WORLD BANK GROUP

AgriFin
Agriculture Finance Support Facility

Expanding Rural Outreach With Low-Cost Delivery Channels

Experience from Access Bank Madagascar

KNOWLEDGE NOTES

MAY 2015

Overview

AccèsBanque Madagascar (ABM) is a regulated microfinance institution in Madagascar. It was established in 2006 and opened its doors to the public in the beginning of 2007. ABM first started by serving the market in the capital city, Antananarivo, primarily focusing on financing micro-, small-, and medium-sized enterprises. After two years of successful operation, ABM expanded its branch network to semi-urban and rural areas outside the capital. It opened its first rural branch outside the town of Antsirabe. Through this branch, ABM targeted expanding services and products to rural customers, subsequently growing the number of rural branches to six.

To further expand and deepen services to other rural areas, ABM developed an alternative service delivery channel model, incorporating client acquisition centers in remote villages, and "micro branches" in small towns to cater to clients beyond the service zones of traditional branches. Both channels aim to establish and extend services to remote clients at minimum cost. With support from the Agriculture Finance Support Facility (AgriFin)[1], ABM established two micro branches and five client acquisition centers on a pilot basis. The experience of the pilot has been positive and it has delivered promising results in increasing outreach to remote areas at low cost. This note aims to explore and explain ABM's experience and the following sections discuss features of each delivery channel and lessons.

Client Acquisition Centers

ABM's branches are located in areas where there is at least a minimum of 100,000 inhabitants and seek to cover the market within a 50 km radius. Traditionally, it has been too costly to serve more remote areas, as this requires loan officers to travel long distances to visit clients, market services, and monitor loans. Similarly, clients would need to travel long distances to get to the nearest branch, requiring often day-long travel either on foot or on ground transport at a high cost. In order to address this challenge, ABM established client acquisition centers in remote villages to primarily register potential clients through direct promotion and visits. The centers are located in villages with a minimum population of 30,000 people around 30–40 km from the main branch. The villages are predominately agricultural, with a majority of the economically active population engaged in production and marketing activities.

The client acquisition centers serve as client registration points and advisory channels attached to main branches. The centers are staffed with a loan officer and are open twice a week, usually on major market days. The loan officer stationed at the center undertakes client registration, product promotion, advisory services, and loan monitoring. Clients registered via client acquisition centers will become clients of the nearest branch and their loans will be administrated from that branch.

Client acquisition centers are affordable and easy to open. The cost of establishing one center is roughly US$1,000. This involves remodeling an existing small office and procuring basic furniture. The offices are leased from the market, refurbished with ABM's brand and opened in a process that takes about two months. The staffing model is such that one loan officer trained in managing both agriculture and non-agriculture clients will be assigned from the nearest bank branch to work

1 AgriFin is a special initiative to increase access to financial services for farmers and agribusinesses. The program focuses on activities that promote knowledge sharing and networking among financial institutions globally. More information is available on (http://www.agrifinfacility.org/).

at the center for two days in a week. During the two days at the center, the loan officer undertakes direct promotion of products and services, assists clients in completing loan application forms, and offers information on accounts and banking services.

Operational expenses associated with this approach primarily include the portion of loan officer's salary for two days in a week (88%), office rent (10%), and transport (2%). Based on operational cost information of the active client acquisition centers, the average annual expense for one center is US$5,400.

Client acquisition centers dramatically increase the ability of existing branches to identify and recruit previously unreachable clients. A total of 789[2] clients were acquired via five client acquisition centers, of which 66% were agricultural clients. As such, in their first year of operation each client acquisition center recruited an average of 158 clients, the vast majority of whom would not have been reached by ABM via their other outreach channels (primarily urban branches). These newly-recruited clients generated approximately US$600,000 in new lending by ABM, both for agriculture and non-agriculture rural-based activities. The vast majority of the loans were provided to microenterprises for short-term financing. A significant number of the clients acquired through the centers had never previously accessed formal financial services until ABM reached out to them through these new channels.

Client acquisition centers are an effective client recruitment channel for a currently untapped segment of the population. The cost of establishing client acquisition centers is just 1% of the total cost of opening a traditional branch[3]. The cost of acquiring a client[4] via client acquisition centers is US$17, compared to US$9 at a traditional branch. However, the greater cost per client is somewhat offset by increasing client outreach gains and access to profitable clients. Due to lack of competing financial institutions in most remote rural areas, client acquisition centers recruit large number of clients, increasing ABM's market base. The clients at the acquisition centers tend to be more profitable for ABM as they tend to borrow more and perform better (most of the centers report a portfolio-at-risk ratio of 2% or less).

Micro Branches

In order to expand services to areas that do not have sufficient population to support a traditional branch, ABM also established micro branches in areas with a minimum of 50,000 residents. Micro branches provide all basic services and products available to customers at a traditional branch; they differ only in their staff size and location.

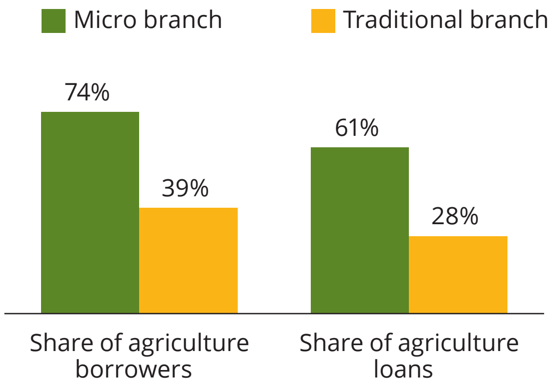
These branches have a maximum of 10 staff, including a manager, five or six loan officers, one cashier, one back office assistant, and a client advisor. By comparison, a traditional branch has more staff. The micro branches are open five days a week providing basic credit, deposit, and payment services. It costs around US$80,000 to open a micro branch compared to an average of US$200,000 for traditional branches, and the smaller offices can be established in four months.

2 As of December 2014.

3 The average cost of opening a traditional branch based on data from the AgriFin/ABM project is US$196,725.

4 The monthly cost per client is calculated based on the time it takes to successfully enlist a client, figured at nine and two-and-a-half days of work at a customer acquisition center and a branch, respectively. The average monthly salary of a loan officer undertaking client acquisition both at a branch and customer acquisition center is US$406. Accordingly, the cost of loan officer salary per month in a customer acquisition center is US$166 while the cost of loan officer salary in a branch is US$46. Working for nine days in a customer acquisition center, a given loan officer can acquire on average about 13 clients in a month, while in a branch a loan officer can acquire six clients. Besides loan officer salary, a customer acquisition center incurs transport and office rental costs to acquire clients. These expenses are US$8.14 and US$46.8 per month per center for transport and rent, respectively. A sum of these expenses divided by the average number of clients acquired in a month show that the cost per client for a month in a customer acquisition center is US$17. In a branch, customer acquisition cost also involves transport expense of US$1 per month; as such, the cost per client in a branch is US$8.69.

FIGURE 1: Outreach to Rural and Agricultural Clients: Micro Branches Vs Traditional Branches



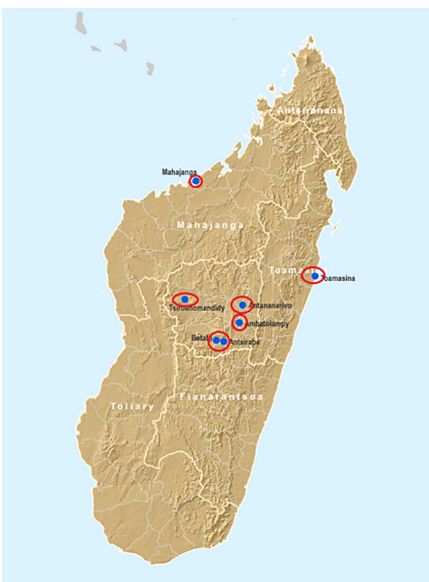
Micro branches serve more rural and agricultural clients than traditional branches. Micro branches are designed to serve customers in less populated rural and semi-urban towns. They have the ability to provide full set of services like a traditional branch. Their main goal is to expand services to rural and agricultural communities and other sparely populated areas at a lower cost than traditional branches, and the experience to date suggests this is being achieved (Figure 1), largely reflecting their closer proximity to the clients. After nine months in operation, the first pilot micro branch has served approximately 500 clients, provided US$250,000 in loans, and mobilized about US$55,000 in deposits.

Looking beyond the current pilot initiative, micro branches have the potential to expand ABM's outreach to 13 more districts, with populations between 50,000 to 100,000 (Figure 2).

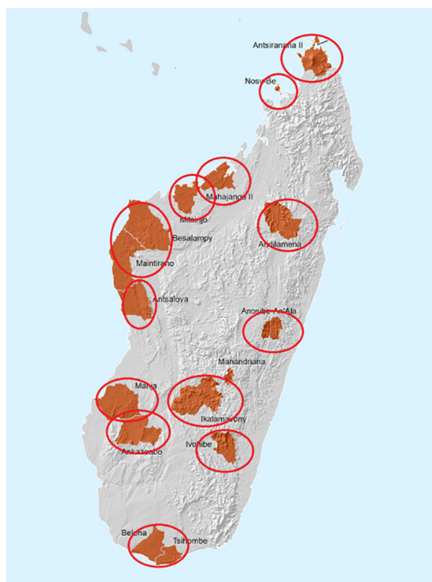
By minimizing both the startup and operational costs of micro branches, limiting the number of staff and office infrastructure, ABM attempts to ensure efficient delivery of services to remote clients. With just 10 total staff, the share of micro branches' staff cost to total cost is 47% whereas at a traditional branch (with usually around 30 employees) staff expenses represent 65% of total operational costs.

FIGURE 2: Geographic expansion with Micro branches

Current branch based outreach model geographic coverage



Potential outreach to additional areas with maxi branches



Source: Institut National de la Statstique de Madagascar (INSTAT)

When compared with traditional branches, micro branches obviously cost less to operate; however, given the specificity of rural and agricultural markets, it takes a longer time for micro branches to acquire the customer base and generate the revenue they need to break even. According to ABM's projections, a micro branch will likely do so after one year.

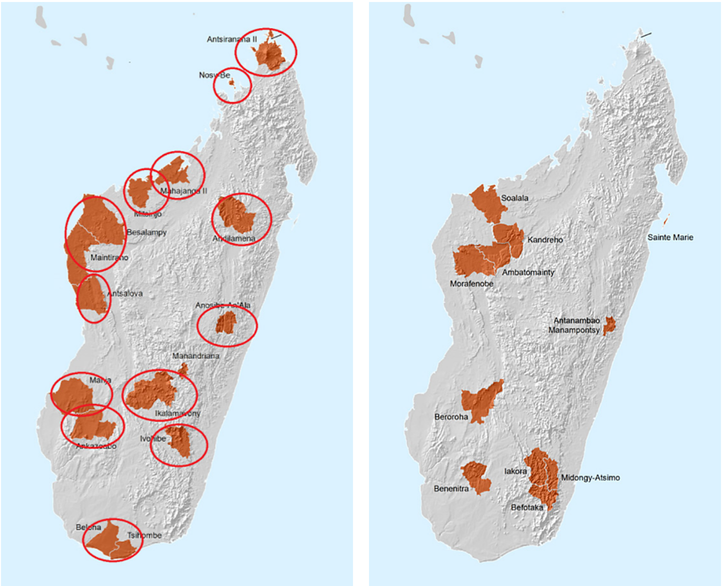
Lessons

- High costs hinder most banks in developing countries from expanding outreach to remote, rural areas. ABM's experience has shown that among the range of alternative service delivery channels available to banks, client acquisition centers and micro branches have the potential for extending services to remote areas at minimum cost. Both channels can be established within short periods of time, at reasonable startup costs, and can serve remote clients with relatively low operating expenses. Accordingly, ABM's experience shows that it is possible to scale up geographic outreach by using a combination of branches, micro branches, and client acquisition centers (see figures[5] below).
- Client acquisition centers reduce cost of client acquisition and help expand outreach to more areas. Through these channels, ABM has been able to expand and deepen outreach to agricultural clients in remote rural areas. Experience with the first five client acquisition pilot centers has demonstrated that they can be scalable, and ABM currently is increasing the number of centers to other remote areas.
- The cost of client acquisition at the client acquisition centers is higher than at ABM branches, although this can be justified due to the following factors:
    - Customer acquisition centers reach remote clients that are uneconomic to serve using traditional branches.
    - Due to limited competition in remote areas, customer acquisition centers have enabled the bank to reach larger clients (higher average loan size). The non-performing loan rates for clients in remote rural areas are lower than the mainly urban clients in main branches, demonstrating the profitability of clients recruited via the acquisition centers.
    - The fixed cost to the branch to operate the customer acquisition center is minimal and it likely will diminish over time with the growth of the client base.
    - The average branch can recruit about six clients per month using one loan officer, while a branch recruits 158 in a month, demonstrating higher productivity in client outreach.
- While client acquisition centers help acquire clients to be served out of traditional branches, micro branches serve as full service centers providing all basic financial services in rural areas. With limited staff and office infrastructure, micro branches provide access to deposits and loans to remote clients. The high share of agriculture loans to total loans in micro branches demonstrates that they are effective channels to serve agricultural clients that often require less sophisticated products and customer service.
- Both delivery channels (client acquisition centers and micro branches) provide face-to-face access to services, which is a fundamental value to rural and agriculture customers that value in-person relationships with financial institutions. ABM suggests that a physical presence in the community also reinforces the bank's ability to monitor loans and ensure repayment. Additionally, unlike other technology-based distribution channels, ABM believes that these channels offer the human resources capacity essential to offer a variety of products to agricultural and rural clients at minimum cost.

5 Source: Institut National de la Statstique de Madagascar (INSTAT)

FIGURE 3: Current coverage with existing model

FIGURE 4: Potential coverage with new model*



* Micro branches can potentially serve areas with populations between 50,000 and 100,000. Client acquisition centers seek to serve villages with less than 50,000 residents.