Equity Bank:
South Sudan
Rwanda
Tanzania

Case Study

UN CDF | MICROLEAD

INCREASING FINANCIAL INCLUSION IN EAST AFRICA:

Equity Bank's Agent-Driven Model

By Ann Duval

Summary

In 1993, Equity Building Society in Kenya was failing but, by 2004, had turned itself around—with remarkable results. Transformed into Equity Bank Limited (EBL), a commercial bank traded since 2006 on the Nairobi Securities Exchange, it had amassed 7.4 million accounts (57 percent of all bank accounts in Kenya) by the end of 2013, with a continuing focus on and commitment to small-balance depositors. The successful turnaround enabled EBL to embark on a regional expansion plan in 2007, which led to the acquisition of an existing microfinance institution in Uganda in 2008, and the establishment of greenfield subsidiaries in South Sudan in 2009, in Rwanda in 2011, and in the United Republic of Tanzania in 2012.

The EBL greenfield subsidiaries have expanded quickly and, in keeping with the mission, are successfully reaching the 'bottom of the pyramid' with zero-opening-balance, no-minimum accounts held by a significant number of clients in each country. As of December 2013, Equity Bank Limited – South Sudan (EBL South Sudan), Equity Bank Limited – Rwanda (EBL Rwanda), and Equity Bank Limited – Tanzania (EBL Tanzania) were serving more than 330,000 active depositors, of which 251,000 (76 percent) held balances with less than US$100. Although EBL has been less successful in providing loans to this segment of the market, it has clearly contributed to increased financial inclusion in East Africa. By capitalizing on the technological investments and shared services provided by EBL headquarters in Kenya, the greenfields' financial performance has also been impressive; by the end of 2013, EBL South Sudan and EBL Tanzania were profitable and EBL Rwanda was close to breaking even.

A key to EBL's success in reaching the mass market for deposits in Kenya has been its pioneering of and expertise in agency banking. Although EBL was poised to capitalize on this experience in its greenfield subsidiaries, challenges both external and internal have limited its outreach via agents in these countries as compared to its goals. EBL is working to address these challenges and is now focused on riding the technological wave into a 'cash-lite,' financially inclusive future.

Overview of Equity Bank Limited

EBL was founded as Equity Building Society (EBS) in 1984, originally providing mortgage financing for mainly low-income customers. In 1993, the Central Bank of Kenya declared EBS technically insolvent. In a turnaround strategy presented to and approved by the Central Bank, EBS shifted its focus from mainly credit-oriented mortgage lending to deposit mobilization for the masses.

The new model was based on offering the low-income and marginalized population convenient and affordable access to a safe and secure place for their savings. The strategy also involved capital injection by shareholders, significant support by donors[1] and the strengthening of management to help revive the institution. At the same time, Kenya liberalized the financial sector and, as a result, several major banks shifted focus from the retail to the corporate sector and a number of banks closed their rural branches, creating a gap in the retail sector and a steady flow of new deposits to EBS. Poised to capture a new market, EBS rose to the occasion, registering a 600-percent increase in gross loans between 2000 and 2004. In 2004, EBS raised K Sh720 million ($9 million) via a private placement to support transition to EBL, a commercial bank subsequently listed in August 2006 on the Nairobi Securities Exchange.

Because of its growing success in Kenya, by 2007 EBL was in a position to begin to realize its long-term dream of expanding its reach first to neighbouring countries in East Africa and then across the African continent. As one manager said, "There were two driving forces to our expansion. First, by 2007, it looked like our model was working very well—in 20 years in Kenya, we had gone from insolvent to successful. We saw the opportunity to replicate our success in neighbouring countries where there was a huge bankable but unbanked population, with high levels of poverty. At the same time, we were experiencing the benefits of regional integration with the revival of the East African Community."

1. United Nations Capital Development Fund (UNCDF) provided key strategic support for EBL's transformation via MicroStart, which helped early on to establish EBL's MIS, and via MicroSave, which assisted EBL to develop as a market-led institution with a focus on customer service.

Table 1 illustrates the massive growth of EBL (in Kenya) since 2004, both in terms of clients served and profitability:

Table 1
Equity Bank Limited in Kenya: Growth from 2004 through 2013

	31 December 2004	31 December 2013	Percent growth
Number of borrowers	59,306	704,249	1,087%
Gross loan portfolio*	40 million	1.8 billion	4,400%
Number of depositors	413,095	7.4 million	1,691%
Total deposits*	65.6 million	1.8 billion	2,644%
Net income after taxes and donations*	1.7 million	212.4 million	12,394%
Total assets*	86.8 million	2.7 billion	3,011%
Return on assets	2.5%	8.1%	224%
Total equity*	16.4 million	586.3 million	3,475%
Return on equity	15.2%	39.3%	159%

*Figures in US dollar equivalents
Source: Reports to MIX Market

EBL began its regional expansion by acquiring Uganda Microfinance Limited in June 2008. The acquisition proved to be a difficult experience; one manager commented, "The Equity Bank model doesn't favour acquisition—it's impossible to convert staff and management of an existing institution to our culture." Learning from this lesson, EBL re-focused its efforts establishing greenfield subsidiaries. After visits by a special headquarters team to several potential locations, EBL chose Southern Sudan[2] for expansion and established operations there in May 2009. This greenfield subsidiary was followed by Rwanda in October 2011 and Tanzania in February 2012.

With impressive results and an aggressive expansion strategy, EBL has attracted major investors and donors, including the following: Helios Investment Partners, which acquired a 24.99 percent interest in EBL in 2007 with a $178.7 million investment; and the International Finance Corporation, which extended a $100 million loan to EBL in 2012 to support lending to small and medium enterprises (SMEs), agricultural projects and women entrepreneurs in Kenya, Uganda, South Sudan, Rwanda and Tanzania.

Equity Bank Limited greenfields in South Sudan, Rwanda and Tanzania

Together with other donors and investors, MicroLead financed the three EBL greenfield subsidiaries in East Africa. Performance-based agreements were signed between MicroLead and EBL for these greenfields as follows:

with **South Sudan** in
December 2009 for $2.5 million

with **Rwanda** in
November 2011 for $2.0 million

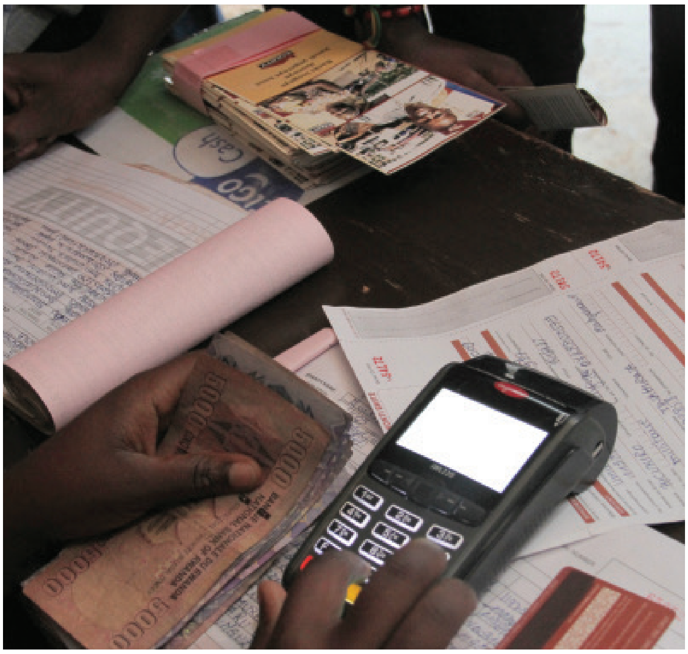
and with **Tanzania** in
December 2012 for $2.0 million

Country background and challenges for the greenfields

SOUTH SUDAN

South Sudan presented a large untapped market in 2009 when EBL began operations, with an estimated population of 8 million and extremely limited bank coverage. As one manager said, "South Sudan was our first and easiest choice for a subsidiary—other banks had already gone there and we saw very high potential even though we also saw the risks." However, the challenges and risks only grew over time. EBL began developing its market in the absence of a well-functioning government and central bank. Progress was impeded when South Sudan declared its independence from the Sudan in 2011 and violence resurged. By early 2012, the country was in economic crisis as well. With only nascent government structures in place to mitigate continued ethnic conflict and to ensure political and economic

2. Southern Sudan Autonomous Region at the time of greenfield establishment, which later became South Sudan.



stability, the tenuous peace disintegrated in December 2013 when the conflict between the Government and rebel forces resumed. Despite a ceasefire negotiated in January 2014, fighting continued as of February 2014 and left thousands of people dead and close to 900,000 displaced. In light of this particularly challenging environment,

EBL South Sudan has achieved impressive results, serving close to 86,000 active depositors as of December 2013.

RWANDA

Rwanda presented an attractive though much smaller market than that of other countries in which EBL has established greenfield subsidiaries. The 2012 FinScope report 'Financial Inclusion in Rwanda 2008–2012' indicated that there is a relatively high level of financial inclusion —72 percent of adults had or used financial products or mechanisms and 42 percent were being formally served. With a population of about 10.5 million in 2012, that level of coverage left little room for new entrants to the market. In this more limited market, the Government of Rwanda is driving economic development more than the private sector; while this situation also limits opportunities for business financing by banks, it does permit savvy actors to take advantage of technological and other systemic advances pushed by the Government, and to partner with it strategically to advance financial inclusion. In keeping with this progressive outlook, the National Bank of Rwanda's attitudes towards development of the financial sector are market driven and conducive to growth and innovation; for example, it approved agency banking guidelines (a key to EBL success) in September 2011, prior to EBL's establishment in Rwanda. EBL Rwanda has been able to take advantage of the conducive environment, building a clientele of 215,000 active depositors in just over two years from October 2011 to December 2013.

TANZANIA

In some ways, Tanzania presents an opposite picture to Rwanda—a vast potential market for banking services coupled with a more cautious and restrictive government. According to a 2009 FinScope study, only 12 percent of the population of 45 million was considered to be 'banked,' although this number has certainly increased since then and did not take into account the growing presence of mobile network operators (MNOs) in the financial market and use of their services. Tanzania boasts a vibrant and growing economy driven by the private sector at all levels (formal and informal) and in most sectors. The Government of Tanzania is more cautious and restrictive than the Government of Rwanda; for example, despite concerted lobbying efforts by the financial community, including EBL, the Bank of Tanzania only issued agency banking guidelines in February 2013. Although the Government tends to be risk averse, and some banking regulations are considered onerous (including know-your-customer [KYC] requirements associated with the agent banking guidelines), it has recently endorsed a new National Financial Inclusion Framework. It is hoped that this framework will help loosen the regulatory environment. Although EBL Tanzania was not able to begin agency banking until August 2013, it had grown its active depositor base to 32,000 by December 2013.

CHALLENGES COMMON TO RWANDA AND TANZANIA

Despite operating environments that are quite different at the macro level, EBL faces other, similar challenges in Rwanda and Tanzania, and is struggling with implementing its expansion plans and reaching its outreach targets despite good financial performance. These challenges include the following:

- A low level of knowledge of and experience with commercial banks by the general population, and therefore a slow uptake of banking services. This is especially true in Tanzania, with its very low percentage of population that is 'banked,' but also in Rwanda where the reported high level of financial inclusion is due in large part to the Government-established *Umurenge* savings and credit cooperatives (SACCOs).

- Being a new, foreign bank in markets with many well-established local players, not only including other commercial banks but also specialized microfinance banks, microfinance instutions and SACCOS.

- A challenging lending environment, with a high degree of lending fraud present in the market. Fraud is facilitated in Tanzania by the lack of a national ID with which to identify clients and by the lack of a credit reference bureau, the first only beginning operations in June 2013. In Rwanda, fraud has been coupled with a high level of competition in the financial sector and lax and/or ineffective lending practices; although non-performing loans in the sector have declined from 20 percent in 2003, they still remained at 7 percent in 2013.

- Low local-skills levels across the board, from internal staff to external agents. The lack of experienced staff, particularly in lending, is exacerbated in Tanzania where the Government has restricted EBL Tanzania to eight Kenyan nationals on staff. Despite a largely inexperienced staff, EBL Tanzania has expanded rapidly, with resulting gaps most evident in management structures (particularly in the credit and operations departments) and in the pool of staff and managers responsible for developing the agent network. The agents in turn tend to be minimally literate, with semi-formal businesses and no experience with the kinds of technology and transactions required by agent banking.
- Increasing and serious competition from MNOs that are reaching very large numbers of the same clients that EBL targets, with very similar financial products (deposits, withdrawals and payments), throughout the countries. As of December 2013, the Rwanda Utilities Regulatory Authority reported 6.7 million telephone subscribers, or 63.5 percent of the population. Of these subscribers, Tigo (a major MNO) estimates that there are 2.5 million registered mobile money users, of whom about 50 percent actively use their accounts. In Tanzania, the Alliance for Financial Inclusion reported 31.8 million registered e-money accounts held through 4 MNOs and 14 banks as of 31 December 2013, and more than 94 percent of the adult population having an e-money account, with over 49 percent actively using these services.

Common market-entry strategies for the greenfields

Despite the differences in operating environments and challenges, EBL followed a similar fundamental business strategy in each of the three countries in which it established greenfield subsidiaries. The hallmarks of this strategy are as follows:

- Aggressively opening zero-balance accounts from the beginning. These Equity Ordinary Accounts, which are primarily transactional accounts, are used as a marketing tool to demystify banking for the general population, demonstrating that anyone can open an account with EBL. Equally important, this element of the strategy allows the banks to begin immediately to build the base of low-cost deposits on which they rely for their profitability.[3] **Table 2** shows the breakdown of EBL interest-bearing accounts in South Sudan, Rwanda and Tanzania as of December 2013.
- Diversifying both funding and revenue sources. EBL actively pursues business from large institutions (corporations, NGOs, government and parastatal institutions) in order to garner a much smaller number of more expensive but exponentially larger deposits and to generate significant transactional income from such services as foreign exchange transactions, SWIFT (Society for Worldwide Interbank Financial Telecommunication) transfers, and letters of credit.

Table 2
Equity Bank Limited interest-earning accounts
(as of 31 December 2013)

	South Sudan	Rwanda	Tanzania
Ordinary Accounts with more than $100 balance	40,954	6,480	7,855
Jijenge Savings Accounts	72	3,243	1,970
Super Junior Savings Accounts	222	2,433	752
Call and fixed deposits	39	142	160
Total interest-earning accounts	41,287	12,298	10,737
Interest-earning accounts as percent of total accounts	32%	4%	16%
Interest-earning accounts as percent of funded accounts	48%	6%	33%

*Figures in US dollar equivalents
Source: Reports to UNCDF/MIX Market

3. In Rwanda, Equity Ordinary Accounts with more than Rf100,000 ($148 at February 2014 exchange rate) earn 2 percent p.a. interest; in Tanzania, Equity Ordinary Accounts with more than TSh200,000 ($122 at February 2014 exchange rate) earn 3 percent p.a. interest.

- Income from sources other than interest and fees on loans accounted for about 50 percent of total income in EBL Rwanda and EBL Tanzania in 2013.

- Beginning operations in urban and peri-urban areas where it is easier to break even, before moving into more remote (and more costly) rural areas, thereby boosting profitability in the short term.
Adopting a low-key 'assimilation' strategy to mitigate resistance to a new Kenyan bank, with a focus on building relationships and encouraging word-of-mouth referrals rather than using high-visibility marketing techniques.

- Focusing on developing the bank's human resource base. In both Rwanda and Tanzania, the bank recruited about 100 staff in country and then brought the recruits to Kenya for a year-long hands-on training programme at EBL.

On the one hand, the greenfields have benefitted from coming into a new market as a full-fledged commercial bank, with the technological support from and shared services provided by EBL headquarters in Kenya. As one director said, "Here in Kenya, we captured small clients first—consumers, retailers and small businesses and then the corporations came to us. The greenfields can do the opposite because the Group invested in and took the time to develop the systems." This approach has enabled EBL to offer services to the 'high end' of the market at the outset, thereby enabling it to become profitable quickly. While EBL is doing well reaching the lower segments of the market via deposits, it is not yet reaching the 'low end' of the market via credit as well as it does in Kenya, due to the challenges listed above.

In South Sudan and Tanzania, where the primary focus has been on building relationships with and providing services to large institutions and/or SMEs, the greenfields have been able to break even and/or achieve profitability. Whereas, in Rwanda, where there is a much larger number of small-balance accounts that demonstrate a more clear expression of EBL's mission, the bank does not expect to show a profit until the end of 2014. **Table 3** compares impact, as measured by balances per client per gross national income (GNI) per capita, to profitability for each of the three greenfields.

Table 3
Equity Bank Limited impact and profitability
(as of 31 December 2013)

	South Sudan	Rwanda	Tanzania
Average loan balance per borrower*	5,117	10,565	9,498
Average loan outstanding per borrower/ GNI per capita	339%	1,938%	1,776%
Average deposit balance per depositor*	1,309	254	1,027
Average deposit balance per depositor/ GNI per capita	87%	47%	192%
Return on assets	9%	0%	2%
Return on equity	54%	0%	13%
Operational self-sufficiency	128%	96%	116%

*Figures in US dollar equivalents
Source: Reports to UNCDF/MIX Market

__South Sudan__ has been the most challenging. The country was in very early stages of development when we arrived and so the strategy here was to focus on transactional income (mainly foreign exchange) and targeting NGOs and other big players. In South Sudan, the key to success was to become profitable quickly and to contribute to the profitability of the Group overall. There is still no agent or mobile banking but we have built a nice base and the subsidiary is profitable. But it remains a challenge because this is not really the Equity model. We want to be a leader in retail banking but we haven't really achieved this. [4]

Country-specific adaptations of the strategy

In South Sudan, the EBL market penetration strategy combined several key elements: assisting the Government to bank its previously un-banked employees, thereby gaining many small-balance depositors; providing financing to SMEs involved in cross-border trade; and, capturing the business of large institutions, which generated significant foreign exchange profits. As the Government and the Bank of South Sudan are still building internal capacities, they have not yet been able to issue agent-banking or mobile-banking regulations, and EBL has relied on traditional 'brick and mortar' structures (bank branches and a limited number of ATMs).

In Rwanda, EBL chose to invest in a comprehensive structure initially, with 5 branches and 6 ATMs, when it began operations in October 2011. In two years, it had expanded to 9 branches and 13 ATMs. It also began with a full array of banking services, including POS for merchants, credit and debit cards, e-banking and mobile banking. Although agent banking guidelines were in place by the time it began operations, EBL Rwanda did not initiate agent banking until August 2012. Within the broader strategy of developing large clients as a basis for profitability, EBL has focused in Rwanda on capturing large corporate accounts, exploring agricultural value-chain financing and brokering government transactions such as utility payments.

EBL Tanzania did not invest as much in bank structures as EBL Rwanda and started by offering only a few banking channels (POS for merchants and ATMs); in a vastly larger country, it had 4 branches and 6 ATMs as of June 2012 and had expanded only to 6 branches and 7 ATMs by December 2013. In Tanzania, EBL also experienced a delay in receiving approval for agency banking; the Bank of Tanzania only issued agent banking guidelines in February 2013 and approved the EBL application to undertake agency banking in May 2013. In order to generate business in the meantime, the bank focused on what it refers to as 'capturing the value chain.' This translates to generating transactional income from corporate accounts while providing the means to generate business down the 'chain,' capitalizing on the institutional relationship to bring in individual (low-balance and low-cost) accounts from employees, suppliers and distributors. EBL Tanzania is also working to attract SACCOs, village savings and loan associations (VSLAs) and village community banks (VICOBAs) as clients, with the goal of recruiting all members as individual clients.

In __Rwanda__, because of its size and level of corporate governance, we could follow the Equity Bank model and we rolled out branches and other access points (mainly agents) fairly quickly. Rwanda is closest to the EB model at the moment, and we have opened a significant number of bank accounts. But it was a gamble, opening so many branches from day one. The challenge here has been that we are not yet making a profit because of opening so many branches so early. Acquiring customers has therefore been expensive. [5]

4, 5 Interview with EBL Senior Manager in headquarters.

> We have been more conservative in **Tanzania**, even though it is much like Kenya 10 years ago. We were nervous because of other banks' (negative) experience before we came. It's a large country with a dispersed population and we didn't want to roll out a lot of branches right away because of the cost, so we took a completely different approach. We are doing mainly SME lending and progress is encouraging because we are already breaking even though operations started after Rwanda. The management team was astute and held back on opening retail accounts because they wanted to break even as quickly as possible. Because Tanzania is more skewed to the SMEs, it is not following the EBL model with a lot of retail accounts. However, now that agent banking has been authorized, we will go after the large-scale retail banking market. [6]

Equity Bank Limited greenfield outreach

Each of the EBL greenfield subsidiaries in East Africa has achieved impressive outreach quickly, particularly in providing low-balance deposit services. EBL South Sudan had almost 86,000 active depositors after 4.5 years of operations despite an extremely challenging environment, EBL Rwanda had 215,000 active depositors after just over 2 years of operations, and EBL Tanzania had 32,000 active depositors after less than 2 years of operations. Of total active depositors in EBL Rwanda and EBL Tanzania, the majority held balances of less than $100—92 percent in Rwanda and 69 percent in Tanzania. **Table 4** shows the deposit breakdown by country as of December 2013.

Table 4
Equity Bank Limited deposit breakdown
(as of 31 December 2013)

	South Sudan	Rwanda	Tanzania
Date operations began	May 2009	October 2011	February 2012
Date agent banking began	n/a	August 2012	August 2013
Total deposit accounts	127,639	314,434	68,299
Accounts with a positive balance	85,656	215,371	32,433
Overdrawn accounts	22,900	17,685	3,172
Zero-balance accounts	19,083	81,378	32,694
Zero-balance accounts as percent of total accounts	15%	26%	48%
Accounts with balance of $1 to $100	30,548	197,508	22,438
Accounts with balance of $1 to $100 as percent of total accounts with a positive balance	36%	92%	69%
Accounts with balance >$100	55,108	17,863	9,995

*Figures in US dollar equivalents
Source: Reports to UNCDF/MIX Market

6 Interview with EBL Senior Manager in headquarters.

The greenfields have been less successful at lending. In part, the slow growth in the number of borrowers is due to the standard bank policy that prohibits new branches from extending loans for the first six months. However, this does not explain the low number of borrowers compared to depositors in the three countries after several years of operations. The vast majority of loans made by EBL are consumer loans, most often provided to salaried employees. Although these are the smallest loans provided by the bank, there is no clear correlation between loan size and economic status of the borrowers. However, if deposit and loan sizes are taken as a proxy for the income level of clients, it would seem that generally loans are provided to a more affluent clientele than are deposit services. This pattern fits with global experience that low-income clients, when presented with appropriate products, prefer to save rather than borrow. EBL has made an effort to reach the low-income microenterprise sector. With funding from the United Nations Development Programme, in 2008 it developed the *Fanikisha* group loan product for women, modeled on the Grameen Bank methodology. A similar product has been piloted in both Rwanda and Tanzania with mixed results and has yet to be implemented bank wide. **Table 5** shows the breakdown of the portfolio by loan type for each country as of December 2013.

Agent banking

Agent banking has been the key to EBL's ability to achieve its mission of reaching what it calls the 'bottom of the pyramid' with affordable and accessible deposit services. It will continue to be the key as EBL expands the services provided through agents. As expressed by a director in Rwanda, "Agency banking will become a part of people's lives. It will be the platform for everything—utility payments, social payments, taxes and insurance. We need to make agency banking more lucrative for agents and offer more services through agents—more services make agents more relevant and will get people using agencies."

Table 5
Equity Bank Limited loan distribution by type and country
(as of 31 December 2013)

	South Sudan 2012 GNI/capita: $790			Rwanda 2012 GNI/capita: $600			Tanzania 2012 GNI/capita: $570		
	Total outstanding balance*	No. of loans	Avg. size at disb.*	Total outstanding balance*	No. of loans	Avg. size at disb.*	Total outstanding balance*	No. of loans	Avg. size at disb.*
Consumer	8,120,420	7,854	1,560	14,678,328	3,473	5,016	4,382,053	1,977	2,647
Micro	123,317	94	1,283	1,054,883	281	4,585	1,632,783	1,182	10,767
Lower SME	8,912,834	137	52,910	3,729,428	139	29,337	6,327,185	199	53,418
Upper SME				2,613,021	15	186,204	8,334,158	39	341,338
Corporate	12,988,015	11	1,184,173	11,502,911	5	2,341,412	8,844,433	6	1,370,469
Agriculture	0	0	n/a	0	0	n/a	0	0	n/a
Asset finance	0	0	n/a	763,406	58	17,694	8,712,973	62	167,061
Mortgage	0	0	n/a	7,901,732	134	62,314	7,164,682	20	521,550
Other	0	0	n/a	0	0	n/a	5,170,877	2,022	1,952
Total	**30,144,587**	**8,096**		**42,243,710**	**4,106**		**50,569,144**	**5,507**	

*Figures in US dollar equivalents
Source: Reports to UNCDF/MIX Market

EBL Rwanda began agency banking in August 2012, ten months after beginning operations in the country. EBL Tanzania began one year later in August 2013, eighteen months after beginning operations and six months after agent banking guidelines were issued by the Bank of Tanzania.

As illustrated in **table 6**, there is a high correlation between having an agent network in place and achieving success in opening new mass market accounts. Just over a year after beginning agent banking, EBL Rwanda had opened two thirds of its accounts through agents. Whereas EBL Tanzania, with agents newly in place, had opened just 3 percent of its accounts via agents at the end of 2013.

Table 6
Equity Bank Limited channels and results in Rwanda and Tanzania
(as of 31 December 2013)

	Rwanda	Tanzania
Date began operations	October 2011	February 2012
Agency guidelines issued by central bank	September 2011	February 2013
First agents operational	August 2012	August 2013
Number of branches and ATMs	9 branches, 13 ATMs	6 branches, 7 ATMs
Number of agents	540*	133
Number of accounts opened	296,749	68,299
Number of accounts opened via tellers	97,927 (33% of total)	66,306 (97% of total)
Number of accounts opened via agents	198,822 (67% of total)	1,993 (3% of total)
Percent of dormant (zero-balance) accounts	26%	48%
Deposits via tellers at branches	23%	77%
Deposits via ATMs	4%	n/a
Deposits via agents	73%	15%
Deposits via TISS/EFT	0	8%
Withdrawals via tellers at branches	28%	50%
Withdrawals via ATMs	44%	47%
Withdrawals via agents	28%	3%

*As of 31 December 2013, there were 727 agents, of which 613 had been approved by the National Bank of Rwanda and 540 were active.
Acronyms: TISS/EFT, Tanzania Inter-bank Settlement System/Electronic funds transfer

How agent banking works in Equity Bank Limited

Following is a brief explanation of the way that agent banking works within EBL, which is helpful in understanding the challenges faced by the bank in developing its agent networks in Rwanda and Tanzania:

- The agent opens a separate bank account for the agency business. With each cash transaction performed by the agent on behalf of the bank, this account is automatically debited (for client deposits) or credited (for client withdrawals). The amount of money in this account therefore determines (and limits) the amount of business an agent can handle on a daily basis, whether deposits or withdrawals.

- EBL provides each agent with a GSM-enabled POS and cell phone, at no cost to the agent, which are able to connect directly to the EBL server in Nairobi.

- A new customer opens an account instantly upon presentation of an ID and completion of a simple one-page form with basic personal information (no deposit is required).[7]

- The agent takes photographs of the customer, the form and the ID, completes a simple information form on his/her phone, and then sends all to the EBL Central Processing Center in Kenya.

- EBL immediately sends the agent and the new customer a SMS, acknowledging the new account and giving the customer the account number. At this point, the customer can immediately begin to use the account to deposit funds.

- Also at this point, EBL headquarters in Kenya issues a debit card to the customer (debiting his/her new account for the associated charge that is about $5), which is needed to withdraw funds and/or make payments through an agent.[8] If a customer has access to EBL mobile banking, he/she can withdraw via cell phone with an agent, using the agent's third-party card. However, rollout of mobile banking has been slow in both countries and few low-end clients bank by phone.

Challenges to developing agency banking

In Kenya, EBL has agency banking down to a science, with a standard approach that includes seven days of on-site training during which EBL branding takes place and results in new agents being in business within two weeks. In Rwanda and Tanzania, however, EBL has faced a number of challenges in developing its agent networks, which have negatively impacted the bank's ability to reach its targets for large numbers of small-balance depositors. These challenges, which are both external and internal, include the following:

- Agency banking is a new product/channel in these markets, and EBL is a new, foreign bank in the market. So, initially, there is a low/slow level of uptake of EBL agent services.

- The low/slow level of uptake by potential customers affects agents' profitability, making it more difficult to convince them that being an agent will be worth their while. (In Rwanda, EBL management said that it takes three to four years to really develop an agent business to optimum profitability, which is a long time to keep an agent interested.)

- Agent float is a big issue in Rwanda.[9] The amount of money required to open an agent account, and the amount of money most agents keep in their account, is not sufficient to handle a successful and growing agent business. Therefore, agents must either make multiple trips to the nearest bank branch in a day to deposit cash or to deposit money with another agent in the vicinity, which then impacts that agent's ability to undertake further transactions.

- EBL and its agents have experienced a number of technical glitches. They are often due to connectivity issues, such as lack of consistent service from MNOs in the area or insufficient bandwidth. Other issues relate to the configuration and performance of the EBL server; while these issues were especially noticeable prior to and immediately after the major system upgrade and migration undertaken by EBL headquarters in Kenya in late 2013, agents were still reporting difficulties in early 2014.[10]

- The need to have a debit card to transact through an agent has had drawbacks for clients, including the delay in issuing cards (from Kenya) and the difficulty of getting the card if the customer is far from the branch.

- There is not enough EBL staff responsible for managing the growing agent network, an important drawback given the amount of handholding needed for new agents and the need to deal with almost daily transactional issues reported by multiple agents.

- There is a need for constant training at the agent level because agents' employees (who usually conduct the transactions) often leave and their replacements have to be trained. This is costly for the bank and currently difficult given EBL's understaffing in this area.

- Agents have been recruited without any strategic distribution of agents geographically. Each agent is attached to a specific branch but not necessarily the closest branch; an agent can be as many as 150 kilometres away from the branch and is often at least 30 to 50 kilometres away. This has repercussions both for clients who need to go to the branch to get their debit card or complete their ID process in order to activate their account, and for effective agent support and follow-up by EBL staff.

- Growing the menu-offering to a full financial buffet, from cash-in and cash-out to credit origination, payments and insurance, is a key challenge for agency banking.

7. In Tanzania, because of the lack of a national ID and the central bank's stringent KYC regulations, there is an additional step in activating the account (being able to withdraw or make payments): the customer must go to the branch and complete the identification process using biometrics (fingerprints taken and used for the bank's internal personal identification system).
8. Although a client can open an account with no money, the account is immediately debited for the amount of the debit card, resulting in a number of immediately overdrawn accounts.
9. Float was not raised as an issue in Tanzania, perhaps because the agent network is not yet mature enough to be dealing with this challenge.
10. According to a March 2014 article in Business Daily, EBL 'had to deal with a public relations crisis last year following system breakdowns that caused ATM outages attributed to system overload and the upgrade process.' The technical glitches were therefore widespread in both Kenya and in the greenfields.

Strategies to overcome agent banking challenges

The greenfields are quite aware of the challenges and are working to find solutions that will enable them to scale up their agent banking networks. **Table 7** lays out some key strategies already being implemented or being considered in EBL Rwanda and EBL Tanzania to address the challenges they face in effectively rolling out their agency banking channels.

Table 7
Strategies to address agent banking challenges in Rwanda and Tanzania

Challenge	Solutions
Unknown product/channel and unknown bank	Currently, EBL's marketing on behalf of agents has been limited to branding the agents' premises (painting the storefront in EBL colors, including the EBL logo). In Tanzania, where establishing agents has been more challenging, EBL tested the idea of identifying clients on behalf of the agents and bringing them to the agents' door (at no cost to the agent). This idea did not prove sustainable. However, EBL is still contemplating allocating staff time for door-to-door marketing together with agents or their employees in order to generate more business, as well as adding more traditional marketing techniques such as branded t-shirts and caps, producing and distributing flyers and creating small marketing events in tents set up near agents' businesses.
Insufficient agent float	EBL Rwanda is considering making loans to agents to help increase their business volume, and therefore the 'float,' in their agency accounts. It is experimenting with this approach through a joint programme with Tigo, funded by the Cherie Blair Foundation for Women, targeting Tigo Cash women agents. Under this programme, EBL Rwanda makes small loans (\$100–\$200) to the Tigo Cash agents for 12 months, at a subsidized rate of 1 percent per month flat interest, with monthly repayments. Results of the pilot programme will guide EBL Rwanda in developing loan products for its own agents.
Recurring technical glitches	Both EBL Rwanda and EBL Tanzania have addressed the issues of connectivity and bandwidth by providing agents with multiple SIM cards; when one MNO's network is not functioning well, the agent can switch to another network.
Delayed or hard-to-access debit cards	EBL acquired the technology necessary to produce its own debit cards in late 2013. The equipment to produce the cards was sent to both EBL Rwanda and EBL Tanzania in January 2014 and was to be tested in one branch in each country by the end of February 2014. After the trial has proven successful and the technology rolled out, each branch ultimately will be able to produce its own 'instant' debit cards on site.
Geographic distribution	At both EBL Rwanda and EBL Tanzania, managers are considering a more rational and effective distribution of both agents and staff that supervise them. At EBL Rwanda, branches are moving towards a system in which agents will be clustered, with each staff person assigned to a particular area, to enable better control, supervision and communication. EBL Tanzania plans to adopt a more strategic approach to recruiting agents in the first place, requiring agent supervisors to identify which neighborhoods and streets have the most potential for agent banking and focusing the recruitment of new agents on these locations.
Agent training	Continued intensive training will be part of an ongoing strategy for the foreseeable future. With more staff dedicated to developing the agent business, EBL greenfields will not only continue with, but intensify, regular training for agents and their employees. In Rwanda, EBL is considering upgrading the quality of agents, focusing on recruiting people who have a university degree and having management sit in on the selection process.

Lessons learned by Equity Bank Limited in the first greenfields

Many EBL directors in Kenya, Rwanda and Tanzania cited the following key lessons learned from the experience of expansion in Uganda, South Sudan, Rwanda and Tanzania:

- Having tried both acquisition and greenfield approaches, it is clear that establishing greenfield subsidiaries is the way to go in order to ensure that EBL instills its culture in each new bank.
- Having a strong corporate parent at the centre is critical in driving innovations and growing and sustaining the business.
- It is possible to overcome human-resource deficits by identifying young people with high potential in a new country and then providing hands-on training in Kenya, not only in technical aspects of job performance but in bank expectations, attitudes and customer service. This approach will be adopted in all future greenfields.
- For more rapid success, it is important to ensure that necessary permissions and regulations are in place before beginning operations. Two of the most important considerations are having a banking license before recruiting and training staff and ensuring that the necessary regulations are in place for both agency and mobile banking.
- It is imperative for the telecommunications infrastructure to be in place already so that the EBL model can work.
- Even in countries where the conditions seem to be right, it can be difficult to establish credibility. The process needs a lot of good will. It is a long-term proposition, and it is expensive.

What's next for Equity Bank Limited?

EBL directors at both headquarters in Kenya and the greenfields agree on the EBL vision for the near future:

- Focusing first on strengthening the existing 'core' while contemplating further regional expansion. As one director said, "We haven't changed our overall Africa vision. We would love to be present in all of the East African countries, even though some of them would be a huge challenge. But, we learned from our first three greenfields and we will be more cautious going forward." Other directors echoed this sentiment, saying that the priority is deepening EBL's presence in existing markets. This means, in Tanzania, increasing the number of agents and developing mobile banking and, in Rwanda, continuing to scale up the agent banking network. Through this strengthening, EBL expects that its three greenfields and Uganda subsidiary will be able to contribute 25 percent of the Group's profits within the next few years.

- Continuing to invest in people. EBL has established a new department for Learning and Leadership Development, which is separate from its Human Resources department. The department collaborates with Human Resources to identify key competencies for now and for the future and to identify talented staff capable of rising to the challenge. EBL is already partnering with Ivy League business schools in the United States of America to provide advanced education opportunities for executive staff, and is piloting an internal education and advancement programme for middle and line managers.

- Capitalizing on the technological infrastructure in which the bank has invested heavily and moving EBL to the forefront of 21st Century banking. As one director summarized the future direction for the bank, "We have seen that bricks and mortar are no longer viable to overcome banking barriers, both geographical (dealing with the distance to branches) and psychological (overcoming the banking myth). In addition, the dynamics of current demographics, with a high percentage of youth in the population, dictate a need for more flexible and responsive products. Society is moving to virtual banking via mobile phones and payment cards; our goal is to make customers comfortable with mobile money so that we can facilitate the move to a 'cash-lite' economy. At that point, banking will no longer be an 'event' that needs to be demystified."

- Developing new business lines, including insurance, brokerage services and mobile services. In Kenya, the Equity Insurance Agency already issues 1.5 million policies per year; in fact, if it were an independent company, it would be the third largest insurance company in Kenya. EBL plans to innovate around micro-insurance products and to be able to introduce such products into the greenfield markets within two years.

- Becoming a mobile virtual network operator (MVNO). EBL in Kenya has applied for and obtained a license to become a MVNO; with its own SIM cards, the bank will be independent from existing competitor MNOs and therefore gain greater control of the quality and reach of its mobile banking services.

MicroLead—A global thematic initiative

UNCDF's first global thematic initiative supports the expansion of financial service providers (FSPs) that pursue a savings-led approach, in the belief that savings, not credit, will allow low-income populations to take control of their complicated financial lives. Initiated in 2008 and funded by UNCDF and the Bill & Melinda Gates Foundation, MicroLead first focused on 'greenfielding' in least developed countries, awarding grants and loans to proven market leaders. The programme's goal was to reach 525,000 new clients by 2013. **By the end of 2013, MicroLead partners surpassed this goal by reaching 730,000 new depositors.**

Since 2011, the programme has expanded with funding from The MasterCard Foundation and the Livelihoods and Food Security Trust Fund (LIFT) in Myanmar. This new phase of the programme includes capacity-building by technical service providers with FSPs poised for significant growth in providing deposit services to low-income populations, outreach to rural areas and outreach to women. The new projects funded by MicroLead Expansion include bank downscaling and 'greenfielding,' financial cooperative creation and strengthening, village savings and loan association linkages to formal financial institutions, microfinance institution transformation into deposit-taking institutions, human-centred product design development, and deployment of alternative delivery channels such as mobile money, agents and point-of-sale devices. With specific emphasis on deposit mobilization, women, rural markets, and technology, MicroLead Expansion will reach over one million additional small-balance depositors by 2016.

MicroLead results in a nutshell

- **To date, the programme has awarded funding, totalling $43.5 million, in 19 countries for 27 projects (working with 36 FSPs).**

- **Eclipsing its own targets, MicroLead's first phase, which involved 19 of the 36 partner FSPs, surpassed its 2013 target of 525,000 new depositors and instead reached 730,000 new depositors.**

- **The target of MicroLead Expansion, working with 17 FSPs and ending in June 2017, is to reach over one million rural depositors in sub-Saharan Africa and over 100,000 rural depositors in Myanmar.**

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