

# Mainstreaming DFS in Microfinance: Opportunities and Challenges



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DHAKA, BANGLADESH

The second Digital Finance Consultative Group (DFCG) meeting was held on the 27th February 2018, in Dhaka. The theme of the 2nd DFCG meeting was 'Mainstreaming DFS in Microfinance: Opportunities and Challenges'. 90 representatives from different institutions, including 35 MFIs, MFI regulators attended the session.

The dialogue engaged regulators, policy makers, MFIs, financial institutions, development partners and other industry stakeholders explore the challenges and the way forward towards mainstreaming of digital finance in microfinance operations, who collectively explored the challenges of accelerating digital financial inclusion through the microfinance sector in Bangladesh. The meeting was graced by Dr. Lila Rashid, General Manager, Payment Systems Department, Bangladesh Bank as the Chief Guest.

Country Project Coordinator

of SHIFT in Bangladesh, UNCDF, Mr. Md. Ashraf Alam, Programme Manager of BRAC's Social Innovation Lab Mr. Rakib Avi, and Mr. Imran Ahmed, Consultant for the Shakti Foundation for Disabled Women, delivered presentations illustrating key features of DFS in Bangladesh and the pathways being currently designed towards a digitized era. Dr. Lila Rashid, General Manager, Payment Systems Department, Bangladesh Bank attended as the chief guest.

Mr. Ashraf Alam graced the occasion with a welcome speech and overview, highlighting the importance of technology as a critical driver



for financial services around the world. He stressed on the fact that given the importance of MFI in the financial sector of Bangladesh and digitization trends in the financial services around the world mainstreaming digitization in the MFIs operation has proven to be crucial for being relevant in the age of technology based financial service industry as well as changing client's needs.

He referred that vast improvements in the field of financial services offering and in the internal digitization of organizations are clear, and shared the work they have been doing in UNCDF and consequently the challenges emerging. Highlighting that the direct interaction with the members is a key pillar of the MFI industry, and that the infrastructures available in the rural areas may prove to be insufficient to offer DFS for MFI clients.

MFI digitization and mainstreaming DFS in MFIs operation offers great opportunities for rural women, especially in those who are doing micro and small businesses to transform as digital merchants in the rural areas as well. This in turn will open a vast opportunity for spurring the growth of DFS in the rural economy driving cash transaction away. Rural businesses, particularly have great opportunities for driving their efficiency through this initiative.

Taking in consideration that many of these clients are women, rural micro merchants, illiterate, and with limited knowledge regarding mobile phones, he invited all the presence to explore the real ques-



tion on the current state of digitization of MFI sector, as well as its real capability to offer DFS to clients. He further suggested the guests to reflect on how these challenges can be overcome.

### **Right time for MFIs to think as sector and push the digital agenda forward**

Mr. Rakib Avi presented the past and present trends of digitization in Bangladesh, where people are quickly adapting to mobile and in-

ternet technology, and suggested that a similar pace of digitization is observed in the financial services industry too. Mr. Avi also stressed that this is the right time for the MFIs to think as a sector and push the digital agenda for remaining relevant and competitive in the market. He also mentioned that digitization of MFI opera-

tion and mainstreaming DFS in it offers great opportunities for rural micro and small businesses to adopt digital payments and create a digital rural economy.

### **Experience with digitization**

BRAC and Shakti Foundation presented their experience with digitization of microfinance operation. BRAC, one of the largest MFIs in the world and a pioneer in Bangladesh has been engaged in

experimenting digitizing micro finance operation. BRAC opened more than 400,000 mobile money wallets for their microfinance clients in the last two years. BRAC's microfinance program has been testing mobile money as a payment channel monthly savings scheme for borrowers and plans to move into more sophisticated products soon.

Beyond conventional financing methods, BRAC explored different strategies to overcome these

challenges, by building a digital ecosystem to help clients achieve the benefits of DFS, with the training of the Program Organizers (PO), Customer Service Assistants (CSA), Project Staffs (PS) and creating of new tools. It was merely noted that 700 CSAs as DFS agent opened 88k wallets, and 400 hired PS developed a highly human-centric communication method, tools and materials, with personal meetings to technologically educate clients and practically tutor the transaction process. BRAC is also implementing assisted tools for notification of payments, notification messages for missed installments

### **SHAKTI's Journey in DFS**

The digitization of SHAKTI Foundation, a pioneer in urban microfinance with 500k customers, from which 99% women, has been developing since 1998, and has been focusing on the big value of agent banking in offering the opportunity to compromise more services.

Mr. Imran Ahmed stressed out that services provided to clients have costs associated, and one has to determine the right time to be part of this digital journey. Since 1998, SHAKTI's foundation journey on DFS has been evolving, adopting an online software based microcredit information system in 2001. In 2015 transparency became critical, and currently SHAKTI officers still take paper materials to the field, but from that point forward the entire process is digitized.

SHAKTI partner with Rocket with excitement regarding the way of mobile banking, and for 6 months, 100,000 members registered, but challenges emerged. Indeed, digital people started to get used to DFS, but not necessarily women, which makes it worth

considering that the gap between men and women has been increased in the past few years.

Mr. Imran Ahmed referred that reality is different from assumptions and, acknowledging it took 20 years to make women comfortable with cash, now is still a challenge to make them confident with DFS. Notwithstanding, the adoption rate was high and provided great learning - as long as there was an agent, the process could still work in its entirety.

Mr. Imran Ahmed shared his experience that rural and urban women they are working with are mostly engaged in micro and small level businesses including income generating activities.

Participants during their discussion talked about the benefits digitization will bring to the MFI operation. These are:

### Benefits DFS offers to MFIs

Members highlighted the following advantages of going digital in MFI operations:

- More HR time freed up and can be invested in new client acquisition;
- Easier customer onboarding
- Efficient and Cost Effective
- Easiness in Executing Transactions
- Easiness in Fund Transfer
- Clients can enjoy more value added services with increased convenience and safety;
- MFIs are able to reach clients more efficiently with increased transparency;
- Operators see increased transaction revenue due to greater activity rates from current clients or engagement with new customer segments.

### To remain relevant MFIs need to reinvent themselves

The Chief Guest of the meeting Dr. Lila Rashid took great interest in the discussion as she was involved in the genesis of the MFI sector in Bangladesh. She underscored the fact that microfinance sector has passed the mature and heading towards the declining phase unless it reinvent itself, and the adaptation to these new realities occurring in customers' lives is vital to expand its lifetime. She strongly indicated that MFI and DFS providers' collaboration will certainly bring more businesses in the future – better serving existing customers and reaching out to new segments with innovative new instruments. Dr. Rashid advocated the need for more use cases to be showcased and handholding and support by the regulators to drive the agenda. In conclusion, the Chief Guest highlighted the fact that as deploy-

ment of digitization and DFS in MFIs demands large upfront investments to keep pace with the international standards and to manage cyber security, the decision should be taken with more in-depth analysis. It's urgent for MFIs be more efficient, innovative, professional, transparent and forward looking in its modes of operation. She informed that for rural expansion of DFS and especially DFS usage by women MFI Digitiza

tion is critical as this will help them to mainstream DFS in their operation. In a response to the call for regulatory and policy improvement in some areas of MFS operation in the sector Dr. Lila Rashid asked the stakeholders to come up with proposals where MFI transactions are uniquely identified and in such cases the Bangladesh Bank will examine and consider appropriate policy options to support the sector.

## CHALLENGES IN STEERING THE DIGITAL AGENDA

- 1 **"Trust on Cash" mindset:**  
Currently clients are having 'Trust on Cash' mindset. Changing clients' transaction behavior into DFS platform and breaking the barrier of "Trust on Cash" mindset requires extensive literacy and handholding to transform their mind set.
- 2 **The Complexity of the DFS operational system:**  
All the services and steps involved regarding ladders of wallet opening, complaint management and USSD operating platform are hurdles to the illiterate poor men and women clients.
- 3 **Lack of rural DFS infrastructure:**  
In the rural level where most of the MFI clients resides there is a lack of digital infrastructure like ATM network, merchant acceptance of digital payments. Availability of supportive infrastructure is critical for DFS growth.
- 4 **Limited resources and Understanding:**  
Referring to the practical ownership of phone in rural areas and their usage, facing clients who still struggle to understand the technology.
- 5 **Regulatory and policy barriers:**  
A number of regulatory and policy barriers also exist that are also holding back digitization in MFI operation. Fee payments involved in MFI transaction other than cash and use of other instruments except cash as payment mode are two gray areas in the MRA regulations. Apart from that cash in and cash out limits imposed by the MFS regulator constraints, both clients and MFIs adopt DFS in MFI operations.
- 6 **Investment:**  
The investment required for digitizing MFI operation is a barrier for MFIs in Bangladesh. Digitization entails sizable investment initially to establish infrastructures and create readiness of the clients in terms of client's education and support system. Such costs can only be committed by large MFIs only.
- 7 **Lack of promotion and incentives for digitization and DFS uses:**  
Regulators and policy makers are not actively promoting MFI digitization. The importance of digitization and competitiveness need to be promoted by the pioneer in this field and also should be incentivized by the policy makers and regulators to drive the agenda. Case studies/ examples are not widely known to the MFI community which might showcase the business case of digitization and DFS use in MFI operations.



## KEY Take Always

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Regulatory and policy supports in creating an enabling environment for MFI digitization are crucial. MFI services transactions with clients can be treated as a special kind of transactions and tailored regulatory treatment can be given to such transactions under the MFS regulations.

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Going Digital is not only a technological change, it entails cultural change. It requires a cultural change in a client's mind as well as in the minds of the management of the organization. It requires full buy-in from management as it requires time and considerable cost outlays hence must be seen as a strategic priority.

3

Innovations and partnerships among the DFS providers and MFIs for offering affordable digital solutions to MFIs and their clients are critical success factors in MFI digitization.

4

There is always an uncertainty in implementing or changing organizational cultures in processes and practices and hence a gradual approach should be taken.

6

Making the channel available is insufficient – to drive uptake and usage, face-to-face interactions and hand holding are critical to educate poor women and make them comfortable with this new model of the transaction.

5

Leveraging a digital channel creates a new model of engaging with clients – and requires the entire organization to change the way it markets to, serves and engages with its clients.

7

DFS and interoperability are game changers for promoting enhanced access and usage among the bottom of the pyramid people.

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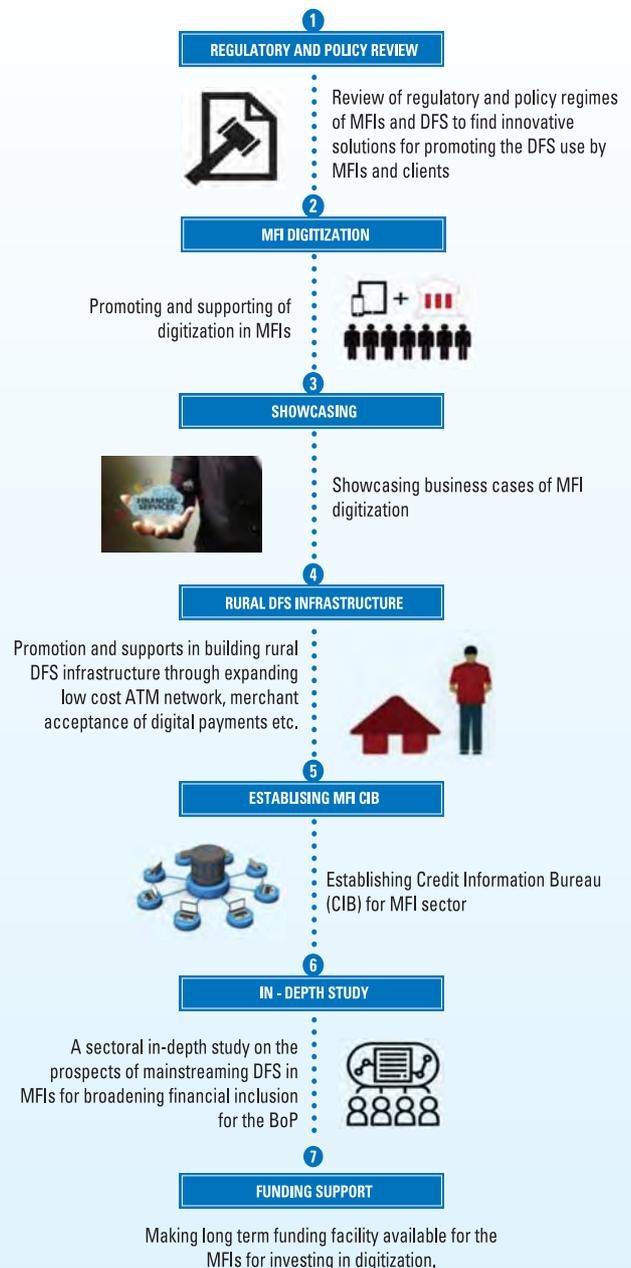
The struggle is different for the comparatively smaller MFIs as per borrower's and disbursement perspective.

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A further in-depth sectoral study would bring more insights and learning to better equip policy makers, regulators and stakeholders for informed choices

## WAY FORWARD

Participants in the dialogue recognized the importance of digitization in MFIs and mainstreaming DFS. However, they also were highly concerned about the challenges MFIs are currently facing in moving forward. For MFI sector transformation, participants came forward with several suggestions to steer the digitization agenda forward:



### About SHIFT in Bangladesh

The Shaping Inclusive Finance Transformations for the South Asian Association for Regional Cooperation (SHIFT SAARC) countries is a regional market facilitation initiative with the aim to improve livelihoods and reduce poverty rates in SAARC countries by 2021. The initiative seeks to stimulate investment, business innovations and regulatory reform to expand economic participation and opportunities for women, and help small and growing businesses to be active agents in the formal economy. SHIFT SAARC is currently being implemented in Bangladesh where it focuses on accelerating the uptake and usage of DFS to respond to the needs for expanding financial inclusion through digital pathways as described in the Government of Bangladesh's (GoB) Seventh Five Year Plan 2016-2020.

SHIFT SAARC in Bangladesh aims at expanding the rate of digital accounts uptake, especially among women and small businesses by 2019 through two streams of intervention, one looking at policy and regulations and the other looking at merchants' acceptance. UNCDF aims to stimulate investment, business innovations and regulatory reform for promoting digital financial inclusion to expand economic participation and opportunities for low-income people, especially women, and small and growing businesses to be active agents in the formal economy. This is expected to contribute to increased growth in income and employment, reduced vulnerability to shocks and lower poverty levels contributing to the successful transitioning of Bangladesh from Least Developed Country (LDC) to Middle Income Country (MIC) by 2021.