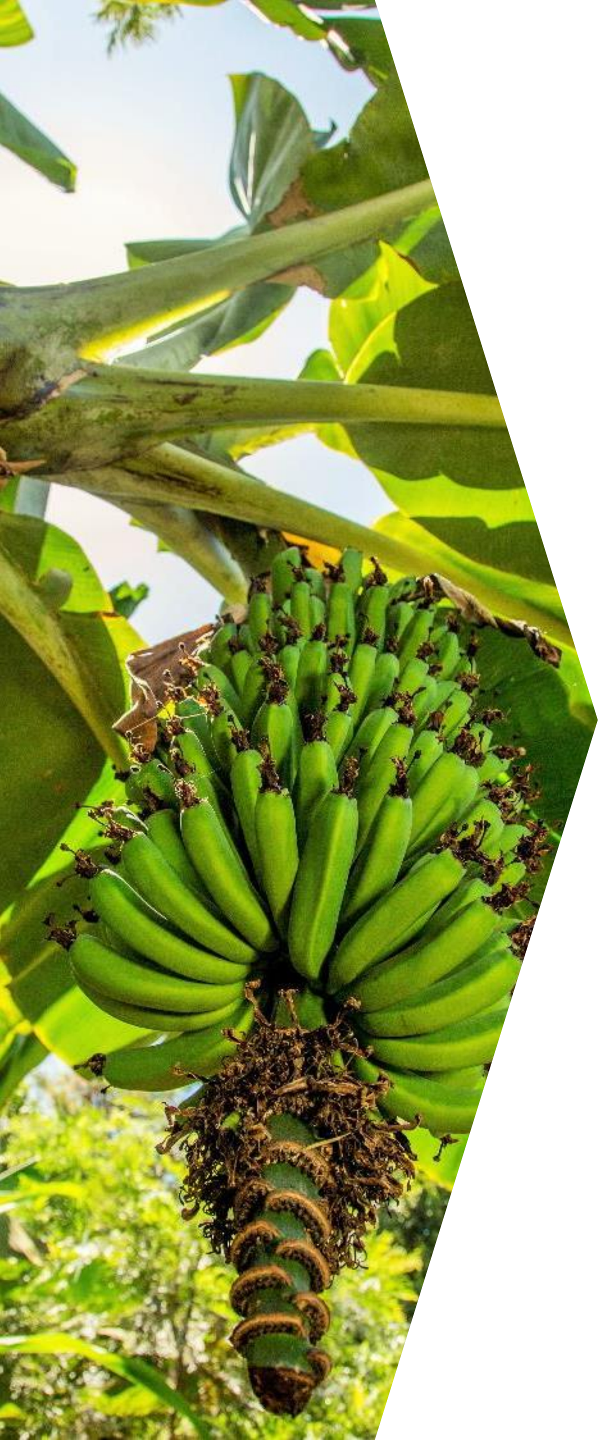


Extending Financial Choice and Access to the Last Mile:

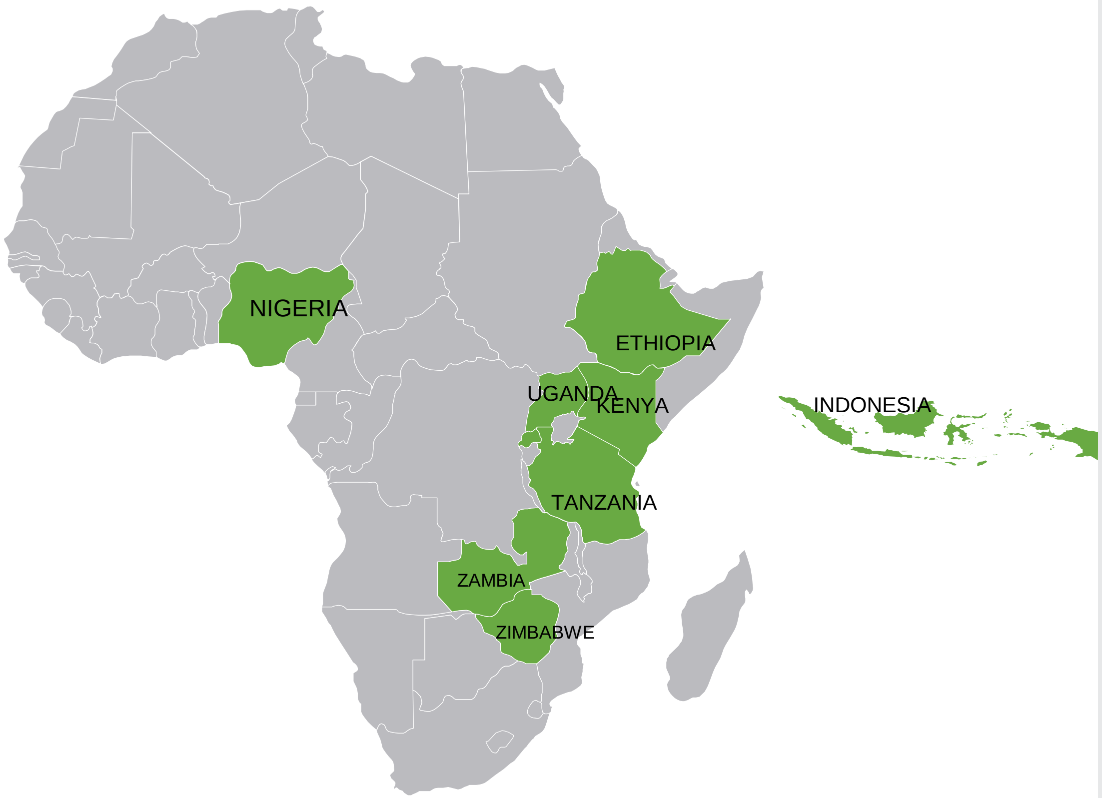
Developing a Digital Financial Services Product for Zambian Smallholders

Zoona case study

JANUARY 2020

AGRIFIN ZOONA CASE STUDY

AgriFin Program Introduction



- Mercy Corps' AgriFin programming (MCAF) represents **USD 35 million in innovation funding** from the Mastercard Foundation, Bill and Melinda Gates Foundation and the Swiss Development Corporation to support development, testing and scale of digitally-enabled services to more than **3 million smallholders by 2021**
- Our objective is to develop sustainable services that **increase farmer income and productivity by 50%**, with **50% outreach to women and youth**
- MCAF works as an innovation partner with **private sector** scale partners and such as banks, mobile network operators, agribusinesses, as well as **technology innovators and governments** committed to serving smallholders at scale
- We help our partners develop, prototype and scale bundles of **digitally-enabled financial and non-financial services** supporting **partnership development** between market actors that leverage their strengths
- We combine MCAF team expertise with strategic subsidy to jointly implement **iterative, fail-fast engagements** with partners on a cost-share basis, **sharing public learnings** to drive market ecosystem growth
- Since 2012, we have completed more than **150 engagements with over 70 partners**
- **Currently, our work reaches more than 2.8 million smallholders**

Introduction & Project Context

BACKGROUND

- Mercy Corps' AgriFin Accelerate Program (AFA) is a USD 25 million, six-year initiative supported by the Mastercard Foundation to support delivery of digitally-enabled services to more than **1 million smallholder farmers** across **Kenya**, **Tanzania** and **Zambia**.
- Our objective is to support service development and scale that helps smallholders **increase income and productivity by 50%**, working to ensure **50% outreach to women**.

PROGRAM APPROACH

- AgriFin is **leveraging the power, convenience, and prevalence of mobile phones** to help smallholder farmers boost their harvests and incomes.
- AgriFin employs **a market facilitation model** to drive scalable, commercial product innovation for SHF with agricultural ecosystem partners who include mobile network operators, financial institutions, service providers, farmer networks, technology innovators, agriculture value chain players, government and other stakeholders.
- AFA works as an innovation partner with **private sectors scale partners** such as banks, mobile network operators, agribusinesses and technology companies committed to serving smallholders at scale
- We help our partners develop, prototype and scale bundles of **digitally-enabled financial and non-financial services**.

SCOPE OF ENGAGEMENT

- Zoona is **a mobile financial services technology (FinTech) company** developing products such as money transfers, electronic voucher payments, and agent payments.
- Over the past 2 years, AFA has supported Zoona through a series of engagements to **(i) develop their banking strategy**, **(ii) establish channels for last mile delivery of their latest product, Zoona Plus,** to smallholder farmers (SHF) and rural customers. To-date, Zoona has reached 83,577 users on Zoona Plus, 17% of whom are smallholder farmers.
- **This case study highlights learnings from this partnership and recommendations for other financial service providers targeting rural markets / smallholder farmers.**

AgriFin Accelerate: AFA; SHF: Smallholder Farmer

Executive summary

Zoona Plus is **Zoona's holistic digital wallet** offering that allows customers to send money, pay bills, save and borrow through their platform and strategic banking partnerships. Since launching this product, Zoona has transitioned from a customer-facing DFS provider to a partnership-led DFS market enabler. This evolution has allowed Zoona to continue advancing in an increasingly competitive mobile money market.

REACH & IMPACT:

- Since the Zoona Plus launch in April 1st, **83,577 customers have been registered**; we estimate 14,222 are farmers (17%), of which 4,978 are women smallholder farmers (SHFs) (34%).
- In addition, Zoona has recruited and trained **60 agrodealers as agents**, increasing the rural DFS access points.
- Zoona has partnered with 3 DFS providers, offering an enabling platform that allows **product interoperability and increased customer access as well as agent profitability**. To date, Zoona's interoperable platform has allowed 230,000 unique customers to transact across the different service providers, **40,635 of whom are SHFs.**

KEY LEARNINGS ON STRATEGIES FOR REACHING THE LAST MILE:

- Go-to-market strategies need to include **touchpoints closest to SHFs**, such as agrodealers, in order to ensure both product uptake and continued use. Brand ambassadors are more effective when in close contact with SHFs and live within the same community.
- Mass market product can still be relevant to SHFs if they speak directly to the needs. For Zoona Plus, the strongest value proposition for SHFs is the **ability to save**.
- Through agency banking/partnerships with banks, Zoona is **lowering cost-to-serve** and unlocking the peri-urban and rural markets by **strengthening its distribution channel**.
- As the Zoona business (and the Zambia DFS market) **transitions from over-the-counter (OTC) transactions to wallets**, Zoona and other FSPs can build a stronger base for customer retention and the ability to begin to cross-sell other financial services.

DFS: Digital Financial Services; SHF: Smallholder Farmer; OTC: Over-the-counter; FSP: Financial Service Provider

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Zoona company overview (1 of 3)

- **Zoona is a mobile money operator** started in 2009 as a pilot focused on digitizing bulk payments in the cotton sector in Zambia. The mobile money provider's agent network grew steadily to become the most robust in the country, making Zoona the go-to provider for over-the-counter money transfers.
- Today, Zoona offers a suite of digital financial products in partnership with banks and other mobile money operators.

1.5 million customers in Zambia and Malawi.

3000+ agents: with a drive to further expand retail agents in the rural market.

3 products: over-the-counter money transfer, Zoona Plus, Z-code (inter-operable DFS platform).

3 partnerships with banks and other mobile money operators

Zoona company overview (2 of 3)

Zoona's evolution has allowed the provider to remain relevant in an increasingly competitive mobile money market

2009
Over-the-counter (OTC) money transfer

- Zoona partners with USAID to **digitize cotton payments**
- **Robust agent network** grows to support **OTC money transfer services** to the mass market. Network grows to be one of the most robust and profitable

2018/9
2nd generation DFS products

- Zoona partners with a bank to provide a **mobile wallet that serves** as a digital store of cash, micro-savings (Sunga) and loans (Boost).
- Zoona bundles these offerings into one platform launching **Zoona Plus**

2019
Bulk payments

- Zoona leverages its strong brand, agent network and digital wallet offering to provide bulk payment systems to public and private sector partners.
- Key partnership with the Ministry of Agriculture to provide e-voucher payments to farmers under the **Farmer Input Support Programme (FISP).**

2019
Interoperability

- Zoona enters into an agreement **FSPs and 3rd party providers (Kazang, Mukuru, Atlas Mara)** to allow bank account and Zoona wallet interoperability. This enables bank clients to cash out, deposit and transact at any Zoona booth.
- Zoona **business model evolves to serve as a platform** that allows other market players to plug in and serve more customers.

DFS: Digital Financial Services
FSP: Financial Service Providers

Zoona company overview (3 of 3)

Zoona has (i) leveraged partnerships with banks and rural businesses and (ii) evolved its product offering from OTC to wallet-based to drive customer uptake and improve agent liquidity & profitability

MASS MARKET REACH

- **Zoona Plus** has been well received on the market; reaching 20,000 customers in its first month of pilot. The product has since grown to reach over 85,000 customers across Zambia.
- **Introducing 3rd party providers on the Zoona platform has allowed the service provider to serve even more customers**, with 230,000 unique customers served to date.

SCALING TO THE LAST MILE (RURAL)

- Zoona's approach to reaching farmers and expanding to rural locations has been through **partnerships with rural agribusiness.** Zoona has recruited Agrodealers to serve as agents, providing touch points for transactions in rural areas.
- The shift in Zoona's agent network from standalone agents to rural businesses allows **agents to be more profitable by diversifying their income streams**.
- To-date, 40,000+ farmers have transacted via Zoona Plus or through a 3rd party provider on Zoona's interoperable platform.

REACHING WOMEN SMALLHOLDERS

- Zoona has been deliberate about increasing women's access and use of DFS by **onboarding and training female agents and tellers.** To-date, 80,000+ female customers have transacted on the Zoona Plus platform or through 3rd parties.
- In addition, **Zoona has identified strategic partners** like World Vision who have a network of female rural-based entrepreneurs to further increase product uptake and active use by women.

OTC: Over-the-counter
DFS: Digital Financial Services

Zoona: Reach to-date

83,577 customers onboarded onto Zoona Plus,

14,222 smallholder farmers onboarded onto Zoona Plus

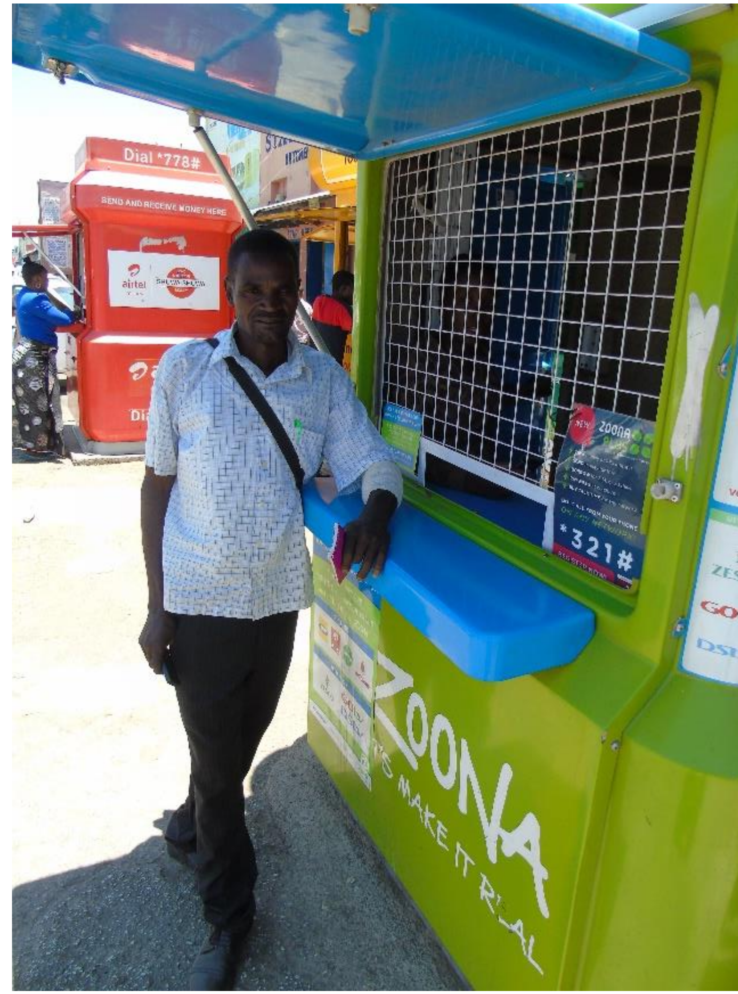
34% women clients

4 partnerships with Financial Service Providers and 3rd party MMOs (Kazang, Atlas Mara, Mukuru)

230,000+ 3rd party customers transacted through Zoona

40,635 3rd party smallholder farmers transacted through Zoona

60 agrodealers signed on as Zoona agents



Geographies: Southern Province (Livingstone, Choma, Monze), Eastern Province (Petauke, Chipata), Northern Province (Kasama), Central Province (Kabwe, Masansa, Mkushi), Copperbelt Province (Kitwe, Ndola, Chingola), North Western Province (Solwezi), Luapula Province (Mansa, Chipili), Muchinga Province (Nakonde, Isoka), Lusaka Province (Chongwe), and Western Province (Sesheke)

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Overview of Joint Engagements

AgriFin Accelerate (AFA) has supported Zoona through several engagements over the last three years

ENGAGEMENT	OBJECTIVES
Developing a strategy for banking partnerships	• Zoona's market responsiveness, agility and robust agent network provided a unique opportunity to partner with a more traditional financial institution • AFA's first engagement with Zoona was hence to develop a strategy singling out this unique value proposition and structuring a mutually beneficial and long-term sustainable partnership
Human Centered Design (HCD) research to inform strategy for rural expansion	• With the introduction of additional product offering on the Zoona platform, Zoona sought to extend its products to a rural-based market • AFA supported this through HCD research with rural-based savings groups made up largely of women, and with farmer groups in the cotton sector. ***Focus of section II (slides 12-14).***
Pilot support	• This engagement involved partnership facilitation and rollout support targeting agrodealers and other farmer touchpoints in efforts to onboard farmers onto the Zoona plus platform.

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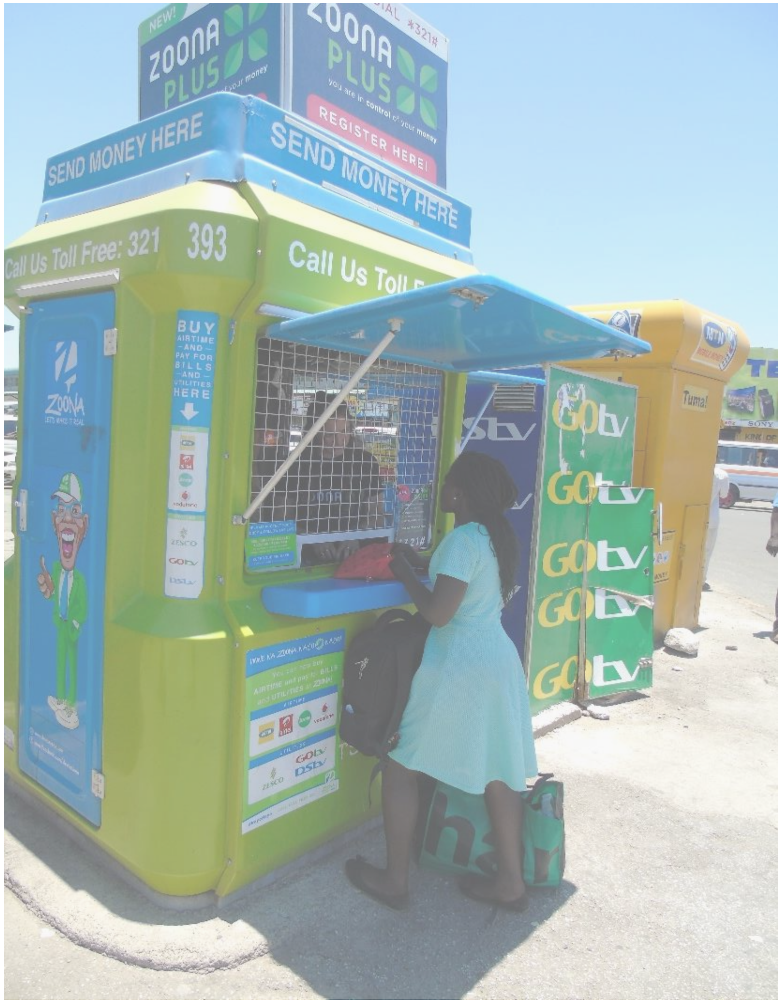

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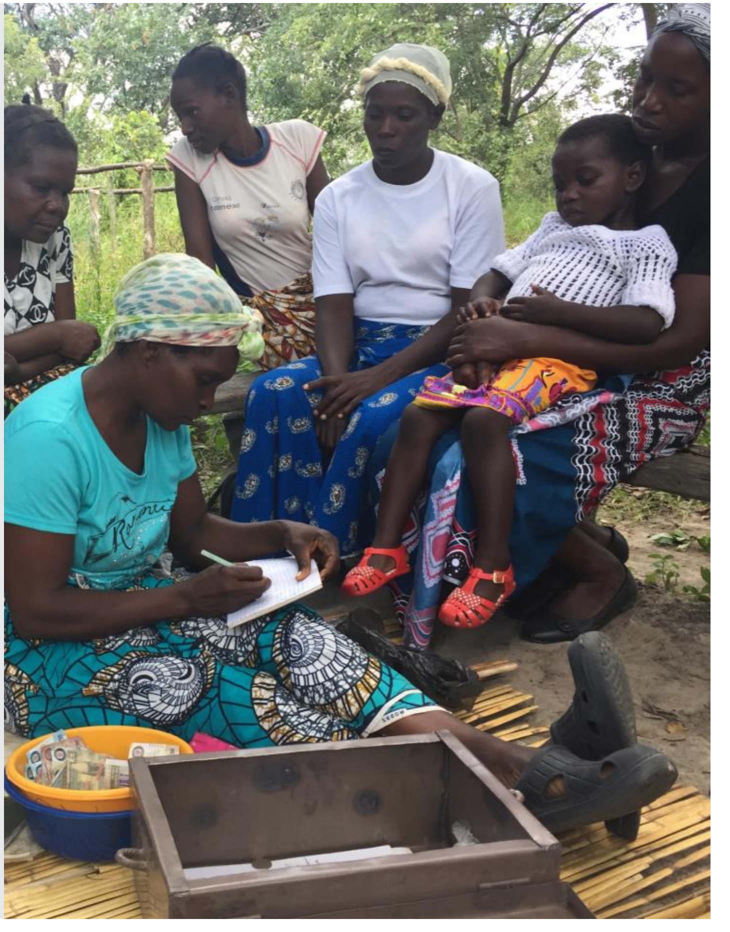
Key HCD Insight 1

A DFS product that mirrors existing financial patterns is more likely to be adopted and used by farmers

- Farmers are **already familiar with the concepts of saving, borrowing and insurance** (social fund), primarily through their local village banking or savings and loan groups.
- The **importance of the social aspect** of these groups make it hard for a digital product to replicate their operation.
- Members were however open to adopting a DFS product for their individual use if it **included certain features that mirrored their current financial behavior within savings groups**;
  - Longer term loans, e.g. 6 months
  - Flexibility on loan repayment
  - 20% interest rate

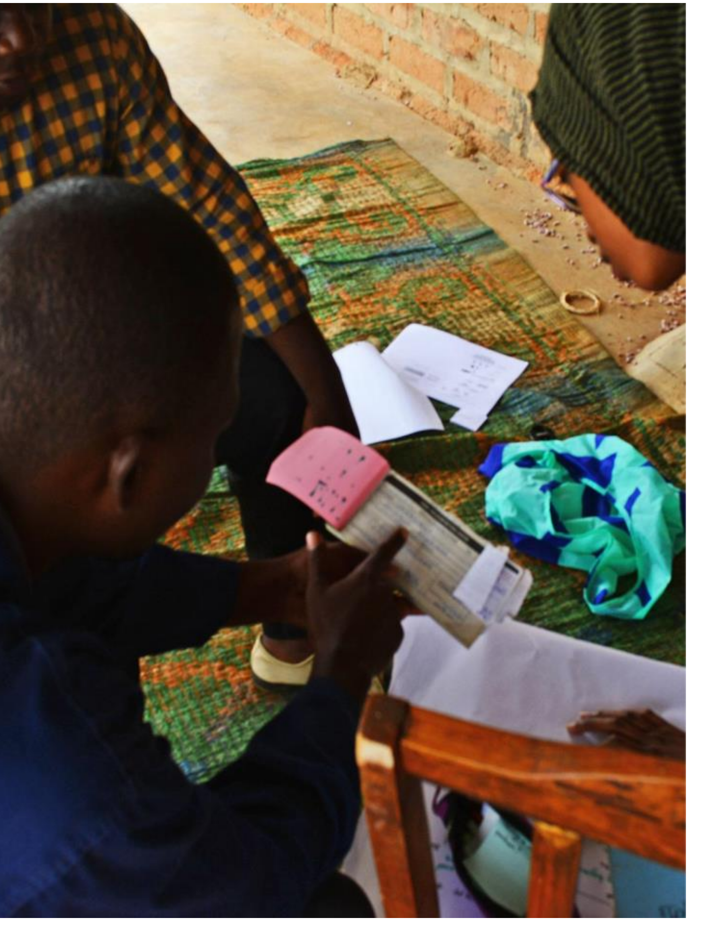


DFS: Digital Financial Services

Key HCD Insight 2

Above all functionalities, farmers value the ability to save and better plan their finances to meet their needs

- **Farmers perceive real value in a purpose-driven digital savings wallet**, regardless of whether the savings generate interest. Goal oriented savings allow farmers to relate digital products to their present and future needs.
- The biggest challenge farmers face is the **lack of proper financial planning tools and access to safe storage for saved funds**. An overwhelming majority of surveyed Zoona Plus customers felt that the product adequately addressed this challenge and helped them save for future needs.
- **School fees and farm inputs emerged as the largest uses of cash** within the household. As Zoona introduces other partners on onto the Z-code platform, they can leverage other features e.g. bill payment for inputs and automated school fee payments from what farmers have been able to save.

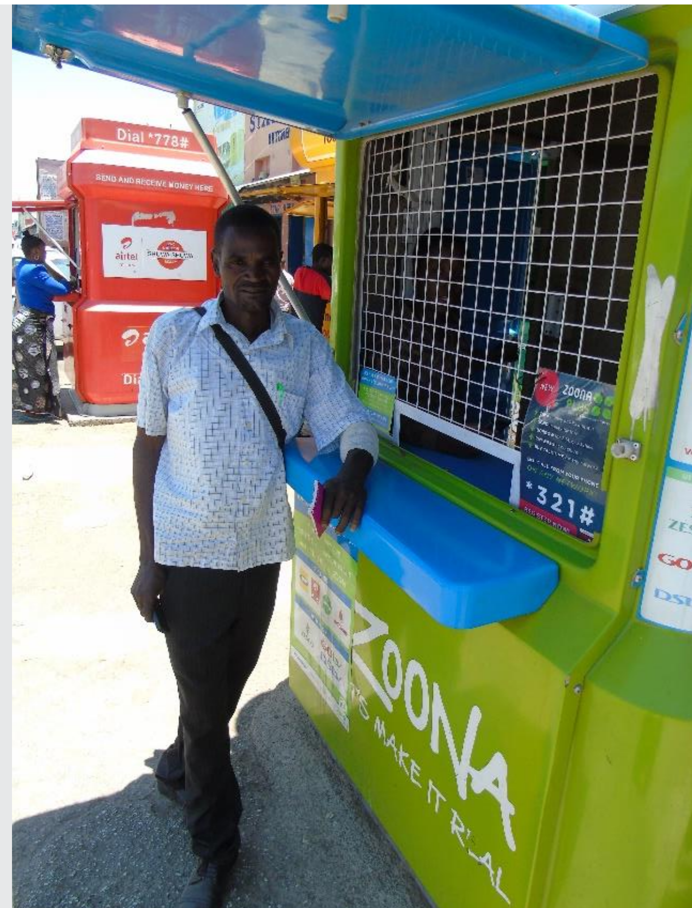


DFS: Digital Financial Services

Key HCD Insight 3

Agrodealers are the best channel or "agent network" to serve farmers and other rural customers

- Although Zoona agents are relatively closer to farmers than most traditional financial institutions, there is still a **substantial distance between the closest agents and farmers**. Bringing agrodealers on board as agents allows for farmers to have access to points of transaction.
- The **"Direct Sales Agent (DSA)" model** for brand ambassadors failed to generate product awareness amongst farmers and accounted for only 4% of conversions amongst sampled farmers. This is primarily due to the lack of significant interaction between brand ambassadors and farmers. DSAs typically reside in district centres or peri-urban locations, away from farmers.
- **Trusted connecters** such as Village Agents, Distributors, Lead Farmers can serve as "roving agents", an additional access point below a regular agent.
- **Float management** remains a challenge for agents trying to serve a rural market. Retail agents such as agrodealers can potentially solve for this challenge as their regular business income can provide for float as a DFS agent.



DFS: Digital Financial Services

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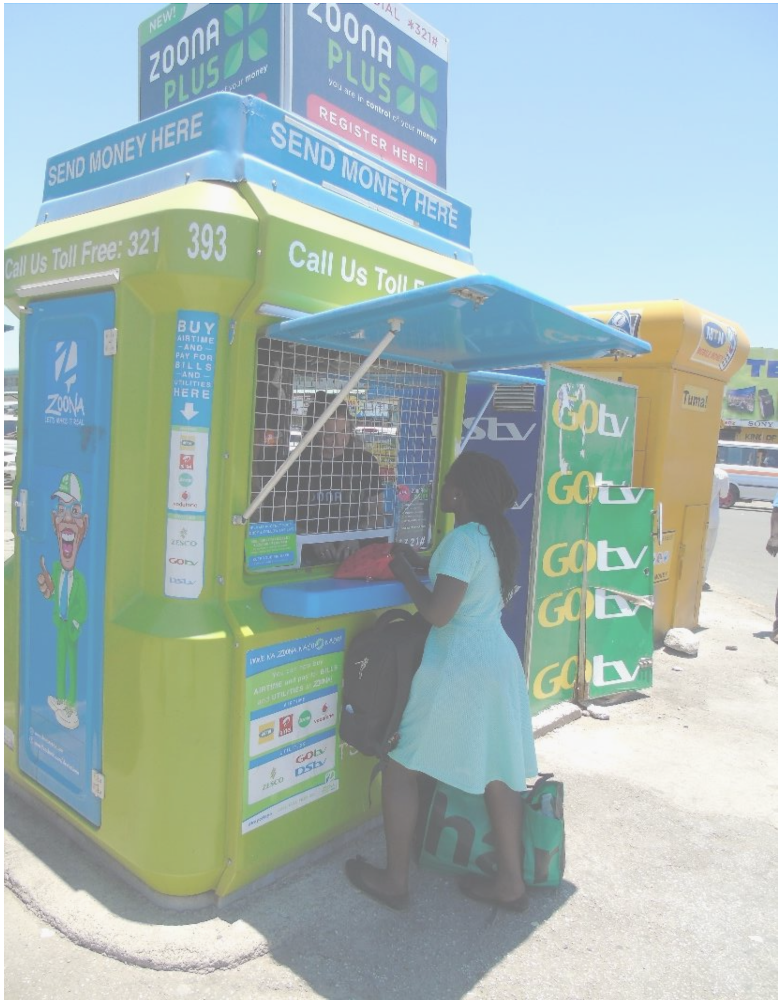

Partnership Insights for Zoona

AFA and Dalberg developed insights for banking partnerships based on four case studies relevant to Zoona and the Zambian market

CASES	PARTNERS	PRODUCTS & SERVICES	RATIONALE FOR SELECTION
KCB M-PESA Account	• Safaricom • Kenya Commercial Bank	• Loans, Savings, Cash In/Out • e-Wallet & OTC	• Understanding how to structure partnerships were products are launched together with a bank
bKash	• bKash • BRAC Bank • IFC & BMGF	• Cash In/Out, salaries, savings, airtime, remittances • Dominant OTC	• Understanding how third party providers' business models can evolve while leveraging bank licences
easypaisa	• Telenor • Tameer Microfinance Bank	• Cash In/Out, bill pay, bank transfer, savings, insurance, remittances • Dominant OTC, e-Wallet	• Understanding how third party providers' business models can evolve while leveraging MFI licences
EKO	• Eko India • State Bank of India, ICICI Bank, Yes Bank	• Previously account opening, deposits, withdrawals; currently money transfer • Dominant OTC	• Understanding how a third-party provider can leverage its distribution to service a bank

Source: Dalberg analysis, 2017

Case Study 1

Established in 2015, KCB M-PESA account is a partnership between Kenya Commercial Bank and Safaricom for Loans and Savings

MOTIVATION & VALUE PROPOSITION

Two competitors were able to leverage each other's strengths and find a way to derive value from these strengths, and at the same time compromise in order to gain from the M-PESA phenomenon

Kenya Commercial Bank (KCB): Motivated by a strong M-PESA customer base, an extensive agency network, scaling digital mobile solutions, previous success of Commercial Bank Africa (CBA) and Safaricom M-Shwari partnership, learning about distribution models; KCB was willing to deploy financial services and products - including loan facility

Safaricom: Motivated by desire to 'sweat' their M-PESA asset and provide loans with higher limits compared to CBA M-Shwari, position themselves for better future deals; Safaricom was willing to offer M-PESA customers (~7M at the time) and agent network

- **Agent network:** 135 000 Safaricom agents (2016)
- **Customers:** 7.8 million customers since 2015 (2016)
- **Transaction volume:** USD 160 million (2016)

PRODUCT OVERVIEW

Safaricom and KCB's partnership offers customers higher loan limits and flexible payment periods on loan product, while the savings product offers competitive interest payments on deposits

- The KCB M-PESA account offers a loan product which offers loans from KShs 50 to KShs 1million for 30 to 180 days. Interest payments for the 30, 90 and 180 day loans are 4%, 3% and 2% per month, respectively
- The KCB M-PESA savings account allows customers to lock amounts of cash from KShs 500 to KShs 1 million for 1, 3, 6, and 12 months. Interest accrued on the savings are 3%, 4%, 5% and 6% per annum, respectively

COMPETITVE POSITIONING

Initially, KCB M-PESA's main competitor was CBA's M-Shwari. KCB M-PESA distinguished itself with higher amounts and longer tenors. Now, there are several other specialist mobile lenders in the market, such as Branch and Tala

The KCB M-PESA account offers customers lower interest rates per month (M-Shwari's 7.5% interest for a 1 month loan vs KCB M-PESA's 4%); there are higher loan limits and longer repayment periods on the KCB M-PESA account (50 - 1M KShs for 30 to 180 day vs 100 KShs with maximum amount depending on loan limit in 30 days); and the KCB M-PESA account also offers convenient loan repayment (auto-debit vs manual repayments on M-Shwari)

Notes: KShs = Kenyan Shilling, KShs 1 = USD 0,010 (September 2017 average rate). Source: Dalberg Analysis.

Case Study 1

KCB and Safaricom outlined each partner's roles and responsibilities, informed by Safaricom's previous experience with CBA

THE PARTNERSHIP AT WORK

The KCB M-PESA account benefited significantly from the learnings of the CBA/Safaricom M-Shwari product that had been launched and run for three years. While CBA may have had first mover advantage, KCB was able to structure and price its product more competitively to gain market share

Components		Ownership
Customer		• Customers belong to both Safaricom and KCB; however, the entry and exit point is M-PESA • KCB gains access to Safaricom M-PESA customers after they apply for the KCB M-PESA account
Agent		• Agents are largely part of the Safaricom network • KCB has agents however these are not as visible given direct cash in/out is through MPESA first
Products & Service		• KCB bears the costs and risk of the loan product and provides the interests for the savings • Money from a loan product is deposited into a KCB M-PESA account and withdrawn from a M-PESA account, while savings are deposited into a KCB M-PESA account and withdrawn through a M-PESA account when they mature
Operations	**Technology**	• USSD gateway and PRSP is from Safaricom but run and managed by KCB under partnership agreement with Safaricom
Operations	**Data**	• Safaricom shares data with KCB after customer accepts product terms and conditions and this is used (together with the Credit Reference Bureau and other sources) to credit score a customer; the revenue share is automatically factored as data is considered part of Safaricom's value
Operations	**Branding & Marketing**	• Products are jointly branded with KCB and Safaricom M-PESA logos • Marketing costs are shared; activities are divided e.g. Safaricom leads below-the-line marketing
Operations	**Regulatory Compliance**	• KCB is responsible for maintaining all banking regulations • Safaricom is responsible for maintaining mobile money regulatory standards
Operations	**Partnership Coordination**	• KCB and Safaricom have dedicated units which are responsible for providing the KCB M-PESA account

Source: Dalberg Analysis.

Case Study 2

Established in 2013, bKash is a partnership between bKash, a mobile financial services provider, and BRAC Bank in Bangladesh

MOTIVATION & VALUE PROPOSITION

Given that Bangladesh's regulations require banks to be the lead partner in any mobile financial services venture, bKash started as a joint venture and became a subsidiary of BRAC Bank in order to access its licence. bKash has also partnered with MNOs who are able to ride on BRAC's license through bKash

- **BRAC**: Motivated by acquiring a profitable subsidiary, float and interest on deposits; willing to offer access to licence
- **bKash**: Originally an e-value platform, bKash was motivated by a need to get a license to offer products and services; bKash was willing to offer its distribution channel and platform
- **Other investors**: International Finance Corporation (IFC) and Bill and Melinda Gates Foundation
- **Agent network**: 135 000 bKash agents (2016)
- **Customers**: 22,3 million (2016)
- **Total transaction value**: USD 1,9 billion

PRODUCT OVERVIEW

bKash offers money transfer services, as well as a savings product which requires KYC compliance

- OTC dominated cash in/out, salaries, airtime and remittances
- bKash's savings product require a minimum deposit of BDT 1000 and a maximum of BDT 50 000; interest earned by the account varies between 1,5% and 4% per month. Higher deposit values earn more interests
- Customers are required to complete at least 2 transactions on the bKash menu, per month to be eligible for savings; they also have to comply with government KYC to access the interest and tax regulations before earning can be paid

COMPETITVE POSITIONING

bKash currently leads the market with ~80% market share of mobile money transactions. Some differences between bKash and its closest competitor are the products and platform customers use to access the service

- bKash's closest competitor is Rocket, a bank-led agency banking partnership between Dutch Bangla Bank and MNOs
- bKash and Rocket largely offer the same products, however, Rocket also offers bill and merchant payments
- bKash is accessed through a mobile phone while Rocket is accessed via mobile phones and a smart phone application

Notes: BDT = Bangladeshi Taka , BDT 1 = USD 0,012 (September 2017 average rate). Source: Dalberg analysis.

Case Study 2

bKash is responsible for a majority of the activities in the value chain, while BRAC ensures that regulatory compliance is maintained

THE PARTNERSHIP AT WORK

In addition to BRAC, partnering with 5 MNOs allowed bKash access to 98% of Bangladesh's mobile subscribers within 3yrs BRAC Bank is largely responsible for maintaining regulatory compliance and relationships have increasingly become tense with changing leadership, roles and interests.

Components		Ownership
Customer		• bKash customers belong to bKash, as the entity in partnership with BRAC Bank and MNOs • Customers can access bKash through all partner MNOs
Agent		• All agents belong to bKash • bKash's relationship with agents isn't exclusive; agents can serve BRAC bank as well as ~5 MNOs
Products & Service		• All products and services are designed by bKash • The customer's money sits in a bKash wallet and they can withdraw money from the bKash account through BRAC ATMs as well
Operations	Technology	• The technology platform belongs to bKash • bKash is pays a fee to MN0s so that they can access their USSD channels
Operations	Data	• All data generated on the platform belongs to bKash; unclear whether BRAC Bank has access to this data
Operations	Branding & Marketing	• bKash is responsible for all branding and marketing • Products and services are solely branded as bKash's
Operations	Regulatory Compliance	• BRAC is responsible for maintaining compliance with the Bangladesh Bank's regulations on agency banking as they own the financial services license
Operations	Partnership Coordination	• Although the bKash is a wholly owned subsidiary of BRAC Bank, it is not clear how their relationship is managed day-to-day

Source: Dalberg Analysis.

Case Study 3

Established in 2009, Easypaisa was born out of a partnership between former Tameer Microfinance Bank and Telenor Pakistan

MOTIVATION & VALUE PROPOSITION

Given that Bangladesh's regulations require banks to be the lead partner in any mobile financial services venture, bKash started as a joint venture and became a subsidiary of BRAC Bank in order to access its licence. bKash has also partnered with MNOs who are able to ride on BRAC's license through bKash.

- Telenor Microfinance Bank (formerly Tameer): Relatively weak with a need for capital to invest in its core branch-based lending business and knowledgeable of the low income segment; Telenor Microfinance was willing to offer access to a licence and interest in branchless banking
- Telenor: Motivated by desire to have strategic control over its mobile money approach and a need to get a licence; Telenor was willing to provide distribution management and transaction systems
- **Agent network:** ~75 000 agents (2016)
- Customers: 15 million customers (2016)
- **Total transaction value:** USD 2,5 billion (2015)

PRODUCT OVERVIEW

Easypaisa offers essential money transfer services for BOP consumers. Additionally, Easypaisa offers insurance products, Easypaisa ATM cards, and also recently launched virtual debit cards with Mastercard

- Easypaisa offers customers the opportunity to have an ATM card to withdraw from their mobile accounts
- Easypaisa account holders can earn 9% interest per year on savings balances over PKR 25,000, 8% interest on balances between PKR 10 000 and PKR 24,999, 7% interest on balances between PKR 5 000 and PKR 9 999, and 6% interest on balances between PKR 2 000 and PKR 4 999*

COMPETITVE POSITIONING

Easypaisa leads its competition in agency banking, owning 52% of the market share of mobile transactions. An enduring difference between Easypaisa and its partners is its product innovations

- Pakistan has ~8 players in agency banking
- Easypaisa's closest competitors are Mobicash and UBL Omni
- Easypaisa, Mobicash and UBL Omni largely offer the same products; however, Easypaisa leads in product innovations as they are the first to offer insurance products and were also the first to offer the savings product

**PKR = Pakistani Rupee, PKR 1 = USD 0,010 (September 2017).*
Source: Dalberg Analysis.

Case Study 3

Telenor purchasing a stake in Tameer Microfinance Bank meant that the partners shared responsibilities for Easypaisa

THE PARTNERSHIP AT WORK

Tameer and Telenor undertook an audit of organizational competence to structure the partnership and determine roles and responsibilities so that they could jointly offer Easypaisa. Initially, a virtual organization composed of staff from both companies ran Easypaisa. Overtime, the Tameer bank reduced its core banking activities and focused on Easypaisa

Components		Ownership
Customer		• Customers belong to Easypaisa as the joint entity • Both Telenor and non-Telenor subscribers can access Easypaisa; the application process differs for the two groups
Agent		• Tameer Bank is responsible for the branch distribution, agent certification and cash management • Telenor handled physical distribution as well as agent management i.e. appointing and managing agents with Tameer Bank's approval
Products & Service		• Products are collaboratively designed by Telenor and Tameer Bank, although Tameer Bank largely focuses on Easypaisa
Operations	**Technology**	• Telenor is responsible for maintaining the technological platform • Technology costs are distributed among the partners
	Data	n/a
	Branding & Marketing	• Easypaisa has its own brand, separate from Telenor and Tameer Bank • Telenor and Tameer Bank are jointly responsible for branding and marketing
	Regulatory Compliance	• Tameer Bank is responsible for complying with Pakistan's "branchless banking regulations" • Since Tameer Bank was partially acquired by Telenor, this has granted Telenor some access to regulatory compliance
	Partnership Coordination	• A virtual organisation comprised of staff from Telenor and Tameer Bank manages Easypaisa • The virtual organisation is managed by Telenor and Tameer Bank CEOs who meet monthly

Source: Dalberg Analysis.

Case Study 4

Established in 2007, Eko operated as a third party provider for State Bank of India, YES Bank and ICICI Bank in India for 5 years

EKO

MOTIVATION & VALUE PROPOSITION

After regulations allowed banks to use agents to deliver financial services outside branches, Eko struck an agreement with the State Bank of India (SBI), ICICI Bank (two of India's largest banks), and YES Bank. Eko's value proposition was further strengthened by regulations that allowed a limited role for MNOs

- Various banks: Motivated by a need for low cost distribution and access to unbanked segments; willing to take responsibility for the actions of the agents carried on its behalf (as per regulation) and bearing other compliance risks
- Eko: Motivated by the business opportunity to provide a third party specialist network for banks and a need to utilize its platform which aligned banks, retailers and customers to common financial service products; willing to outsource these assets

- **Agent network**: Eko operates a master agent model with 300 – 500 master agents and about 3000 agents (2014)
- **Customers**: Eko serviced about 3 million bank customers (2014)
- **Transaction volume**: USD 423 million (2014)

PRODUCT OVERVIEW

Eko did not have any products of their own but provided the partner banks' products and services. These products and services were offered on the bank's terms

- **The Eko and SBI partnership** offered account opening, money transfers to other SBI accounts, savings products, loan products and G2P payments
- **The Eko and ICICI Bank partnership** offered account opening, money transfer services, fixed deposits , balance enquiry and mini-statements
- **The Eko and Yes Bank partnership** offered account opening, money transfer and remittance transfers

COMPETITVE POSITIONING

Eko is among a number of geographically dispersed third party network operators in India who outsourced their agent network to banks. One difference between Eko and competitors is the scale and geographical coverage of their operations

- FINO Paytech Ltd. is one of Eko's competitors. FINO's clients included 27 banks, 15 government entities, and 4 insurance agencies and FINO had over 47 million individual customers combined
- While similar services were provided, FINO Paytech Ltd. which is at least 5 years older than Eko achieved more scale

Source: Dalberg Analysis.

Case Study 4

Eko managed the logistics of the agent network while banks owned the customers and maintained regulatory compliance

THE PARTNERSHIP AT WORK

Eko built a relationship with three banks, where they trained their agents to provide services offered by the banks. Eko was fully responsible for the agent network – specialising in agent selection and training, while the banks were responsible for charging their customers a fee which Eko would receive a share of.

Components		Ownership
Customer		• Customers belonged to the banks that Eko had partnerships with • Banks were responsible for managing fraud related customer care while Eko managed logistics related customer care
Agent		• Eko was responsible for developing and managing the agent network • Agents were small business operators and were required to deposit the amounts they hoped to transact into Eko's account and balance their books at the end of the day
Products & Service		• Eko originally offered products and services from the bank's portfolio • The customer account and the money sat with the banks the customers belonged to
Operations	**Technology**	• The technology platform belonged to Eko but was integrated with the bank's platform • Banks did not need to integrate to the technology platform but were responsible for processing customer accounts
	Data	n/a
	Branding & Marketing	• Eko was responsible for marketing their agents • Services provided by Eko's agents were jointly branded
	Regulations Compliance	• Banks were responsible for maintaining regulatory compliance from their end • Eko was responsible for maintaining regulatory compliance of their agents
	Partnership Coordination	• Eko would interact with the agency banking division in each bank while the banks were responsible for coordinating the process with their branches, which sometimes did not happen

Source: Dalberg Analysis.

Case Study Insights:
What does this mean for Zoona?

The commercial terms / arrangements are largely contextual, and depend on negotiating position between partners

Case studies show that everything is negotiable when it comes to commercials. Below are examples of commercial arrangements; however these are not exhaustive

Towards full cost and revenue sharing…

EKO — *bKash* — *KCB M-PESA Account* — *Easipaisa*

Limited cost sharing; partner 'paid' for services rendered

- Third party or MNO are responsible managing and maintaining the agent network. The third party can provide the platform
- All costs associated with these roles are covered by the third party. (In some cases, marketing and customer education are also included)
- Prices are set by the financial institutions that owns products and services; revenues are allocated to the third party based on the services provided
- Model is likely to apply where the third party is outsourcing its network

Some cost and revenue sharing

- Roles are split between the financial institution and third party or MNO based on each partner's expertise. Depending on the product, one partner is likely to take on more
- Each individual partners covers the cost of its responsibilities; some core costs such as marketing and branding are shared between the partners
- Prices are set jointly by the financial institution and third party or MNO; revenues are split based on the roles and risks incurred by each partner, with the option to take into account downstream revenues

Full cost and revenue sharing

- Roles and responsibilities are split evenly between partners
- Costs mirror this split of roles and responsibilities
- Prices for the end user are jointly determined and the risk for the product is borne by both partners; revenues are equally split, or allocated according to the costs incurred by partners to ensure that the splits are equitable
- This commercial arrangement works best when the partners evolve towards a single entity or formal joint venture such that ultimately their financials are linked, making it easier to negotiate commercial splits

NOTE: There may be commercial models that focus on profit sharing; however, our research did not reveal any. Source: Dalberg Analysis.

Case Study Insights

There are **two main partnership modalities** for agency banking between a third party provider or MNO, and a financial institution

1 CO-DEVELOPED PRODUCTS & SERVICES

A third party provider partners with a financial institution to jointly develop and deliver products and services and deliver them through the third party's network; the customer can belong to both partners or the third party

Third party provider and financial institution jointly develop products and services

Third party agent network is used as a distribution channel for these products & services

Third party platform is used for transactions; wallets can be linked to bank accounts

Customers registered on the third party network can access products and services; ownership can be shared or by individual partners

2 OUTSOURCING THE AGENT NETWORK/ PLATFORM

A third party provider partners with a financial institution to deliver the bank's products and services through its agent network; product/services and customers typically belong to the financial institution

Financial institution determines which products and services are to be offered

Financial institution outsources its agent network management to third party

Third party agent network is used as a distribution channel for these products & services; option to sign up customers

Financial institution or third party provide platform for the products and services

Customers registered with the financial institution can access products and services

NOTE: *In both modalities, the assumption is that third party provider can continue to offer their own products and services as well. Source: Dalberg Analysis.*

Modality 1

Overall, choosing modality 1 requires both anchor partners to be willing to invest in the growth of the products and services…

CO-DEVELOPED PRODUCTS & SERVICES	***Opportunities:*** *Partners are looking for…*	***Risks:*** *Partners need to manage…*
FINANCIAL INSTITUTION	• Customer acquisition by accessing new customer segments not reached by own network • Growth of portfolio of products & services by reaching new segments and acquiring new agents • Increased revenue and/or liquidity • Learning how to manage a distribution channel	• Challenges of adapting products to third party provider platform, if required • Customer and revenue loss if branch managers are threatened by third party • Brand dilution
THIRD PARTY PROVIDER	• Growth of portfolio of products and services • Growth of customer base • Increased revenue through additional transactions and knock-on effects on existing products & services • Learning structuring of financial products & services	• If exclusive, limited ability to launch similar products & services with other partners • Brand dilution • Additional selection, upskilling and management of agents to be able to offer new products & services
AGENT	• Increased revenue through additional transactions from new products & services • Increased revenue through knock-on effects on existing products & services	• Additional upskilling to be able to offer new products & services • Additional administration tasks associated with new products & services • Increased pressure on liquidity management
CONSUMER	• Increased availability of a mix of products & services, if selected and designed appropriately • Increased affordability of product & services, if priced correctly	• Requires additional education, or else, may lead to confusion and loss of trust in agent, third party and/or financial institution depending on who is the face of the products & services

Source: Dalberg Analysis.

Modality 2

…while modality 2 works when the two parties can protect (to an acceptable level) their **individual competitive advantage**

CO-DEVELOPED PRODUCTS & SERVICES	***Opportunities:*** *Partners are looking for…*	***Risks:*** *Partners need to manage…*
FINANCIAL INSTITUTION	• Access to customer base that is not reached and/or sufficiently serviced by own network • Access to low cost distribution channel, assuming the costs of building own network are higher • Increased revenue through additional transactions	• Brand dilution, particularly if agents do not maintain required level of customer care • Operational risks, including legal, security and internal misalignment if branches fear competition • Incentivizing own agent network if value-add to third party is higher than value to own agent
THIRD PARTY PROVIDER	• Growth of distribution network • Increased revenue from outsourcing network, if terms are negotiated well • Lower cost of liquidity management, if financial institution can provide support • Learning structuring of financial products & services	• Revenue loss if there is no room to influence pricing and if cannibalization occurs • Agent loss if servicing the bank is more profitable • Cost of selection, upskilling and management of agents to be able to offer new products & services • Difficulties of platform integration, if required
AGENT	• Increased revenue through additional transactions for the financial institution • Liquidity management, if financial institution provides support	• Additional upskilling to be able to offer new products & services potentially on a new platform • Additional administration tasks associated with new products & services • Increased pressure on liquidity management
CONSUMER	• To the bank customer, increased access points for products & services • To customer of third party provider, increased access to banking services if they open accounts	• *Inferior quality of service* if agents are not well trained and equipped to handle and manage products and services from two different providers i.e. existing third party and new financial institution portfolios

Source: Dalberg Analysis.

Value Proposition for Zoona

Learnings from the case studies showed the value proposition of blending modality 1 and 2 to best position Zoona in the market

Zoona adopted a **blend of modality 1 and 2** to cater for unique business needs and adjust Zambia's evolving Digital Financial Services market.

Modality 1:
Co-developed Product and Services

- Zoona piloted **Sunga** and **Boost** in partnership with FINCA
- Allowing customers to save and borrow against their savings through Zoona's platform
- Leveraging FINCA's strong background in microfinance.

Modality 2:
Outsourcing the Agent Network or Platform

- Zoona is currently in partnership with **Atlas Mara Bank, allowing its** customers can deposit and withdraw funds at any Zoona booth nationwide.
- Zoona has also partnered with **Mukuru** and **Kazang**, allowing customers to access these services through 'Z-code', Zoona's interoperable DFS platform. Through this platform, Zoona has so far served 230,000 unique customers on behalf its partners.

DFS: Digital Financial Services
https://www.lusakatimes.com/2019/10/29/zoona-is-here-to-stay-but-not-as-you-know-it/

Table of Contents

Journey to the Last Mile

Zoona's journey in providing digital financial services for the Zambian mass market as well as underserved populations provides key learnings on last mile delivery of DFS, product evolution, and partnerships

LAST MILE DELIVERY OF DFS

- Go-to-market strategies need to include **touchpoints closest to farmers**, such as agrodealers, in order to ensure both product uptake and continued use. Brand ambassadors are more effective when in close contact with farmers and live within the same community.
- The role of an agent is critical in driving product uptake, as 60% of surveyed farmers reported having learnt of the product from an agent. An agrodealer doubling as an agent presents a ready use case for farmers.

PRODUCT POSITIONING IN THE MARKET:

- Zoona, along with other DFS providers, have evolved with the Zambian market from over-the-counter transactions to cross-selling other financial services such as a mobile wallet, micro-savings and loans.
- As the Zoona business (and the Zambia DFS market) **transitions from over-the-counter (OTC) transactions to wallets**, Zoona and other FSPs can build a stronger base for customer retention and the ability to begin to cross-sell other financial services.
- Mass market product can still be relevant to farmers if they speak directly to the needs. For Zoona Plus, the strongest value proposition for farmers is the **ability to save**.
- Farmers are more open to using products designed to mirror their existing financial behavior and patterns as exhibited in village banking groups. A product with flexibility in loan repayment terms will gain more traction that a standardized one.

PARTNERSHIPS

Through agency banking / partnerships with banks, Zoona is:

- **Lowering cost-to-serve**
- Unlocking the peri-urban and rural markets by **strengthening its distribution channel**
- Simultaneously serving **a wider customer base** through its **agent network**.

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