

KiWi – making fintech work for micro-merchants in Mexico: How technology can transform the microfinance industry

1. DEVELOPMENT RELEVANCE

Economic and poverty context

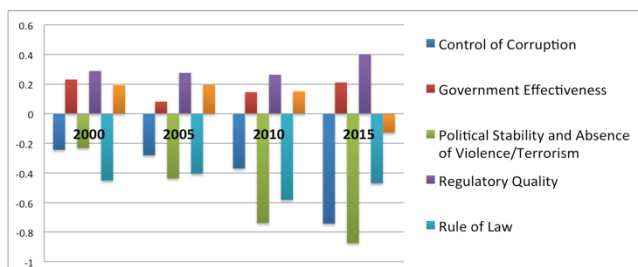
The Mexican economy continued to expand at an annual rate of 2.5% through most of 2015 and early 2016, though it is expected to have softened in 2016 to about 2%. Mexico is one of the most developed emerging markets worldwide, but among Latin American countries it has the second-highest proportion of poor, and is one of the 25 countries worldwide displaying the highest degree of inequalityⁱⁱⁱ.

Many specialists believe that the rich have been the chief beneficiaries of economic growth. One of the largest slums in the world – Neza-Chalco-Itza – is in Mexico, demonstrating the inequality that exists in the country. CONEVAL (the National Council for the Evaluation of Social Development Policy) recently published statistics showing that 38 million of the Mexican population are urban poor, while 17 million poor people live in rural areas. The CONEVAL figures also reveal that poverty increased between 2012 and 2014.

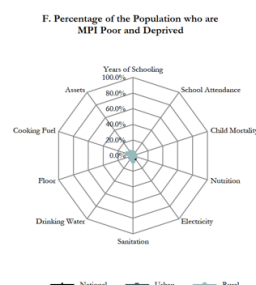
Table 1ⁱ: Population and economic indicators

| | |
|---|--------------|
| Population in millions (2013) | 122.3 |
| GDP growth (2015) | 2.5% |
| Inflation (2015) | 2.7% |
| Trade balance (% of GDP) (2015) | -2.1% |
| Foreign direct investment (net) (% of GDP) (2015) | 2.8% |
| Net ODA received (% of GNI) (2014) | 0.1% |
| Remittances received (% of GDP) (2015) | 2.3% |
| Economic Freedom Index ⁱⁱ (rank among 186 countries) (2016) | 62 |
| Poverty indicators | |
| GDP per capita (USD) (2015) | 9005 |
| Gini Index (0= equality 100= inequality) (2014) | 48.2 |
| International poverty rate (2014; at 1.90 USD/day) | 3.04% |
| National poverty rate (2015) | 53.2% |
| National rural poverty headcount rate (2014) | 62.4% |

Governance indicators chart^{iv}, (Mexico, 2000 - 2015)



Multidimensional poverty index chart^v, (Mexico, 2016)



Financial sector context

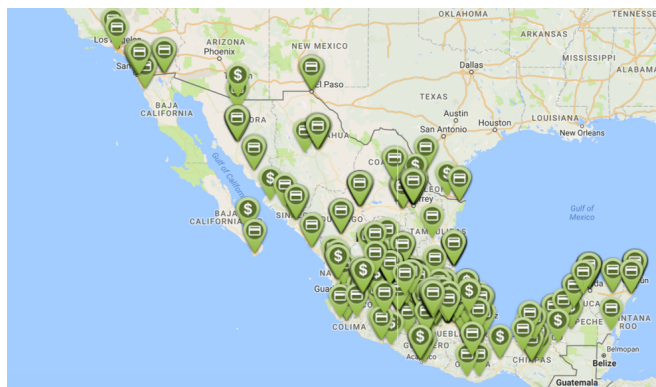
In 2014, 14% of the population aged 15 and over saved money at a formal financial institution, and 10% borrowed money. Of the same population, 39% has a bank account. This confirms that inequalities persist, despite overall economic growth.

In terms of financial inclusion, Mexico scores 60/100 on the EIU global microscope financial inclusion ranking^{vi}. However, it lost two places from 2015 to 2016, is now 10th out of 55 emerging markets worldwide (100 being the maximum score). According to the World Bank in June 2016: "in 2014 the government approved comprehensive financial reforms to increase the financial sector's contribution to economic growth. Mexico's key challenge is to increase financial service penetration, and to extend financial access to people who are currently out of the reach of the regulated financial sector".

Partner financial institution/s

eBOP SA ('KiWi') is a Swiss start-up created in December 2013, with the mission of providing a mobile financial platform to micro-merchants in emerging markets. This then gives them better access to savings, payment systems, loans, insurance, and money management solutions in general. The objective is to reach one million micro-merchants by 2021 with operations in eight countries. There are 2.5 FTE (full-time equivalent) staff working at eBOP SA, focusing on IT and product development.

KiWi Mexico is a subsidiary of eBOP SA, operating KiWi in Mexico with the objective of reaching 200,000 micro-merchants by 2021. Eight FTEs work at KiWi Mexico, focusing on the organisation's go-to-market strategy and customer service. KiWi Mexico focuses on peri-urban and urban micro-merchants, including women, within a very broad scope of industries. It targets areas in which the penetration of prepaid, debit and credit cards is already relatively high.



The micro-merchants network map (KiWi Mexico is a branchless company)

KiWi Mexico's key financial partner is **Bankaool**, the first branchless bank in Mexico. KiWi is a payment aggregator, working under the umbrella of the Bankaool e-payments acquisition licence.

KiWi's micro-credit product is registered on the Bankaool books, and close integration with the bank's debit accounts is forecast for 2017 thanks to a new API, allowing interaction between the KiWi application and Bankaool's core banking system.

During the first few months of the project, KiWi Mexico collaborated with **CAME** (350,000 clients) and **FINCA** (150,000 clients), two leading microfinance institutions in Mexico, with the objective of offering KiWi's payment solution to their clients. In a significant change of strategy, KiWi Mexico then opted for non-financial partners, such as direct sales companies (a pilot project is starting with **Pakar**, which works with several hundred thousand independent saleswomen) and CPG (consumer packaged goods) distributors, such as **Rudi** and **Mariana**, working with tens of thousands of local family-run stores. Now that the micro-credit product has been launched, KiWi Mexico is in discussion with several microfinance institutions to see if they would be interested in owning part of the KiWi loan portfolio.

2. INTERVENTION APPROACH

Capacity-building needs

At the beginning of the project, KiWi Mexico was already live with a minimum viable product and more than 100 merchants registered. The aim of the SCBF intervention was a) to find low-cost and high-scale distribution channels to reach as many micro-merchants as possible, and b) to improve the initial product so that micro-merchants adopt and use it on a regular basis. The challenge is to find a financially sustainable model while focusing on low-transaction merchants. The hypothesis behind KiWi is that a good distribution model and a multiple revenue stream strategy can make it work.

Main activity areas (goals, targets, resources & time frame) and outputs

The project was defined with three main areas of activity. All of the planned outputs have been achieved:

- ✓ Up-scaling model tested and documented;
- ✓ Product V2 now includes a) micro-credit and b) airtime top-ups (merchants sell airtime to their own customers for a fee); and
- ✓ Distribution model validated and KiWi has reached its target of 1,000 active merchants.

The planned activities that worked particularly well are:

- Micro-credit: the combination of payments and micro-credit is a very strong product, which could become a serious alternative to existing microfinance models, opening the door to mainstream retail finance products for micro-merchants. The micro-credit feature is therefore validated as a key element of KiWi's offering;
- Digital marketing and sales, proving that it is already an effective channel by which to reach micro-merchants in Mexico.

The planned activities that did not achieve the expected results are:

- Airtime top-ups: the feature was launched on time, but it has not yet been possible to develop a frictionless solution, and uptake remains low. The decision has been made to keep it in its current form at this stage, and to focus more on the combination of payments and micro-credit;
- Distribution through microfinance institutions: despite a huge number of micro-merchants, MFIs have few points of contact with their customers compared with direct sales companies (such as Tupperware) and CPG distributors (such as Unilever). In addition, their loan officers are less willing to sell different products and services compared to the two other examples. This led KiWi Mexico to focus on channels other than MFIs at this stage.

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

The impact of a fintech solution such as KiWi is broad and sometimes difficult to measure. The following social and economic improvements have been identified:

Micro-merchants:

- Open a bank account now they see a specific reason for one (to accept card payments);
- Do not have dormant bank accounts thanks to tens of small income items a week, generating usage and a banking habit;
- Have access to working capital loans that suit their primary requirements (speed, price, convenience);
- Report increasing sales now that they accept cards payments. A very interesting study^{vii} by 'Better than Cash' highlights a similar programme in Mexico that confirms 20% or even 30% higher sales for merchants who have started to accept card payments;
- Diversify their sales, now that they can sell airtime top-ups to their customers, as a starting point;
- Save time in daily money management;
- Reduce errors in money change, facing customers;
- Become familiar with the tool, and feel that technology is not only for big retailers.

Their customers:

- Enjoy convenience and security, because they no longer have to carry such large amounts of cash;
- Use their own bank accounts, which become more liquid thanks to initiatives like KiWi.

The economy in general benefits from a smaller informal sector, and access to formal financial services without the burden of dealing with banks, going to branches, etc.

The following two examples highlight results at the client level:

1) Lidia Gutierrez, hairdresser, Mexico City



Lidia confirmed to KiWi that her customers appreciate the convenience of not having to carry too much cash on the streets of Mexico. In other words, she made it more useful and attractive for her customers to use their bank accounts. Lidia also confirmed that her turnover has increased. Customers paying by card buy more products from her on top of the actual hairdressing service.

Lidia was part of an interesting experiment in which she was allowed to sell a variety of products to her customers through a tablet, with KiWi taking care of driving products to the virtual shop and of delivery logistics. This confirmed that KiWi could become more and more income-generating by allowing merchants to sell new products and services, without holding any stock themselves, and that bricks & mortar micro-merchants can actually benefit from e-commerce, which had previously been perceived only as a threat. Lidia conducted 565 card transactions during the project, with sales of USD 13,150 through KiWi. Her full video testimonial is available here: <https://www.youtube.com/watch?v=BBWcXosuh6c>

2) Ilse Hernández, boutique, Mexico City

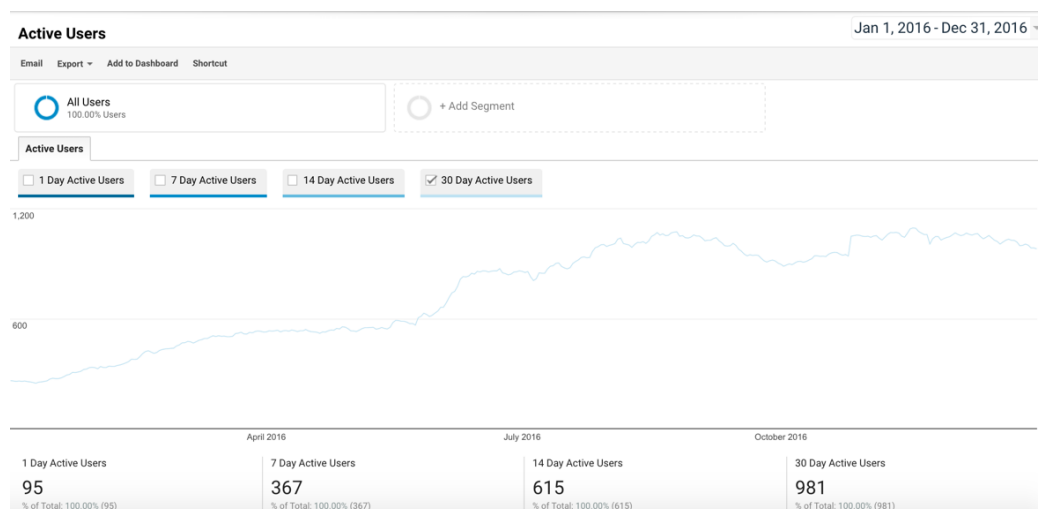


Ilse has just launched her boutique, and she valued KiWi as one of the elements that gave her peace of mind during the set-up. She did not imagine that accepting cards could be so easy and felt assured and supported by KiWi. This is exactly what KiWi wants to be: the financial motor behind micro-merchants, providing peace of mind while they get on with running their business. Ilse has accepted 180 card payments through KiWi since March 2016, with a total value of USD 10,815. Her husband made a powerful statement about how the KiWi micro-credit product works: "I don't feel that I am paying my loan back, I feel that my customers are doing it for me". Ilse's full video testimonial is available here: <https://www.youtube.com/watch?v=LgC5mriwolo>

Partner financial institution/s level

KiWi being a start-up, and KiWi Mexico being the first country of implementation, SCBF contributed greatly in the overall setup and launch of the whole company. KiWi raised CHF 500,000 in equity in 2014, and CHF 500,000 in debt in 2015. Thanks to the results of 2016, CHF 650,000 in additional equity has been committed for Q1 2017. This represents the effective leverage of SCBF funds.

The following results have been achieved, as per Google Analytics:



The target of +1,000 active users (30 days) was reached in August 2016. The following results had been achieved as at December 2016:

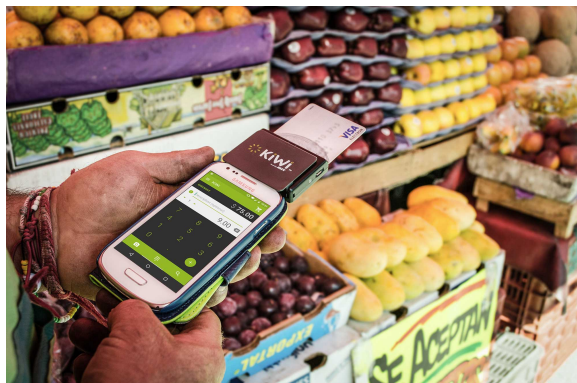
- 2,614 registered users (total number of users is higher but unknown as registration is not compulsory);
- 1,455 users bought the card reader and can accept card payments in addition to the digital cash register;
- 358 users made at least 1 card transaction in December;
- +21,000 cards transactions processed for a volume of MXN +21,250,000 (USD +1,000,000). The average ticket size is around USD 40, which is far above expectations (USD 8). This is explained by the fact that card payments are still seen as the exception, and have not yet replaced cash for day-to-day expenses;
- +500 airtime top-ups;
- +30 loans disbursed (pilot phase), with 100% repayment rate;
- 45% of customers are women (as per Google Analytics). This is slightly below the objective of 50%. As KiWi focuses on women in targeted marketing (Facebook ads), the proportion of women should increase over time.

Many pilots have been conducted to date, including a variety of models involving MFIs (FINCA/CAME), distribution through Unilever distributors, door-to-door sales (using both internal and external sales forces), digital distribution (100% digital or referral of marketing-generated leads to a call centre), e-commerce platforms (Amazon, Linio) and referral programmes, to name just a few. The following table summarises the findings concerning acquisition costs per channel:

| Main direct costs per merchant, USD | Door to door | Digital sales | Agents & retail | Partnerships |
|---|--------------|--------------------|-----------------|--------------|
| Device subsidy | 2 | 2 | 2 | 2 |
| Travel, communications, office supplies | 5.2 | | | 2.3 |
| Salaries | 43.2 | 8.6+4.5 (10.8+4.5) | | 7 |
| Ads (90% paid by merchants) | | 16.4 (18.18) | | |
| Free delivery | | 8 | | |
| Call centre | | 2.1 (2.7) | | |
| Soft commissions | | | 11 | |
| Total | 50.4 | 37.1 | 13 | 11.3 |

It is clear that partnering with a company already working with an extensive network of micro-merchants is very cost effective, although dependence on the partner is high, with the corresponding impact on revenues and brand-building, among other things. Door-to-door sales are too expensive for KiWi, despite very high quality micro-merchants compared with the other channels in terms of usage. Digital sales are highly scalable and we expect to see more and more unpaid leads from this channel, thereby reducing the costs.

The objective is to reach +7,000 new active merchants in 2017. It will be important to improve the rate of active compared with registered users, which is currently 25%, whereas the expectation is 40-50%. Leads will continue to come mainly from Facebook ads and will be directed to KiWi Mexico's website (www.kiwi-bop.com)



and to the KiWi call centre. Other channels will be partnerships (with direct sales companies, for example) and retailers (wholesalers, who sell to micro-merchants). The door-to-door sales force will be reinforced while remaining relatively small.

In terms of products, the focus will be on card payments and loans. KiWi will also test further ways of integrating with savings accounts, and will continue to develop its financial education materials for micro-merchants. The cash register and airtime top-up functions need improvement but will remain as they are for the present, meaning that they are live, without being actively marketed.

4. LESSONS LEARNT

Overall, the intervention has been a success and results have been delivered on time. The combination of payments and loans led to a new and promising product for the microfinance industry, much beyond expectations, with extensive coverage in Mexican [newspapers](#). Indeed, KiWi is able to generate relevant cash flow data from micro-merchants, who can potentially gain access to retail banks, at a lower interest rate and with a more flexible and quicker service than microfinance institutions can offer. KiWi is also able to retain loan repayments directly from the card payments received by micro-merchants, considerably reducing risk and friction.

A significant change in KiWi's vision was caused by the realisation that MFIs are not an effective channel to promote KiWi when compared with direct sales and CPG distributors (see page 3). Further factors are that KiWi is able to offer a better working capital loan product and service to its micro-merchants than MFIs, and loan fees are able to bolster the relatively small incomes generated by card payment acceptance. These three points strongly reinforced the payments and loans focus of KiWi, and reduced the importance of the cash register as well as airtime top-ups.

Despite relatively good outreach results, KiWi cannot pretend to have found *the* distribution model for Mexico at this stage. The partnerships model is promising but has still to show tangible results. Facebook and digital advertising in general have been a great surprise, but it is too early to know if this channel is expandable, or if it works for 'low-hanging fruit' only, with most micro-merchants being unused to purchasing online. Efforts to find the perfect formula will continue after this project and will be key to KiWi's survival in 2017.

It is clear that a project involving such an early stage start-up is very risky. It is important to make sure that the project is flexible enough to allow changes in terms of activities and deliverables, and to establish the understanding that there is a higher probability of failure with start-ups, owing to a lack of funding, for example. A project that would not let KiWi focus on responding to market need would put both the project and the company at risk. The key is to permit scope for a project that undergoes continuous adaptation, without accepting mission drift.

ⁱ The World Bank Group (2013-2016). World Development Indicators database. Washington, DC. <http://data.worldbank.org>. Accessed (2017)

ⁱⁱ Heritage Foundation, (2016) Index of Economic Freedom, <http://www.heritage.org/index/ranking> Accessed (2017)

ⁱⁱⁱ CIA World Factbook 201, GINI index: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2172rank.html>

^{iv} The World Bank Group (2015). Worldwide Governance Indicators database. Washington, DC. <http://databank.worldbank.org>. Accessed (2017)

^v Oxford Poverty and Human Development Initiative (2016). Global Multidimensional Poverty Index Databank. OPHI, University of Oxford. http://www.dataforall.org/dashboard/ophi/index.php/mp/country_briefings Accessed (2017)

^{vi} EIU global microscope financial inclusion ranking, http://www.centerforfinancialinclusion.org/storage/documents/EIU_Microscope_2016_WEBR2_2016.11.03.pdf

^{vii} <https://www.betterthancash.org/news/blogs-stories/digitization-helps-small-merchants-keep-jobs-and-profits-in-mexico>