

Banking Rollout Approaches to Rural Markets Opportunity International Bank of Malawi

Objective

This white paper examines strategies for expanding microfinance bank operations to a rural setting based on the experience of Opportunity International Bank of Malawi (OIBM). In particular, we will focus on the following key learnings:

1. Client responsive product modification
2. New / unconventional marketing and product education activities
3. Use of technology and other existing distribution channels to create a virtual organization
4. A phased rollout involving taking careful, sequential steps to build business before commencing operations

The objective of this white paper is to act as a resource for microfinance practitioners that assists in the formulation and efficient execution of new outreach strategies to rural clients.

This paper begins with an overview of the Malawi market context and OIBM operations, then covers each of the above key learnings in-depth, and closes with an analysis of environmental factors and strategic tradeoffs for other organizations to consider in developing their own rural expansion plans.

Context - Malawi Market

Malawi is a small landlocked country of 13.6mm people in which 85% of the population lives in rural areas and agriculture accounted for about one third of its \$8.72bn GDP in 2006. As one of the poorest countries in the world, Malawi's average GDP per capita of \$600 places it 207 out of 209 countries in the World Bank's World Development Indicator ranking. The land area of Malawi is 94,080 sq km (slightly smaller than the U.S. state of Pennsylvania), but it has a substantial shore line on Lake Nyasa which includes about 900km of the total 2,881km of its international borders (source: CIA Factbook).

Opportunity International offers hope to women and men in poverty through microfinance — access to micro loans, savings, insurance and training.

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OIBM Overview

OIBM seeks to help those living in poverty transform their lives through innovative, customer-driven financial services as a strong commercial microfinance bank. The current product suite is targeted at the country's poor, either directly through savings, microcredit and insurance; or indirectly through partnerships with organizations that serve the targeted clients.

In order to reach the majority of the population, which lives in rural areas, OIBM has developed a combination of delivery channels in order to maximize reach while minimizing cost. At the end of November 2007, OIBM operated the following delivery channels:

- 7 static outlets and 2 mobile units serving 12 areas (see map in Appendix B and mobile branch photo in Appendix C)
- 11 ATMs (30,000 transactions per month) housed in and around static units and mobile vans
- 10 smaller scale ATMs (10,000 transactions per month) that will soon be brought into service. These smaller ATMs are for internal use in static outlets but are insufficiently secure to be available twenty-four hours a day
- Access to 1,000+ Point of Sale (POS) devices via the Malswitch network through participating retail outlets (gas stations, agricultural supply shops, etc.) and competitor banks using the same network.
- 121,527 Smart Cards issued with biometric identification

Summary Chart:

Outlet	Size	ATMs (big)	ATMs (small)
Static Outlets			
Lilongwe Branch	Urban	2	
Limbe Branch	Urban	1	
Kasungu Branch	Rural	2	
Lilongwe - Area 25 Branch	Peri-Urban	1	
Lilongwe Central Market Branch	Urban	1	
Kanengo Kiosk	Rural/Peri-Urban	2	
Blantyre Market Kiosk	Urban		1
Mobile Units			
Mobile Van (large)	Rural		1
Mobile Van (small)	Rural		
<i>Total</i>		<i>9</i>	<i>2</i>

Additionally, each outlet has up to 5 POS terminals and the bank has partnered with an

"We needed to adapt products from the urban market to the rural context."

***- Claudia McKay,
Head of Microbanking, OIBM***

agricultural supply chain named Rab Processors with 68 shops spread across Malawi's rural area to offer the cash-back payment system. Initially this has been piloted with 15 shops in the Central Region of Malawi. The intention is to cover all the 68 shops by end of 2008. (see Appendix D for POS and Biometric ID photos)

Key Learnings

- 1.) *Client-responsive Product Modification:* OIBM found that the products it developed for the urban and peri-urban markets in Malawi do not translate easily into the rural context. They reduced the minimum loan size of their group business loans to about US\$20 (in urban areas it is US\$35) and in order to retain the profitability of these loans they form groups of 15 – 20 people (rather than 7 – 10 in urban areas). OIBM takes advantage of the very strong social cohesion found in rural areas by organizing rural groups into clusters where 5 – 8 groups meet on a monthly basis in a central location to avoid loan officers traveling to visit each group. In some cases, the terms of agreement for the mutual guarantee have been adjusted so that enforcement is at this cluster level rather than at the group level. For individual and small/medium enterprise loans, the bank is treating security requirements more flexibly due to the difficulty of legally registering property in rural areas as well as the generally lower value of assets owned by small-scale entrepreneurs. For example, OIBM is considering alternatives to land titles for land ownership verification, such as a letter from the local tribal chief. Because most rural households in Malawi

“Outlying areas are covered by a mixture of mobile units, kiosks, and satellite centers.”

are only operating one business, at most, and this is controlled by the male head of the household, OIBM is starting its business primarily with this audience in the rural areas. It is OIBM’s intention to see how they can encourage women, as new entrepreneurs in the rural area, to build businesses that serve as supplementary household income and as a vehicle to transformation.

2. New / unconventional marketing and product education activities

In particular, OIBM has found that catering to local opinion leaders, developing a road show to build brand awareness, and utilizing radio as a key medium of communication are important components of their strategy that have evolved through their experiences. OIBM’s focus is to develop a brand that the poor associate with an organization catering to their needs rather than that of a standard bank (which is considered exclusive and often prohibitive). Instead of a focus on a physical presence in the area, OIBM’s goal is to have a virtual presence for their clients. This is reinforced through the rural-poor friendly distribution channels that bring the bank to them and their communities (through mobile banking, POS devices, etc), rather than the typical branch model found at other banks. OIBM captures this outreach and tailoring through their slogan “Banki Yanga” meaning “My Bank.”

3. Use of technology and other existing distribution channels to create a virtual organization

As OIBM expanded its presence outside of the urban areas, it used its three major branches as hubs in which outlying areas could be covered through a mixture of mobile units, kiosks and satellite centers (pre-manufactured units from South Africa with computers). The goal was to reach rural places where people work and live in order to reach a greater number of the population. As

it opens more outlets and becomes virtually present in Malawi, OIBM has developed a strategy for initiating coverage in new areas. Importantly, innovation requires incurring upfront costs related to adjustments that must be made as the appropriate technologies and channels are developed in each area.

4. A phased rollout involving taking careful, sequential steps to build business before commencing operations

The order of rollout optimizes growth opportunities and efficiently uses capital. By taking careful steps to develop the market before starting operations, OIBM created brand awareness and targeted critical business partners and that became first adopters (of its technology), who were crucial in stimulating interest. OIBM’s specific process is:

Note: *The rating system listed below each learning presents our assessment of the impact that each action has on the relevant category. 3=high impact, 2=medium impact, 1=low impact, (see Appendix A for detail regarding implementation)*

1. Timing: 18to24 Months Pre Launch

Begin lobbying efforts with Central Bank and other government/regulatory authorities – Because the types of outlets used in rural settings can be “nonstandard” in nature (mobile vans, kiosks, etc), regulatory authorities must be educated as to how these outlets differ from branches, and therefore should not be subjected to the same regulatory requirements. For example, When OIBM wanted to open a banking kiosk in the central market in the town of Blantyre, the Central Bank was concerned with the security risks associated with the strategy as well as by something they considered to be “radical.” Through discussions with the Central Bank regarding the details of the safety of the structure, the Central Bank eventually approved the kiosk strategy. Since the site has been opened, the Central Bank has been encouraged by the success and safety of kiosks, and has suggested that other banks utilize their own kiosks located in markets. The

Central Bank can also provide financial education about electronic banking to the public, encouraging citizens to take advantage of non-cash transactions and e-banking enablers (smart cards). At this point, OIBM considers the types of products that can be offered in an area, impacting breakeven projections and resource planning.

Product Mix Decision: 1 (low impact)
 Brand Awareness: 2 (medium impact)
 Product Education: 2 (medium impact)
 Initial Client Recruitment: 1 (low impact)
 Longer Term Client Retention:
 2 (medium impact)

2. **Timing: 15to18 Months Pre Launch**
 Identify local *opinion leaders* – Individuals within the community whose approval will enhance viral marketing and enable broad acceptance of the institution and access to prospective clients are key to efficiently attracting clients. OIBM has found that community leaders and church leaders to be two groups of opinion leaders that are particularly influential. These opinion leaders can act in three manners: positively promote microfinance and the institution, neutrally give passive approval for members to join the institution, or negatively block/restrict access. Importantly, OIBM has found that it is important to develop relationships with opinion leaders prior to seeking out prospective members. Relationships with these opinion leaders can also provide competitive advantage as the MFI market grows.

Product Mix Decision: 1 (low impact)
 Brand Awareness: 2 (med impact)
 Product Education: 2 (med impact)
 Initial Client Recruitment:
 3 (high impact)
 Longer Term Client Retention:
 1 (low impact)

3.

“Prospective client interviews inform product strategy, brand positioning and loan officer territory mapping.”

4. **Timing: 6to12 Months Pre Launch**

Conduct *market research* – includes product strategy/development and loan officer territory mapping. Through prospective client interviews, insights emerge regarding brand positioning within the market and level of client demand. This will impact the future phases for rollout (which types of delivery channels are relevant) as well as indicate the amount of resources or capital required to develop the market or new product (# of loan officers, type of outlet, mobile van stops, etc) and getting Board approvals. This is critical because making changes to territories and routes later can be costly from both a financial and brand standpoint.

Product Mix Decision: 1 (low impact)
 Brand Awareness: 1 (low impact)
 Product Education: 1 (low impact)
 Initial Client Recruitment:
 2 (medium impact)
 Longer Term Client Retention:
 3 (high impact)

5. **Timing: 2to3 Months Pre Launch**

Hiring and training staff – Hiring individuals who can live and work in a defined target area helps to build brand awareness and enables them to begin to develop relationships within the community. Clients seem to initially choose an institution based on trust as much, if not more, than product dynamics. Having bank officers that are part of the community, particularly when no financial service outlets are present, helps to build trust in the brand and provides a positive association once banking products arrive. Now product mix becomes more important, both in terms

“Road shows and radio placements are important tools to educate and build brand awareness.”

of deciding which types of personnel to hire and how to market the bank.

Product Mix Decision:
2 (medium impact)
Brand Awareness: 3 (high impact)
Product Education: 3 (high impact)
Initial Client Recruitment:
3 (high impact)
Longer Term Client Retention:
2 (medium impact)

6. **Timing: 1to2 Months Pre Launch**
Communicate directly to prospective clients and begin to recruit clients for loans, savings and insurance – Timing here is important as far as Trust Group clients are concerned because forming groups too soon without the ability to service the clients can create a negative experience, which is particularly bad for the first clients, but waiting too long means that there will not be active groups once service begins. Because OIBM has a 4 week education and training period before the first loan is dispersed, they have found that forming groups at this time allows them to have active clients starting the first day of business.

Product Mix Decision: 1 (low impact)
Brand Awareness: 3 (high impact)
Product Education: 3 (high impact)
Initial Client Recruitment:
3 (high impact)
Longer Term Client Retention:
2 (medium impact)

7. **Timing: 1to2 Months Pre Launch**
(simultaneous with #5): *Road shows and intensified radio advertising* – Developing an entertaining and informative marketing tour throughout the territory brings a great deal of awareness and builds interest

in the brand and service with a low literacy audience. OIBM hires comedians and performers to complement information given by staff, who give pitches for the services that the bank offers, as well as clients, who give testimonials of their experiences. In order to generate more demand among women, road shows have been careful to highlight testimonials by women clients who can encourage other women to use the bank. Radio plays an important component of the branding strategy given the near universal access to radio programming among the rural population.

Product Mix Decision: 1 (low impact)
Brand Awareness: 3 (high impact)
Product Education: 2 (medium impact)
Initial Client Recruitment: 3
(high impact)
Longer Term Client Retention: 2
(medium impact)

8. **Launch:** Initiate coverage with *mobile van* which has POS devices and ATM mounted on it – This step accomplishes two goals: (1) brings a key delivery channel to the community, and (2) provides a great way to build brand/product awareness. The mobile van is often the first opportunity for individuals to access financial services. Additionally, it allows prospective clients who might be skeptical of the brand/services to see first hand the bank at work as well as creates a significant amount of word-of-mouth advertising. New clients who have used the mobile van tend to discuss their experiences with others in their community, creating an impactful buzz for the service.

Product mix Decision: 1 (low impact)
Brand Awareness: 3 (high impact)
Product Education: 3 (high impact)
Initial Client Recruitment:
3 (high impact)
Longer Term Client Retention:
3 (high impact)

9. **Launch:** Continue *radio* advertising to enhance mobile van rollout – OIBM has learned that access to radio seems to be nearly ubiquitous amongst the rural poor in Malawi. By using creative approaches to communicate through this medium, including advertisements, on-air interviews with bank staff and clients, and content sponsorship (programming such as sporting events and radio shows), OIBM is able to reach a large number of target clients, and has found it is particularly effective in reaching illiterate clients. OIBM has learned that launching radio advertising concurrent with the mobile van rollout helps to reinforce the brand when people see the van in the community and understand its purpose. Launching the radio advertising highlighting mobile banking before the van is visible seems to lead to confusion as clients have a harder time connecting the message without the visual reinforcement of the van. OIBM has also found that the radio is best suited for building interest and awareness, while specific education about products is best suited for face-to-face interaction.

Product Mix Decision: 1 (low impact)
 Brand Awareness: 3 (high impact)
 Product Education: 2 (med impact)
 Initial Client Recruitment:
 3 (high impact)
 Longer Term Client Retention:
 2 (medium impact)

10. **Timing: 6to12months Post Launch**
Impact studies leading to establishment of a *static outlet* – Once demand for the mobile van has been established, OIBM begins to obtain statistics which it uses to determine if a specific call point has to be replaced with a static outlet. In order to limit capital requirements, OIBM first looks to see if it can offer its services on the back of other institutions which are already in the area, such as post offices, before looking for office space for a static

“Metrics drive decisions regarding transitions to more permanent delivery channel outlets.”

outlet. The new delivery outlet helps to decrease reliance on the mobile vans and helps in reinforcing the brand. The vans are re-routed to new markets and call points and this allows the bank to identify profitable markets or points to operate from before investing in static outlet (mobile van has a life span of 7 years). Given that Malawi focuses on building the deposit portfolio first, a static outlet represents a more advanced phase that expands outreach of the loan products. OIBM uses a ratio of loans to savings accounts as an important indicator along with overall revenue flows when measuring demand for static outlets.

Product Mix Decision:
 2 (medium impact)
 Brand Awareness: 3 (high impact)
 Product Education: 1 (low impact)
 Initial Client Recruitment:
 2 (medium impact)
 Longer Term Client Retention:
 3 (high impact)

11. **Timing: 1to2 years Post Launch**
 Roll out a *new static outlet* – If demand warrants this investment, the culminating phase is to rent premises for either a kiosk or a satellite center, depending on identified major needs for a particular community. A satellite centre is opened for areas serving at least 10,000 clients while a kiosk is for an area with less than 10,000 potential clients. If demand for other services not offered by a satellite center (foreign exchange, some loan products) is big then a branch is proposed and opened if approved by the Board. As OIBM establishes a more permanent presence in the location, it is vital to review the success of the product

mix and modify as needed for the local community. The product mix for the static outlet should be well-tailored.

Product Mix Decision:
2 (medium impact)

Brand Awareness: 3 (high impact)
Product Education: 3 (high impact)
Initial Client Recruitment:
3 (high impact)
Longer Term Client Retention:
3 (high impact)

Environmental Factors

These learnings from OIBM are given in the context of the environment within the Malawi market. Importantly, some of these local conditions dictate rollout strategies that might not apply in other situations. Practitioners in other areas should consider conditions such as:

Prevalence of microfinance and other financial services in the area – OIBM faces relatively low levels of competition from other forms of formal financial institutions in these rural areas and thus does not face many of the competitive threats that might occur in other locations. This factor can impact timing of the phased rollout as well as the amount of resources required to subsidize early operations.

Infrastructure conditions – Malawi has main highways which allow for safe and efficient travel from more urban hubs. Environments where consistent travel conditions do not exist could impact strategies reliant on outreach through mobile delivery channels. In addition, technology can be a barrier that complicates POS or ATM utilization, especially lack of a national switch.

Security – Security of staff and assets is a key consideration and while security mechanisms are in place (as agreed with Central Bank) in Malawi, there will be countries/areas where no level of security will make this kind of operation safe.

Inability to influence opinion leaders – while the types of opinion leaders vary between environments, so too does the ability to influence them. If it is impossible to obtain positive approval, institutions will have a much harder time attracting clients with this model.

Ability to build coalitions to create sustainable institutions – OIBM has been able to enter rural areas, in part, by creating partnerships with existing institutions, such as international companies, aid agencies or other NGOs. These organizations supplied a sufficient customer base or payment system fee service that provided the initial financial foundation to enable operations. The support of these organizations provided OIBM the opportunity to serve the poor on a sustainable level without having to shoulder the initial overhead expenses. Because the initial start-up costs were subsidized, OIBM was able to provide services that clients could afford and was sustainable on a marginal basis. For example, OIBM's initial use of a mobile van was in cooperation with Concern Worldwide Malawi's Dowa Emergency Cash Transfer (DECT) project. DECT was designed and implemented as a humanitarian response to a localized food and livelihoods crisis in Dowa District in Central Malawi. DECT aimed to provide cash transfers to 11,000 needy households for 5 months (December 2006 to April 2007) to enable them to cover their 'missing food entitlement' through food purchases. These clients were able to utilize the Smart Card and cash transfer service through the mobile van. OIBM benefited by gaining access to these clients and also from the subsidy of costs provided by the Concern funders.

Client mobility – Even though OIBM is taking measures to bring the bank to rural areas, clients still are required to travel to meet the bank for meetings and to utilize its services. More migratory populations or restrictive travel areas would diminish the ability of institutions to reach rural clients.

Strategic Tradeoffs

The rollout strategy highlighted above also requires institutions to consider the tradeoffs that occur.

Longer lead time with advanced planning vs. more immediate product delivery – A sequential process of building awareness and a gradual increase of capacity helps to more evenly match captive demand with capital availability. An alternative option of initially building a branch and having excess capacity that can more fully meet client needs would require much greater initial capital. Competitive dynamics and capital availability would play into this decision.

Urban primacy vs. rural focus – OIBM has chosen to build out operations in urban areas first before moving into the more challenging rural locations. Some microfinance institutions might prefer to focus on rural areas first in order to meet the needs of that segment of the population. The strategy highlighted above is reliant on support from these urban hubs and might not be as relevant for a decentralized strategy. Telecommunications issues were a significant challenge in Malawi and were an important factor in deciding to start in the urban areas first. Ultimately the demand from the rural areas and Opportunity's poverty focus led to the outreach strategy. It is commonly held that rural savers finance urban borrowers, in that the large deposit accounts in rural areas provide the necessary capital (from an institutional view) for increased lending in established urban markets.

Creating new delivery channels vs. associating with existing institutions – An alternative strategy is to partner with organizations with access to rural populations and use these organizations as the distribution channels for microfinance products. This requires less management overhead, lower capital requirements, and potentially quicker timelines. Risks that are faced with partnerships include the inability to control the relationship and the limitation of services available to clients. Fraud, poor customer service and even client poaching are all important brand risks to consider when forming partnerships. OIBM has attempted to mitigate these risks in its partnerships by looking for partners with similar objectives, explaining partnerships to managers of both organizations and covering potential problem points with covenants. Slow response time, particularly with non-profit partners, is a constant challenge. For example, Opportunity Bank selects agri-businesses to partner with in giving agricultural loans to smallholder farmers. The agri-businesses provide agronomy advice as well as contracts to purchase the crops at set prices while Opportunity Bank provides the loans and savings services along with basic financial education. These agri-businesses must have excellent reputations with the smallholder farmers and operate in a professional and profit-oriented manner.

Challenges

OIBM's strategy is not without its challenges.

1. As service is extended to additional rural areas, managing a larger and more complicated organization from an administrative and resource standpoint is a challenge that will continue to grow.
2. Achieving profitability in all areas of the country with this outreach strategy.
3. Choosing the appropriate technology to allow for scalability. OIBM outgrew the infrastructure capacity of the local smart card provider. The lack of an alternative choice in providers resulted in growth and utilization constraints.
4. Switching costs associated with the introduction of new technology. As new and better technologies are introduced into the market, there are tradeoffs to consider given costs associated with adopting new standards and products as

well as the timing of adoption. Because OIBM is attempting to push into new areas as a pioneer, it must consider the pace of innovation and the costs associated with adoption.

5. Remaining focused on holistic transformation given the increased use of technology in distribution which could potentially reduce the amount and impact of human interface.
6. Developing communication solutions that enable real time transactions.
7. Overcoming the scarcity of skilled labor with the appropriate skills and knowledge (often requiring relocation of qualified candidates from urban to rural areas).
8. Educating government officials/regulators regarding unique outlets (mobile vans, kiosks and satellite centers) that vary from typical branch regulations.

At the moment OIBM is looking into the container model for kiosks and satellite centers and mobile phone technology. OIBM does not believe that brick and mortar expansion will meet future needs, and so they are planning to utilize technology (POS and linkages) to become virtually present in Malawi.

Conclusion

Opportunity International is committed to reaching into unserved areas and will continue to document learnings from Malawi and other partner countries.

Opportunity International

Opportunity International has more than \$700 million in assets serving poor families with micro loans, savings, insurance and training in 30 countries in Africa, Asia, Eastern Europe, and Latin America. Opportunity builds, owns and operates microfinance banks and the first wholly-owned microinsurance company. With Supporting Partners in Australia, Canada, Germany, the United Kingdom, and the United States, Opportunity manages investment divisions and a Loan Guarantee Fund.

***Our mission** is to provide opportunities for people in chronic poverty to transform their lives.*

***Our commitment** is motivated by Jesus Christ's call to serve the poor.*

***Our core values** are respect, commitment to the poor, integrity, and stewardship.*

***We serve** women and men of all faiths and no faith.*

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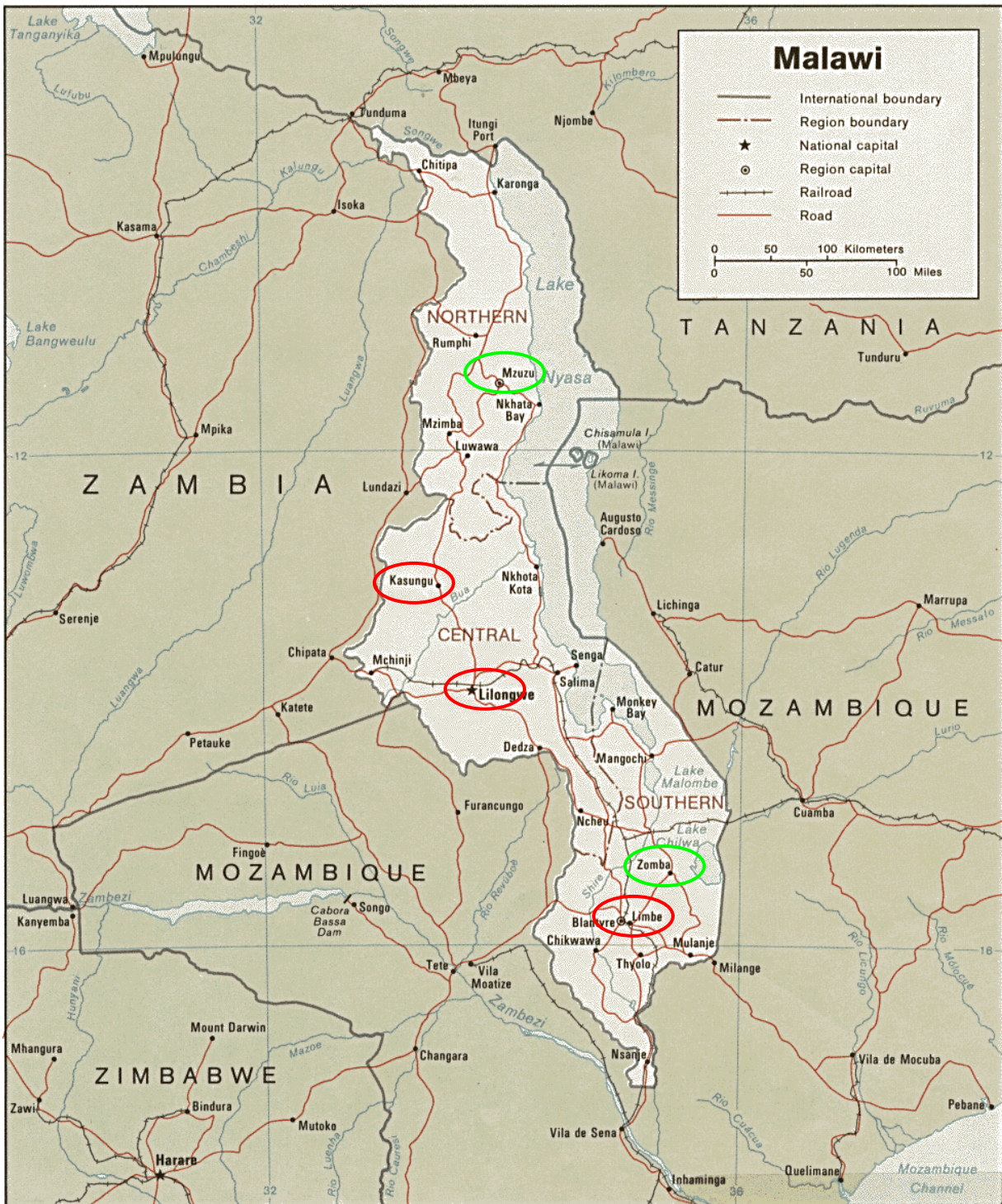
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Appendix A - Implementation

1. ***Begin lobbying efforts:*** Face to face meetings occur with Central Bank/other regulatory bodies in order to explain OIBM's strategy and implantation plans. It is critical that these meetings occur before purchasing any large items (mobile van, kiosk) to account for delays in approval or specifications required by Central Bank.
2. ***Identify local opinion leaders:*** In Malawi, the country is divided into districts which have their own administrations, presided over by chiefs. These districts have their own local leadership at the community level, therefore identifying opinion leaders in the local community is a relatively straightforward process. OIBM uses connections within a certain district to arrange meetings with the relevant opinion leaders. Connections include employees, clients and government officials from these areas. They also have relationships with national organization, such as church groups, that can connect with local members. OIBM spends time explaining the mission of the organization and puts a lot of energy into educating these local leaders as to the benefits of microfinance generally and OIBM specifically.
3. ***Conduct market research:*** OIBM uses bank employees to travel within region to interview prospective clients and also uses information from existing clients that travel to other OIBM destinations and who might be better served by new locations. Interviews with individuals and focus-group discussions are used to gauge brand awareness and define product specifications. OIBM tries to get a sense of income levels, types of businesses, and the competitive landscape. Importantly, they attempt to map loan officer territories and understand transportation options and territory size. Outside consultants are occasionally used if the budget allows.
4. ***Hiring and training staff:*** OIBM hopes to hire individuals from the local community. They have found that former school teachers make good loan officers, though they often require training for the financial aspect of the position. OIBM uses the Opportunity International Network *Loan Officer Toolkit* for training and a high degree of on the job learning.
5. ***Communicate directly*** to prospective members and begin to recruit clients: OIBM relies on contacts that the imbedded loan officer has developed to cultivate interest by prospective loan clients. Client loan training can occur so that customers are able to accept loans beginning on the first day of operation.
6. ***Road show and intensified radio advertising:*** OIBM relies on their marketing department from headquarters to organize events and manage logistics.
7. ***Initiate coverage with mobile van:*** Mobile vans are procured from Marina Motors in Egypt for \$185,000 (large van) and locally for \$60,000 (small van). They were projected to breakeven with 6,000 clients in 6 months.
8. ***Continue radio advertising*** to enhance mobile van rollout: OIBM works with local and national radio stations to communicate messages over a variety of stations. Once van is launched, the radio messages can change to include testimonials from local clients and visual reinforcement of the van is thought to be quite helpful in building awareness.
9. ***Impact studies*** leading to establishment of a static outlet: Use operating data.
10. ***Roll out a new static outlet:*** OIBM is able to complete a static outlet in about 4 months.

Appendix B - Map of Malawi



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Existing Branches

Proposed Branches

Appendix C - Mobile branch in Dedza during road shows



Appendix D - Point of Sale Terminal & Biometric ID

