

Savings at the Frontier (SatF)

A Mastercard Foundation partnership with Oxford Policy Management

Project Briefing: Madison Finance – Digitising savings groups in Zambia

Introduction

SatF is supporting Madison Finance Company Ltd (MFinance) to develop a mobile phone enabled/ linked savings product that aims to bring formal financial services to 2.8 million new customers. MFinance’s customer base has traditionally been salaried individuals but they are now undertaking a strategic shift towards becoming a retail-funded small and medium enterprise (SME) micro-bank. Their traditional customer base is around 1.2 million largely urban adults (salaried employees) and their aim for this new product is to become relevant to an additional 1.4 million underserved peri-urban SME operators, plus another 1.4 million informal peri-urban/ rural casual workers that provide labour to the SME sector.



What difference will SatF’s support make?

MFinance is using the \$750,000 funding from SatF to enhance its ‘Chilimba’ savings product and roll it out to users of informal savings mechanisms (ISMs) – including Savings and Internal Lending Communities (SILC) groups, *chilimbas* and village savings groups - across all 110 districts in Zambia, with a particular focus on peri-urban and rural areas. ‘Chilimba’ is a digital group savings product that integrates mobile banking with M-Finance’s core banking system and digitises the traditional ‘three key’ savings approach used by ISMs. Individual member accounts can be defined by members’ mobile phone numbers, which then link into the group account. The initial target areas will be rural (Mansa, Livingstone and Chembe) and agent withdrawal and deposit charges will be removed to make accounts more attractive (charges on transactions between member and group accounts are automatically waived in accordance with Bank of Zambia regulations). MFinance will reach ISMs via third-party facilitators, including but not limited to Africare and the Catholic Diocese.

MFinance are also using the funding to develop a cadre of mobile bank agents (including internal and external bank agents) who will be in direct and constant contact with the groups in peri-urban and rural areas. This will enable MFinance to expand its operations while also bringing the benefits of formal financial services to those who are currently underserved in rural and peri-urban areas in Zambia.

How exactly will this project benefit ISM users?

By offering ISM users a digital group savings product MFinance will be providing them with additional security for their savings, as well as the opportunity to save more than they would be able to in their ISM. The new product will make it easier for individuals to make payments and transfer funds to the group and to other members, as well as to make individual transactions. The product has been designed such that it replicates the functions of the traditional savings group and does nothing to disturb their traditional way of saving. MFinance will also be able to offer customers other financial products and services (such as access to loans, funeral cover, micro insurance and money transfer services) to meet their needs and enable them to grow their businesses. Finally, MFinance will provide ISM users with financial literacy training, with a specific focus on savings and related benefits.

How can this be profitable for MFinance?

MFinance hopes that by developing its ‘Chilimba’ product they will be able to almost triple their current customer base and reach a new market segment, thus bringing in additional income.

MFinance's business case for the SatF project is based on a minimum volume of savings per customer which will keep the equity cash-flow impact at a sustainable level, while also enabling them to deliver the agent network infrastructure and marketing push required to reach the new target customers.

Why the project was approved

This project offers the real prospect of developing linkage with ISMs in Zambia, a nascent market in terms of linkage. MFinance used the business plan development phase to refine their offer to savings groups and their members and are now in a good position to roll-out an agent model that gets agents as close as possible to groups/savers. Not only will this provide ISM users with better and more secure financial services, it will also provide valuable learning for SatF, allowing us to test the extent to which an ex-ante viable business case can be made to work within the specific infrastructure, communication and population density constraints of the Zambian market.

M-Finance is a financial institution operating in the microfinance and SME segment of the Zambian market. It is licensed as a deposit-taking institution by the Bank of Zambia and is one of the market leaders in Zambia. M-Finance has two business units that provide credit to salaried employees of public and private sector enterprises, and to micro, small and medium sized enterprises (MSMEs). For more information visit <http://www.mfinance.co.zm/>.