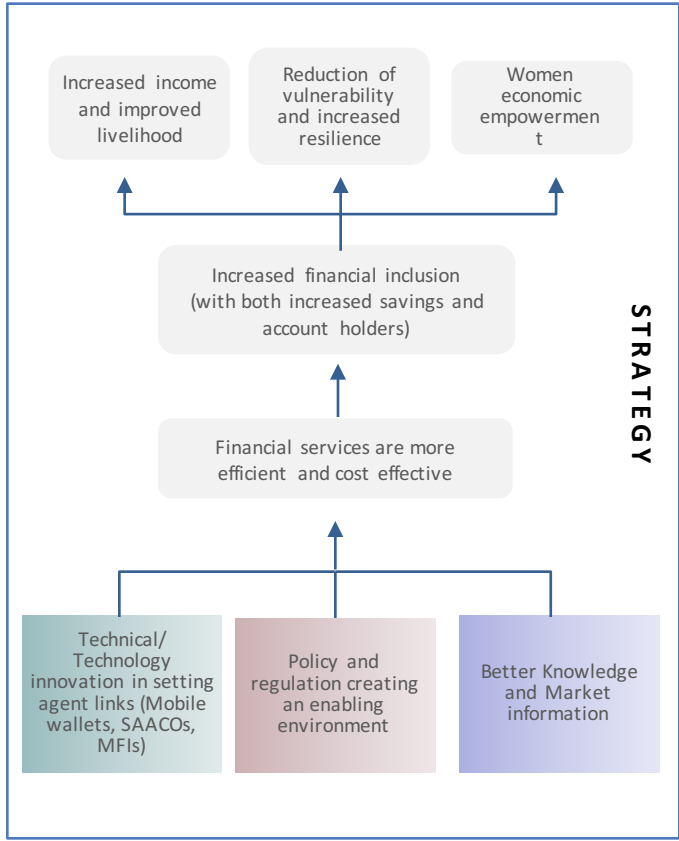


DFS: Market Vision

80% of BOP are financially included with appropriate products & services through innovative solutions, namely digital financial services

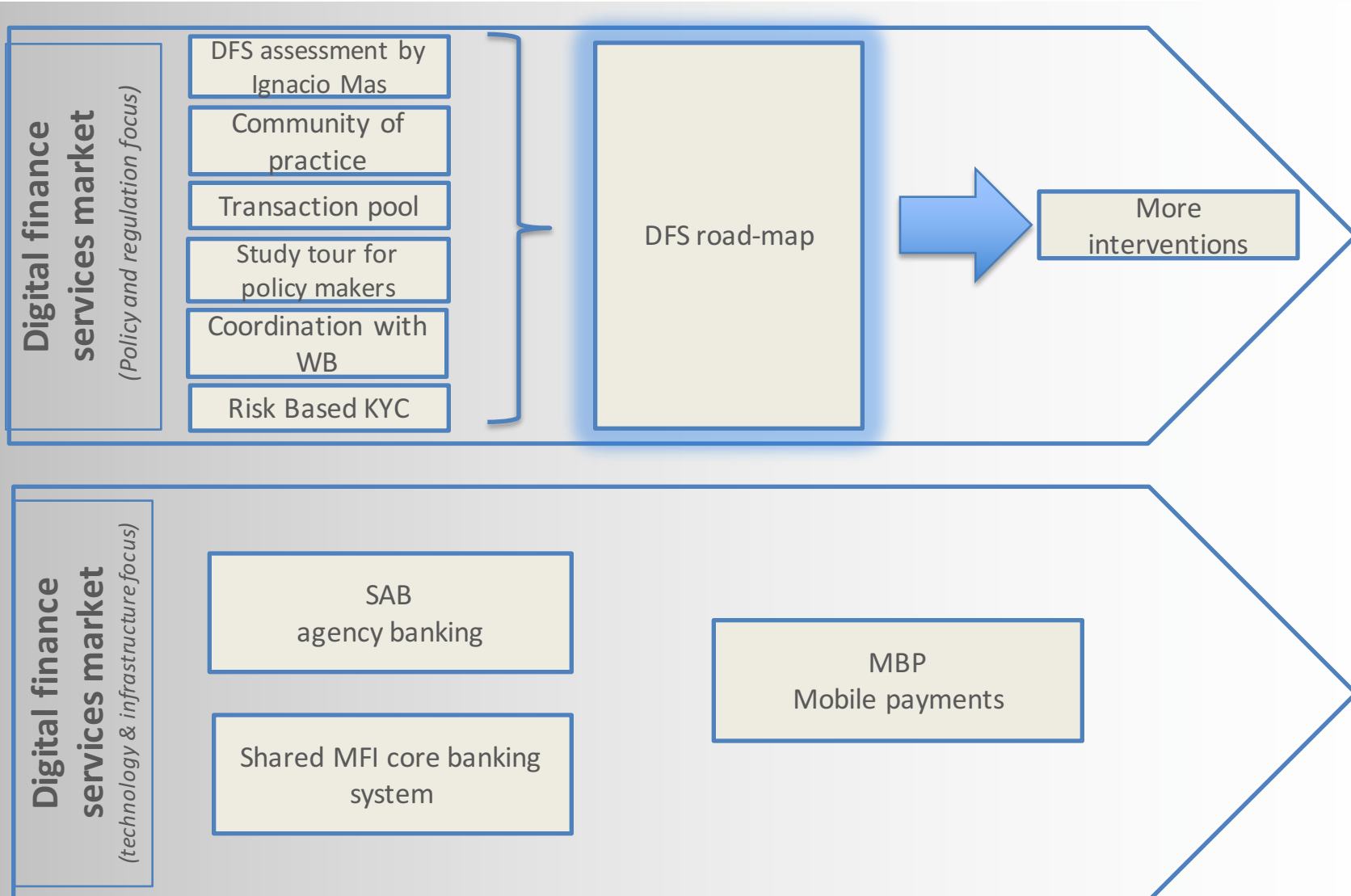


Blue circle in support functions and rules indicate critical constraints.
 Colour code in support function and rules relate to respective colours in strategy boxes.





A snapshot of EP initiatives





FIN 01: SAB (SACCO Agency banking)

Objective: Promote rural agents and link FI's with SACCO's

Outcome: 15, 000 additional clients (75% women) in SACCOs in 2017

Intervention Storyline

To increase outreach to the unbanked rural population (BoP, particularly women) and provide them with access to financial services, primarily savings and credits. This is achieved by two systems:

- 1) SACCOs as agents of the FI by utilising Mobile Finance Services (MFS) platform that allows rural unbanked to save and use other services of the FIs in their own SACCO
- 2) A light core banking system will be deployed at a SACCOs to improve SACCOs administration leading to better quality, transparency and efficiency at SACCO level

The technology improves SACCOs ability to offer efficient and reliable services to their members from itself and from the FI. The trust building between both could lead to a lending relationship with SACCOs leading to capitalisation.

Partners

- Amhara Credit and Savings Institution (ACSI)
- Kifiya Financial Technology (KFT)
- SACCO's in North Gonder area

Innovation

- Technical innovation in setting up the agent linkage for ACSI and the Core Banking System in SACCOs
- The commercial proposition for clients near the SACCO includes Fis products
- The improved low-cost outreach for ACSI



FIN 01: Mobile Bill Payment (MBP)

Objective: Develop urban deployment of agents

Outcome: **20,000** mobile account holders by September 2017
 300,000 mobile account holders by September 2018

Intervention Storyline

In urban areas, such as Addis Ababa, the unbanked population remains 20-30%, despite the widespread number of branches.

The 34 utility bill payment centres (Lehulu Centers) have a stable and growing client base of one million households. EP supports the roll out of mobile bill payment to these households. As additional products are added, this evolves in a broad agent and mobile payment service with mobile wallet transactions to open-loop mobile wallet, expanding to peri-urban and rural areas, hence greater outreach.

Partners

Kifiya Financial Technology (KFT)

Innovation

Technical innovation in setting up the mobile wallet, agent transactions and agent management

Commercial innovation in sustaining the agent network and making consumers use mobile wallet



Fin 16: Transaction pools study

Objective: Market information to promote investments in DFS

Outcome:

- 1) Improved understanding of the transaction pools in the supply side
- 2) Stock taking on demand side (customer) on Transaction Pools and identifying pain points and price points for DFS
- 3) Future (investment) opportunities for FI's
- 4) Market information completed by April 2017

Intervention Storyline

Supply and demand side market information could inform business cases of the private players on the opportunity and can unleash investments in the sector.

Partners

National Bank of Ethiopia (NBE)
Central Statistics Agency
Private Banks
Microfinance Institutions
Tech providers

Innovation

Improved practice in market assessment and better
Dissemination of data on the market



FIN 17: Community of practice

Objective: Knowledge and understanding on DFS ecosystem

Outcome: Knowledge on DFS with key stakeholders such as National Bank of Ethiopia (NBE), Agricultural Transformation Agency (ATA), Ministry of Communication and Information Technology (MCIT), Ministry of Finance and Economic Development (MoFED), private players
Institutionalized competence center by September 2017

Intervention Storyline

DFS is not taking off, despite the large opportunity and regulation. Overcoming the lack of understanding with key stakeholders on the complexity of a DFS ecosystem and embedding this in a knowledge centre (NBE, AEMFI or Addis Ababa University). This leverages on an on-line 12 week course on DFI.

Partners

Digital Frontiers Institute
Association of Ethiopia MFI (AEMFI)
National Bank of Ethiopia (NBE)
Private FI's

Innovation

Broader understanding the opportunity / ecosystem for business and technical innovation in DFS
Established Community of Practice in the market



FIN TBD: DFS Road-map

Coordinating efforts in creating the DFS Ecosystem by various stakeholders

- Outcome:**
- Readiness assessment by September 2017
 - Roadmap for DFS in Ethiopia by September 2017
 - Training and exposure on DFS enabling policy for policy makers

Intervention Storyline

DFS is not taking off, despite the large opportunity and regulation. To create the right DFS ecosystem there is a need to unbundle roles and responsibilities of various stakeholders and coordinate efforts between different (government) stakeholders.

Aligned with the National Financial Inclusion Strategy, the intervention creates a roadmap to “make DFS happen”.

Partners

- National Bank of Ethiopia (NBE)
- Banks
- Microfinance Institutions
- Tech providers
- World bank and other donors

Innovation

Collaborated efforts, better understanding of the required ecosystem, clear roles and responsibilities



FIN TBD: Tiered KYC/Risk Based KYC

Introduce proportionality KYC for financial inclusion on people with out ID

- Outcome:**
- NBE revising the Consumer Due Diligence Directive and related supervision to allow banks to conduct risk based KYC for prospective clients without ID.
 - A partner FI piloting risk based KYC.
 - A market service provider supporting banks to develop/deploy risk based KYC mechanism/technology

Intervention Storyline

Majority of the labour force engaged in the informal economy are not registered, hence are without IDs. IDs are primarily used by FIs to carry out identification of clients in their KYC procedures. As a result people without some form of ID are automatically excluded from financial service. This intervention aims to introduce a risk based KYC procedure to be followed by FIs, allowing them to provide financial service to prospective clients without ID.

Partners

National Bank of Ethiopia (NBE)
 Addis International Bank &/or CBE
 Market service provider
 Federal Financial Intelligence
 Centre

Innovation

Risk based proportionality KYC allowing FIs to properly identify and profile clients without relying on third party IDs



FIN TBD: Deposit mobilisation for MFI

Introduce enhanced marketing and branding for MFIs to strengthen deposit mobilisation

- Outcome:**
- Business case for marketing branding and branch upgrade for MFIs
 - A partner MFI piloting marketing and branding.
 - A market service provider supports MFI to develop/deploy branding and marketing

Intervention Storyline

To demonstrate that MFIs can use a commercial approach to mobilise more deposits by improving their marketing strategy and investing in communications. The target group includes the better-off, urban general public or even corporates. EP partners with a marketing company that has experience with marketing for banks. Brand building is not a one-off activity but a process which continues throughout the life of the institution so the MFI should prepare a comprehensive, proactive brand building plan based around the inputs.

Partners

Marketing service provider
MFI

Innovation

Marketing and other promotional activities lead to a higher share of deposits for MFIs



Sequence of interventions

Interventions	Year (EC)				
	2008	2009	2010	2011	2012
Fin 16: Transaction pools study					
FIN 17: Community of practice					
FIN TBD: DFS Road-map					
More interventions based on road-map					
FIN 01: SAB (SACCO Agency banking)					
FIN 01: Mobile Bill Payment (MBP)					
FIN 14: Shared core banking system for MFIs					
FIN TBD: Risk Based KYC					
FIN TBD: marketing for MFIs					





Key Milestones for E.C 2009 (Digital Financial Services Market)

Interventions	E.C.	Q2	Q3	Q4
	Oct - Dec	Jan - Mar	Apr -Jun	Jul -Sept
Revise sector strategy; with focus on DFS work				
Update DFS market strategy				
Priority 1: Government delivery				
FIN TBD: Strategy on DFS Enabling Environment				
Consultation with stakeholder on intervention idea				
CN and IG developed				
Intervention launched				
Priority 2 : Knowledge and Information				
FIN 16: Transaction pool assessment				
Market assessment complete and shared with stakeholders				
Review intervention to assess effectiveness and next course of action				
FIN 17: Community of practice				
DFS course ends				
Study tour for regulators				
Review intervention to assess effectiveness and next course of action				



Key Milestones for E.C 2009 (Digital Financial Services Market)

Interventions	Q1	Q2	Q3	Q4
	Oct - Dec	Jan - Mar	Apr -Jun	Jul -Sept
Priority 3: Business innovations				
FIN 10:Mobile bill payment (MBP)				
Monitor intervention progress and review, based on review redesign or wind down				
FIN 10:SAACO agency banking (SAB)				
Monitor intervention progress and review, based on review redesign or wind down				
FIN 14:Shared MFI Core Banking System				
Feasibility study completed				
ET Inclusive starts the process of mobilizing capital				



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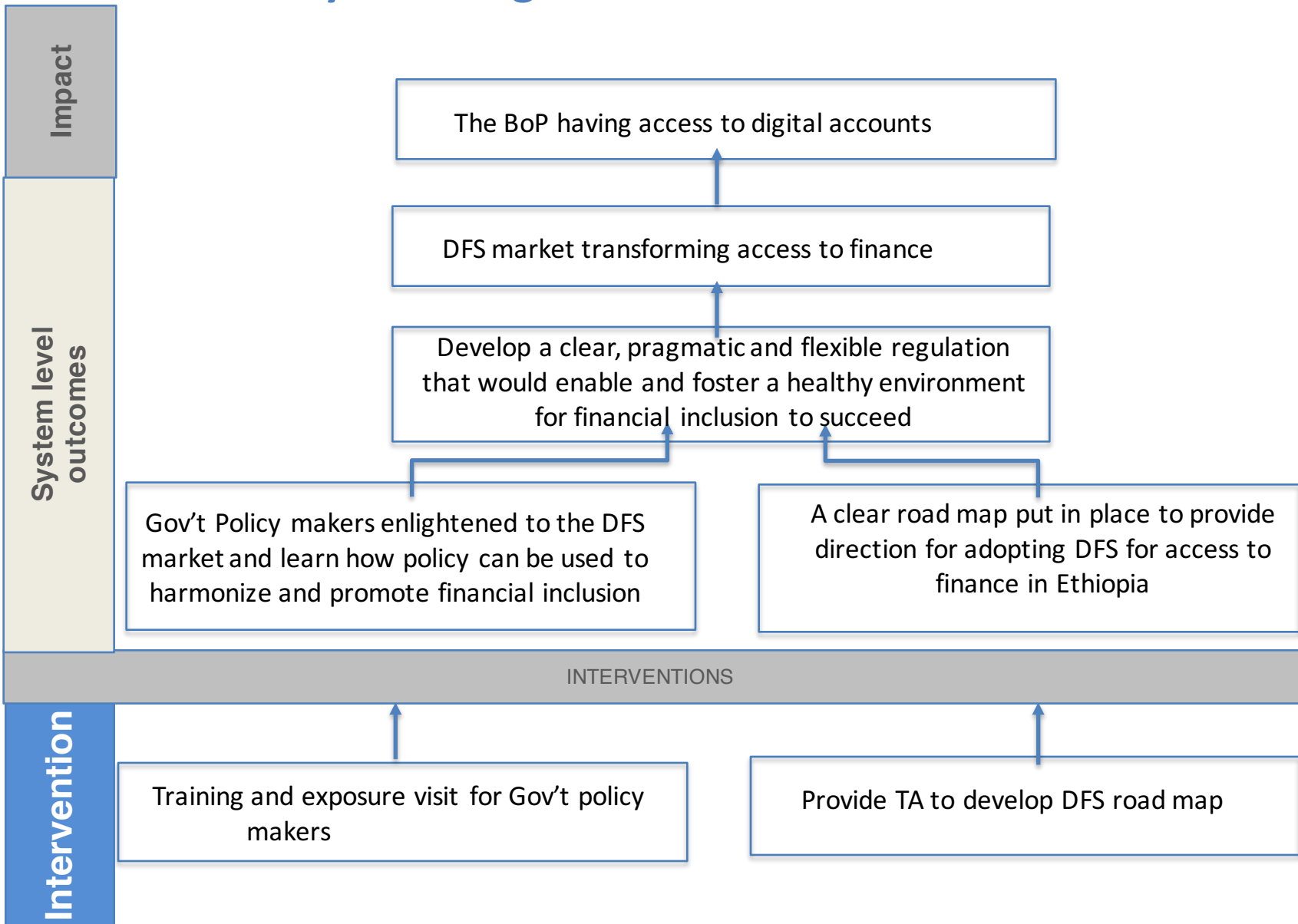
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Theory of Change





DFS supports private players and improves broad knowledge on DFS and the market opportunity

2014

2020



Business innovations

Through MBP 20K accounts opened in Addis Ababa

Mobile wallet in use by 50K

1000 agent points in SACCOs

Improved SACCO operation

Private player support

Bringing 350K people in the financial system

25% of population adopt mobile wallets

DFS eco-system

All stakeholders knowledge and information

DFS Community of Practice operational and institutionalised

Overall DFS market assessment

Demand side survey on transaction pools

More market information

Enhanced ecosystem and diversity of private players



Financial Sector Profile

MICRO (Core Market)

- Transition away from direct support for micro level players as financial markets develop
- Focus on micro-level work, although macro and meso are also important to market development
- FIs face competing priorities and will often invest where they see less risk or higher returns instead of serving poor clients, rural consumers or small businesses
- Where poverty is high and inclusion low, opportunity costs of reaching marginalised consumers are lower because the up-market pie is so small

Commercial banks

- Highly profitable (RoE) of more than 50% (approx.) origins from trade services.
- 18 banks (2 public); total capital ETB 30.2billion
- Bank branches / 100K: 2.95 (2,502 branches, high expansion); ATMs /100K: 0.463
- Commercial Bank of Ethiopia (CBE) 35% of bank capital and 1170 branches
- Branch growth is high over recent years

MFIs

- 35 MFIs reaching 3.5 million clients , of which 46% women
- 5 large, regional government affiliated ones cater for 95% of the clients (3.1million clients), total deposit 13bn (+41%/year), loan portfolio 18bn (+23%/ year) total assets 26.7bn (April 2015)

SACCOs (Savings and Credit Cooperatives)

- 18000+ SACCOs covering about all kebeles, 48% Urban, lend ETB 245 Mio to 529,000 BoP-members of which 47% women

Informal sector

- Iqub and Idir serve about 80% of the adult population; informal moneylending is expensive but used

Remittances

- Remittance USD 2 Billion p/a, of which half arrives through formal channels



MESO (Support Functions)

- Limited professional skill development institutes
- Few service providers exist in the market but service is defragmented
- High culture of aid and FIs are reluctant to pay for support services
- Less developed, and in need of heavy support: national payments systems and credit bureaus though exist are not yet well-functioning
- Many systems must be built from scratch, but with the benefit of learning from mistakes in other markets

MACRO (Rules and Regulation)

- Restricted foreign investment policy for financial sector results in low competitive pressure and low innovation
- Reliable financial institutions, no bankruptcy in the financial sector to date
- Limited knowledge and awareness of the DFS market by the regulators
- Limited market information on access to finance and the related gap between demand and supply
- Strong regulation, however lacking competencies in innovative segments and not proactive



Market Strategies and Interventions

Category	Specific Risk	Impact	Probability	Mitigation	Monitoring
Business environment	High inflation and negative interest rates making formal saving with FIs unattractive for the poor	Medium	Medium	Focus on additional benefit of savings in formal institutions (including safety, diversification)	Regularly monitor the incentive for target group to save in formal institutions, including savings rates and inflation
Financial risk	Cost to provide formal rural financial services too high for FIs	High	Medium	Explore innovative low cost/affordable solutions to strengthen business case. Cost share initial investments to prove business.	Regular meetings with stakeholders and budget review.
Regulation	Lack of regulation or speed of implementation of new regulations slowing down innovations	High	Medium	The project would work with the FIs and NBE to expedite the process	Managed relationships with industry associations and the regulator
Project risk	Inability of a selected partner (s) to continue with pilot due to various reasons	Medium	Low	Select partners who have the right incentive and capacity (including human resource, financial)	Regular partner meetings and review performance report



Abbreviations	
ACSI	Amhara Credit and Saving Institution
FEM	Financial Educational Marketing
DFI	Digital Frontiers Institute (http://www.digitalfrontiersinstitute.org)
FI	Financial Institution
GoE	Government of Ethiopia
KFT	Kifiya Financial Technology
MFI	Microfinance Institution
MFS	Mobile Financial Services
NBE	National Bank of Ethiopia
SAB	SACCO Agent Banking
SACCO	Saving and Credit Cooperative
TSP	Technology Service Provider



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Thank You

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