

## Scaling up mobile banking: delivering social benefits to rural areas in Morocco – Al Barid Bank

### 1. DEVELOPMENT RELEVANCE

**Economic and poverty context:**<sup>i</sup> The most recent Economic Freedom Index ranked Morocco's economy 86<sup>th</sup> in 2016.<sup>ii</sup> Economic growth decelerated from 4.5% in 2015 to 1.5% in 2016 as a result of a decline in agricultural output owing to insufficient rainfall and moderate growth outside of agriculture, especially in manufacturing. Between 2007 and 2015, average annual inflation was 1.4%. Private spending continues to play a significant role in supporting the economy, exceeding the value of receipts from tourism and the export of phosphates. Challenges include inflexible labour regulations and the need for a wider-reaching reform of the rule of law. The country managed to avoid large-scale political upheaval during the Arab Spring, and underwent significant political change in 2011 when opposition groups formed and the transition towards a constitutional monarchy began. According to global governance indicators, Morocco is in the middle to upper percentile range compared with other MENA countries.

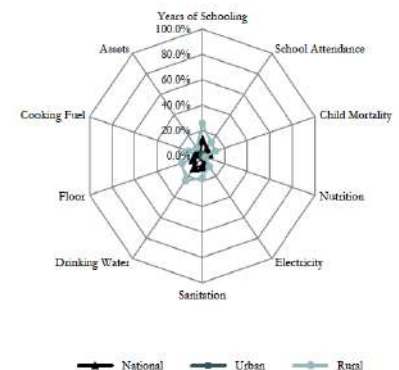
GDP per capita increased from 2007 until it reached a high of USD 3,187 in 2014, but declined in 2015 to USD 2,878. Measures that aim to foster more inclusive growth, such as creating an enabling environment for youth employment and/or people in disadvantaged areas, remain a key challenge for the government. The official unemployment rate is 9.9%, and four out of five unemployed people are aged 15 to 34. Women and girls are particularly vulnerable, with approximately 82% not attending school and excluded from the labour market. At 0.067, the Multidimensional Poverty Index (MPI), which reflects the incidence of poverty at the individual level with respect to education, health and living standards (2011; see figure 2), is relatively low compared with other Arab states<sup>1</sup>. Income disparities and gender inequalities are enormous, as a result of one of the highest illiteracy rates in the Arab world and a flawed education system. Of the four million Moroccans living below the poverty line, 75% are in rural areas.

**Financial sector context:** The government has been spearheading the promotion of financial inclusion through conventional banks, the postal network (Al Barid Bank), microfinance institutions and Islamic banks. The national financial inclusion rate has followed global trends by increasing by 47% in 2010, 56% in 2012 and 62% in 2014. Currently, 41% of adults use a formal financial product<sup>iii</sup> (compared with 18% on average in the MENA region). On average, adults are familiar with financial products from more than four different types of provider. The main products with which Moroccans are familiar are offered by banks (90%), followed by those offered by savings and credit self-help groups (89%), MFIs (68%), and money transfer operators (65%).<sup>iv</sup>

**Partner financial institution:** The Moroccan post office has spun off its financial services division, which had four million clients, to its Al Barid Bank (ABB) subsidiary, which was officially launched in June 2010. Based on a country-wide network of more than 1,800 branches (owned by, and mostly shared with, the postal network) with two thirds located in rural areas (where 44% of Moroccans live), ABB is the prominent leader in the financial inclusion process in Morocco. Its mission is to facilitate access to financial services to all citizens, especially the poorest and most marginalised.

**Figure 1: Economic indicators** (Source: World Bank database).

Population (2015; in million)	34.4
GDP (current USD) (2015)	100.593bn
GDP growth (2015 / average 2005-2015)	4.5 / 4.7%
Inflation, GDP deflator (2015 / average 2007-2015)	1.7 / 1.4%
Trade balance (% of GDP at market prices) (2015)	-7.8%
Foreign direct investment (net) (2015) (% of GDP)	3.2%
Net ODA and official aid received (2015) (% of GDP)	1.36%
Personal remittances (% of GDP) (2015)	6.9%
Economic Freedom Index (2016) (Rank among 186 countries)	86
<b>Poverty indicators</b>	
GNI per capita (current USD) (2015/average 2006-2015)	3030/2825
Gini Index (0= equality 100= inequality) (2013)	40.7
International (at USD 1.25 /day)	2.5%
National; and	8.9%
Rural poverty headcount rate (in %; 2007)	14.4%



**Figure 2. Percentage of population who are poor and deprived as per MPI (Morocco, 2016)**

<sup>1</sup> Oxford Poverty and Human Development Initiative (2016). 'Morocco Country Briefing', Multidimensional Poverty Index Data Bank. OPHI, University of Oxford.

ABB is estimated to reach about five million clients in areas in which brick-and-mortar banks have traditionally been scarce. Having moved past its early focus on basic savings and payment products, ABB now offers overdrafts and mortgage lending, although it continues to pursue its mission to serve low-income borrowers.<sup>v</sup> ABB is the only financial network that distributes pensions, scholarships, and benefits on behalf of the government, thus playing a crucial role in Moroccan society. In 2015 and 2016, ABB gained more than 800,000 clients, reaching 6.4 million. Total deposits at the end of 2016 came to more than DHS 45.1 billion, accounting for 21% and 13% of total deposits made in savings accounts and local checking accounts respectively in Morocco over the past five years. Deposits have grown at a rate of 10.4% per year. At the end of 2016, ABB had more than 2.8 million bank cards, and 787 ATMs. Its total credit portfolio (for housing, personal spending, etc.) currently totals DHS 2.8 billion. As at May 2016, number of BBM accounts had reached more than 200,000.

ABB	2011	2012	2013	2014	2015	2016
Total assets (in million USD)	3,562	4,008	3,950	4,334	4,871	5,236
Total deposits (in million USD)	N/A	4,091	3,559	3,950	4,450	4,823
Total gross loan portfolio	N/A	N/A	186	224	539	404
National transfers (delivery and receipts) / no. of transactions	N/A	More than 10 million	13,178, 270	11,389, 172	13,681, 564	12,642, 056
International remittances No. of transactions (receipts)	N/A	more than 1,25 million	1,327, 558	1,367, 458	1,367, 010	1,317, 646
Total staff	3,580	3,641	3,724	3,960	3,971	4,120

## 2. INTERVENTION APPROACH

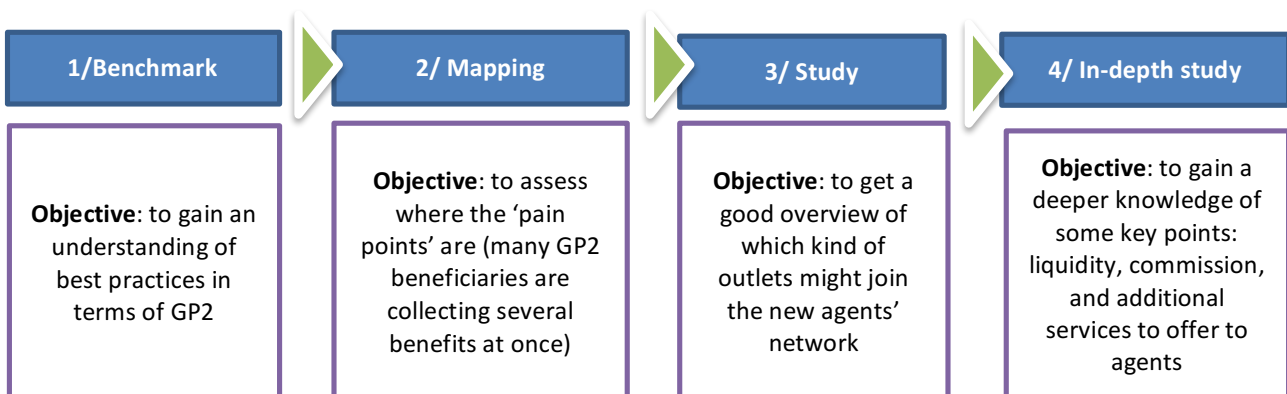
### Capacity building needs

Recipients of social benefits (about 375,000 when the intervention started in 2013) need to travel considerable distances to a branch collect the monies disbursed by ABB on behalf of the government. This can be costly and take up a great deal of time. There is thus a great need to find new ways to deliver benefits and financial services closer to the beneficiaries. ABB launched its mobile service in 2013. This might be used as an efficient alternative distribution channel for social benefits. The SCBF co-funded technical assistance provided to ABB by Planet Finance (now called Positive Planet) to develop a new payment agent network in charge of G2P (government to people) distribution through Barid Bank Mobile. The intervention complements the SCBF 2013-01 intervention, which aimed to tailor a mobile banking application to ‘bottom of the pyramid’ clients.

### Intervention approach

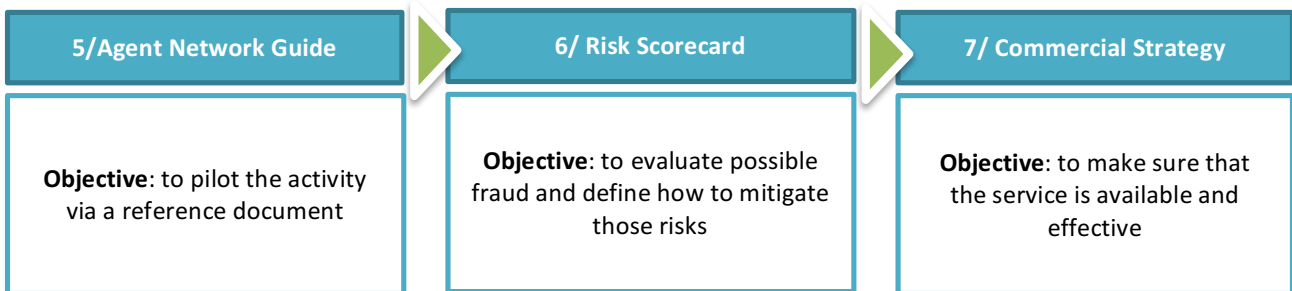
Positive Planet (PP) worked primarily with three individuals at the decision-making level (Head of Partnerships, a project manager, and a member of the Board of Directors). Assistance involved supporting ABB during three phases:

**Phase 1 – Pre-implementation work:** Definition of the business model, identification of the agent network (benchmark, agent locations, and definition of an agent typology) and outline analysis of the regulatory context.



*Benchmark, mapping (‘pain points’ for ABB) and studies (agent network, typology) were delivered by Positive Planet, while ABB supplied the outline analysis of the regulatory context.*

**Phase 2 – Integration of the new service within ABB:** Development of a guide on how to manage ABB’s agent network; in-depth analysis of the risks to be avoided while developing the agent network (at the level of the client, agent and merchant); definition of a commercial strategy for the agent network.



*Tools and procedures are in place: owing to change in the regulatory environment (the 2014 Credit Institutions and Assimilated Bodies Act), it has been impossible to proceed with agent recruitment, so implementation has had to be postponed. See ‘Phase 3’ for detailed explanation.*

**Phase 3 – Pilot design: development of procedural manuals and guidelines for back and front offices (call centre organisation, risk mitigation, and support during the pilot):** The 2014 Banking Act, applicable as of 1 January 2015, requires agents distributing micro credit to be corporate entities – and not natural persons as was previously the case. The entry into force of this law has made it very difficult to recruit agents in the places they are most needed, i.e. isolated and rural areas, since no corporate entities operate here. The law also imposes an obligation on agents to have a dedicated physical space on their premises in which banking and finance activities are carried out.

*Since it is impossible to recruit agents among the target population (small shopkeepers), ABB decided to put the project on standby. As a consequence, most operational tools (detailed procedural manual, training materials) that were to be tested among users (agents), have not been developed and no training sessions have been scheduled.*

### 3. RESULTS ACHIEVED

The aim of the project was to change the social benefits distribution system from cash-based to mobile-based in order to avoid bottlenecks at post offices in the country.

Based on the initial analysis, ABB anticipated that both mobile and non-mobile banking clients would benefit from the implementation of an agent network that would result in closer proximity to G2P beneficiaries, and faster service at external points of sale and at postal agencies:

- ✓ G2P clients would spend less money on reaching a post office to collect their benefits: they would have access to a closer point of sale, and save time by not queueing at ABB branches at the beginning of each month.
- ✓ Other clients would benefit from optimised desk operations. Currently, whenever benefits are paid out some branches are overcrowded, and clients must delay financial transactions during this time. An agent network would allow ABB’s staff to focus on their business operations to the benefit of their clients.

The Moroccan government decided to forego transforming the Tayssir Programme (a monetary incentive for rural families to send children to school), although it was considered the ideal case in which to test non-monetary G2P distribution through an ABB agent network. Furthermore, when PP and ABB designed the project in 2012/2013, the regulatory framework was that agreements between a financial institution and small retailers were tolerated but not specifically regulated, and there was no indication that this would change in the foreseeable future. The hurdle created by the change of regulatory framework, along with the lack of willingness from the government to support the Tayssir initiative, led to the initial action plan being implemented only partially.

The preparatory steps needed to implement an agent network were nonetheless completed:

- ✓ Business model defined
- ✓ Agent network defined
- ✓ Guide on managing ABB’s agent network defined
- ✓ In-depth analysis of the risks to be avoided while developing an agent network
- ✓ Commercial strategy for the agent network defined
- ✓ Procedural manuals and guidelines drawn up for back and front office

*In conclusion, even though preparations for executing the project had been completed, ABB had to change its strategy and develop an alternative approach to scaling up mobile banking and fostering non-cash benefit distribution.*

In order to proceed with diversifying its network and providing better proximity services, ABB decided to provide additional support to its Barid Cash subsidiary, as its prime operator in cash out activities and mobile banking services for low-income populations in Morocco. Barid Cash was designed and implemented in 2013 with the help of Positive Planet and financial support from SCBF. In 2016, the Barid Cash network gained greater outreach through franchise agreements with MNOs and a partnership with the Al Baraka microfinance institution (which is still in its pilot phase). Barid Cash agencies currently provide only domestic and international money transfer services, but in the near future may extend to offering basic mobile and non-mobile banking services.

In addition, ABB has made progress on the path to innovative G2P solutions by developing a facility for the payment of student scholarships, in collaboration with the *Office National des Œuvres Universitaires Sociales et Culturelles* (the national Ministry of Education). In schools, all Moroccan scholarship holders (approx. 300,000 students) receive an ABB 'Minhaty' debit card which is credited with the amount of the scholarship and can be used at ATMs.

ABB also carried out several financial education awareness-raising activities. It organised popular events in rural Morocco, sponsored a daily radio show on budgeting and savings good practice, and launched the 'Dir Labass' weekly TV show.

#### 4. LESSONS LEARNED AND FURTHER CHALLENGES

##### Lessons learned

- **Regulation:** In environments in which the local regulatory framework has not kept up with technological advances, and regulatory guidelines are uncertain, pioneering a new product or service can be an effective strategy to shape forthcoming legislation and to drive financial sector development. Companies willing to operate at the forefront are well positioned to be invited to consult with regulatory authorities and thereby influence the design of regulatory frameworks. It is important to plan enough time to discuss and explain the project to regulatory bodies, as it takes time for them to understand what is at stake.  
Another lesson is that it can sometimes be difficult to submit a request for regulatory approval if the partner financial institution has other pending enquiries with the regulators, even if they are unrelated to the project at hand. Financial institutions usually prefer to focus on one authorisation process at a time. Their assumption is that it might otherwise be confusing for the regulator.  
Finally, regulation should not be considered constant. For instance, ABB had to conduct two different regulatory analyses (instead of one, as initially envisaged), as during the intervention regulation evolved when Morocco introduced its new Banking Act in 2014. As a result of that change, ABB was no longer allowed to recruit individuals (small retailers like coffee shops, shopkeepers, etc.) as agents on its behalf, but instead had to recruit business entities (fuel stations, supermarkets, etc.). This had a significant impact on ABB's commercial strategy, which consequently had to be redesigned.
- **Business case for the agents:** The initial study and the benchmark showed that: i) the assumed business case (with agents doing cash out only) was not attractive enough to enrol agents; ii) even at the pilot stage, it was important to go live with a whole range of products available to attract and retain the agents. This would have allowed agents to earn enough commission and to balance their liquidity between cash in and cash out (if the agent was involved in cash out only, frequent restructuring was the result). It is crucial to offer an economically viable business case to agents, providing sufficient incentives to maintain their interest in offering the service, in particular during the early stages of the product launch when the number of users is limited and transaction volumes are low. Successful models also provide incentives to agents to sign up new users, as this is what will ultimately drive volumes. The fact that the project scope excluded agents registering new users (as recent regulation does not authorise agents that are not legal entities to recruit clients in Morocco) was a constraint to an effective rollout. The loss of agents is the main cause of agent banking failure, and this can be avoided by properly selecting, training and incentivising those agents.
- **In-depth study:** It is worth interviewing respondents twice. Following a face-to-face quantitative survey, some were asked by telephone to clarify certain key insights. During this second round of interviews, we found that respondents had taken the time to think about the project (becoming an agent), and they provided interesting feedback about the remuneration structure and what products should be offered (bill payments, airtime, etc.). Some of them even expressed interest in joining the agent network.

- **Technical aspects (IT integration):** Although the technical provider which implemented the mobile banking platform was commissioned for this project, and was able to leverage the work done with the mobile banking interface, significant work was still required with regard to cash out services and the software licences required for the additional services (top-ups, bill payment, non-benefit money transfers, etc.) The final cost of this integration – paid for by ABB – was around USD 140,000, instead of the USD 20,000 initially anticipated.
- **Decision-making process and quality control:** In large institutions such as ABB, it is important to meet with the Board every six months to make sure that all members support the project’s objectives. In addition, monthly progress reports (in a one-page format) enable the non-operational staff concerned to follow the project and to be involved.
- **Human resources:** (1) For ambitious projects, it is essential to recruit or appoint a dedicated full-time senior project manager within the first two months of project implementation or, even better, at the project design stage. This person should report directly to the CEO, and should manage a team covering each of the operational and horizontal aspects of the project. More generally, it is important that the institution is fully committed. A significant financial contribution is required. (2) It can be challenging to mobilise (part-time) external consultants at short notice, as their availability is uncertain.

### Further challenges

Should regulatory barriers be lifted, thus enabling the project to continue, a number of recommendations and further challenges are as follows:

- **Marketing:** Mobile ABB vehicles that can reach each and every client could help promote the service (benefit payment) in remote areas and make sure that beneficiaries know how to use it. Furthermore, dedicated promotion of the mobile banking service is vital in these areas. For example, when benefits depend on children’s school attendance, schools are the ideal location in which to sign up clients, as that is where they receive their benefits. Aligning enrolment processes with a client’s journey and/or habits can ensure higher client activity.
- **Critical mass:** The service should be available all year long, and not just while benefits are being paid. Tracking the number of transactions per client is key to keeping agents active. Therefore, ABB must optimise the number and location of agents to avoid any overlaps and fierce competition within its network. The number of clients must be sufficient to allow a high number of transactions relating to benefits and additional services.
- **Financial education:** Financial education ensures that end clients understand financial mechanisms and the services on offer, as well as how to use them appropriately. Indeed, successful mobile banking initiatives targeting rural areas often incorporate a strong financial literacy component, as the targeted rural segment typically has minimum experience with financial services.



Agence Bancaire Mobile – Al Barid Bank, Marrakesh 2016

*With regard to the strategy for scaling up mobile banking, during a cooperation workshop on 22 March 2016 ABB and PP identified a new area of cooperation and began to draw up **a plan of action to increase ABB’s mobile banking services and card use**. Mobile banking enrolment does not necessarily mean financial inclusion, however: low-income clients must be helped to fully understand mobile banking services and use them effectively. The same is true of cards and ATM use. This requires considerable capacity-building among low-income clients, the development of a client-centric commercial approach, and measures to encourage practical financial education initiatives.*

*ABB mobile banking services have seen steady and significant growth lately (20,000 new clients per month since January 2016). Ensuring that mobile banking and cards fully play their role as financial inclusion drivers is a key challenge that might be addressed with a new project.*

<sup>i</sup> Unless stated otherwise, the sources used for Section 1 are: <http://www.worldbank.org/en/country/morocco/overview> and <https://www.cia.gov/library/publications/the-world-factbook/geos/mo.html> (retrieved May 2017).

<sup>ii</sup> <http://www.heritage.org/index/country/morocco> (retrieved May 2017)

<sup>iii</sup> <http://www.worldbank.org/en/topic/financialinclusion/publication/2014-morocco-financial-inclusion-and-capability-survey> (retrieved May 2017)

<sup>iv</sup> <http://responsiblefinance.worldbank.org/~media/GIAWB/FL/Documents/Publications/Enhancing-Financial-Capability-and-Inclusion-in-Morocco-FINAL.pdf> (retrieved April 2015).

<sup>v</sup> <http://responsiblefinance.worldbank.org/~media/GIAWB/FL/Documents/Publications/Enhancing-Financial-Capability-and-Inclusion-in-Morocco-FINAL.pdf> (retrieved April 2015, page 24).