Branchless Banking and Rural Outreach in Malawi: Opportunity International Bank of Malawi’s Impact on the Market

MICHAEL FERGUSON, PH.D.
MICROFINANCE OPPORTUNITIES
MAY 2011

Financial Services Assessment project can be found on the web at http://www.fsassessment.umd.edu/
ABOUT THE PROJECT
The Financial Services Assessment project is designed to examine the impact of financial services on the lives of poor people across the developing world. This project is funded by the Bill & Melinda Gates Foundation, which is committed to building a deep base of knowledge in the microfinance field. The IRIS Center at the University of Maryland, College Park, together with its partner, Microfinance Opportunities, will assess a diverse range of innovations in financial services. The results of this project will shed light on the design and delivery of appropriate financial products and services for the poor and the potential to scale up successful innovations to reach larger numbers of low-income households.

ABOUT THE AUTHOR
Dr. Michael Ferguson is an expert on qualitative field methods, and his areas of research include impact assessment, evaluation, and market research. He is currently the project manager for four Diaries studies underway at MFO. He holds a Ph.D. in cultural anthropology from the University of Michigan.

ACKNOWLEDGEMENTS
Research was designed by MFO’s senior staff of Monique Cohen, Jennefer Sebstad and Liz McGuinness. The author would like to thank his exceptional field team from the Centre for Development Management in Lilongwe. This project represents the latest chapter in their history of excellent work for MFO. A hearty thanks to Monique Cohen and Liz McGuinness for their input and feedback at all stages of the project. Special thanks to Jessica Bachay for her assistance in the field and contributions to data collection, and to Scott Reich for assistance with the data.

ABSTRACT
Opportunity International Bank of Malawi (OIBM) received a grant in 2005 to pioneer a model of technology-driven, low-cost rural service delivery. The project included a bank-on-wheels offering a full range of bank services at rural and peri-urban sites without brick-and-mortar branches. This endline study examined OIBM’s innovations and particularly the banking van in terms of the value proposition for clients on the Malawian financial landscape over the last three years. In that time, OIBM has seen a striking ascent as a preferred provider of both credit and savings to the poor. With products and delivery systems tailored to that market segment, the institution has set itself apart in the Malawian financial service industry and inspired imitators to some extent. The van is clearly playing a role in all of these developments. Curiously, client discourse on OIBM and the van centered more on intangibles (e.g. good service and respect for poor clients) than the tangible advantages of the innovations (e.g. reduced transaction costs when using the van in one’s own community). At the same time, there is some suggestion that clients may be taking up OIBM accounts but not necessarily using them consistently or effectively. The patterns are likely related and may prove problematic for OIBM as it continues to expand its rural service delivery.

OTHER NOTES
All photos included here were taken by the author, unless otherwise noted.

An exchange rate of 150 Malawi Kwacha/1 US Dollar was used throughout the report as an average figure for the period under study.

In instances when the report refers to individuals, names and identifying information have been altered.
TABLE OF CONTENTS

Contents

TABLE OF CONTENTS ........................................................................................................ III

INDICES OF TABLES & FIGURES ........................................................................ VI

EXECUTIVE SUMMARY ...................................................................................... 1

I. INTRODUCTION: ................................................................................................. 4
   Access: Uptake & Use ......................................................................................... 4
   Project Overview ................................................................................................. 4
   Value Proposition in the Financial Landscape .................................................. 4
   The Financial Landscape’s Place in the FSA Study ............................................ 5
   Outline of Report ................................................................................................. 5

II. SETTING & RESEARCH DESIGN ................................................................. 6
   Service Context of Malawi .................................................................................. 6
   OIBM Overview ................................................................................................ 6
   OIBM’s Innovations ............................................................................................ 6
   Why Did the Van Matter? .................................................................................. 8
   Orientation: Research Sites .............................................................................. 9
   Key Research Questions ..................................................................................... 10
   Data Collection Strategy .................................................................................. 10
   Limitations of The Methodology ...................................................................... 10
   Socioeconomic Status of Participants .............................................................. 11
      Discussion ....................................................................................................... 11
      Comparison to Baseline Sample .................................................................... 12
      Self-Identification of Socioeconomic Strata .................................................. 13

III. SUPPLY SIDE: WHAT’S NEW IN THE MARKET .................................. 15
   Developments at OIBM since 2007 ................................................................. 15
      General Outreach/Branch Network .............................................................. 15
      Mobile (Van) Banking .................................................................................... 15
      The Van, the Trucks, and Mobile Expansion ............................................... 17
      POS Devices (aka “Agent Banking”) ........................................................... 18
      Cell Phone Banking ....................................................................................... 19
ANNEX B – RESEARCH TOOLS & SAMPLE DETAILS ....................... 46

Research Tools: Focus Groups .................................................. 46
Financial Services Segmentation (FSS) ..................................... 46
Financial Sector Trend Analysis (FSTA) .................................... 46
Product Attribute Ranking (PAR) .............................................. 46
FGD Sampling/Tool Distribution .............................................. 46
Research Tools: Individual Interviews .................................... 48
Individual Interview Sampling ................................................. 48

ANNEX C– OTHER DEVELOPMENTS ON FINANCIAL LANDSCAPE … 50

Insurance Landscape ................................................................. 50
Other Developments: Rise of the Consumer Lenders ............... 50
Other Developments: Supporters & Donors ............................ 51
Other Developments: Miscellaneous Products & Programs ....... 51
INDICES OF TABLES & FIGURES

TABLE 1 - SOCIOECONOMIC PROFILE DATA FOR FOCUS GROUP PARTICIPANTS ........................................ 12
TABLE 2 - COMPARISON OF BASELINE & ENDLINE SOCIOECONOMIC VARIABLES .......................... 13
TABLE 3 - CRITERIA CITED FOR INDIGENOUS TYPOLOGY ................................................................. 14
TABLE 4 - COMPARISON OF SAVINGS PRODUCTS .................................................................................. 20
TABLE 5 - COMPARISON OF AGRICULTURAL LOANS ........................................................................ 21
TABLE 6 - COMPARISON OF MICRO-ENTREPRENEURIAL LOANS ......................................................... 22
TABLE 7 - PREFERRED PROVIDERS/LOCATION OF SAVINGS ............................................................... 26
TABLE 8 - PREFERRED PROVIDERS/LOCATION OF SAVINGS, NON-OIBM CLIENTS .................. 26
TABLE 9 - MOST VALUED SAVINGS FEATURES ..................................................................................... 28
TABLE 10 - PREFERRED SOURCES OF CREDIT .................................................................................... 31
TABLE 11 - PREFERRED SOURCES OF CREDIT, NON-OIBM CLIENTS ................................................. 31
TABLE 12 - MOST VALUED CREDIT FEATURES ..................................................................................... 32
TABLE 13 - PREFERRED PROVIDERS OF SAVINGS, WOMEN ONLY .................................................. 35
TABLE 14 - PREFERRED PROVIDERS OF CREDIT, WOMEN ONLY .................................................... 35
TABLE 15 - SAMPLE FRAME FOR FGDS ................................................................................................. 47
TABLE 16 - SAMPLE FRAME FOR INDIVIDUAL INTERVIEWS ............................................................... 48

FIGURE 1 - CAUSAL MODEL & LINKAGE TO RESEARCH COMPONENTS .................................................. 5
FIGURE 2 - MAP OF MALAWI .................................................................................................................. 6
FIGURE 3 - OIBM’S OUTREACH, 2005-2010 ......................................................................................... 7
FIGURE 4 - OIBM LOAN PORTFOLIO & DEPOSITS, 2005-2010 .......................................................... 7
FIGURE 5 - THE OIBM MOBILE BANKING VAN ...................................................................................... 8
FIGURE 6 - MAP OF RESEARCH SITES .................................................................................................. 9
FIGURE 7 - A CALLING POINT FOR OIBM’S VAN .................................................................................. 17
FIGURE 8 - FOCUS-GROUP PARTICIPANTS IN NSUNDE ...................................................................... 27
FIGURE 9 - REPORTED 3-YEAR TREND, OIBM’S POSITION IN SAVINGS MARKET ....................... 30
FIGURE 11 – REPORTED 3-YEAR TREND, OIBM’S POSITION IN CREDIT MARKET .............................. 34
FIGURE 12 – REPORTED 3-YEAR TREND, OIBM’S POSITION IN CREDIT MARKET, NON-CLIENTS .... 34
FIGURE 13 - OIBM CLIENTS WAITING TO JOIN A FOCUS GROUP .......................................................... 40
EXECUTIVE SUMMARY

The Financial Landscape study aims to document the financial services available in a particular area and how they are being used, including how client preferences have evolved over time. The study focuses on client access, with a broader and more inclusive view of this concept, defined as ability and propensity to make effective use of a service.

The work here centers on the service innovations of Opportunity International Bank of Malawi (OIBM), which received a grant in 2005 to pioneer a model of technology-driven, low-cost rural service delivery. The study draws together a variety of data to examine the value proposition of these service innovations against the area’s other service options. This report is an endline study to a 2007 baseline (McGuinness, 2008), focused on changes between 2007 and 2010 that may correlate with the introduction of OIBM’s innovations.

OIBM’s banking van—a bank-on-wheels offering a full range of bank services at sites without brick-and-mortar branches—was the first of OIBM’s innovations to be rolled out. It became the primary focus of research, though the status of other components of the outreach plan is discussed here as well.

We began with a relatively small set of questions focused on access to financial services, but, more particularly, changes in access over the past three years. Those included:

- What financial service providers offer products to clients targeted by OIBM? What has changed in this market over the last three years?
- What do clients know and understand about these financial service providers and the accessibility of these products and services?
- What product attributes are most and least important to the target client base? How does the baseline compare?
- What market segments are most and least served by existing services? How does the baseline compare?

The project deployed two major data collection strategies: 1) focus groups discussions (17 total); and 2) individual interviews (26 total). Research sites centered on the calling points of the banking van, following the original route established in 2007, plus interviews with managers of the area’s financial institutions.

The Landscape from the Supply Side

Since 2007, OIBM has vastly expanded its physical footprint on the Malawian financial landscape, including new full-scale branches, satellite branches, and banking kiosks. At the same time, OIBM describes the van project as a major success, with mobile business doubling nearly every year during this period.

Using reports of account activity provided by OIBM, these growth rates could not be confirmed. It is clear that growth was taking place, but the nature of the growth is less clear. There is some suggestion that over time more clients were signing up for accounts, but fewer of them were actively using them.

Alongside the full-scale banking van, OIBM has expanded into new routes using smaller vehicles that can leave the paved road but offer more limited services. Other OIBM innovations launched since 2007 include the bank’s “agent banking” project, wherein POS devices are placed in rural stores and offer the same services as ATMs. Also, in 2010, OIBM launched its cell phone banking service, providing mobile access to all of OIBM’s 18 bank services, plus a variety of “informational services,” ranging from reminders about loan payments to announcement of new services, bill pay, and airtime purchases.

Financial Landscape Endline, Malawi
On the product side, several developments suggest a trend toward more client-focused savings products. The first and perhaps most important occurred when the bank changed the minimum balance on its most popular savings account for low-income consumers from about $3 to zero. The monthly maintenance fee on that account was also eliminated. In its loan business, OIBM has continued to diversify and specialize its loan products, though the relevance of the new products to low-income consumers tends to be limited.

In 2010, the bank sees its competition in serving the bottom of the pyramid in Malawi as limited, with New Building Society bank (NBS) recognized as the top and often only competitor. The two banks continue to square off on capturing one of the Central Region’s most lucrative pieces of business—the financing of tobacco farming and banking of its proceeds.

OIBM’s effect on the competition, however, may be broader. According to the Malawi Microfinance Network (MAMN), after OIBM introduced the above service innovations, the rest of the industry has endeavored to catch up. NBS, for example, has launched its own banking van that some describe as a direct attempt to mimic the outreach of OIBM. Also, Malawi Rural Finance Company (MRFC) is in the process of launching its own rural POS-device project.

Generally, according to MAMN, OIBM has played a role in drawing more attention to the bottom of the pyramid in Malawi over the last three years. This especially includes more credit activity focused on low-income consumers.

The Landscape from the Demand Side

Interviews and focus groups with low-income Malawians in the relevant areas found that the bank is now a top provider of savings services to low-income Malawians—alongside NBS and Malawi Savings Bank (MSB). The discourse on OIBM as a savings provider centered on several themes, including:

- Commitment to serving the poor,
- Generally good service,
- Access to loans (as a function of savings),
- Good security (an interesting finding for a van offering service in an “open-air” environment), and
- Low fees.

In addition, “proximity to home/business” appeared first on a list of preferred savings attributes among OIBM clients surveyed, though just fourth among non-clients.

Comparing the above results to the Financial Landscape baseline (2008), we find a rather striking turn of events. Three years ago, while MSB and NBS were cited as the first and third most-preferred savings providers, OIBM did not register (McGuinness 2008, p. 45). Thus it would appear that OIBM’s efforts over the last three years have enabled the bank to take root. The finding triangulates with other evidence from the study that OIBM was generally on the rise in terms of savings provision.

In terms of credit provision, participants suggested in a variety of ways that, by and large, OIBM is the only commercial bank serving poor Malawians. All other accessible loan options took the form of NGOs, parastatals, or informal options like moneylenders.

The discussions of OIBM as a preferred provider of credit centered on the bank’s generally good service and/or specific loan features such as term, interest rate, and fast approval. Interestingly, the feature most clearly linked to the van—proximity to home/business—rarely figured into discussions of credit providers.
Comparing the above results to the baseline, we again find a notable change for OIBM on the credit front. Barely recognized three years ago, OIBM has made a striking ascent to the top position. FINCA (an NGO) and MRFC were the nearest competitors. Again, the findings triangulate with other findings suggesting that OIBM was sharply on the rise as a creditor between 2007 and 2010.

These findings are not to suggest that OIBM’s service innovations and the van in particular were universally praised. The biggest perceived drawback was the once-a-week visit schedule—meaning that most of the bank’s client base is left without its bank for most of any given week. Other complaints included the withdrawal limit ($333) imposed with the van.

**Tangibles, Intangibles & their Implications**

In the baseline study, McGuinness (2008) suggests that one of OIBM’s prime areas of value in context of Malawi is that the bank “knows how to work with the poor.” The endline evidence strongly suggests that this did indeed emerge over time as one of the bank’s prime advantages over the financial landscape.

At the same time, the most tangible advantage of the van—i.e. its ability to “bring the bank to the people,” thereby elevating convenience and reducing transaction costs—was a surprisingly minor theme in the discourse on OIBM. More often than not, discussion returned to the general perception that OIBM simply appreciates its low-income clients.

In sum, the van is a tangible service-delivery advantage, recognized by some, but it is also a powerful symbol of OIBM’s commitment to serving the poor, recognized by even more.

Similarly, regarding the products that OIBM has developed and deployed, we find little direct recognition of the specific adaptations OIBM has undertaken to make its products well-suited to the poor. People liked the products generally, but often did not understand their relative tangible value.

Is there a downside to a strategy like this, in which intangible attributes may be winning the favor of clients over the tangible value of an institution’s products and delivery systems?

The collective evidence provides at least some suggestion of client behavior that may prove problematic for the bank. That is, clients may be prioritizing uptake over consistent use of OIBM services. The outreach projects resonate with them and they sign up for accounts, but then make infrequent or nominal use of those accounts.

Several arguments can be made for the success of OIBM’s rural outreach project in catalyzing change on a broad scale.

First, mixing tangible benefits with heavy symbolic import, the van has helped galvanize public opinion about OIBM. Second, the van has drawn in significant numbers of new clients in the rural and peri-urban areas served by the van, some of whom were presumably unbanked. And third, the outreach project has sparked change among OIBM’s competitors, leading to more aggressive rural outreach and perhaps some emulation of mobile and/or technology-based solutions.

But has the van catalyzed change in the sense of transforming access for low-income Malawians? Mindful that our concept of access entails making effective use of a service, the findings suggest that there may be more work to do. OIBM has brought many new consumers into its fold, but those consumers may not always be making effective use of what the bank has to offer.
I. INTRODUCTION:

ACCESS: UPTAKE & USE
In 2007, Opportunity International Bank of Malawi (OIBM) introduced its bank-on-wheels to Central Malawi. Since that time, the innovation has received considerable attention from microfinance researchers seeking to evaluate the outcomes of the van project and its impact on OIBM’s client base.

This report is the latest in a series of such studies, carried out jointly by Microfinance Opportunities (MFO) and the IRIS Center at the University of Maryland. It is known as the Financial Landscape endline, and it is MFO’s follow-up to a 2007 baseline, focused on the issue of access as a mediating factor in changing conditions and, ultimately, impact.

In microfinance discourse, the term access is sometimes equated with availability of financial services, as measured through uptake. This study takes a broader and more inclusive view of the concept, focusing on ability and propensity to make effective use of a service. That is, we are interested in what financial services are available, whether potential clients have the ability to use those services in meaningful ways, and whether clients in fact avail themselves of those services in meaningful ways. In other words, we are interested in the full equation of the service landscape, from availability, to uptake, to use. All of these components of the service continuum can greatly affect an innovation’s capacity to enact change directly and catalyze change in its context.

This study in particular suggests that uptake and use can be distinct and divergent issues. Proportionate levels of the use do not always follow proportionate levels of uptake. Clients sign up for accounts, but do they actually use them in ways likely to produce impact?

This kind of disconnect between uptake and use can occur in many forms and for many reasons, even when an institution’s efforts with clients on a whole are highly successful. The arguments presented here pertain mostly to the idea of deepening client impact. Specifically, in cases in which a bank has successfully won over a multitude of clients, how can the institution encourage its clients to use its products in robust ways?

PROJECT OVERVIEW
Value Proposition in the Financial Landscape
Qualitative in orientation, the Financial Landscape study aims to document the financial services (both formal and informal) available and how they are being accessed, including client preferences and changes in them over time. It draws on data from both clients and financial service providers, though the emphasis is squarely on the client perspective. The study places the innovation in the context of local competition to examine how these interactions multiply or lessen the impact of the innovation. It draws this data together to move toward the value proposition, or unique value provided by the service innovations, against the area’s other service options from the client’s perspective.

The Financial Landscape involves both baseline and endline phases. In the baseline phase, conducted in 2007, the study employed focus groups and interviews to document the range of financial service options available in the area and provide insight into the value proposition of the innovations. We are now in the endline phase of the work, for which we repeated this data-gathering process in mid-2010. This report and analysis presents the results of that work, with a focus on what has changed in the landscape since 2007 and how those changes may correlate with the introduction and operation of OIBM’s service innovation.
The Financial Landscape’s Place in the FSA Study

The study is part of a larger project known as the Financial Services Assessment (FSA), which was funded by the Bill & Melinda Gates Foundation (BMGF) to assess the impact of innovations in microfinance by BMGF grantees. MFO and the IRIS Center are implementing this assessment project over five years, concluding in July 2011. Research sites are connected to BMGF grantees at various locations around the world, including Malawi, Kenya, Pakistan, and Peru.

The project endeavors to examine the impact of the BMGF innovations using a mixed-methods approach. Its aim is to identify the most promising products, services, and delivery systems in current microfinance. The division of labor is largely IRIS on the quantitative research and MFO on the qualitative research.

The research findings of the Financial Services Assessment project are disseminated through a series of reports that: (i) examine access to and use of financial services provided by BMGF grantees, and (ii) identify the value proposition of grantees’ innovations in terms of welfare improvements. Collectively these studies will allow us to understand the outcomes and impact of financial service interventions. This paper, based on the findings from endline research in Malawi, is one of several papers in the series. Other papers prepared in this series to date are listed in Annex A.

The nation of Malawi will be the most intensely-studied region in the FSA project. Other Malawi-based research in the FSA project series includes a large-scale Impact Assessment Panel Study (carried out by IRIS), an 18-month Financial Diaries study (carried out by MFO), an Enabling Environment study (carried out by IRIS), and the Financial Landscape baseline (carried out by MFO). All were designed and carried out in the period of 2007 to the present. Figure 1 displays the causal model conceived for the FSA project as a whole, with each activity in Malawi noted. The Financial Landscape study sheds particular light on access and, to some extent, on use.

FIGURE 1 - CAUSAL MODEL & LINKAGE TO RESEARCH COMPONENTS

OUTLINE OF REPORT

In Chapter II, we cover background on the innovation, research design, and overview of the sample. In Chapter III, we examine the supply-side environment in 2010, with focus on what has changed over the last three years at OIBM and among other financial service providers. Chapter IV turns to demand and presents the results of research among consumers to gauge changes in priorities and preferences in the three years since the baseline. Chapter V closes the report with a reexamination of the value proposition of OIBM’s service innovation.
II. SETTING & RESEARCH DESIGN

SERVICE CONTEXT OF MALAWI

Malawi is a small southern African country with a land area of 98,080 square kilometers. The population is estimated at 13.1 million, with 54 percent under the age of 18 (NSOM, 2008). It is one of the poorest countries in the world, ranking 160 out of 181 on the 2009 Human Development Index (UNDP, 2009), though its position in many such indices has improved somewhat over the past five years. Thirty-nine percent of the population lives below the national poverty line; 15 percent of the population is considered ultra-poor (NSOM, 2009).

The economy is dominated by the agricultural sector, with 85 percent of the population living in rural areas (NSOM, 2008). Most Malawians depend on subsistence agriculture. Eighty-five percent of all households are smallholder producers and more than three quarters cultivate less than one hectare of land. The majority (70 percent) of land under cultivation is used to grow maize, the staple crop (McGuinness 2008, p. 5).

Crop production also provides 73 percent of rural household income (Burritt, 2005, p. 3) and four-fifths of all export revenues, of which tobacco accounts for 53 percent. Yet, agricultural activities account for only 35 percent of national GDP because the agricultural sector is dominated by smallholder production (McGuinness 2008, p. 5).

OIBM OVERVIEW

OIBM, headquartered in Malawi’s Central Region (Figure 2, red areas) in the capital city of Lilongwe, is a commercial bank which started operations in 2003. The stated mission of the bank is “to provide high value financial services to meet the needs of economically disadvantaged Malawians.” They offer a variety of financial products and services, including loans, savings, insurance, payment services and foreign exchange products. Though their focus is the economically-active poor, the bank actively serves a diverse range of client market segments, from the poor to wealthy individuals and corporations.

Since 2005, OIBM has shown strong growth in both savings and loan activity, though the former continues to dominate the savings-led institution in terms of number of clients (see Figures 3 & 4).

OIBM’S INNOVATIONS

In 2005, OIBM received a grant from BMGF to pioneer a model of rural service delivery in Malawi, which they described as “a scalable, technology-driven, low cost approach to providing a full range of financial services to families living in remote rural areas” (OIBM, 2005, p. 3). This model is a technology-based alternative to the rural expansion plans spearheaded by microfinance banks elsewhere in the world, where the emphasis has been on new branch
openings (see Burgess & Pande, 2003, for Indian case study; Aportela, 1999, for Mexican case study).

**FIGURE 3 - OIBM'S OUTREACH, 2005-2010**

![Graph showing OIBM's outreach, 2005-2010]

Source: Mixmarket.org and internal OIBM reports

**FIGURE 4 - OIBM LOAN PORTFOLIO & DEPOSITS, 2005-2010**

![Graph showing OIBM's loan portfolio and deposits, 2005-2010]

Source: Mixmarket.org and internal OIBM reports

The expansion plan is multi-tiered. The technological components of the innovation, which include biometric smart cards, satellite branches, mobile bank branches, ATMs, cell phone-based mobile-banking services, and Point of Sale (POS) devices, are being used to deliver a range of services.
financial products including loans, savings, and insurance to the rural population. The BMGF-sponsored banking van was the first of these delivery channels to be rolled out and therefore became the primary focus of the FSA research in Malawi. Several major components of the innovation plan were rolled out in 2010, too late for comprehensive assessment as part of the FSA project, though their status will be discussed in this report.

The van is essentially a bank-on-wheels, with both an ATM and a human teller on board, traveling on a regular schedule and making stops to provide a full range of services in areas without brick-and-mortar OIBM branches. The services are largely identical in nature and range to those offered at OIBM’s brick-and-mortar branches. The van is, in effect, a direct attempt to elevate convenience in service provision, or “the opportunity to make all kinds of transaction... close to the home business, quickly, privately, and unobtrusively,” in the articulation of Morduch & Rutherford (2003, p. 7).

**FIGURE 5 - THE OIBM MOBILE BANKING VAN**

The outreach of formal financial service in Africa is generally constrained by limited branch networks and difficulties in reaching the sizeable populations that reside away from major cities and towns. For their part, rural microentrepreneurs and others who currently use banking services sacrifice considerable resources in the form of transaction costs (e.g. transportation fees and the opportunity costs of time) to reach points of access of their banks.

Success for OIBM depends on how their innovations have helped the bank extend its reach, presumably while lowering costs and facilitating access for these clients. OIBM’s approach here is likely influenced to some extent by industry trends and recent research linking the number of deposit locations to factors like propensity to save (cf. Ssewamala & Sherraden, 2004).

**WHY DID THE VAN MATTER?**

When launched in 2007, the banking van was the only delivery model of its kind operating in its service area in Central Malawi. It was also a striking, high-tech innovation that stood out,
splashed in bright red paint, amid an area marked by low technology and low development levels in general. This visibility made the van a very powerful marketing tool for OIBM and its products.

In its original proposal to BMGF, OIBM couched the van’s value mostly in terms of transaction costs: “The high monetary and opportunity costs associated with traveling long distances using unreliable transportation means that many struggling entrepreneurs outside of the city cannot access financial services. OIBM will service peri-urban markets from a city hub by bringing the bank from the hub to the outlying centers” (OIBM 2005, p. 7). The innovation presumably would enable clients to access banking services more cheaply, more efficiently, and perhaps more often than they would otherwise.

The innovation’s initial value proposition was also examined in context by McGuinness (2008), who concluded that value centered to a considerable extent on the idea of bringing the bank to the customers, much in the way envisioned by OIBM. It was noted for its “one-stop shopping” potential, meaning OIBM’s complete service array (savings, loans, remittances, etc.) could be accessed in a single visit in or near the home community of many clients, as opposed to the more selective service arrays of the competition in these areas. It was also noted for its potential to increase OIBM’s outreach and/or business among rural, agricultural, and possibly poorer customers.

**ORIENTATION: RESEARCH SITES**

At the time of the van’s launch in 2007, six stops were made on a regular basis on two routes radiating out from the capital Lilongwe. On the Mchinji side, the van stopped at the trading centers of Nsundwe and Kamwendo, as well as the town of Mchinji at the end of the route (about 110 km west of Lilongwe). The stops on the Dedza side included the town of Nkhoma, the trading center of Chimbiya, and the town of Dedza (about 90 km southeast of Lilongwe).

Since the baseline, these van routes have been expanded and some modifications made, particularly as related to the establishment of a satellite branch in Mchinji (see discussion next chapter). But the original route remains the focus of this investigation, since it provided the basis for the Financial Landscape baseline investigation and our aim here is to document changes in those same areas since the baseline. (The original van route and distribution of stops also provided the basis for of the Financial Diaries study and Impact Assessment Panel Study.)

**FIGURE 6 - MAP OF RESEARCH SITES**

For the endline, we chose to focus on four sites: Nsundwe and Mchinji to the west, and Nkhoma and Dedza to the southeast (Figure 6). Among these sites, we have an appropriate range of
geographic variation, including: 1) Nsundwe, a small local trading center; 2) Nkhoma, a small town on a spur about 20 km off the main road to Dedza; and 3) Mchinji and Dedza, both important regional trading centers with a wide range of commerce, including bank branches of OIBM’s competitors. The aim here was to capture varied perspectives on access to financial services, taking into account the diversity of the areas around the van stops.

**KEY RESEARCH QUESTIONS**

This study was intended to cast a targeted net of investigation, as compared with the Financial Landscape baseline. We began with a relatively small set of questions focused on access to financial services, and, more particularly, changes in access over the past three years. Those were:

- What financial service providers (both formal and informal) offer savings, credit, insurance, or remittance products to clients targeted by OIBM? What has changed in this market over the last three years (including new providers and change in the services of existing providers)?
- What do clients know and understand about these financial service providers and the availability/accessibility of these products and services, especially those that have changed over the last three years?
- What product attributes (e.g. proximity, security, service, fees) are most and least important to the target client base? How does this compare to the baseline results?
- What market segments are most and least served by existing services? How does this compare to the baseline results?
- What factors govern norms of access (e.g. gender, ethnicity, class, education level, occupation)? How does this compare to the baseline results?
- How do the perspectives of clients compare to the perspectives of financial service providers on key features of the financial landscape?
- To what extent do transaction costs (both time and money) affect norms of access to financial services?

**DATA COLLECTION STRATEGY**

The project deployed two major data collection strategies: 1) focus groups discussions (17 total); and 2) individual interviews (26 total). A team comprised of MFO researchers and local Malawian consultants carried out the research at the above-referenced sites served by OIBM, plus interviews in a handful of other sites, particularly the office locations of financial service-providers.

Please refer to Attachment A for details on the tools and sample employed in the study.

**LIMITATIONS OF THE METHODOLOGY**

With some exceptions, the focus of this study was respondent-reported data—i.e. what is working in financial service provision for clients and communities, what is not working, and why. This reported data is considered most significant because of its qualitative, contoured representation of the client perspective.

The approach used here conditions research results in a way that the reader must keep in mind. For example, the tables describing the financial service options and preferences (Tables 7-8, 10-11) are drawn from the focus groups. It is possible that these discussions omitted a handful of financial service providers operating in these areas, but such omissions are not considered problematic for this study. As stated above, the report focuses on what clients know. If a financial service provider operates in the area but is not widely known, it serves little purpose for our sample, and our study reflects that.

The subjective nature of the findings represents an intentional choice. This style of inquiry creates an opportunity to address key “why” questions regarding product adoption and use—i.e.
to delve deep into client preferences and choices and hear these issues articulated in clients’ own voices. For its part, quantitative panel data can be singularly useful in addressing the “what” questions on impact. The two types of studies complement each other in a powerful way.

Other methodological notes:

- We recognize that our chosen recruitment strategy—working through local chiefs—brings certain biases to the sample. However, we propose that these limitations did not undermine the study’s potential to represent consumer perspectives and identify trends in any fundamental way.

- Focus groups are a well-chosen means of gathering the perspectives of multiple individuals and moving toward consensus on issues quickly and efficiently. At the same time, the method brings potential pitfalls, such as the tendency of certain individuals to dominate the group over others. Many of these pitfalls can be avoided with an experienced moderator, and it is argued that these results reflect effective focus group management.

- The selection of individual interviews depended on time constraints and interviewee availability, as well as emergent field conditions (e.g. the primary investigator/interviewer was struck down for a time with malaria).

**Socioeconomic Status of Participants**

Each focus group included a simple survey that was administered at the close of discussion to gather basic demographic data. The intent was to gain an understanding of the socioeconomic profiles of our participants (beyond their general qualifications as OIBM clients, etc.). The results are seen in Table 1.

**Discussion**

The sample amounted to about half OIBM clients and half non-clients, with a comparable division by gender. This distribution came close to the ideals we were seeking.

Overall, the sample was 55 percent banked. This figure is considerably higher than the 26 percent figure noted in FinScope Malawi’s demand study for the country’s population as a whole (2009). However, this disparity is to be expected, given the oversampling of OIBM clients.

Nearly three-quarters of the sample was not educated beyond the primary level, and the same percentage was self-employed, mostly in trading. These figures are consistent with our aim here—that is, to capture OIBM clients and non-clients who compare to OIBM clients along major socioeconomic lines. OIBM targets the economically-active poor, many of whom are micro-entrepreneurs.
<table>
<thead>
<tr>
<th>TABLE 1 - SOCIOECONOMIC PROFILE DATA FOR FOCUS GROUP PARTICIPANTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Respondents</td>
</tr>
<tr>
<td>Percentage Male</td>
</tr>
<tr>
<td>Percentage Female</td>
</tr>
<tr>
<td>Percentage OIBM Clients</td>
</tr>
<tr>
<td>Percentage Non-Clients</td>
</tr>
<tr>
<td>Average Age of Respondents</td>
</tr>
<tr>
<td>Education at the Primary Level or Below</td>
</tr>
<tr>
<td>Education at the Secondary Level</td>
</tr>
<tr>
<td>Married Monogamously</td>
</tr>
<tr>
<td>Unmarried</td>
</tr>
<tr>
<td>Average Size of Household</td>
</tr>
<tr>
<td>Average Number of Household Earners in Past Year</td>
</tr>
<tr>
<td>Respondents in Wage Employment over the Past Year</td>
</tr>
<tr>
<td>Respondents in Self Employment over the Past Year</td>
</tr>
<tr>
<td>in Services</td>
</tr>
<tr>
<td>in Manufacturing</td>
</tr>
<tr>
<td>in Trading</td>
</tr>
<tr>
<td>in Farming</td>
</tr>
<tr>
<td>Percentage Banked(^1)</td>
</tr>
<tr>
<td>Percentage of Respondents with Outstanding Loans (including informal)</td>
</tr>
<tr>
<td>Percentage of Respondents with Savings (including informal)</td>
</tr>
<tr>
<td>Percentage of ROSCA Members</td>
</tr>
<tr>
<td>Percentage of Insured Respondents</td>
</tr>
</tbody>
</table>

Finally, it is worth noting that the sample was middle-aged on average, and 85 percent married. It is uncertain why the sample was skewed this way. It may represent local authorities’ propensity to select older, more well-established members of their communities. Or it may be skewed by the oversampling of OIBM clients, whose banked status may come more often in middle age and among married couples (i.e. OIBM views more settled individuals as a better risk on loans).

**Comparison to Baseline Sample**

In putting together the sample for the endline, the aim was to achieve a similar sample to the baseline, so that the general experiences and perspectives represented in the two studies could be compared. We did not seek precisely matched samples, but rather gross comparability, and with a couple of caveats.

\(^1\) “Banked” status in this report is defined as having an outstanding loan with formal or semi-formal institution, and/or having an open and active savings account with a regulated deposit-taking institution. Village Savings & Loan (VSL) participants were not included.
The first caveat was that we oversampled OIBM clients in the endline. It would not have made sense to do so for the baseline, since OIBM was scarcely represented in this population at that time. For the endline, however, it was felt that the experiences of actual OIBM clients were essential to gauging the bank’s trajectory over the last three years. A second related caveat was that in oversampling OIBM clients, we oversampled micro-entrepreneurs, as business-owners are disproportionately represented in OIBM’s client base.

We achieved comparability on most socio-economic variables, except for the proportion of OIBM clients and the proportion of self-employed, which were considerably higher in the endline (Table 2). The reader should bear in mind these limitations in the comparisons made in the report, though we do not feel the differences affect the overall analysis in a major way.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Baseline</th>
<th>Endline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Age</td>
<td>36</td>
<td>39</td>
</tr>
<tr>
<td>Men as Percentage of Sample</td>
<td>59%</td>
<td>53%</td>
</tr>
<tr>
<td>Women as Percentage of Sample</td>
<td>41%</td>
<td>47%</td>
</tr>
<tr>
<td>Most Common Education Level</td>
<td>Primary School Incomplete</td>
<td>Primary School Incomplete</td>
</tr>
<tr>
<td>Number of People per Household</td>
<td>5.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Percentage Engaged in Wage Employment</td>
<td>26%</td>
<td>26%</td>
</tr>
<tr>
<td>Percentage Self-Employed</td>
<td>37%</td>
<td>74%</td>
</tr>
<tr>
<td>Percentage Using Formal Financial Services</td>
<td>27%</td>
<td>29%</td>
</tr>
</tbody>
</table>

**SELF-IDENTIFICATION OF SOCIOECONOMIC STRATA**

In investigating the demand side, the focus-group tools employed in this study included an exercise whereby participants were asked to make very general distinctions among the kinds of people found in their home region. Through open-ended questioning, the exercise solicited an indigenous typology—i.e. how people conceive themselves versus the people around them, and how they imagine their population to be divided up. The purpose was to employ this typology to determine segmentation of the market—whether certain segments of the population are served especially by certain products and services over others; e.g. the rich favor Bank A for their loans, or Bank A excludes small market vendors from taking out loans.

The answers tended to orient toward rather traditional material distinctions of social class, e.g. rich and poor. The particulars of the typology included some variation beyond these broad distinctions. Five of the eight groups asked to categorize their communities employed three class distinctions, most often articulated as “rich,” “poor,” and “very poor.” But the other three groups used a four-part distinction, with the middle or “poor” class bifurcated into “poor” and “better off.”

This study required comparability between focus groups, so the rule of majority was applied and the three-part distinction is used throughout this analysis. The cases of four-part typologies were handled by averaging the numbers or combining the commentary of the middle two groups into one. The operative typology used in this analysis is seen in Table 3.

---

2 The term “class” appears here and is used throughout the analysis. We acknowledge that the term can be a loaded term with a variety of sociological and analytical implications, depending on one’s research orientation or discipline. Here, it is important to note, we offer class as a neutral term, simply meant to distinguish between reported groupings of community members based on differences in material wealth.
TABLE 3 - CRITERIA CITED FOR INDIGENOUS TYPOLOGY

<table>
<thead>
<tr>
<th>GROUP</th>
<th>CRITERIA CITED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rich/Upper class</td>
<td>• Have good clothing&lt;br&gt;• Live in good houses&lt;br&gt;• Have ample food&lt;br&gt;• Sleep on good beds&lt;br&gt;• Help others&lt;br&gt;• Own livestock&lt;br&gt;• Employ casual laborers&lt;br&gt;• Look healthy</td>
</tr>
<tr>
<td>Poor/Middle class</td>
<td>• Have enough food to eat for most of year&lt;br&gt;• Bathe with soap&lt;br&gt;• Own small-scale businesses&lt;br&gt;• Have access to farm inputs&lt;br&gt;• May own bicycle or motorcycle&lt;br&gt;• Have land to cultivate crops&lt;br&gt;• May raise poultry&lt;br&gt;• House may leak during rainy season</td>
</tr>
<tr>
<td>Very poor/Lower class</td>
<td>• Have insufficient food to eat&lt;br&gt;• Depend on begging&lt;br&gt;• Do not have permanent shelter&lt;br&gt;• Do not have nice clothes to wear&lt;br&gt;• No access to clean water&lt;br&gt;• Children do not attend school&lt;br&gt;• No access to health facilities&lt;br&gt;• Are drunkards&lt;br&gt;• Do not bathe</td>
</tr>
</tbody>
</table>

The most important point to make here regarding this typology is that, in our analysis, attention is not applied equally to all three social classes. Rather, the middle class and data/statements related to it receive a disproportionate amount of examination. There are three reasons for this: 1) it is conceived as the largest class, representing most of the population; 2) it is consistent with the largest piece of OIBM’s target client base, the economically-active poor; and 3) most participants viewed themselves as members of this group.
III. SUPPLY SIDE: WHAT’S NEW IN THE MARKET

Here we focus on the changes in the market over the last three years, beginning with OIBM and then the market as a whole.

DEVELOPMENTS AT OIBM SINCE 2007

Two trends at OIBM since 2007 summarize the changes that are noted below. First, the bank has largely fulfilled its plan for technology-based rural outreach, with all the components envisioned in its proposal to BMGF as well as some additions. Second, the bank has adapted and/or redesigned some savings, credit, and insurance products to meet the needs of its lower-income consumers.

General Outreach/Branch Network

OIBM’s proposal to BMGF in 2007 described the project’s goal as follows: “To develop a business model for providing large-scale, sustainable access to critical financial services for the rural poor in Malawi and Mozambique” (OIBM, 2007, p. 5). As noted earlier, the van was the first of these components to launch, and as such became the primary focus of the FSA investigations. OIBM, however, has advanced on its broader plan since 2007.

The bank vastly expanded its branch network in this time. It added a full-scale brick-and-mortar branch in northern city of Mzuzu and seven satellite branches spanning all major regions of the country. (The satellite branches are essentially small-scale, full-service branches using ready-made construction materials like shipping containers and established in peri-urban areas.) The newest of these satellites—Mchinji—had a direct effect on our study area, in that the van stop was discontinued when the branch opened in 2009. Since 2007, the bank has also built and opened 10 ATM kiosks, a low-cost fixed outreach strategy that bank officials describe as very successful in reaching the more remote areas of the country.

In other words, in terms of physical presence, OIBM is a much bigger bank than it was in 2007.

Mobile (Van) Banking

According to OIBM’s management, the trend over the last three years in terms of van banking has been overwhelmingly positive. All of the bank’s mobile services were described as generating profits. OIBM management said that mobile business doubled over 2007, doubled again over 2008, and then grew by 50 percent over 2009, with the slowdown attributed to a downturn in the economy.

Over time, “mobile banking” at OIBM has grown to encompass more than the original Dedza/Mchinji routes (see additional discussion in this chapter), so any such claims on growth would apply to more than just the areas under study. Using reports of account activity provided by OIBM, these growth rates could not be confirmed as applicable to the Dedza and Mchinji corridors in particular. It is clear that growth was taking place, but the nature and extent of the growth is less clear.

We drilled down into these issues by way of three internal “Savings Reports” provided by OIBM, dated May 2008, May 2009, and May 2010. To gauge business trends, we focused on regular savings account activity, which predominates over loan activity, on the Dedza and Mchinji mobile routes. We did not focus on premium or specialized savings products, which are generally not offered via the van.

Between 2008 and 2009, the number of accounts on the Dedza route rose 12 percent, and value of deposits rose 70 percent. The average amount on deposit per account rose from $34 to $51.
However, between 2009 and 2010, the number of accounts on the Dedza route rose 43 percent, while the value of deposits dropped by 57 percent, to a level lower than the 2008 figure. The average amount of deposit per account dropped from $51 to a striking $15.

On the Mchinji side, the analysis is hampered by the fact that the route was discontinued in its original form when the satellite branch was opened in 2010; hence tracking of savings activity on the route ended in 2010 as well. Between 2008 and 2009, we see a very similar rise in account activity—15 percent by number and 72 percent by volume. But we cannot determine whether activity drops off similarly in 2010, since there was no separate tracking.

We offer the Dedza numbers with caution, in that there may be more to the story than is currently known. But they certainly raise questions. Is the 2009-2010 drop evidence that OIBM was adding poorer clients to its base, perhaps after picking up the “low-hanging fruit” of relatively affluent clients in the van’s first couple of years? The fact that there was a net decrease in volume of deposits between 2008 and 2010 would seem to work against that theory (i.e. the volume should still be increasing over 2009-2010, just at a slower pace).

Alternatively, the data may be evidence that, over time, more clients were signing up for accounts, but fewer of them were actively using them, as evident in both the declining total value of deposits and declining value per account. Hence we invoke the key distinction between uptake and use. It is worth noting that these figures are somewhat consistent with findings from the Financial Diaries study, including a net increase in OIBM clients in the sample but a quite substantial decrease in use of accounts by clients over 2008-09 (Stuart, et al., 2011).

In this context, what was the scale of the van’s contribution to OIBM’s business overall? Our view here is constrained by several tracking complications in the available figures. However, as part of its Impact Assessment Panel Study, the IRIS Center tracked the number of new clients added over several relevant periods of time. From April 2008 through May 2009, the bank added 4,950 new clients along the original van routes (Nagarajan, et al. report forthcoming). Using total OIBM client numbers for May 2009, we note that this represents a 2 percent contribution to the total client base in the space of just over one year.
The Van, the Trucks, and Mobile Expansion

It is clear that OIBM on the whole experienced robust growth from 2007 to 2010 (see Figures 3 and 4, previous chapter). During that time, the territory covered by OIBM’s mobile banks has vastly expanded as well, with new routes added out of Lilongwe (north to Dowa and east to Salima) as well as out of the bank’s permanent branches in Limbe and Mzuzu.

These expanded routes are not all the territory of the BMGF-sponsored banking van. That vehicle still traverses the Mchinji-Lilongwe-Dedza corridor (minus Mchinji itself, and with a seasonal stop added at Tete), plus some routes out of the Mzuzu branch (up the major M1 highway). But the trend in the expansion has been toward the use of smaller vehicles that can leave the paved road. For this purpose, OIBM employs much less elaborate Land Cruisers and Toyota pickups, which offer withdrawals and deposits only, as opposed to the van’s full range of services. The goal here, according to OIBM management, is to parlay these mobile routes into new satellite branches, supported by networks of ATM kiosks in the surrounding hinterland.
The smaller trucks are also playing a role in a new OIBM venture called “Banking on the Spot,” in which bank staff visit merchants directly to collect their deposits. The service is reserved for higher-volume merchants. Minimum deposit is 1 million MWK (about $7,000), with the average amount of the transaction much higher. OIBM management described this venture as “very risky” from a security perspective but a boost to maintaining liquidity at the bank.

The mobile banks also figure into significant initiatives in the planning phases as of mid-2010. In Nkhoma, OIBM is moving forward with plans to rent the local post office on a regular basis to conduct business. This initiative is part of broader strategy whereby a vehicle will be employed to drop off staff members at different post offices and then pick them up later that day. The idea is that this will enable OIBM to capture business simultaneously at regional markets that fall on the same days of the week.

The successes of the OIBM banking vehicles have reportedly inspired imitators. OIBM management openly claims that commercial bank New Building Society (NBS) launched its own mobile bank in recent years in an attempt to replicate OIBM’s success. According to some, NBS even copied OIBM’s colors and branding on its banking vans to confuse consumers into thinking theirs was the OIBM vehicle. “But what they haven’t learned is how to do business around it,” said an OIBM official. Also, according to OIBM management, the manufacturer of the van has copied OIBM’s model and sold similar vehicles to banks all over Africa.

**POS Devices (aka “Agent Banking”)**

Reportedly conceived at the behest of customers who wanted “more footprint across the country,” the POS project (usually referred to as “Agent Banking” by OIBM staff) was part of the original outreach plan pitched to BMGF. However, the first POS sites did not reach operational phase until late 2009.3

All of the POS devices are located in Rab Processor outlets, which are branded under the name Kulima Gold Depots. Rab Processors Ltd. is a Malawian company based in Blantyre and a major seller and buyer of farm inputs, doing high-volume business through a wide network of branches and depots. These depots will host the POS devices, offering the same services as ATMs, except that the money comes and goes through the shop.

The service requires a fee of 100 MWK ($0.69) per withdrawal, which is relatively high for the Malawian context and far outweighs OIBM’s normal withdrawal fee ($0.17). However, OIBM expects clients will tolerate it for the added convenience. Clients are identified biometrically through their MalSwitch cards, so the technology is seen as very safe. Among the clients surveyed in this study, none were active users of this relatively-new service, so none of these assertions could be evaluated from a client perspective.

OIBM in turn earns additional fees from Rab for provision of the devices. The fees are offset by reducing Rab’s costs of holding and depositing money, plus the additional business that the devices bring into the stores. Generally, OIBM describes the project as much cheaper and potentially more profitable than building more ATMs.

---

3 By mid-2010, OIBM had completed the pilot phase of the project and had 22 POS sites in operation, with a plan to add 100 more by the end of 2010. In explaining this delayed rollout, OIBM managers recount “many glitches” in the acquisition and setup of the devices, which were provided by MalSwitch. For background, from the MalSwitch website: “The Company Malawi Switch Centre Limited (MALSWITCH) was incorporated in 2006 as an implementing agent for the payment systems modernisation initiatives National Payment System Modernization programme as articulated in the National Payment System Vision and Strategy. The programme is co-ordinated through the National Payments Council (NPC), comprising the Reserve Bank of Malawi, registered commercial banks as well as infrastructure providers namely Electricity Supply Corporation of Malawi Limited (ESCOM), Malawi Telecommunications Limited (MTL) and Zain who are co-opted into the NPC on specific focus initiatives...Our core business is to create, provide and maintain a secure infrastructure of electronic payment solutions in Malawi. We offer our clients (banks, retailers/merchants, businesses and the general public) the security of electronic funds transfer, and final customers the ease and user-friendliness of electronic transactions” (2011).
Cell Phone Banking

The year 2010 also saw the launch of a service innovation at OIBM that was not part of the original BMGF grant, but very much consistent with the vision of low-cost technology-driven outreach—that is, OIBM’s “Banki Manja” (“bank in your palms”), or cell phone banking service.¹

The platform operates on standard cell phones available in Malawi and offers access to all of OIBM’s 18 bank services, plus a variety of “informational services,” (ranging from reminders about loan payments to announcement of new services), bill pay, and airtime purchases.

To access the service, users dial a specified number and enter a PIN number, which brings up the menu of services. Each time a user accesses the system, he/she is charged a fee of 30 MWK ($0.20). However, once into the system, users can execute unlimited transactions. OIBM management envisions the system as one in which users may, for example, check their account balances, send and receive multiple remittances, and pay bills all in the same sessions, making it quite economical to use.

On remittances, Banki Manja is expected to work in close concert with the POS service or agent banking. Users can receive money on their phones, which notify them of receipt. Then they can travel to the nearest POS site with their phone and MalSwitch card and receive a payout for the remittance in cash. The alternative is to keep the money on the phone and “push it around” to pay bills, buy airtime, etc., but OIBM management sees POS device placement as critical for those who “still want to feel some bucks in their pocket.”

Cell phone banking received a major push from OIBM in 2010. The bank has invested heavily in advertisement of the service, ranging from mass media to one-on-one marketing by bank staff. The bank has also opened a call center to answer users’ questions about the service.

OIBM’s is not the only cell phone banking available in Central Malawi. National Bank and Standard Bank each offer a service as well. However, neither bank is known for serving low-income consumers like OIBM. According to OIBM management, the National and Standard’s systems are very complicated and “difficult for villagers to use.” OIBM also claims that their system is safer and more protective against theft than those of the other banks. They explain that OIBM’s system works off information on the bank’s server, so no trail is left on the phone.

State of the Product Line - Savings

Several developments suggest a trend toward more client-focused savings products at OIBM.

The most significant changes have pertained to OIBM’s Kasupe Account. The Kasupe Account is one of two savings products explicitly targeting “economically marginalized people,” along with the bank’s Ordinary Savings account. The Kasupe, however, has undergone changes to make it even more accessible to those near the bottom of the pyramid.

The first and perhaps most important change occurred in early 2010, when the account’s minimum balance was changed from about $3 to zero. This change was reportedly driven by recognition that many low-income consumers could not pay the combined cost of acquiring a MalSwitch card (about $7 and required with all new savings accounts) and the $3 for the account balance. The choice was to subsidize the card or eliminate the opening balance, and the bank chose the latter.

The second change made to the Kasupe product was that the monthly maintenance fee of $0.33 was eliminated in 2010. Again, this change was informed by popular demand. As an OIBM

¹ The project has reportedly been in development at OIBM since 2007 but did not officially launch until May 2010, just before the field research for this report. As in the POS project, OIBM management encountered a range of technical and logistical hurdles in the project’s development, but these were eventually resolved (see Berger 2009 for account). By late June 2010, OIBM reported about 1,000 users enrolled.
manager explained: “People would come in after some months and find that their account had dwindled.” Both the change and the explanation are significant, in that they suggest many accounts carry low balances and are used infrequently. The infrequency of use in particular resonates with the findings of the Financial Diaries study (Stuart, et al., 2011), which found that over 18 months 11 percent of clients never completed any transactions, and the sample as a whole averaged less than one transaction every two months.

If we compare the current Kasupe to comparable products at OIBM’s primary competitors, plus Standard Bank (Table 4), we see that the Kasupe prevails on minimum balance and in some fee comparisons. Generally, it is clear that the product competes well with anything on the market targeting the bottom of the pyramid. However, the differences are not acute, and the competitors offer some advantages in areas like interest rate.

### TABLE 4 - COMPARISON OF SAVINGS PRODUCTS

<table>
<thead>
<tr>
<th>Institution</th>
<th>OIBM</th>
<th>NBS Bank</th>
<th>Malawi Savings Bank</th>
<th>Standard Bank of Malawi</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Savings Product</strong></td>
<td>Kasupe</td>
<td>EasySave Account</td>
<td>Savings Account</td>
<td>Personal Savings</td>
</tr>
<tr>
<td><strong>Minimum Opening Deposit</strong></td>
<td>None</td>
<td>$3.33</td>
<td>$3.33</td>
<td>$6.67</td>
</tr>
<tr>
<td><strong>Interest Rate Paid</strong></td>
<td>2% if balance exceeds $6.67</td>
<td>3.5%</td>
<td>4%</td>
<td>Varies with market</td>
</tr>
<tr>
<td><strong>Monthly Fee</strong></td>
<td>None</td>
<td>$0.53</td>
<td>$0.67</td>
<td>$0.21</td>
</tr>
<tr>
<td><strong>Counter Withdrawal Fee</strong></td>
<td>$0.17</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td><strong>ATM Fee</strong></td>
<td>$0.17</td>
<td>$0.37</td>
<td>$0.50</td>
<td>None</td>
</tr>
<tr>
<td><strong>Cost of New ATM Card</strong></td>
<td>$6.67 (MalSwitch)</td>
<td>$6 (EasyBank Classic)</td>
<td>$8 (Auto Card)</td>
<td>$3.33 (Auto Card)</td>
</tr>
</tbody>
</table>

In another change to its savings line, geared toward its lower-income clients, OIBM has introduced a new low-volume commitment savings plan, known as its “Save Plan.” The account requires a minimum contribution of just $0.66 per month and can be maintained by individuals or groups. The interest rate is a very competitive 6 percent.

OIBM described the Save Plan account as very popular among casual laborers, who tended to be some of poorest of the economically-active poor in Central Malawi. Many clients save in the accounts for a particular need that occurs at some point in the year, with purchase of farm inputs as the most common use. Generally, the structure of the Save Plan seems to effectively respond to a well-documented need amongst low-income Malawians (Stuart, et al. 2011) – specifically, the need to offset large lump-sum expenses that occur with striking regularity even among poorer households, as they simultaneously face irregular income flows.

### State of the Product Line - Credit

OIBM has made a handful of changes to its line of credit products over the last three years. According to management, the bank’s recent efforts vis-à-vis credit have focused not on products per se but on outreach. The bank continues to invest more in rural areas, bringing loans to a rural client base underserved by the other commercial banks.

OIBM has continued to diversify and specialize its loan products to some extent. In addition to its group and individual micro-entrepreneurial loans, the bank’s product line now includes educational loans, general agricultural loans, specialized fertilizer loans, home improvement...
loans, and consumer loans. This represents a significant evolution from three years ago, when OIBM tended to focus its credit efforts on micro-entrepreneurial loans, agricultural loans, and some consumer lending (McGuinness, 2007, p. 36). However, it is questionable how relevant these specialized products are to OIBM’s core clientele, the economically-active poor. No participants in this study, for example, indicated any first-hand knowledge of these products.

Returning to the core business of agricultural and micro-entrepreneurial loans, we see that OIBM’s product line stands up well in the market. On agricultural loans, OIBM’s key features compare favorably to competing parastatals Malawi Rural Finance Company (MRFC) and MARDEF (Table 5).

### TABLE 5 - COMPARISON OF AGRICULTURAL LOANS

<table>
<thead>
<tr>
<th>Institution</th>
<th>OIBM</th>
<th>OIBM</th>
<th>MRFC</th>
<th>MARDEF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product Type</td>
<td>Individual</td>
<td>Group</td>
<td>Individual</td>
<td>Group</td>
</tr>
<tr>
<td><strong>Target group; purpose</strong></td>
<td>Big farmers favored by agribusiness organizations</td>
<td>Farmers clubs under agribusiness organizations</td>
<td>Smallholder certified tobacco farmers</td>
<td>Smallholder certified tobacco farmers</td>
</tr>
<tr>
<td><strong>Min/Max Loan Size</strong></td>
<td>$1,000/$10,000</td>
<td>$3,000/$20,000 (split by group)</td>
<td>Unknown; can be cash or inputs</td>
<td>$1,333-$2,000 (split by group)</td>
</tr>
<tr>
<td><strong>Max Loan Term</strong></td>
<td>10 months</td>
<td>10 months</td>
<td>1 year</td>
<td>1 year</td>
</tr>
<tr>
<td><strong>Collateral/Security Deposit</strong></td>
<td>10% of loan as security savings and/or assets</td>
<td>10% of loan as security savings; group guarantee</td>
<td>20% of loan as security savings</td>
<td>Group guarantee</td>
</tr>
<tr>
<td><strong>Interest Rate per year (first loan)</strong></td>
<td>29% flat</td>
<td>29% flat</td>
<td>33% flat</td>
<td>Unknown</td>
</tr>
<tr>
<td><strong>Processing Fee</strong></td>
<td>2.5% of loan</td>
<td>2.5% of loan</td>
<td>1% of loan</td>
<td>2.5% of loan, plus $1.33 ledger fee</td>
</tr>
<tr>
<td><strong>Repayment Frequency</strong></td>
<td>Bullet (once) and Balloon (Monthly interest payment)</td>
<td>Bullet (Once) and Balloon (Monthly interest payment)</td>
<td>Monthly</td>
<td>Monthly</td>
</tr>
</tbody>
</table>

On micro-entrepreneurial loans, the comparison is similar, made against the products of competitors like FINCA and FINCOOP (Table 6). OIBM has more favorable features in some areas, and overall its products appear highly competitive, though not necessarily unique, in the market.
<table>
<thead>
<tr>
<th>Type of Loan</th>
<th>FINCA</th>
<th>FINCOOP</th>
<th>OIBM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group size</td>
<td>15-35</td>
<td>n/a</td>
<td>7-10</td>
</tr>
<tr>
<td>Loan size (first)</td>
<td>$20-$133</td>
<td>$333-$3,333</td>
<td>$1,333-$1,667</td>
</tr>
<tr>
<td>Loan term (months)</td>
<td>4 months</td>
<td>6 months</td>
<td>Up to 12 months</td>
</tr>
<tr>
<td>Collateral/security deposit</td>
<td>20% of loan cash security deposit</td>
<td>Assets</td>
<td>Must have savings; percentage of loan varies</td>
</tr>
<tr>
<td>Interest rate (per year)</td>
<td>60% per year</td>
<td>42% per year</td>
<td>32% per year</td>
</tr>
<tr>
<td>Processing fee</td>
<td>None</td>
<td>$10</td>
<td>2% of loan</td>
</tr>
<tr>
<td>Payment frequency</td>
<td>Biweekly</td>
<td>Monthly</td>
<td>Monthly</td>
</tr>
</tbody>
</table>

The most obvious comparison to make in Table 6 is between OIBM’s Maziko product and FINCA group product, and here OIBM’s competitiveness in the low-income market emerges clearly. OIBM offers a somewhat larger loan, with less collateral, less interest, and a more flexible term than the FINCA loan.

**Specific Changes to Product Line - Insurance**

The most significant change to OIBM’s insurance offerings was the introduction of the Mthandizi product, which is an interest-bearing fixed account with funeral benefit.

Consumers of the Mthandizi product must keep a minimum of 10,000 MWK ($67) in their accounts to remain eligible for the benefit. The fixed account offers an interest rate of 2 percent monthly and runs up to 12 months, rolling over automatically.

The funeral benefits kick in after three months in the program. OIBM provides a payout of $333 to up to six potential beneficiaries if the account owner dies. If the account owner’s spouse dies, the account owner receives $233. If the account owner’s child dies, the account owner receives $83.

OIBM management described some cultural issues in marketing this insurance product—i.e. “people don’t like to talk about dying.” At the same time, the new product has reportedly been “hugely profitable” for the bank, with $170,000 in deposits through mid-2010.

**OIBM’s View on the Competition**

In 2010, OIBM identified its strongest competition to be NBS, an institution that, like OIBM, has had success serving both the top and the bottom of the pyramid.
OIBM management suggests that NBS's major advantage over OIBM is the bank’s heavy investment in infrastructure—ATMs, branches, etc. OIBM’s response to that continues to be its low-cost technology-based outreach strategies.

OIBM also continues to challenge NBS on one of the Central Region’s most lucrative pieces of business—the financing of tobacco farming and banking of its proceeds. OIBM has been competing with NBS directly for this market since 2004.

As documented in the baseline study (McGuinness, 2008), tobacco financing generally works as follows: banks in the Central Region provide loans to tobacco growers in the form of cash and/or inputs. Sometimes the latter are distributed through buyers like tobacco company Limbe Leaf, which agree to buy the product when ready and also advise the farmer on agricultural techniques. When ready, the product is brought to an auction site, where it is sold. The proceeds are deposited directly into an account with the bank that provided the loan, with the full value of the loan deducted.

For years, NBS had a de facto monopoly on this business, according to multiple sources familiar with the history of microfinance in Malawi. Although technically any bank could be used, NBS aggressively reached out to tobacco farmers, using its wide branch network as an anchor in tobacco-growing areas.

As noted above, OIBM began targeting this market in 2004. Its portfolio has grown steadily, from 500 accounts to 7,000 in 2010. OIBM management estimates that the bank now captures 15-20 percent of market share of tobacco business in the rural areas it serves. The banking van has reportedly played a key role in reaching these farmers and picking up their business. “We had nothing at the start of the mobile project,” said one OIBM manager. “We’ve taken a big piece of meat from [NBS].” NBS management counters: “We still consider ourselves controlling the tobacco process. We have a larger share.”

Beyond NBS, OIBM management does not see much competition for the bank, given the market it serves. Reportedly there was more competition with Malawi Savings Bank (MSB) in the past, but according to OIBM, that competition has waned because MSB’s mission has drifted away from the bottom of the pyramid, in an effort to heighten profitability. MSB management concurs that competition with OIBM is limited. “They are doing microfinancing,” said an MSB manager. “We don’t consider our products to be really micro.”

OIBM management tends not to see Malawi’s NGOs as competition, even though some of those NGOs pursue the same credit market as the bank. To some extent, this perspective is reinforced by the evidence from the Financial Diaries study (Stuart, et al, 2011), which suggests that OIBM is serving the low-income credit market in the Mchinji/Dedza corridors in far greater volume than any NGOs or community-based lending institutions. (In the Diaries study, the total flows through the non-bank financial institutions were just 4 percent of the flows at the commercial banks, and the total flows through community-based organizations amounted to just 1.5 percent of the flows of the banks (ibid.: 56-57)).

Likewise, OIBM management tends not to dwell on the competition offered by Central Malawi’s cooperatives, even though those cooperatives compete with OIBM on both credit and savings in areas covered by this study. Management of FINCOOP cites OIBM and NBS as primary competitors.

**Changes in the Competitive Environment**

In examining the broader microfinance context of Malawi over the last three years, perhaps most striking is the extent to which OIBM appears to be helping set the agenda, in the sense that their innovations are being emulated by other institutions. This trend is suggestive of an emergent leadership role for OIBM since 2007.
Rural Outreach Strategies

According to the management of the Malawi Microfinance Network (MAMN), OIBM was directly responsible for a new push for innovative rural outreach. After OIBM introduced the above mentioned BMGF-sponsored service innovations, the rest of the industry has endeavored to catch up.

On the subject of banking vehicles, FINCOOP, one of the most prominent financial cooperatives in the Central region, also operates a banking van and claims its service dates to 2006, with routes in all three regions of Malawi by 2008—thus there are competing views as to whether OIBM or FINCOOP came first. In any case, the FINCOOP van now competes with OIBM in certain areas (e.g. the Mchinji corridor) while branching into many rural routes untouched by OIBM’s vehicle. FINCOOP offers a comparable array of services (new savings accounts, deposits, withdrawals, and loans) from its van.

As noted earlier, NBS has launched a banking van as well, and the prevailing opinion in Malawi’s microfinance industry is that NBS was following OIBM’s lead. The NBS van now runs routes overlapping with OIBM in multiple areas. NBS management denies that competition with OIBM spurred the launch of their van but characterizes it as a parallel effort in rural outreach. “We've gone as rural as we could with the van,” said an NBS manager.

Also as of mid-2010, MRFC, a parastatal savings and loan that does extensive business with Malawi’s tobacco farmers, had procured 120 POS devices, with plans to employ them in rural areas for both loan payments and savings transactions. Its use of the devices will diverge from OIBM in several respects. Unlike OIBM’s permanent placement of the devices at Rab outlets, MRFC’s devices will be carried and maintained by loan officers as they travel into rural areas. MRFC plans to utilize batteries to power the devices.

In terms of cell phone banking, there are few parallels among other financial institutions beyond National Bank and Standard Bank, which generally do not serve the bottom of the pyramid. However, the idea of expanding cell phone banking in Malawi has found much support. The Financial Inclusion in Malawi project (FIMA) has aggressively championed cell phone banking among the innovations it is supporting, and mobile operator Zain continues to aggressively market its network services to banks and MFIs in Malawi. In early 2010, FIMA partnered with Zain in a dissemination project to “sensitize” financial institutions to services offered by Zain. As of mid-2010, none had incorporated Zain’s services, but the effort continues.

According to MAMN, three obstacles to the expansion of cell phone banking tend to be reported: 1) illiteracy among consumers; 2) agent networks need to be set up on an ambitious scale; and 3) network coverage in rural areas may be questionable. OIBM offers a clear response to some of these issues (e.g. Rab outlets as the basis for an agent network) but not others (e.g. network coverage in rural areas). It will be interesting to see how these issues affect OIBM rollout over the next several years.

Credit Landscape

MAMN reported in mid-2010 that its member institutions alone had $80 million in outstanding loans, with about 800,000 clients. According to the network, these figures represent “big change in a positive way” compared with just a few years ago. Internal reports from MAMN confirm this: the total number of loans in Malawi grew by 240 percent between 2006 and 2009, while the value of those loans grew by about 450 percent over the same period (MAMN, 2011).

The lending numbers, however, are not being driven by all corners of the financial sector. Four institutions in particular are reported to be pushing the numbers up: 1) OIBM; 2) MRFC; 3) MARDEF (another parastatal that specializes in small-business loans); and 4) MUSCCO (an umbrella organization of savings and loan cooperatives). Once again, we note the other commercial banks’ lack of presence in the lending market for low-income Malawians.

Financial Landscape Endline, Malawi
MAMN points to four reasons why loan portfolios have increased, at least at these institutions: 1) OIBM is pushing new products and has increased access to loan capital; 2) MARDEF has access to more government money; 3) MUSCCO has been able to mobilize savings of clients and give out more loans; and 4) all institutions are diversifying their loan products, branching into areas like seasonal agricultural loans, with more varied loan terms.

**Savings Landscape**

On the national level, research has found little evidence of broad shifts in the saving market or savings practices. Generally, it is clear that formal finance in Malawi continues to be savings-led. FinScope’s Demand Study (2009) amply demonstrates this fact, noting that 68 percent of Malawi’s banked population accesses savings accounts, while only 5 percent access loans.

This is not to say that the low-income population in the areas covered by this study has a multitude of choices on savings provision. OIBM has targeted the low-income market and has emerged as a major player in that area. In fact, according to MAMN, OIBM is “really the only player” making major inroads at the micro-savings level. Even OIBM’s major competitors confirm this to some extent. NBS, for example, freely admits that their savings activity tends to be niche-oriented, especially vis-à-vis tobacco growers. Said one manager: “We still haven’t really gone micro.”

**NOTE ON OTHER CHANGES IN LANDSCAPE**

This study documented a variety of other changes in the financial landscape that were not necessarily related to any developments at OIBM. These are presented for the reader’s information as Attachment B.

**SUMMARY ON THE SUPPLY-SIDE LANDSCAPE**

In sum, OIBM has largely fulfilled its vision of rural outreach, albeit with a somewhat attenuated timeline. New delivery systems have been accompanied by changes to the product line that reflect the push for an expanded low-income rural client base. One would not expect OIBM’s successes to spark a revolution in Malawi’s microfinance market, but clearly some institutions have responded with their own parallel developments. We turn now to the demand side to examine how clients have responded to these changes.
IV. DEMAND SIDE: WHAT CONSUMERS ARE USING & WHY

Having examined the supply side of the credit equation, the report shifts focus to the current and potential recipients of these services, i.e. the consumers. The key questions addressed in this chapter are: 1) whether OIBM’s moves match client preferences; and 2) whether the moves have helped reposition the bank among low-income consumers.

PREFERRED SOURCES OF SAVINGS

In one of the focus group exercises, participants were asked to describe the preferred providers of savings services in their communities. They were asked to distinguish among institutions as well as to segment the markets they served, as described at the end of Chapter II. Table 7 segments preferred providers for savings by upper and middle class.

<table>
<thead>
<tr>
<th>RANK</th>
<th>Preferred Providers/Location of Savings, Upper Class</th>
<th>Preferred Providers/Location of Savings, Middle Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>National Bank</td>
<td>OIBM</td>
</tr>
<tr>
<td>2</td>
<td>NBS</td>
<td>MSB</td>
</tr>
<tr>
<td>3</td>
<td>First Merchant</td>
<td>NBS</td>
</tr>
<tr>
<td>4</td>
<td>OIBM</td>
<td>Home</td>
</tr>
<tr>
<td>5</td>
<td>Standard Bank</td>
<td>Village Savings &amp; Loan Group</td>
</tr>
<tr>
<td>6</td>
<td>Home</td>
<td>Relative/Friend</td>
</tr>
<tr>
<td>7</td>
<td>MSB</td>
<td>First Merchant</td>
</tr>
<tr>
<td>8</td>
<td>National Bank</td>
<td>Standard Bank</td>
</tr>
<tr>
<td>9</td>
<td></td>
<td>National Bank</td>
</tr>
</tbody>
</table>

As a check against bias in these rankings, given that we oversampled OIBM clients, Table 8 summarizes the rankings generated by the focus groups composed solely of non-OIBM clients.

<table>
<thead>
<tr>
<th>RANK</th>
<th>Preferred Sources of Credit, Upper Class</th>
<th>Preferred Providers of Savings, Middle Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>National Bank</td>
<td>MSB</td>
</tr>
<tr>
<td>2</td>
<td>NBS</td>
<td>OIBM</td>
</tr>
<tr>
<td>3</td>
<td>OIBM</td>
<td>NBS</td>
</tr>
<tr>
<td>4</td>
<td>Standard Bank</td>
<td>VSL</td>
</tr>
<tr>
<td>5</td>
<td>First Merchant</td>
<td>Relative/Friend</td>
</tr>
</tbody>
</table>

The top five preferred sources for the highest social strata are nearly identical, with OIBM in a very similar position; its position in fact rises slightly among the non-clients. For the middle class, the rankings are quite similar, with OIBM moving to the second position but still quite high in the ranking.
Focusing on the middle class as the most representative of OIBM’s target client base, we see that the top five providers in both Table 7 and Table 8 include just three banks: OIBM, NBS, and MSB. This finding is consistent with what one is likely to hear on the ground in Malawi—i.e. that these institutions are the only banks that effectively serve poor Malawians.

The discourse on OIBM as a top savings provider centered on several themes. Participants articulated OIBM’s commitment to serving the poor and generally good service in various ways. One participant said: “They welcome us with a smile and humbly greet us to feel at home, though we are illiterate.” They also described access to loans as a top reason to save with the bank—yet more evidence for OIBM’s niche in serving poor Malawians with credit (cf. Stuart, et al. 2011).

In addition, participants felt the bank provided good security, which is significant in that the open-air nature of the van stops might cause some customers to question security (see additional discussion below). Participants liked OIBM’s low fees (account opening and transaction fees), and felt the interest rates on savings accounts were among the best in the market (not entirely
true—see Table 4—but rates are within a few percentage points of competition). Several participants noted that OIBM trains them on business management, as part of its financial education program. Curiously, just one focus group mentioned perhaps the most concrete or tangible benefit of the van—the transport and food costs saved by accessing the van in the local community, as opposed to traveling to the main branch in Lilongwe.

The comments on NBS and MSB tended to express variations on these themes. NBS was cited for good customer service catering to the poor. It was described as providing good security, low transaction fees, and high interest. Participants in the Mchinji area also noted that NBS was the first bank to operate in the area and does especially well serving farmers: “The bank favors farmers who are mostly illiterate, as they help them write on bank slips.”

MSB was also cited for its commitment to serving the poor. Participants noted its easy procedures for opening accounts and low fees. The MSB comments tended to be tempered somewhat, however, by the suggestion that the bank has slipped a bit in serving these markets. Several focus groups called the bank “not reliable,” noting that it sometimes “runs out of cash.”

Village Savings & Loans groups (VSLs), which also appear as a preferred option on both lists, received something of a different interpretation. The main advantages cited were fundamental to the model—access to loans as well as the dividends paid out to the groups after other members borrowed. But these came with the distinct disadvantage of lack of security. Participants felt the funds stored in the local community were vulnerable to theft.

**PREFERRED FEATURES OF SAVINGS PRODUCTS**

PRA questioning also focused on the preferred features or characteristics of savings products—i.e. what was most and least important to respondents in pursuing a savings account (Table 9).

<table>
<thead>
<tr>
<th>RANK</th>
<th>OIBM CLIENTS</th>
<th>NON-CLIENTS</th>
<th>COMBINED</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Proximity to home/business</td>
<td>Security</td>
<td>Security</td>
</tr>
<tr>
<td>2</td>
<td>Security</td>
<td>High interest rate</td>
<td>High interest rate</td>
</tr>
<tr>
<td>3</td>
<td>Low/no fee to open account</td>
<td>Good customer care</td>
<td>Proximity to home/business</td>
</tr>
<tr>
<td>4</td>
<td>High interest rate</td>
<td>Proximity to home/business</td>
<td>Good customer care</td>
</tr>
<tr>
<td>5</td>
<td>Good customer care</td>
<td>Easy access to loans</td>
<td>Low/no fee to open account</td>
</tr>
<tr>
<td>6</td>
<td>No restrictions on withdrawals</td>
<td>Easy access to loans</td>
<td>No restrictions on withdrawals</td>
</tr>
<tr>
<td>7</td>
<td>Low/no fee to open account</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The attribute that links most directly to the banking van would be “proximity to home/business.” That attribute appears first among OIBM clients, but just fourth among non-clients, the obvious implication being that the van innovation has resonated with Malawians who bank with OIBM. (By comparison, it is interesting to note that the FinScope Demand Study for the country as a whole (2009) found “Convenient Location” to be, far and away, the most important criteria in
selecting a bank among those surveyed. Likewise, the FinScope Supply Side Study (2009) pointed to accessibility of financial service point as the top barrier to financial access in Malawi.

The reasons cited by clients for valuing the “proximity” attribute tended to be straightforward: it is cheaper to access their money without the added costs of transport to the nearest permanent branch. The clients making these remarks may have been OIBM clients who predated the van and had come to appreciate it, or clients who joined specifically to avail themselves of the van’s services. Those who did not bank with OIBM seemed to value the innovation less, which stands to reason, or else they might have switched banks when the van began rolling.

Security, conceived loosely by participants as protection of funds both when transacting and after funds are stored, is an interesting attribute on these lists, appearing at or near the top of all three. In a comparison to informal mechanisms such as saving at home, both theft and fire were mentioned repeatedly as serious security threats that the banks helped participants avoid. It is interesting to note some contrast here between our relatively banked sample and the country as a whole: FinScope’s Demand Study (2009) found that around 60 percent of those who saved did so at home, and most of those surveyed said they prioritized the convenience of saving at home over the security of the bank.

In terms of the security surrounding the transactions themselves, which was also discussed at length by participants, it remains debatable whether the van offers more or less security than brick-and-mortar bank branches in Central Malawi’s urban areas. Both are manned by armed guards but offer no protection once the client completes the transaction and leaves. The van arguably leaves clients more exposed, though the fact that the bank branches never move may make them easier for thieves to stake out and target. Yet both the remarks here and in the previous section suggest OIBM clients considered security critically important and were pleased with the level of security provided by the van, viewing it as on par with the brick-and-mortar bank branches.

Other high-ranked attributes provide little correspondence to or resonance with the earlier list of top-ranked institutions for savings. Interest rate, for example, which is at or near the top in all three categories, varies little between the commercial banks. This is a significant point to which we will return in the next chapter.

THREE-YEAR TREND ON SAVINGS: WHERE DOES OIBM STAND?

Comparing the above results to the Financial Landscape baseline (2008), we find a rather striking turn of events with regard to OIBM. Three years ago, while MSB and NBS were cited as the first and third most-preferred savings providers, respectively, for poor Malawians, OIBM did not appear at all among the top five preferred providers of savings products (McGuinness 2008, p. 45). Thus it would appear that OIBM’s efforts over the last three years have enabled the bank to take root in this market and pose a serious challenge to MSB and NBS on savings.

To be clear, above and beyond the strategic moves noted in the last chapter, OIBM did many things in many areas of operation over the last three years that could have affected its position in the market, ranging from radio-based outreach campaigns to the day-to-day provision of service to its customers at its bank branches. We can safely state that all such activities were likely factors in propelling OIBM’s rise. But the van may be its most high-profile service innovation over this period, and its role in boosting OIBM’s popularity should not be underestimated. For support, we note that OIBM customers ranked proximity to home/business the most important savings attribute in 2010.

For additional corroboration of OIBM’s position in the market over time, the research in 2010 included the FSTA tool, in which we ask participants to reflect directly on the three-year trend by describing the relative popularity of savings providers in 2010, the year before, and three years before. Essentially, the exercise provides the opportunity to triangulate the findings derived by comparing the 2007 and 2010 studies.

Financial Landscape Endline, Malawi
The results demonstrate some consensus that OIBM was on the rise during that time in terms of savings provision. No other institutions or locations for savings show a similar uptick across time (Figure 9).

FIGURE 9 - REPORTED 3-YEAR TREND, OIBM’S POSITION IN SAVINGS MARKET

For comparison, again we offer the data from only the groups composed of non-clients of OIBM. The results are quite similar (Figure 10).

FIGURE 10 - REPORTED 3-YEAR TREND, OIBM’S POSITION IN SAVINGS MARKET, NON-CLIENTS

In short, while other banks dropped in standing or held steady, OIBM was on the rise. The reasons cited for the rise in these discussions tended to fall in line with the aforementioned factors—e.g. good service, low fees, favorable interest rates, etc. Participants also made it clear that OIBM was relatively unknown to them three years ago, and it took some time for them to get

---

5 The y-axis on this and other graphs drawn from the FSTA tool conveys relative popularity using a scale internal to the tool itself.
used to the new player in the market and its van. One participant: “We were not sure about the mobile bank, as we thought that they will run away with our money, but now we are assured that our money is available.”

**PREFERRED SOURCES OF CREDIT**

In the same focus group exercise noted above, participants were asked to describe the preferred providers of credit services in their communities, distinguishing among institutions and segmenting the markets each served (Table 10).

**TABLE 10 - PREFERRED SOURCES OF CREDIT**

<table>
<thead>
<tr>
<th>RANK</th>
<th>Preferred Sources of Credit, Upper Class</th>
<th>Preferred Providers of Credit, Middle Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>NBS</td>
<td>OIBM</td>
</tr>
<tr>
<td>2</td>
<td>National Bank</td>
<td>Money Lender</td>
</tr>
<tr>
<td>3</td>
<td>OIBM</td>
<td>FINCA</td>
</tr>
<tr>
<td>4</td>
<td>Standard Bank</td>
<td>MRFC</td>
</tr>
<tr>
<td>5</td>
<td>First Merchant</td>
<td>VSL</td>
</tr>
<tr>
<td>6</td>
<td>MRFC</td>
<td>Relatives/Friends</td>
</tr>
<tr>
<td>7</td>
<td>FINCA</td>
<td>FITSE</td>
</tr>
<tr>
<td>8</td>
<td>Pride</td>
<td>CUMO</td>
</tr>
<tr>
<td>9</td>
<td>FINCOOP</td>
<td>Pride</td>
</tr>
<tr>
<td>10</td>
<td>VSL</td>
<td>FINCOOP</td>
</tr>
</tbody>
</table>

Once again, as a check against biases, we present the rankings generated by the focus groups composed solely of non-OIBM clients (Table 11).

**TABLE 11 - PREFERRED SOURCES OF CREDIT, NON-OIBM CLIENTS**

<table>
<thead>
<tr>
<th>RANK</th>
<th>Preferred Sources of Credit, Upper Class</th>
<th>Preferred Providers of Savings, Middle Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>NBS</td>
<td>OIBM</td>
</tr>
<tr>
<td>2</td>
<td>National Bank</td>
<td>FINCA</td>
</tr>
<tr>
<td>3</td>
<td>Standard Bank</td>
<td>FITSE</td>
</tr>
<tr>
<td>4</td>
<td>OIBM</td>
<td>FINCOOP</td>
</tr>
<tr>
<td>5</td>
<td>MRFC</td>
<td>Relatives/Friends</td>
</tr>
</tbody>
</table>

The top five preferred sources for the highest social strata are nearly identical, with OIBM in a very similar position. For the middle class, we see some differences in the top five, but, most significantly for this analysis, OIBM still occupies the top slot.

Focusing on the middle class findings, we note that only two institutions appear in both lists: OIBM and FINCA. We also note that OIBM is the only bank to appear in either list as serving the middle segment well. All others are NGOs, parastatals, or informal options like money-lenders. (We note that the Financial Diaries study (Stuart, et al., 2011) found that informal cash transfers (e.g. loans) constituted more than seven times the number of transactions for all the commercial banks combined.)

Many of the comments about OIBM’s lending reflect a fundamental point: that OIBM gave out loans to poor Malawians, while the other banks did not. Most of the other reasons centered on OIBM’s generally good service and/or specific loan features such as term, interest rate, and fast
approval. “[Customers] are given the respect they deserve,” said one participant. “And they call when you default!” (The reader should note that the majority of our sample owned cell phones.) Many participants also commented positively on OIBM’s group loan options, since they lacked collateral to borrow individually. One group spoke enthusiastically about the training (financial education) that OIBM offers along with its loans.

As a competitor to OIBM in this market, FINCA was praised as one of the oldest if not the oldest creditor to poor Malawians. The specific reasons cited in preferring FINCA over others tended to fall along the same lines as OIBM—e.g. offering group loans, easy application, fast approval, etc. Some clients also liked the training (more akin to product orientation than true financial education) that FINCA offers with its loans. At the same time, FINCA tended to draw criticism for the relatively small size of its loans. “We cannot do anything with such small amount of money,” noted a participant. A few also complained about the relatively high interest rate at FINCA, suggesting only “desperate” borrowers would accept FINCA’s terms.

Finally, it is worth noting that the middle class overall ranked moneylenders as the second-most preferred credit option. Despite the ranking, moneylenders tended to polarize opinion in the groups where they came up. They were praised for convenience and ease of access, while being criticized as “the worst of resources because they charge 100 percent interest.”

**PREFERRED FEATURES OF CREDIT**

PRA questioning also focused on the preferred features or characteristics of credit products (Table 12).

**TABLE 12 - MOST VALUED CREDIT FEATURES**

<table>
<thead>
<tr>
<th>RANK</th>
<th>OIBM CLIENTS</th>
<th>NON-CLIENTS</th>
<th>COMBINED</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Long repayment period</td>
<td>Low interest rate</td>
<td>Low interest rate</td>
</tr>
<tr>
<td>2</td>
<td>Easy to access</td>
<td>Long repayment period</td>
<td>Long repayment period</td>
</tr>
<tr>
<td>3</td>
<td>Low interest rate</td>
<td>Fast loan approval</td>
<td>Fast loan approval</td>
</tr>
<tr>
<td>4</td>
<td>Amount of loan equals what they applied for</td>
<td>Proximity to home/business</td>
<td>Collateral</td>
</tr>
<tr>
<td>5</td>
<td>Collateral</td>
<td>Offering training in business management</td>
<td>Proximity to home/business</td>
</tr>
<tr>
<td>6</td>
<td>Security</td>
<td>Low loan application fee</td>
<td>Offering training in business management</td>
</tr>
<tr>
<td>7</td>
<td>Good customer care</td>
<td>Collateral</td>
<td>Easy to access</td>
</tr>
<tr>
<td>8</td>
<td>Good customer care</td>
<td>Low loan application fee</td>
<td></td>
</tr>
</tbody>
</table>

Interest rate and repayment period appear at or near the top of all three groups. These are among the most basic features of credit features—which is to say, nearly all borrowers in nearly all contexts want low interest rates and a long time to repay loans. The explanations are largely what one would expect; e.g. on the subject of loan term, one participant simply explained, “We need time to do business and make profits.”

Notably, ease of access to loans (here, access refers to the ability to get a loan as a poor Malawian, not the proximity of the service) appears high on the list for OIBM clients only. Other studies
have suggested that OIBM dominates the lower-income credit market in Central Malawi (Stuart, et al, 2010). OIBM customers seem to know that and value it.

Interestingly again, the feature most clearly linked to the van—proximity to home/business—does not even appear on the OIBM client list and features fairly low on the combined list. Although most participants seemed to recognize the clear advantage of proximity in terms of “transport costs and time,” it did not emerge as a priority. These findings suggest that the van’s most tangible advantage—i.e. bringing the bank to the people—may be highly valued for savings activity, but not necessarily for credit. To some degree, this stands to reason, as access to credit tends to be less time-sensitive than access to savings—i.e. people rarely expect to get a loan to offset a sudden or unexpected need for cash.

**THREE-YEAR TREND ON CREDIT: WHERE DOES OIBM STAND?**

Comparing the above results to the Financial Landscape baseline in 2007, we again find a notable change for OIBM.

In 2007, the top four providers of credit were as follows: 1) FINCA; 2) MARDEF; 3) CUMO; and 4) MRFC. These are two NGOs and two parastatals; hence no banks at all appeared among preferred providers (McGuinness 2008, p. 52).

In 2010, the list of top providers has been shaken up considerably. OIBM has made a striking ascent in terms of serving the poor Malawians (middle class) with credit, from no presence three years ago to the top position. FINCA and MRFC still appear as highly-regarded providers of credit to poor Malawians behind OIBM.

According to bank management, provision of credit to poor Malawians is one of OIBM’s highest priorities, making the bank relatively unique in the market. These data seem to bear out those claims. The data also seem to find support in the findings of two contemporary studies: 1) the Financial Diaries study (Stuart, et al., 2010), which concluded that OIBM is nearly the only bank serving poor clients in the Central region; and 2) the FinScope Demand Study (2009), which found that 68 percent of banked people are accessing savings accounts while less than 5 percent are accessing loans.

Again, the research in 2010 included the FSTA tool, in which we asked participants to reflect directly on the three-year trend by describing the relative popularity of credit providers in 2010, the year before, and three years before.

The results this study show that OIBM and CUMO are the only credit providers that show an uptick in the credit market from 2007-2010, with OIBM’s change being much sharper. Another interesting finding here is that in 2007 moneylenders begin as a much more popular option for credit than OIBM. But by 2010, the two lines meet in terms of relative popularity, with OIBM waxing and moneylenders waning (Figure 11).
Again pulling out only the groups composed of non-OIBM clients, we see a parallel finding in that OIBM is the only provider of credit rising in popularity over 2007-2010 (Figure 12). (In this case, the moneylenders were seen as a steadily popular option across the three-year period.)

The reasons for OIBM’s rise range from the obvious (“they were not established here three years ago”) to the intangible (“they smile at us when they serve us”). The features of their loans were seen as comparable to or better than anything available from the NGOs and parastatals.
Other lenders were also criticized for harsh tactics in cases of default—e.g. “they remove iron sheets from people’s houses.” OIBM, on the other hand, was cited specifically for not seizing property of defaulters.

**GENDER IN FOCUS: DOES OIBM SERVE WOMEN ESPECIALLY WELL?**

Although we had limited opportunity to segment the sample by gender, to the extent possible, we investigated the idea that the van may work especially well in meeting the needs of women clients, which was a finding that emerged in Financial Diaries research (Stuart, et al, 2011).

Among the women-only groups, OIBM ranked first among preferred providers in three of four instances (Tables 13 and 14). This amounts to a higher overall rating for OIBM, as compared with the mixed-gender groups, though the results are not immensely different.

**TABLE 13 - PREFERRED PROVIDERS OF SAVINGS, WOMEN ONLY**

<table>
<thead>
<tr>
<th>RANK</th>
<th>Preferred Providers of Savings, Upper Class, Women Only</th>
<th>Preferred Providers of Savings, Middle Class, Women Only</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>First Merchant</td>
<td>OIBM</td>
</tr>
<tr>
<td>2</td>
<td>Home</td>
<td>Home</td>
</tr>
<tr>
<td>3</td>
<td>NBS</td>
<td>NBS</td>
</tr>
<tr>
<td>4</td>
<td>OIBM</td>
<td>VSL</td>
</tr>
<tr>
<td>5</td>
<td>National Bank</td>
<td>First Merchant</td>
</tr>
</tbody>
</table>

**TABLE 14 - PREFERRED PROVIDERS OF CREDIT, WOMEN ONLY**

<table>
<thead>
<tr>
<th>RANK</th>
<th>Preferred Providers of Credit, Upper Class, Women Only</th>
<th>Preferred Providers of Credit, Middle Class, Women Only</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>OIBM</td>
<td>OIBM</td>
</tr>
<tr>
<td>2</td>
<td>Pride</td>
<td>Money Lender</td>
</tr>
<tr>
<td>3</td>
<td>VSL</td>
<td>FINCA</td>
</tr>
<tr>
<td>4</td>
<td>Money Lender</td>
<td>MRFC</td>
</tr>
<tr>
<td>5</td>
<td>NBS</td>
<td>VSL</td>
</tr>
</tbody>
</table>

The discourse surrounding OIBM tended to mirror the male or mixed-gender groups in most respects and did little to reveal a differentiation in women’s conceptualization of access. Reasons for using OIBM savings included: 1) access to loans; 2) security; 3) low opening account fee; and 4) high interest rate. Regarding loans, many women spoke in positive terms about the relatively long repayment period. “The bank gives us time to do business and make profits within one month so we can pay back the loan,” said one woman.

The reader should note all of the female-only groups were mixed clients and non-clients of OIBM, so there was no systematic bias based on client status.

**ANY DRAWBACKS TO THE VAN?**

The evidence above has tended to focus on the positives of OIBM and its van, as evidence for its relatively high position in most rankings of client preference. This is largely indicative of the tone of the discourse, though naturally some complaints emerged as well. Three in particular are worth noting.
One-visit-per-week Outreach Model
By definition, a banking van like OIBM’s follows a rotating schedule in order to reach a multitude of underserved locations. This means that most of the bank’s client base is left without its bank for most of any given week.

The once-a-week schedule figured into discontent far more than any other factor. Clients repeatedly recounted stories in which they needed bank services (generally a withdrawal) on a day the van was not scheduled to come, and they were forced to pursue alternative plans. Generally, this meant catching public transportation into Lilongwe and incurring the transaction costs they hoped to avoid by using the van.

The Financial Diaries study (ibid.) provides ample evidence that the Central Malawian population has large and frequent needs for lump sums of cash. These comments seem to reflect that, when the van alone constitutes OIBM’s outreach strategy, these needs seem unlikely to be met through the bank’s services, unless significant transactions costs pose no problem for the client.

Withdrawal Limits
Some clients complained about the withdrawal limit ($333) imposed with the van. It was seen as particular handicap for tobacco farmers, who employ large sums of capital to sustain their relatively large-scale operations. This complaint only emerged on the Mchinji side, where tobacco farming predominates, but had reportedly compelled some clients to pass on using the van and perhaps the bank as a whole.

The MalSwitch Card
OIBM’s MalSwitch card (used in van transactions, and at branches as well) was mentioned more often in a negative than positive context, which may be indicative of a common opinion or merely vocal minority.

Complaints about the cards included its cost ($6.67). It is important to note that OIBM is well-aware of this issue and has taken steps to mediate it, such as eliminating the minimum balance on the Kasupe saving account (see previous chapter). Some clients also cited problems in the fingerprint identification functionality, claiming they were denied service because their fingerprints went unrecognized. Finally, a few clients disliked the card because they felt it was too easily lost and then difficult to replace.

NOTE ON REMITTANCES
There was not enough diversity among remittances services cited to warrant a ranking as in the savings and credit discussions. Two options dominated for remittance services: 1) relatives (to carry the money by hand) and 2) the Malawian post office, which offers a popular remittance service. Upper and middle socio-economic classes tend to use both, though the middle class was seen as using these options more often than the upper class. Self-delivery was also mentioned once as a method for the upper and middle classes. The lowest class was seen as making scant use of remittances.

NOTE ON CELL PHONE BANKING
Though all focus groups were asked about cell phone banking in the area, none could offer any opinion on providers or use. Though some groups had heard of it, direct experience was nearly non-existent among the participants. This is an expected finding, given that OIBM was just launching its cell phone banking platform in mid-2010, and any other such banking technology was marginally accessible to the low-income market.

An important side note is that OIBM’s marketing appears to be reaching its intended population. Many clients, particularly on the Mchinji side, had heard of OIBM’s cell phone banking through the radio advertising, though the “high-touch” strategy of in-person visits by bank staff was the most impactful of all. “I can see that it’s a nice bank and it’s able to reach where the people are,”
said one interviewee who had attended a session with OIBM staff. “I will try the service if I see that it works.”

**SUMMARY ON DEMAND-SIDE LANDSCAPE**

OIBM seems to be the clear winner in terms of client preferences over the last three years, in both the savings and credit markets. The van is a popular factor in this rise, but the way public opinion plays out is not exactly what one might expect. The most tangible advantage of the van (i.e. its physical presence in the communities it visits) is recognized as a driver of client preference in some cases, but not others. Meanwhile, intangible advantages like friendliness of the OIBM staff appear throughout the discourse.
V. CONCLUSION: REVISITING OIBM’S VALUE PROPOSITION FOR CLIENTS

We now re-examine OIBM’s value proposition for clients. As elsewhere in the report, we will center on the banking van, but consider as well the bank’s recent steps to bring its full outreach plan to fruition.

VALUE: TANGIBLES VS. INTANGIBLES

In the baseline study, McGuinness (2008) suggests that one of OIBM’s prime areas of value in the context of Malawi is that the bank “knows how to work with the poor.”

The endline evidence strongly suggests that this did indeed emerge over time as one of the bank’s prime advantages compared with its competition. Again and again, in different contexts, we heard that OIBM is distinguished for “treating poor people nice,” while nearly all of the others were “suitable for people of high class only.”

The point is brought home by one OIBM client’s story about a contrasting experience with National Bank. Someone from his community opened an account with National and deposited 100,000 MWK ($667). Soon after he needed most of it and returned to withdraw it, only to be met with suspicion. “Is this money all for you?,” bank officials asked. He was initially denied and had to return with additional identification documents.

The van clearly has advanced OIBM’s mission in this regard and elevated the sense that the bank provides unique, quality service to low-income Malawians. Yet the drivers of client opinion are not exactly what one might expect in the case of a service innovation such as this.

In the baseline, McGuinness (2008) made a straightforward suggestion that one of the van’s prime points of value is the fact that it “brings the bank to the people,” opening new access and reducing transaction costs. And indeed, clients do recognize this tangible payoff from the van. There were clients who noted that the van gave them their first real chance to have a bank account and clients who directly mentioned the money they save by not having to travel anymore to Lilongwe, Dedza, or Mchinji to access their bank.

However, these sentiments were not overwhelming by any measure. Looking back at the FGD results, we see “proximity to home/business” as a top-rated attribute in some cases but not others. There was more consensus, for example, in discussions of savings products than loan products. Also, direct reflection on transaction costs as an advantage of the van did occur, but it was relatively infrequent and inconsistent. Many of the savings and credit discussions lacked consensus on the importance of transaction costs in banking.

So how exactly has the van won over clients in these areas? The answer, it would appear, is found more in intangibles as drivers of decision-making.

Consumers in Central Malawi simply appreciate the fact that a bank is sending its service to them, rather than vice versa. Explained a local chief: “This bank OIBM has come to our rescue. Before we used to follow the bank. Now the bank follows us.”

Undoubtedly, this sentiment arises from the history of formal finance in Malawi where banks have ignored the poor and maintained a deep distance (both physical and ideological) from such consumers. The van turns that history on its head, and for that reason, consumers have responded.
In sum, the van is a tangible service-delivery advantage, recognized by some, but it is also a symbolic manifestation of OIBM’s commitment to serving Malawi’s poor, recognized by even more.

Similarly, regarding the products that OIBM has developed and deploys on the van, we find some recognition of their tangible value. For example, OIBM is essentially the only bank and one of very few institutions of any kind offering loans to poor Malawians, and many clients recognize and appreciate that.

But there is very little direct recognition of the adaptations OIBM has undertaken to make its products well-suited to low-income consumers. Almost never did participants indicate detailed, accurate knowledge of OIBM’s products, so as to distinguish their features in the market. In fact, there was probably more misinformation in circulation about OIBM’s products.

Some clients, for example, boasted about the “10 percent interest” on their OIBM savings accounts, while other clients complained about the “deposit fees” as OIBM savers (neither exist in OIBM’s current product line—see Table 4). Still other clients spoke glowingly about the low account opening fee of $3.33 with OIBM savings accounts, when in fact the bank has eliminated that fee entirely on the type of account (Kasupe) that these consumers are most likely to access. Likewise, OIBM participants ranked interest rate among their most sought-after attributes in savings accounts—yet, as Table 4 shows, this is one of few areas where OIBM seems to trail its competitors, though the actual differences are no more than a few percentage points.

Moreover, across the board, OIBM clients tended to think their products had the most advantageous features, while clients of other banks and MFIs thought the same of their products. (In fact, as Tables 4-6 show, direct comparisons of products yield mixed results.) The reasons cited by clients for preferring their own bank tended to mirror each other. For example, loan clients of OIBM frequently cited the simple procedures associated with getting a loan as a prime advantage, but we heard almost identical arguments from loan clients of MRFC and FINCA.

In sum, the evidence suggests that the product attributes per se are not true drivers of uptake. More likely, OIBM is catching clients’ attention in other intangible ways. They appreciate the fact that there is a bank coming to them and offering products suited to them, even if they do not completely understand the specifics of those products.
CHALLENGES: UPTAKE & USE

Is there a downside to a strategy like this, in which intangible attributes may be winning the favor of clients over the tangible value of products and delivery?

The nature of this study makes for a speculative answer. But the collective evidence provides at least some suggestion of client behavior that may prove problematic for the bank. That is, clients may be prioritizing uptake over consistent use of OIBM services. The outreach projects resonate with them and they sign up for accounts, but then make infrequent or nominal use of those accounts. Loving OIBM, in other words, is not the same as using the bank in meaningful ways.

Our Financial Diaries study (Stuart, et al. 2011) included detailed questioning of clients about their use patterns, and the findings seem to provide some corroboration—i.e. 11 percent of OIBM clients never completed any transactions over 18 months, and the sample as a whole averaged less than one transaction every two months, including many clients who did far less.

We build on those findings in this study to suggest that uptake over consistent use can be a practical extension of a banking context in which the intangibles have tended to trump tangible value. We find some support for this idea in the actions by OIBM—for example, retooling the Kasupe savings account to eliminate the monthly maintenance fee, to appease clients who reportedly showed up after months of inactivity (which is to say, infrequent use) to find that their accounts were depleted.
We find supporting evidence for this argument from at least one other external source: the aforementioned Savings Report data from OIBM, especially for Dedza, which indicated growth in uptake of savings accounts but deposit value patterns that lagged far behind by 2010.

**HAS THE VAN CATALYZED CHANGE?**

OIBM has done exactly what one would expect of a bank seriously committed to expanding outreach among rural, low-income populations: they have built a system to bring the bank to the people, and they have adapted their products to meet the needs of the poor. But has OIBM catalyzed change on a broad scale? Three points are presented in OIBM’s favor.

First, mixing tangible benefits with heavy symbolic import, the van has helped catalyze public opinion about OIBM. It has galvanized their brand as a bank that cares about and caters to low-income consumers. Nowhere is that more apparent than in the ranking that emerged in the FGDs—where the bank barely registered three years ago, OIBM now appears as a leader nearly across the board.

Second, the van has helped catalyze change in that significant numbers of non-clients have in fact become clients in the rural and peri-urban areas it serves. Overall, OIBM’s client base has vastly expanded over the last three years, and the van has played a role in the effort.

Third, the van has sparked change among OIBM’s competitors, leading to more aggressive rural outreach and perhaps some emulation of mobile and/or technology-based solutions.

But has the van catalyzed change in the sense of transforming access for low-income Malawians? Mindful of our concept of access entails making effective use of a service, the findings may suggest that there is more work to do. OIBM has brought many new consumers into its fold, and those consumers may not always be making effective use of the van’s services.

OIBM is by no means alone in confronting this kind of issue. An institution arguably needs to build its brand for an extended period as it penetrates a market, and branding tends to center on the intangibles. Moreover, the effect of uptake over use in technology-based service innovations is rather common in microfinance worldwide, especially in cases of new banking media such as cell phones (cf. Cohen, et al., 2008).

As OIBM moves forward on the newer components of its outreach plan—particularly, the POS devices and cell phone banking—these are important points to bear in mind. Those technology-based service innovations might end up inspiring a similar pattern of client behavior, which is to say, rapid uptake but infrequent or uneven use.

One local chief made the bold prediction that OIBM’s nascent cell phone banking service would supplant all existing remittance services once the service took hold. But will it take hold? Naturally clients need to use a service effectively in order for it to supplant other options.

As a bank, OIBM is deeply committed to elevating the welfare of its clients and “helping those in poverty transform their lives.” Achieving that kind of effect will depend on catalyzing use as well as uptake.

**SUMMING UP ON LESSONS FOR THE INDUSTRY**

**Don’t Underestimate the Intangible**

OIBM has enacted a service innovation with great symbolic value to its client base, and this has played a role in expanding rural outreach. Symbolism can trump tangible attributes, and perceived advantages can even top real ones, in some cases. The institutions that recognize these trends can capitalize on them.
Uptake & Use in Perspective
The microfinance industry can benefit greatly from deeper examination of how clients receive and in turn use the service innovations offered to them. This goes beyond examining uptake numbers, as this case demonstrates. Here the client’s perspective has helped illuminate both the intangible value of the van and the potentially problematic use patterns that come with it.
REFERENCES


Financial Landscape Endline, Malawi
ANNEX A – PREVIOUS STUDIES


RESEARCH TOOLS: FOCUS GROUPS

Research featured focus group discussions (FGDs) exploring clients’ knowledge, use, experience, and perceptions of the financial landscape. The groups employed four Participatory Rapid Appraisal-type (PRA) tools, adapted extensively for MFO’s purposes and based originally on MicroSave’s Market Research for Microfinance Toolkit. A brief description of each tool is provided below.

Financial Services Segmentation (FSS)
This tool assesses the use of financial services by different market segments in areas targeted by the grantee innovations. It first identifies the groups that use specific types of formal and informal financial products and institutions; these market segments may include, for example, men and women, households at different socioeconomic levels, people in different occupations or businesses, or people living in different geographic areas. It then explores what different groups like and do not like about the products and services and their views on how they could be improved. The tool encourages discussion of factors related to convenience, accessibility, and use.

Financial Sector Trend Analysis (FSTA)
This tool determines how financial products and services have been used over time (here, over the last three years since the baseline study) in specific areas targeted by the grantee innovation. The aim is to understand changes in the availability and use of various financial services over time and why respondents may or may not have used them. Focus group participants will generate a list of financial services available this year, one year ago, and three years ago. They will be asked to indicate the level of use in order to determine the relative importance of various services over time. Focus group discussions will probe how and why each of the services was used more or less over time. The findings will provide an understanding of the dynamic after the introduction of the innovation.

Product Attribute Ranking (PAR)
This tool assesses respondent perceptions on the key components of a financial service, documenting the relative importance of those components. It also can be used to understand clients’ satisfaction/dissatisfaction with specific attributes of a financial service. It generates data on the qualities that matter most to respondents (e.g., an extended repayment period for enterprise loans), the reasons for those preferences, and how those preferences change over time. It can also document the relative value of an innovative attribute related to a grantee product (e.g., the ability to access savings through an ATM).

The results of the focus group discussions were organized into analysis matrices presenting key data summarized and organized into relevant categories. Trends within the data were then identified.

FGD SAMPLING/TOOL DISTRIBUTION

In creating a distribution of focus group tools across the four locations, we first ensured that all three tools were employed in all four locations. The FSS tool—regarded as the most important to our analysis—was implemented twice in each location.

The primary variable in the make-up of the groups was client status. We planned for a substantial number of groups composed only of OIBM clients—which is to say, we oversampled OIBM clients...
from the general populations around the van stops. This was done because the study required reflection on OIBM’s outreach strategy by those most directly exposed to it.

At the same time, we paired these OIBM client groups with other groups composed solely of non-clients (Table 15). This was done for two reasons: 1) to balance any inherent biases among OIBM clients concerning/related to community-wide norms of access; and 2) to provide at least some first-hand detail on access to other financial service providers (though, to be clear, these non-clients were not required to be users of other formal financial service providers, and some OIBM clients had accounts with other institutions as well).

At each of the four locations, we worked with two different local authorities known as Traditional Authority, or TA, chiefs, to convene focus groups composed of their followers in their territories. There was a total of eight actual focus groups sites spread across the four locations. Consistent with the baseline study, the research sites varied in their proximity to the local OIBM van stop, from a few hundred meters away to about five km away.

In terms of the composition of the groups, we requested of the TA chiefs that they assemble groups reasonably representative of the range of livelihoods seen in the areas around the bank stops. Also consistent with the baseline study, we asked that chiefs to invite followers who lived both near and far from the research site. We did not systematically record how far participants traveled to join the groups, but we know anecdotally that this varied from a few meters to as much as 20 km in some cases.

<table>
<thead>
<tr>
<th>LOCATION</th>
<th>TOOL</th>
<th>CLIENT STATUS</th>
<th>GENDER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mchinji</td>
<td>FSS</td>
<td>Clients</td>
<td>Mixed</td>
</tr>
<tr>
<td>Mchinji</td>
<td>FSS</td>
<td>Non-clients</td>
<td>Mixed</td>
</tr>
<tr>
<td>Mchinji</td>
<td>PAR</td>
<td>Non-clients</td>
<td>Mixed</td>
</tr>
<tr>
<td>Mchinji</td>
<td>FSTA</td>
<td>Clients</td>
<td>Mixed</td>
</tr>
<tr>
<td>Nsundwe</td>
<td>FSS</td>
<td>Clients</td>
<td>Mixed</td>
</tr>
<tr>
<td>Nsundwe</td>
<td>FSS</td>
<td>Non-clients</td>
<td>Mixed</td>
</tr>
<tr>
<td>Nsundwe</td>
<td>PAR</td>
<td>Non-clients</td>
<td>Mixed</td>
</tr>
<tr>
<td>Nsundwe</td>
<td>FSTA</td>
<td>Mixed</td>
<td>Men</td>
</tr>
<tr>
<td>Nsundwe</td>
<td>FSTA</td>
<td>Non-clients</td>
<td>Women</td>
</tr>
<tr>
<td>Nkhoma</td>
<td>FSS</td>
<td>Mixed</td>
<td>Men</td>
</tr>
<tr>
<td>Nkhoma</td>
<td>FSS</td>
<td>Mixed</td>
<td>Women</td>
</tr>
<tr>
<td>Nkhoma</td>
<td>PAR</td>
<td>Clients</td>
<td>Mixed</td>
</tr>
<tr>
<td>Nkhoma</td>
<td>FSTA</td>
<td>Non-clients</td>
<td>Mixed</td>
</tr>
<tr>
<td>Dedza</td>
<td>FSS</td>
<td>Mixed</td>
<td>Men</td>
</tr>
<tr>
<td>Dedza</td>
<td>FSS</td>
<td>Mixed</td>
<td>Women</td>
</tr>
<tr>
<td>Dedza</td>
<td>PAR</td>
<td>Non-clients</td>
<td>Mixed</td>
</tr>
<tr>
<td>Dedza</td>
<td>FSTA</td>
<td>Clients</td>
<td>Mixed</td>
</tr>
</tbody>
</table>

Where appropriate, we conveyed guidelines on client status and gender to the chiefs as well. In the cases of non-client groups, we asked the local authorities to select participants who compared well to OIBM clients—that is to say, the economically-active poor of the community.
A secondary division of the sample occurred around gender. To the extent possible, we set up certain groups as all-male and certain groups as all-female in order to make comparisons along gender lines and, in particular, to gauge whether OIBM and its van brought any particular appeal for women clients.

**RESEARCH TOOLS: INDIVIDUAL INTERVIEWS**

Critical details on the nature and diversity of the financial landscape were collected through individual interviews. Generally, the individual interviews served three aims: 1) to follow up on important issues that emerged from the focus group discussions; 2) to explore topics that did not lend themselves to group discussion, including personal financial details; and 3) to obtain information from financial service providers (supply-side). Appropriate interview guides were designed by the MFO lead researcher to meet these aims.

**INDIVIDUAL INTERVIEW SAMPLING**

Demand-side individual interviews focused on two groups: 1) current OIBM clients using the banking van (or not using the van, if such individuals are encountered); and 2) similar entrepreneurial individuals in the community who are not current OIBM clients. The reasons for this approach were the same as with the focus groups: to gain an insider’s perspective on the OIBM service innovation, but also to balance that perspective with non-clients from the same community.

Interviewees were selected in various ways. Some were individuals who came to join focus groups but arrived too late. Others were individuals who did not join a focus group but seemed to have a particularly insightful perspective on some of our research questions. Still others were individuals who proved too dominant in focus group discussions and hence were diverted into interviews. Additional interviews were conducted with key informants such as community leaders who provided broad overviews of financial service options and preferences (Table 16).

On the supply side, interviews centered on key staff connected to financial service providers in these areas. Unlike the baseline investigation, which took a more comprehensive approach to the supply side, the endline focused on a more select group of known competitors to OIBM and on changes to products and services introduced since 2007.

**TABLE 16 - SAMPLE FRAME FOR INDIVIDUAL INTERVIEWS**

<table>
<thead>
<tr>
<th>LOCATION</th>
<th>INTERVIEW TYPE</th>
<th>INDIVIDUAL TYPE/INSTITUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mchinji</td>
<td>Demand</td>
<td>Client</td>
</tr>
<tr>
<td>Mchinji</td>
<td>Demand</td>
<td>Local authority</td>
</tr>
<tr>
<td>Nsundwe</td>
<td>Demand</td>
<td>Client</td>
</tr>
<tr>
<td>Nsundwe</td>
<td>Demand</td>
<td>Client</td>
</tr>
<tr>
<td>Nsundwe</td>
<td>Demand</td>
<td>Client</td>
</tr>
<tr>
<td>Nsundwe</td>
<td>Demand</td>
<td>Non-client</td>
</tr>
<tr>
<td>Nsundwe</td>
<td>Demand</td>
<td>Non-client</td>
</tr>
<tr>
<td>Nsundwe</td>
<td>Demand</td>
<td>Local authority</td>
</tr>
<tr>
<td>Nsundwe</td>
<td>Demand</td>
<td>Local authority</td>
</tr>
<tr>
<td>Nsundwe</td>
<td>Demand</td>
<td>Local authority</td>
</tr>
<tr>
<td>LOCATION</td>
<td>INTERVIEW TYPE</td>
<td>INDIVIDUAL TYPE/INSTITUTION</td>
</tr>
<tr>
<td>----------</td>
<td>---------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>Dedza</td>
<td>Demand</td>
<td>Client</td>
</tr>
<tr>
<td>Dedza</td>
<td>Demand</td>
<td>Client</td>
</tr>
<tr>
<td>Dedza</td>
<td>Demand</td>
<td>Client</td>
</tr>
<tr>
<td>Dedza</td>
<td>Demand</td>
<td>Client</td>
</tr>
<tr>
<td>Dedza</td>
<td>Demand</td>
<td>Non-client</td>
</tr>
<tr>
<td>Dedza</td>
<td>Demand</td>
<td>Non-client</td>
</tr>
<tr>
<td>Dedza</td>
<td>Demand</td>
<td>Non-client</td>
</tr>
<tr>
<td>Lilongwe</td>
<td>Supply</td>
<td>Care International</td>
</tr>
<tr>
<td>Lilongwe</td>
<td>Supply</td>
<td>FINCA</td>
</tr>
<tr>
<td>Lilongwe</td>
<td>Supply</td>
<td>FINCOOP</td>
</tr>
<tr>
<td>Lilongwe</td>
<td>Supply</td>
<td>Malawi Microfinance Network</td>
</tr>
<tr>
<td>Lilongwe</td>
<td>Supply</td>
<td>MARDEF</td>
</tr>
<tr>
<td>Lilongwe</td>
<td>Supply</td>
<td>MRFC</td>
</tr>
<tr>
<td>Lilongwe</td>
<td>Supply</td>
<td>MSB</td>
</tr>
<tr>
<td>Lilongwe</td>
<td>Supply</td>
<td>NBS</td>
</tr>
<tr>
<td>Lilongwe</td>
<td>Supply</td>
<td>OIBM</td>
</tr>
</tbody>
</table>

| TOTAL    |                | 26                               |
ANNEX C – OTHER DEVELOPMENTS ON FINANCIAL LANDSCAPE

INSURANCE LANDSCAPE

The baseline study three years ago noted that a few kinds of insurance were available (credit life insurance, deposit insurance, crop insurance) but that villagers included in the study had zero awareness of these products (McGuinness, 2008, p. 37).

Three years hence, the insurance industry is still in the formative stage, at least as it pertains to low-income Malawians. Certain kinds of mandatory insurance remain widely used by those who need them—e.g. automobile insurance for those who own cars and credit life insurance for those who access loans at certain institutions (OIBM, for example). But most other insurance and nearly all voluntary insurance remain inaccessible to poor Malawians.

Insurance did receive something of a push over the last three years via the activities of PRO-MHI, a collaboration between the EU and African universities in Ghana, Botswana, and Malawi to strengthen community-based micro health insurance in those countries. PRO-MHI carried out an investigation of Malawi’s Financial Landscape in 2009 and concluded that: 1) there is a very limited supply of micro health insurance in Malawi; 2) people in rural areas face catastrophic shocks with little formal help; and 3) clients of at least some MFIs (e.g. FINCA) have a willingness to pay for such a product.

In addition, as of mid-2010, the Government of Malawi was in the process of finalizing its Financial Sector Development Strategy for 2011-2015. A look at a draft version of the strategy document (2010) revealed that expansion of microinsurance will be among the priorities. The document notes that the Reserve Bank of Malawi currently disallows (unregulated) credit-only MFIs from collecting voluntary deposits for insurance and that that has held the industry back. However, the restriction may be lifted in the near future with legislation under consideration in mid-2010.

OTHER DEVELOPMENTS: RISE OF THE CONSUMER LENDERS

Over 2007-2008, a handful of consumer lenders—in particular, South Africa-based Blue, Greenwing, and Izwe—set up shop for the first time in Malawi. Their early assessments of the market reportedly found real demand, and all began lending to the Malawians soon after.

Following a model established in other African countries, the consumer lenders offered credit almost exclusively to salaried workers. Even though the salaried population in Malawi is a relatively small segment of the population, business reportedly grew quickly beginning in 2007.

Almost from the start, the consumer lenders encountered mounting opposition to their practices, viewed by many as exploitative and profit-motivated. Because much of salaried population in Malawi consists of civil servants, and these individuals were aggressively targeted as customers, the debate quickly reached the highest levels of government.

In 2008, the Malawi central government intervened. Payments were suspended for 3-4 months in late 2008, and new loan activity was frozen. In the meantime, government officials studied the situation, eventually concluding that the lenders were not giving full disclosure on interest rates and fees.

Under pressure from the government, the lenders agreed to lower payments on existing loans and offer more favorable (fully-disclosed) terms on loans going forward. They also agreed to stop lending to civil servants altogether. The lenders are still very active in Malawian market, but lend
only to privately-employed, salaried workers. Greenwing is also reportedly targeting SME clients, in addition to its low-income client base.

At the same time, the consumer lenders continue to be shunned by Malawi’s microfinance establishment. All of the aforementioned lenders applied to be members MAMN and were rejected, because their practices were viewed as exploitative. (The reader should note that the lenders’ first-hand perspective is not well-represented in this report, in that all three declined to be interviewed.)

**OTHER DEVELOPMENTS: SUPPORTERS & DONORS**

The Financial Inclusion in Malawi project (FIMA) has played a role in many of the recent trends and changes in the Malawian financial landscape. Co-sponsored by the United Nations Capital Development Fund and the UN Development Programme (UNDP), FIMA is a four-year (2007-2011), $6 million project that “aims to build an inclusive financial sector characterized by numerous microfinance institutions that will provide innovative and varied financial services in a competitive environment” (UNDCP, 2007). FIMA’s day-to-day work focuses on three areas: 1) nurturing dialogue among stakeholders; 2) supporting innovation in financial markets that deepens and broadens access; and 3) building the capacity of key institutions supporting micro, rural and agricultural finance (ibid.). In effect, FIMA has become one of the most significant drivers of financial innovation over the last three years.

In years past, the Africa Development Bank has been a major donor and major presence on the Malawian financial landscape. The Bank was providing loan capital to FITSE, MRFC, and FINCA, among others. However, their investment in Malawi was phased out in 2008. The Bank now provides much more limited support to certain institutions.

More recently, the Irish private non-profit GORTA has entered the Malawian market with the intention of supporting MFI lending. Their loan capital reportedly will support a variety of institutions. Their plans were just taking shape in mid-2010 but were expected to make a major impact on the lending market within a year.

**OTHER DEVELOPMENTS: MISCELLANEOUS PRODUCTS & PROGRAMS**

The Youth Development Enterprise Fund was launched in mid-2010 with the support and encouragement of Malawi’s president. It is officially a MARDEF program but will operate in partnership with MSB, which will disburse funds and accept payments in the loan program. The program’s intent is to promote entrepreneurship among young adults who demonstrate some marketable skills. Participants receive business training through MARDEF and then become eligible for MSB loans. The loans are structured in groups of about ten, with up to 1 million MWK ($6,667) split among the members. Terms are 12 months and payments occur monthly.

The Village Savings & Loan program (VSL) initiated by CARE International is not new on Malawi’s financial landscape but has seen considerable growth since 2007. The organization estimated 23,000 VSL members in 2007, and by mid-2010 those estimates had risen to around 40,000. CARE has set an ambitious goal of more than doubling those numbers by mid-2011. CARE sees the VSLs as unique and not in direct competition with institutions like OIBM. However, as the next chapter will demonstrate, many low-income Malawians are seeing the VSLs as a valued alternative to the banks for both saving and loan needs.