SCBF SWISS CAPACITY BUILDING FACILITY
Innovating Financial Inclusion

SCBF 2017-12 **April 2020**

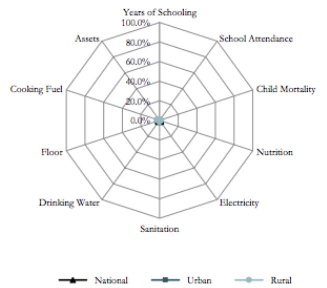
Digital Micro-loans pioneered by AKIBA in Mexico

1. DEVELOPMENT RELEVANCE

Economic and poverty context

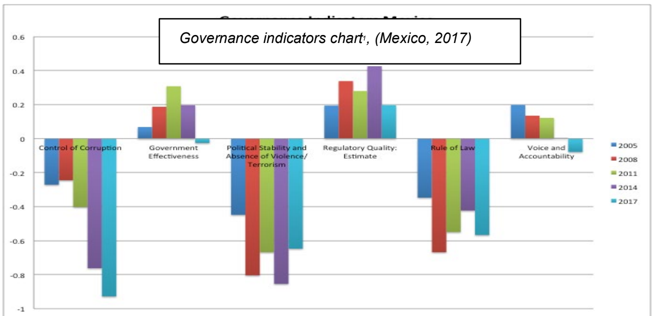
Mexico is the world's 11th largest economy by purchasing power parity, the second largest in Latin America, and has continued to see GDP growth. In 2019, growth has slowed (0,2% in Q3 2019) and there have been fears of a looming recession.[1] Inequality remains a problem, partly due to relatively low wages, slow gains in productivity, and the relative importance of the informal economy.[2] While the political situation in Mexico remains relatively stable, levels of violence and insecurity are on the rise and present a challenge to the economic programmes of President López Obrador, just as for the previous administration of President Peña Nieto.[3]

Table 1[i]: Population and economic indicators	
Population in million (*please indicate year*)	
GDP growth (*2017*)	**2.04%**
Inflation (*2017*)	**6.04%**
Trade balance (% of GDP) (*2017*)	**-1.81%**
Foreign direct investment (net) (% of GDP) (*2017*)	**2.79%**
Net ODA received (% of GNI) (*2017*)	**0.07%**
Remittances received (% of GDP) (*2017*)	**2.8%**
Economic Freedom Index[ii] (Rank among 186 countries) (*2019*)	**66**
Poverty indicators	
GDP per capita (USD) (*2018*)	**9698**
Gini Index (0= equality 100= inequality) (*2016*)	**43.4**
International poverty rate (*2016*; at 1.90 USD/day)	**2.5%**
National poverty rate (*2016*)	**43.6%**
National rural poverty headcount rate (*2014*)	**62.4%**



Multidimensional poverty index chart[iii], (Mexico, 2019)

Governance indicators chart[i], (Mexico, 2017)



Financial sector context

Mexico´s financial sector is characterized by multiple factors including a banking sector that has historically excluded lower-income households, high transaction and interest costs in the microfinance and informal sectors, and a growing and increasingly technologically-savvy population. Mexico's financial technology (fintech) market is arguably the largest in Latin America. Depending on the source, between 158 (according to Finnovista, a fintech start-up accelerator)[1] and 238 (according to Statista)[2] fintechs are operating in the country. Finnovista foresees these companies gaining 30% of Mexico's banking market during the next ten years. The plethora of start-ups in this space has prompted the government to regulate the sector, primarily out of concern about money laundering, data privacy and the protection of savings from the public. In March 2018, Mexico's Congress approved a Fintech Law that sets out a general regulatory framework, based on consumer protection principles to promote financial inclusion, innovation, and competition. The regulation also opens the door to Open Banking, allowing banks to provide access to customer data, with customer approval, by third parties to execute transactions on customers' behalf.

[1] https://www.finnovista.com/actualizacion-finnovista-fintech-radar-mexico-agosto-2018/
[2] https://www.statista.com/outlook/295/116/fintech/mexico

Partner financial institution/s

AKIBA was incorporated as a SAPI (Sociedad Anónima Promotora de Inversión) in Mexico in 2016, and 99.9% owned by E-Savings.club SA in Switzerland, which was itself founded in 2015. Its primary product offering is the AKIBA application. AKIBA leverages on E-Savings.club´s team experience and expertise, building digital savings solutions in other developing countries (Benin, Haiti). While AKIBA is characterized by Finnovista as a financial education tool, it can also be categorized under personal finance, or savings in broad terms. This ambiguous categorization reflects the innovative nature of AKIBA's model, which does not necessarily "fit" easily into pre-established categories. Though technically a financial technology company, AKIBA does not fall under the government's Fintech Law, as it focuses on offering the technology, not on touching or holding the funds of employees.

AKIBA's core end-users are low-and middle-income, formally-employed workers. Low-income workers, in particular, are highly marginalized in terms of access to quality education, jobs and economic opportunities. According to the OECD, Mexico is one of 25% of countries with the highest rate of income inequality in the world. Oxfam similarly claims that 1% of Mexicans concentrated 21% of the country's wealth. Mexico's minimum wage was recently increased to MXN 88.36 per day or USD 4.42 per day, translating to slightly over USD 100 per month. While the workers (AKIBA spoke to during their interviews) were receiving more than this wage, some earned close to USD 200 per month, a relatively low income considering the cost of living in the country. According to the Multidisciplinary Analysis Center (CAM) in UNAM's Economics Department: "…to cover basic food basket for a family of two, Mexican's would require a monthly salary of approximately USD 300." This figure does not include education, housing or other living expenses.

Branch network

AKIBA being a digital provider does not have branches. Clients can access the service remotely from anywhere and at any time provided they have access to the internet on their device or at an internet café.

The AKIBA local collaborators in AKIBA Office.

2. INTERVENTION APPROACH

Capacity building needs

Thanks to SCBF support, AKIBA built a digital product to offer a savings program to low-income employees. The need identified was to digitize the loan origination process for partner institutions that lend to employees as well as AKIBA's own digital MicroCreditLine product (MCL). The MCL product specifically targets the funding need of low-income employees who often have to borrow at very high cost and unreasonable conditions when facing short-term financial emergencies. The MCL will therefore reduce the vulnerability of these employees and their families. The AKIBA app will be the distribution channel of both digital loans and the digital MCL. The origination of loans will include the collection of key data on employees which can be used to fasten and strengthen the origination process by using data analytics tools.

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

1) AKIBA Platform is modified to support both digital loans and AKIBA's MCL product

In the context and per the agreed implementation plan, AKIBA established a high-level agreement with Pretmex, a microfinance institution focused on lending to low- and middle-income salaried workers. In June 2018, AKIBA then designed and mapped operating processes for the distribution of digital loans. It also designed the new MCL product including contracts and characteristics, and finally created a special AKIBA app version to support the distribution of digital loans through this institution. AKIBA also built a separate app in both Android and iOS for the MCL product. Lastly, we adapted the AKIBA Savings Platform so that the employees of Grupo Bimbo, one of the largest private sector employers in Mexico, with a vast majority of its employees being low-income factory workers or delivery personnel, could request loans digitally.

2) AKIBA Platform for loans released to production

Solutions developed for digital loans and micro-credit line were piloted with another provider of loans to low-income employees in August 2018. Materials for digital financial education campaign were built, particularly videos explaining how and when to use loans as well as infographics on the same topic. AKIBA had to stabilize both versions of the app and make the necessary adjustments so that the AKIBA digital platform for loans would be ready for scaling up.

3) 3'000 digital loans have been originated through AKIBA

In July 2019, a contract was signed with Grupo Bimbo to offer the AKIBA Employee Savings Fund to its employees who are, for the vast majority, low-income employees in factories and delivery. In addition to the savings fund, employees were allowed to request loans digitally using our AKIBA digital platform. A pilot was run with one of the smaller companies of the group in July 2019. Given the success, AKIBA was then rolled-out to all employees in Mexico, at the end of January 2020.

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

***Maria Angeles** is 36 years old and has been working as a gas station attendant on the Mexican side of the border for foure years. Prior to that, she did not have a formal job and she had never received a loan from her employer and typically used ROSCAs to save and borrow. She is mostly a saver type of person and the last loan she had was 8 years ago for 10'000 pesos. She learnt about the App in a training she received about this new benefit and how to use it and she is fully aware of how much it costs her to request a loan. She used the App to request an emergency advance of 500 pesos (20CHF) one time that she forgot her wallet and needed money to get back home. Her words were: "The truth is I was positively surprised, and I liked the fact that the company was offering this to us."*

***Sonia** is 39 years old, lives in Tijuana and is a mother of six children. She has worked for her current company for 12 years. Before that, she used to be a factory worker in a maquiladora. She has a long-term loan from the government for housing and pays 900 pesos per month (36 CHF). She has been participating in "cundinas" (ROSCAs) to save and borrow. She knows the exact cost of the payroll advance and says she was trained on how to download it and use it. She applied for an advance of 400 pesos (16 CHF) in order to buy food supplies. She told the independent evaluators: "I loved it, I don´t know much about technology, so when they showed it to us, I first thought this is not for me. However, it was actually very easy, a lot easier than using an ATM. I was surprised by how fast I received the money and it got me out of trouble."*

The AKIBA model assumes that workers have formal accounts for direct deposit and management of employee payroll. In this sense, AKIBA is not bringing new clients into the formal banking sector. However, there is suggestive evidence from the interviews that AKIBA's products are increasing the usage of savings and loans products among clients, and that it is improving the quality of financial services for low and middle-income workers. Most importantly, AKIBA is tackling a critical issue in Mexico that has been a main obstacle to financial inclusion – trust. In Mexico, 37% of adults say they have no bank account because they do not trust formal financial institutions according to the World Bank's Findex survey (2017). It is the seventh highest level of distrust worldwide according to the survey, after Tunisia, Ukraine, Hungary, Chile, Azerbaijan and Peru. By leveraging the trust that employees have in their employers, and adding transparency to the relationship between employer-sponsored financial services and workers, AKIBA is able to tackle two problems that strongly influence trust. Loans are priced responsibly from the AKIBA perspective, although employers are free to charge additional interest to clients, at times, pushing interest rates near already high market-level interest rates.

Clients really appreciate the ease of requesting a loan from AKIBA. After interviewing clients who used the payroll advance function, the evaluators said: “Overall, the feedback was very positive about their company’s payroll advance loans available through AKIBA.” Low-income employees require flexible and low-cost funding when facing emergencies. The unique set-up of AKIBA’s partnership with the companies’ human resources (HR) department allows for a better prevention of over-indebtedness. The HR department functions as a filter in the origination process to make sure the employee fulfils certain requirements related to responsible lending.

Partner financial institution level

AKIBA’s origins lay in a belief that low-income users could benefit from the digitization of informal collective savings schemes. This initial concept has evolved since the company was founded three years ago, beginning with a B2C “tanda” product to facilitate group ROSCAs (Rotating Savings and Credit Associations) that are typically done informally and with little security. Thereafter shifting to another B2C individual savings product as a mobile wallet, and finally, by offering a B2B platform to employers that wish to offer attractive and transparent savings schemes to their employees. Building on this last scheme and the understanding of the needs of low-income salaried workers, AKIBA set up to offer digital loans and micro-credit lines guaranteed by payroll on top of the savings facilitation. Initially, AKIBA partnered with a microfinance institution that lends to low and middle-income salaried workers. However, this strategy did not work. The team built the application in iOS and Android to their exact specifications, agreed on a business model and revenue share, spent a significant amount of time to follow-up in order to launch. AKIBA faced strong unspoken resistance on behalf of the product owner. Given this AKIBA decided to look for alternative solutions.

It is important to mention that AKIBA is providing the product and technology but that the capital is provided either by the company or by the employees. Since AKIBA is fully digital, it does not have brick and mortar branches for face to face interaction with its customers, neither does it use loan officers to sell loans, so there is no measure of loan productivity per staff.

Key Performance Indicators - SCBF 2017-12

Number of active borrowers	31’293
• **Thereof women**	8’136 (26%)
Number of digital loans provided	45’155
• **Total value**	896’134’711 Mexican Pesos (approx. CHF 37 million)
• **Median loan**	12’004 Mexican Pesos (CHF 490)
• **Average loan**	19’846 Mexican Pesos (CHF 812)
PAR30	0 (loans are guaranteed against payroll and if an employee leaves or is let go he is entitled by law to three months´ salary which are used to repay any outstanding loans
Number of clients / staff trained on SCBF supported product	31’293 clients and 9 staff

Financial sector level

With the current covid-19 crisis in Mexico, more and more companies are looking for ways to provide additional liquidity for their employees in times of crisis. Given that many of them are confined at home, digital origination is a strong value proposition. In parallel, the crisis has pushed banks and the financial sector as whole to significantly reduce loan origination, given increased risks of default and liquidity concerns. To combine the systemic credit crunch and the need for loans from employees, the silver lining for AKIBA in the gloomy situation the world is in, it is that small loans that can be requested digitally over an app are extremely relevant and in high demand.

The intervention actually had significant effects beyond the partner financial institution. With the entrance of AKIBA into the market, several companies are looking to improve the end-user experience for loans so that a higher number of lower and middle-income employees start requesting loans digitally. AKIBA is currently in negotiations with several partners in this regard.

4. LESSONS LEARNT

- If you have identified the right need, even if the partner is not the right one, you can make it work.
- Instead of offering the platform to financial institutions, the option that delivered a better outcome is to offer it directly to employers as part of the financial health benefits for their low-income employees. Large employers who employ mostly low-income unskilled workers are the best candidates since it is where the AKIBA platform can have the most impact. There is a direct correlation between financial stress and low productivity, particularly for low-income employees who struggle to make ends meet with a salary of less than CHF 10 a day.
- This experience has allowed AKIBA to test the capacity to process digitally over 2’000 loans in a single day without major technical issues. It places them in a position to offer these services to a wide array of employers.
- An additional learning is the importance of trust and transparency for both the employer and the employee. As the evaluators put it: “AKIBA offers a value proposition for not only end-users (employees) but also their employers.” AKIBA offers employers a convenient platform that tracks and facilitates the management of these financial products, particularly digital loans. It offers employees a digital platform (web and app) that allows them to request a loan and track loan payments, significantly increasing the transparency of the services relative to how employers typically manage these. Without AKIBA’s platform, employees must approach their human resource departments directly for any inquiries, and often wait days to have these answered.
- AKIBA serves each of its employers with a slightly different combination of products and features, based on its broader platform. The analysis suggests that larger employers will be key to scalability. This project has shown that the entrance of a large player allowed not only to exceed the targets but also to build a strong track record of robustness, both in technology and service which will be helpful to scale even further.
- SCBF´s support is key for inclusive fintech startups like AKIBA to test different approaches and partners on the ground, until they finally reach the right segment with the right product and the right partners. But it should be noted that building a successful inclusive fintech at scale in emerging countries takes time and significant resources.

[i] The World Bank Group (*2019*). World Development Indicators database. Washington, DC. http://data.worldbank.org. Accessed (*01-09-2019*)
[ii] Heritage Foundation, (*2019*) Index of Economic Freedom, http://www.heritage.org/index/ranking Accessed (*01-09-2019*)
[iii] Oxford Poverty and Human Development Initiative (*2019*). Global Multidimensional Poverty Index Databank. OPHI, University of Oxford. http://www.dataforall.org/dashboard/ophi/index.php/mpi/country_briefings Accessed (*01-09-2019*)