



Bangladeshi MFIs need to reinvent themselves for women

Why digitizing MFI operations is a good idea



McKinsey estimates that the digital transformation of financial institutions could add 45% to their annual net revenues—15% from enhanced product uptake, and 30% from reduced operational costs. MicroFinance Institutions (MFIs) are no exception. [MSC estimates](#) that digitization can benefit MFIs in multiple ways. It mitigates the risk and cost of cash, increases the operational efficiency, as the cost-to-income ratio can be increased to as high as 18%, offers a range of tailored products, and increases outreach in a cost-effective manner.

The importance of digitization for MFIs is becoming more and more relevant, owing to the tough competition that MFIs [face from digital lenders](#) and banks that have been expanding their network through [agent banking](#). For example, between September, 2017 and September, 2018, various banks in Bangladesh disbursed almost USD 9 million to the low- and middle-income segment. Of these clients, 6% were women.



Women, MFIs, and digital financial services

The impact of microfinance on the empowerment of women is hotly debated—[with contrasting and contradictory](#) evidence. A [study](#) published in 2016 found a positive impact on women’s empowerment in Bangladesh—especially with regard to decisions on children’s education, mobility, healthcare, purchases, among other things. Another [study](#) indicates that loans from microfinance institutions (MFIs) taken by women for use in low-risk sectors can clearly improve their economic condition.

On the other hand, a synthesis [paper](#) suggests that microfinance and women empowerment is not as strongly linked as perceived, and this intervention cannot singlehandedly improve the lives of women who have been historically oppressed. Evidence from India also shows that greater access to microfinance has no or negative [association](#) with the economic dimensions of empowerment and women’s [development](#) indicators.

It is, however, well [documented](#) that digital financial services (DFS) are a way to [accelerate](#) women’s financial inclusion and empowerment. DFS can solve some of the core gender-related challenges that women face with regard to accessing finance, such as the mobility of women and privacy of transactions. With better access to financial services, women can avail the benefits of access to a range of financial services, be involved in an economic activity that leads to enhanced decision-making, and in the end, experience increased gender equality and reduced poverty. Indeed, the latest [gender equality](#) strategy of the Bill & Melinda Gates Foundation is based on this premise.

In Bangladesh, women constitute a [majority](#) of the MFI clientele. In terms of value, 82% of the loans from MFIs go to women and 90% of the total savings portfolio of MFIs belongs to female clients. However, women often struggle to start using DFS, as it poses multiple [challenges](#)—not least of all the inability to use, or fear of using digital interfaces. MSC’s [studies on the use of DFS](#) find that service downtime, agents charging an unauthorized fee, fear of sending money to a wrong number, and lack of a working grievance resolution mechanisms impede the use of DFS. This is substantiated by agent network assessment studies, which highlighted a preference for [over-the-counter](#) (OTC) transactions. The high prevalence of OTC reflects, in part at least, the overall illiteracy rate of 27%, and the level of illiteracy among women, which stands at 30%. Digital interfaces are [not intuitive](#) for illiterate female users.¹

These challenges are further amplified because MFIs are unsure if their clientele would be willing to accept digital payments since they have been dealing in cash for years. Only recently, some MFIs, such as BRAC, BURO, Sajida Foundation, and Shakti Foundation have rolled out pilot tests of digitized operations. These include:

- ▶ Loan disbursements into bank accounts that can be withdrawn at branches, ATMs, or agent banking points;
- ▶ Transaction confirmation messages; and
- ▶ Mobilizing deposits through mobile wallets.

MSC has been closely involved in these pilots for BURO and Shakti Foundation. Our assessment of customer satisfaction highlights that users of new digital systems find them faster. The trust factor in this regard has increased, since messages are transmitted in real time. We also find that women users have been gradually learning to use DFS systems. They mentioned that at times, they take the help of other members to complete transactions and to enter PINs. In this note, we unpack why a typical MFI customer would use DFS. This understanding will help MFIs to increase their base of female customers who are comfortable in using digital interfaces.

The research findings, which we briefly discuss in this note, are the result of a study that MSC conducted to assess the [gender centrality](#) of current DFS products in Bangladesh. We find that what we call “financial services space” (FSS) is a key determinant for a woman to use DFS. FSS is a three-dimensional space defined by three factors: convenience, motivation, and volume or frequency of need to use DFS. Women that cross the thresholds on each dimension use DFS willingly and regularly.

¹ MSC has conducted [extensive studies](#) to understand illiteracy and use of DFS. We find that women are impacted more by the incidence of “orality (the modes of thinking, speaking and managing information in societies where technologies of literacy, especially writing and print, are unfamiliar to most people)” and thus are more averse to using digital interfaces.



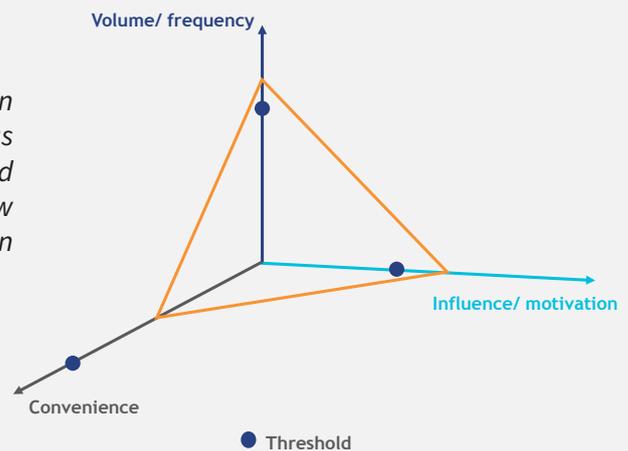
There are two important corollaries to the concept of FSS.

1. FSS also explains a person’s use of MFS—whether one would become an active user that is, use multiple services that providers offer or would stick to one or two services—for instance, only cash-outs or P2P.

2. A very high threshold for at least one of these factors can also make women use DFS.

The adjoining graphic depicts a particular case of a person who is in the FSS and has been using MFS. In this case she has high motivation (beyond threshold), high volume (beyond threshold), and low felt need of having convenience (below threshold). Crossing the threshold for even two dimensions can make a woman use MFS.

MSC, 2018



Two common examples of the **convenience** of using DFS are:

- (i) the ability to transact remotely without the need to travel far from home, and
- (ii) the ability to shop in the absence of cash.

The most common example of **motivation** is parents asking their children to open a wallet so that they can transfer money. In most cases, these influencers are men. The **volume or frequency** of using DFS increases as women start transactions—either to receive money in the form of remittances and tuition fees, to send to parents, or to pay children away from home. The threshold varies for each customer. For example, for a particular customer, one withdrawal in a month could trigger the use of DFS. On the other hand, for some customers, withdrawals even twice a month might not trigger the use of DFS. We, however, believe that we can generalize thresholds for subs-segments, as identified [here](#) through empirical studies.

Keeping this concept of FSS in mind, we discuss women’s DFS use through two case studies.

Case A

Rokeya is from Dhaka. She is a homemaker and belongs to a low-income family. She opened an MFS account to receive her daughter’s scholarship for the Primary Education Stipend Program (PESP) of the government. In this case, Rokeya crossed the threshold for two factors. Firstly, the volume or frequency of transaction was high, as she was receiving BDT 400 per month, which was credited every quarter. Secondly, the government played the role of an influencer as it processed payments through an MFS channel.

Until recently, Rokeya used the account only for receiving the





scholarship. One day, while shopping in a local market complex, Rokeya wanted to buy a pair of shoes but realized that she was short of cash. The shopkeeper offered to take the payment through MFS. She could not do it because she was unfamiliar with the process of making a money transfer transaction through her MFS account.

Short of cash, Rokeya was not able to purchase shoes on the spot. Yet this incident made her realize the convenience of using an MFS. Now she keeps value in her mobile wallet and has learned to make P2P transactions. This is a case where an element of FSS—convenience—pushed a person to use MFS more actively.

Case B

Ranu lives with her husband and children in a village in the Louhajong sub-district of Munshiganj district. She runs a small dressmaking business from her home and sends money regularly to her mother who lives in Netrokona district. She executes this transaction [with help from a trusted agent](#) in the local market.

Ranu says that on many occasions, she has felt a need to open an MFS account of her own. However, she has not opened one yet. She relies on a trustworthy agent who can conduct transactions on her behalf, and this arrangement has been adequate for her needs.



One night, Ranu received an urgent call from her mother, who asked her to send money for a medical emergency. By that time, all the shops in the market had closed. Ranu struggled to find an alternative. Eventually, with help from her husband, Ranu found someone who let her use his mobile wallet to send money to an agent in her mother's village.

The next day, Ranu got her MFS account opened and learned to do P2P transactions. This is a case where the need or frequency to transact crossed the threshold for a user to open and use an MFS account.

An evolving theory

We hypothesize that a push and mentoring from MFIs to women to use DFS account for transactions will trigger positive changes in all three factors of FSS. First, the digitization of MFI's disbursement and repayment will heighten the frequency or need to use MFS. It will create a reason for women to make DFS transactions for deposits, withdrawals, and eventually payments, among other activities.

Second, MFI staff can influence customers to both open DFS account and learn to use DFS—given that they enjoy high levels of trust with the users. Third, the convenience of paying back loans as and when they have money in the wallet will act as positive reinforcement. For instance, women customers of [BRAC MFI](#) in various discussions have mentioned their inclination towards using MFS for a savings product because it is more convenient and saves cost in terms of transportation.

Our hypothesis is based upon the events or stories we saw or heard in the field. Here is our third case study to substantiate the hypothesis.

Case C

Sajida lives in a village in Kapasia of Gajipur district. She and her husband run a small eating joint. She is a regular customer of BRAC MFI and uses both savings and credit products. In her last group meeting, she and her group members were told that BRAC MFI is being digitized completely. From now onwards, all the savings will be done using MFS alone. Going forward, loan installments will also be taken using MFS.





Sajida never had an MFS account and she never felt the need as all her dealings were done in cash. However, she had to open an MFS account because of BRAC’s policy change, as she did not want to lose services from BRAC. During this process, other women in the group who had an account supported her to learn using MFS and allay her fears. The MFI’s staff also answered her queries patiently whenever she had one. Sajida now uses the MFS wallet for the MFI’s transactions and even sends money occasionally to her relatives.

Conclusions

Working together, MFS players, agent banking providers, FinTech providers, and MFIs can design and introduce a [range of flexible and innovative financial services and products](#). The current MFS regulation by Bangladesh Bank does not allow the providers to launch any savings and credit-based product through MFS wallets. However, partnerships with MFIs and banks may enable MFS providers to introduce such products in the near future.

There are challenges that the customers of MFIs will face in using MFS systems. For example, both cash-out charge and transaction limits are a barrier. The cash-out charge is 2% of the transaction value and is a relatively high additional charge for customers. Similarly, there is an upper limit of 10,000 BDT per transaction, which means a customer will have to conduct multiple withdrawals over a number of days to withdraw the credit disbursed. However considering that digital transformation of MFIs could be a significant and important change for 36 million² women MFI customers in Bangladesh, MFIs have a strong reason to discuss and negotiate with both MFS providers and Bangladesh Bank to get these limits changed.

Shakti: The beginnings of success

As of February 2019, 290,550 customers have been receiving SMS for their loan repayments, which has led to improved trust at the customer end. Sajida Foundation reports [handling](#) between 20,000 and 24,000 transactions from 8,000 clients, totaling BDT 48 million (USD 600,000) every month. [Cashless groups](#), which offer the best of both the worlds—more efficient processes while maintaining a human touch and pushing the agenda of pushing women’s digital financial inclusion—are a direct outcome of the digitization of processes.

Finally, we believe that the MFIs in Bangladesh should once again lead the pack and show the world that digitization empowers and enables female users. If MFIs digitize their operations, the concept of FSS can help them increase the base of women customers easily and quickly. A quick solution could be to identify the existing women DFS users in the clientele as “change agents” who could be incentivized suitably by providing gift coupons, lower interest rate on future loans, public recognition, among other things. There have been [examples](#) of “women for women” [models](#), where women from the community act as change agents—often as an economic activity. This can be adopted and customized for the MFI context.

If MFIs can institutionalize this phenomenon, they will witness faster adoption to DFS. In fact, some MFI customers have been early adopters of DFS and are a source of inspiration for others. These women also train and build capacities of other members who ask for support.

Furthermore, a customized digital capability program will also help in the development of a potential user’s FSS. BRAC’s [pictorial representation of how to make MFS transaction](#) for their deposit premium scheme has helped 150,000 MFS users to learn the process. Similarly, we witnessed in the SWAPNO program that when group facilitators demonstrate the use of MFS applications ([under life skill transfer component](#)), women learn faster. Once the users experience convenience and engage with basic use-cases, the use of digital financial services will sustain and diversify.



² MSC calculation based on data from http://cdfbd.org/new/Bangladesh_Microfinance_Statistics_2016-17.pdf



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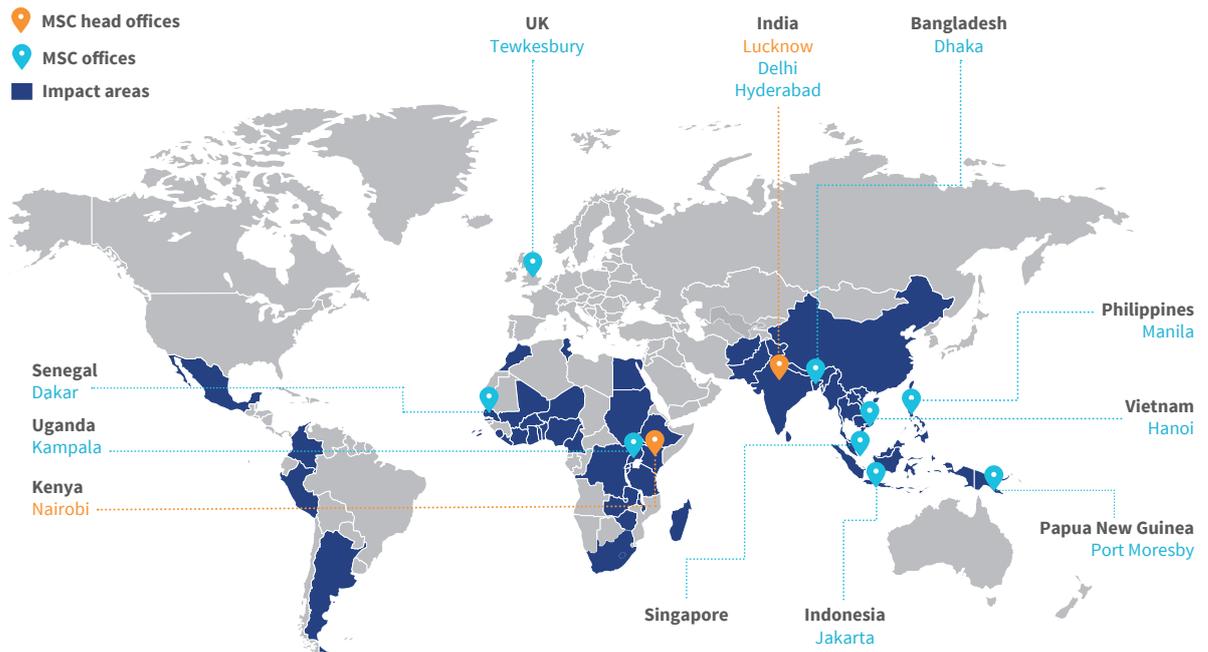
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