



# Microfinance & E-Payments in Zambia:

The Role of Consumer Education in Promoting Adoption

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# BACKGROUND

The growing number of branchless banking deployments around the world presents a critical opportunity to expand financial inclusion, helping to bring unbanked people into formal financial services for the first time.

Although take up of branchless banking services has been strong, usage has remained low. One critical element of branchless banking deployment that might not be given sufficient attention is the customer's experience with the branchless banking service.

In Zambia, the economy has experienced significant growth in recent years; however, poverty is persistent and access to financial services remains limited, with only 34 percent of the population financially served.<sup>1</sup> In partnership with The MasterCard Foundation, and as part of a larger project effort taking place in the Philippines and India, Microfinance Opportunities (MFO) worked in Zambia to develop and deliver a program to test how consumer education could support the adoption of branchless banking services. This broader project is referred to as the Consumer Education for Branchless Banking (CEBB) initiative. MFO partnered with Zoono, an electronic payments platform that provides real-time payments through cash distribution channels, and VisionFund Zambia, part of World Vision International, a microfinance institution that provides loans to microentrepreneurs to enable them to earn sustainable incomes.

In 2011, VisionFund Zambia had entered into a partnership with Zoono with the intention to discontinue disbursing loans by check and transition microfinance clients to receiving their loans as cash at Zoono agents by means of the electronic payments system. However, migrating clients to use this new e-payments platform presented several challenges.

MFO partnered with the two organizations to design, implement, and evaluate a consumer education program with the aim of increasing VisionFund Zambia clients' understanding and use of Zoono's electronic payments products as well as improving the clients' overall money management capacity. Throughout this project, MFO gathered valuable insights and data. This case study highlights salient lessons learned from this project and provides a synopsis of

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<sup>1</sup> <http://www.visionfund.org/2096/where-we-work/africa/zambia/>

data documented at each phase of its implementation, from market research to process documentation to outcomes assessment.<sup>2</sup> The lessons learned from this project can shed light on consumer education's role in promoting the use of branchless banking.

As a provider of real-time payments between suppliers and micro and small enterprises (MSEs), Zoono's revenue is based on transaction fees. In the partnership between Zoono and VisionFund, the transaction fees for loan disbursements were paid directly to Zoono by VisionFund.

Figure 1: Zoono

Year established	2009
Products and services	Real-time payments: Money Transfers Supplier Payments Airtime Bill Payments M-Wallet Cash Deposits & Withdrawals International Remittances Micro-insurance  Working capital financing for MSEs, agents, and retailers working with Zoono.
# of Active Customers	350,000 (as of March 2014)

Figure 2: VisionFund Zambia

Year established	2003
Products and services	Microcredit, home improvement and education loans. Value chain financing
Gross Loan Portfolio USD	\$2.984 million*
# of active borrowers, Year	13,294*
Average Loan balance per borrower USD, Year	\$224*

\*Data provided as of March 2014

<sup>2</sup> <http://microfinanceopportunities.org/4-work-with-us/mfo-in-the-field/project-list/branchless-banking-2/>

# IMPLEMENTATION OF CONSUMER EDUCATION

The initial market research conducted by MFO identified that clients did not understand how this technology platform worked, its benefits, and how they should use it to receive loan disbursements.

Clients also had a limited understanding of the transaction steps and the information they required in order to be able to carry out these transactions. This included the information they received in SMS messages which contained instructions on the loan disbursement process or the purpose of the one-time PIN that they received during the transaction process with the agent. As a result, clients did not follow the process for receiving their disbursements and this caused problems for the agents and for the clients.

To reach its goal of improving the financial capabilities of VisionFund Zambia clients, the project utilized a three-prong approach: demonstrating the value of the Zoono service; providing the knowledge and skills for consumers to use Zoono and to actively manage their money; and instilling the confidence necessary for consumers to implement those skills in using Zoono's service.

In order to increase microfinance clients' use of branchless banking services, the project team strategized to first build trust in the Zoono service, thereby facilitating usage. The strategy also called for the cross-selling of other complementary services, including an electronic wallet and money transfers.

MFO and its partners chose to take an "embedded" approach to delivering consumer education.

To this end, they mapped out key contact points between the organizations and the clients in order to identify the most "teachable moments" to engage participants in training. At VisionFund, consumer education was delivered at orientation meetings (before loans were disbursed) and at monthly repayment meetings. Loan officers delivered the consumer education during their regular group loan meetings

'Embedded' Consumer Education is the practice of educating consumers through existing customer contact points. These are encounters that consumers have with financial service delivery systems that exist primarily for non-educational purposes.

Instead of creating additional spaces to train consumers, an 'embedded' consumer education program leverages these interactions consumers have with the institutions to deliver consumer education training to them.

using learning sessions that were short in timeframe and that were designed to be engaging and interactive. To encourage hands-on participation, tools – including training posters and activity books – were utilized during the sessions. To reinforce the education on the loan disbursement process, Zoon agents were also trained in the content and provided with guides and posters meant to assist VisionFund Zambia clients at the point of transaction. In these ways, consumer education was embedded in the operations of both the microfinance organization and the branchless banking agents.

The program partners launched a comprehensive consumer education program tailored to VisionFund’s microfinance clients. It consisted of eight modules with interactive instruction on topics including:

1. The processes associated with receiving and repaying a loan via the Zoon branchless banking service;
2. Basic money management skills, including when it is most appropriate to request a loan, how to develop a spending record, track expenses, and identify savings options.

## **RESULTS OF THE CEGBB PROGRAM**

To assess the range of outcomes of the consumer education program, MFO conducted both quantitative and qualitative research.

Qualitative research was conducted to assess the training program’s impact on the level of clients’ financial capabilities and the response of clients, loan officers, and agents to the program. MFO conducted focus groups with VisionFund Zambia clients and individual interviews with VisionFund Zambia loan officers and Zoon agents. To confirm and elaborate on the findings of the qualitative research, MFO conducted quantitative analysis of baseline/end-line survey data and of management information systems (MIS) data provided by Zoon and VisionFund..

The qualitative data showed that, despite some initial frustrations with the Zoon service, there was an overwhelmingly positive response to consumer education among the clients and also staff of the partners. First, clients remarked that the program was well implemented. The vast majority of interviewed clients reported receiving consumer education training from their loan officers while a much smaller share reported receiving some consumer education training from Zoon agents. Clients reported that the consumer education program improved their overall opinion of VisionFund Zambia as an organization. The clients’ positive attitude

was echoed by branch managers and loan officers at VisionFund. These stakeholders reported that the tools helped to change the attitude and behavior of their clients.

The consumer education program impacted VisionFund Zambia clients' ability to use the Zoono service. Before the training, VisionFund Zambia clients were anxious about the process and requirements for obtaining their loans through Zoono. Loan officers reported that client anxiety with the Zoono service, and subsequent dissatisfaction, were reduced following the consumer education trainings about accessing loans through Zoono's system. It was reported that trainings increased client understanding of the loan disbursement process including the importance of waiting for the one-time PIN, presenting their National Registration Card, and of going as a group to retrieve the loan. Clients also had a better understanding of where they could go for help when they faced challenges with the service. Zoono staff observed that clients had a better understanding of how to use the branchless banking system after training, which led to them asking fewer questions and to having faster transactions at agent locations. VisionFund Zambia staff also observed that the number of complaints regarding the branchless banking service received by branch managers decreased.

The outcomes assessment carried out for this project validates this change in clients' knowledge and skills about the Zoono service. Surveys tested clients' knowledge on the use of Zoono's system before and after receiving consumer education. Results showed improvement on all five questions related to Zoono's system. Three of these five questions showed statistically significant improvement.

Beyond impacting clients' understanding of how to transact with Zoono, the consumer education program also improved clients' financial capabilities around money management. Analysis of VisionFund Zambia MIS data identified that clients who received consumer education were found to be more likely to apply for smaller increases in follow-on loans than clients who did not participate in the program. VisionFund Zambia staff observed that the number of loans in arrears declined where the consumer education was implemented. This observation was supported by the analysis of VisionFund's portfolio-at-risk data. In the branches that implemented the training program, the data showed that average monthly 30-day PAR was 7.7 percentage points lower on average after implementation occurred. The clients themselves reported that the training equipped them with the knowledge to effectively repay their loans.

VisionFund Zambia clients also reported that they found the consumer education to be valuable: the knowledge they gained helped them to improve the management of their businesses and save money. This view was upheld by the loan officers who observed that particular clients developed better organizational skills, assisting them in managing expenses, increasing savings and maximizing their business profits.

The outcomes assessment surveys confirmed improvement in clients' knowledge of money management issues after they received consumer education. Results showed improvement on six of the seven questions related to money management, of which three showed statistically significant improvement.

Finally, clients' perceptions of the VisionFund Zambia loan officers improved following the training. Clients saw the loan officers as helpful and concerned about clients' welfare. As a result, the clients became more motivated and engaged in VisionFund.

## **LESSONS LEARNED**

The Zambia CEBB experience resulted in lessons learned related to the implementation of both consumer education as well as branchless banking at an MFI.

With respect to lessons arising from the consumer education program, the most critical are related to the challenges of embedding consumer education within a Microfinance Institution (MFI). At VisionFund, consumer education was embedded in the loan orientation meetings and the monthly repayment meetings. Loan officers were responsible for conducting the consumer education sessions. Embedding the program in this way impacted the MFI's operations by lengthening the amount of time required for both types of meetings. It added to the job responsibilities and workload of the loan officers without additional compensation. Consumer education was not a priority for some loan officers and as a result when pressured for time, they cut back on this activity resulting in some inconsistency in consumer education implementation across branches and loan officers.

It is also important to recognize potential institutional impacts upfront from the implementation of a consumer education program. It is important to realize that consumer education brings institutional benefits and to communicate those to loan officers before they might become disgruntled with the request of carrying out this additional task. While loan officers may spend additional time educating their clients, evidence from this consumer education program indicates that loan officers benefited through stronger relations with the clients as the clients came to appreciate them more because of the trainings they delivered. This goodwill resulted in the clients being more patient with the loan officers as they attempted to resolve problems clients faced in using the Zoono service. Additionally, stronger repayment rates make loan officers' jobs easier. It is therefore crucial to align the consumer education program so that it supports loan officers to do their jobs better.

Despite the challenges encountered during the project, consumer education was successfully embedded at VisionFund. After the project, VisionFund Zambia wanted to continue delivering consumer education to their clients, and to do it in a way that was part of their core services to clients.

At Zoono, consumer education was embedded in the agents' work. The agents, to an even greater extent than the loan officers, were already busy with their normal job duties. They were further challenged by working in small kiosks which meant that they could only train groups of clients outside of their shops. Nevertheless, many agents managed to provide client groups with refresher trainings on how to use the Zoono service. Clients reported that the posters in the agents' kiosks reminded them of the messages delivered by loan offices and included in their Consumer Education Activity Books. The CEBB program raised awareness

*"Zoono worked with MFO over a three year period from 2011 - 2013 on a consumer education project promoting financial literacy in Zambia. MFO exposed Zoono, for the first time, to best practice consumer education tools and approaches, many of which we have since adopted into our core business and training materials. We appreciated MFO's support in what was a very early stage of our growth story and we hope to collaborate with MFO again in the future." Mike Quinn, Chief Executive Officer - Zoono*

within Zoono of the value that incorporating consumer education can have for its business. The methodology used by MFO, of embedding consumer education into key consumer contact points and using engaging tools that incorporate adult learning principles, led Zoono to want to continue providing consumer education to its agents and customers. Zoono currently provides consumer education through its call center to its network of agents and money transfer customers. Zoono also continues using consumer education posters in agent shops and sends SMSs with PIN security tips to each customer.

While the focus was on consumer education, implementation of the CEBB project was impacted by the process of incorporating branchless banking at VisionFund. Branchless banking tends to be considered just another delivery channel when, in fact,

taking up branchless banking has implications for all aspects of an MFI's operations as well as staff. It is important that MFIs evaluate how the integration of an e-payments platform will impact the key components of their operations including their credit methodology. One of the central elements of the group lending methodology is the relationship and trust that develop between loan officers and clients. It is important to ensure that the use of an e-payments platform for delivering and repaying loans does not undermine the flow of information to loan officers about loan disbursements or repayments. Loan officers need this information to maintain the relationship and trust in clients that keeps the program running smoothly. The VisionFund Zambia experience suggests that technology may replace certain processes. However, it cannot replace the flow of information that needs to happen between

the client and the loan officer in order for trust to be kept between them so that the lending methodology can work effectively.

More important, the branchless banking provider and MFI must ensure that specific requirements are met to handle microcredit disbursements. Zoono was in an early stage of their growth trajectory and it was piloting its loan disbursement product for the first time with VisionFund. VisionFund Zambia wanted to ramp-up disbursements through Zoono's system quickly. A novel product, lack of a fully mature agent network, and VisionFund's inability to alter its disbursement cycle, forced Zoono to distribute very large sums of unsecured cash to its agents, putting pressure on the operations of both partners. These challenges of capacity, communication, and integration ultimately resulted in the dissolution of the partnership. It is important that MFIs and branchless banking providers realize that addressing these challenges requires openness to jointly revise operational processes and a willingness to adjust them as needed to make the branchless banking service work. It also requires establishing good communication channels between the two organizations and having persistency and commitment to the service at the highest levels of management at an early stage in the establishment of the partnership.

## **CONCLUSIONS**

The CEBB project in Zambia successfully assisted VisionFund Zambia clients to adjust to using a new technology platform as well as to improve their financial capabilities, particularly around debt management.

The VisionFund Zambia clients reacted very positively to the consumer education program while staff of VisionFund Zambia and Zoono both reported observing positive changes in the clients' behavior with respect to branchless banking and financial management.

Adding branchless banking capability to an MFI requires close integration of processes and operations at the MFI and the electronic platform provider as well as close attention to change management at the MFI. It is necessary to consider the fundamentals of the microcredit methodology and of the existing culture within the MFI and how they might be adapted to embrace branchless banking. It is important to evaluate and manage how changes in the service will impact key components of the microcredit methodology and the relationship between loan officers and clients. Microfinance methodology has evolved to

promote high repayment rates and sustainability with an emphasis on responsible growth. Mobile money firms on the other hand, are extremely dynamic and focused on rapid growth to claim market share. When introducing a branchless banking solution, both the MFI and the e-payments provider need to be flexible enough to evaluate together how to integrate their back-office processes and the potential impact on the operations of both organizations. In addition, both the MFI and the e-payments provider must be flexible enough to modify their respective methodologies and operations to successfully work with a very culturally different partner organization and mitigate any adverse impact on client relations. Along these lines, value-added for both partners needs to be considered and clear parameters established. While this does not necessarily guarantee a successful partnership, it may help mitigate issues that negatively impact clients, including the effectiveness of consumer education training and client trust in branchless banking.

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## Additional Resources

### Field Insight Series: The Role of Consumer Education in Adoption

1. *Uncovering Barriers to Branchless Banking A Synthesis of Consumer Capability Research in India, Malawi, Philippines, and Zambia*
2. *From Insights to Action: Building Client Trust and Confidence in Branchless Banking*
3. *Mobile Banking in the Philippines*
4. *Smart Cards in India*
5. *Microfinance and E-Payments in Zambia*
6. *Embedded Education Lessons Learned from Three Branchless Banking Projects*

### Videos: Consumer Education for Branchless Banking Series

*The Power of Agents: Smart Cards in India*

*Changing the Way We Look at Success: Mobile Banking in the Philippines*

*The Customer Focused Approach: Microfinance and E-Payments in Zambia*

*Why Consumer Education Matters for Branchless Banking*

*How Embedding Consumer Education is Easier to Implement than You Think*

### Outcomes Assessment Report Series

*RBAP-MABS, Philippines*

*FINO PayTech, India*

*Zoono and VisionFund, Zambia*

### Consumer Education for Branchless Banking (CEBB) Online Course

<http://microfinanceopportunities.org/cebb>