Hapa Cash Overdraft: Embedded Liquidity Solutions to Empower Emerging Economies in Tanzania

1. DEVELOPMENT RELEVANCE
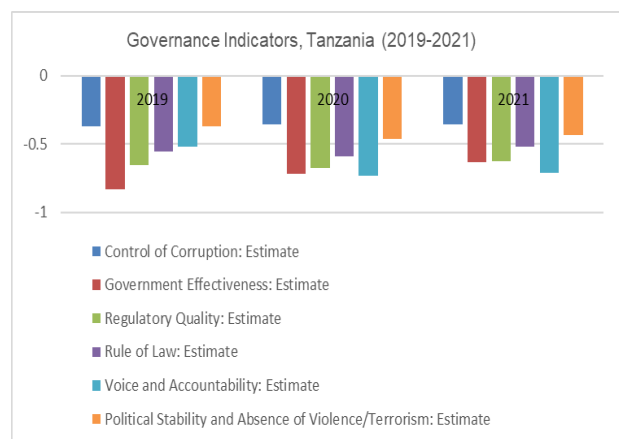
Economic and poverty context

Over the past decade, Tanzania has achieved relatively strong economic growth and declining poverty rates. The country remains a lower middle-income country despite the global pandemic-induced contraction of GDP per capita in 2020. Much of the country's development success over the decade was predicated on its strategic maritime location, rich and diverse natural resources, and socio-political stability, as well as its rapidly growing tourism sector. With an area of 947,000 square kilometres, Tanzania has a population of about 61.5 million, of which about a third live in urban areas. Tanzania's 2021 GDP was US $67.8 billion, while its per capita income in 2021 was about US $1,136[3].

Table 1[1]: Population and economic indicators	
Population in million (*please indicate year*)	**61.5M**
GDP growth (*2021*)	**4.3%**
Inflation (*2021*)	**3.3%**
Trade balance (% of GDP) (*2021*)	**-2.7%**
Foreign direct investment (net) (% of GDP) (*2021*)	**1.1%**
Net ODA received (% of GNI) (*2021*)	**3.6%**
Remittances received (% of GDP) (*2021*)	**0.5%**
Economic Freedom Index[2] (Rank among 186 countries) (*2022*)	**59.5**
Poverty indicators	
GDP per capita (USD) (*2021*)	**1,135.5**
Gini Index (0= equality 100= inequality) (*2018*)	**40.5**
International poverty rate (*2018*); at 1.90 USD/day)	**44.9%**
National poverty rate (*2017*)	**26.4%**
National rural poverty headcount rate (*year*)	**N/A**

Economic activity in Tanzania is recovering, with the 2022 real GDP growth rate projected to reach 4-5% (2021 at 4.3%, up from 2% in 2020). Inflation in 2020 was at 3.3% and has increased due to higher energy and food prices to 4.5% as of July 2022. Between 2007 and 2018, the national poverty rate fell from 34.4 to 26.4 percent, while the extreme poverty rate dropped from 12 to 8 percent. Women and girls' empowerment is a key lever to unlock economic opportunity and growth in Tanzania. The Tanzania Development Vision 2025, which aims to enable the country to achieve middle-income status within the next three years, emphasises gender equity in its social, economic, and political dimensions.

Financial sector context

In 2021, the Tanzanian financial sector saw a steady improvement in performance as the economy continued to recover from the Covid-19 pandemic. The banking sector recorded its strongest performance in the last decade with operating income increasing by 58.8% to US $471 million[4]. Tanzania's banking sector continues to be dominated by two large banks (CRDB Bank Plc & NMB Bank Plc) that have steadily grown their market share in terms of their loan portfolio and customer deposits and widening their position in terms of total assets.

Governance Indicators, Tanzania (2019-2021)

- Control of Corruption: Estimate
- Government Effectiveness: Estimate
- Regulatory Quality: Estimate
- Rule of Law: Estimate
- Voice and Accountability: Estimate
- Political Stability and Absence of Violence/Terrorism: Estimate

Other than Non-Performing-Loan (NPL) ratio and the cost-to-income-ratio (CIR), all other banking sector performance indicators were within the regulatory requirements. To support economic activities, the Bank of Tanzania (BOT) issued various policy measures aimed at promoting banking activities and lowering interest

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rates. In January 2021, the BOT directed banks to achieve a CIR threshold of 55% by December 2022. The BOT prohibited banks with either a CIR ratio of above 55% or an NPL ratio of above 5% from paying dividends and bonuses.

Despite significant improvements in inclusion in the financial sector and women's equal representation in the population and workforce, there remains a persistent gender gap in financial inclusion in Tanzania overall. In fact, evidence shows that the gender gap in digital services is widening, as only 6 out of 10 women own a mobile phone due to their cost. Only 61% of Tanzanian women are financially included while 54% account for all micro and small enterprises[5].

Financial sector partners

FINCA Microfinance bank has 23 national branches, employing more than 400 people across 6 regions of Mainland Tanzania. FINCA also has a network of 166 "express agents". These agents are contributing to financial inclusion by improving access to financial services for consumers that are unable to access physical bank branches. The agent network is spread across the following 6 regions Eastern Region (32 agents), Northern Region - 28 agents, Southern Region - 32 agents, Western Region - 21 agents, Lake Region - 25 agents and Central Region - 28 agents

FINCA currently services over 400'000 clients across the country with savings and loan products; over 61% of these clients are rural clients. FINCA's current market share for formal banking is approximately 15%, and approximately 25% when factoring mobile money accounts.

Vodacom Tanzania is Tanzania's leading communications company providing a wide range of services for consumers and enterprises, including voice, data, messaging, financial services and Enterprise solutions. Vodacom M-Pesa is a revolutionary financial service offering customers money transfers that are immediate, safe, and reliable.

M-Pesa agent network map – all agent count by region:

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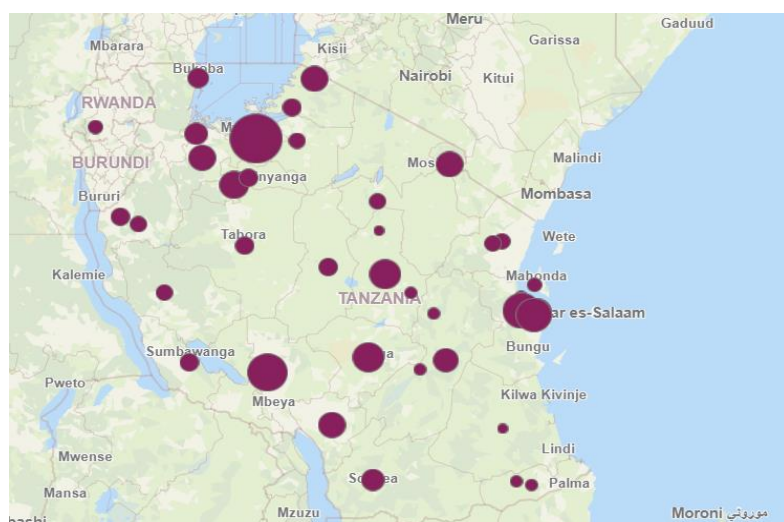
[5] https://assets.ey.com/content/dam/ey-sites/ey-com/en_za/people/B/ey-tanzania-banking-sector-report
https://www.fsdt.or.tz/who-we-serve/women/ and Finscope Tanzania.

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2. INTERVENTION APPROACH

Capacity building needs

Kuunda is a B2B2C[6] embedded digital financial services business building embedded financing solutions to solve liquidity problems for agents, MSMEs and consumers. Through our liquidity Application Programming Interface (API) and proprietary credit scoring algorithms, Kuunda generates behavioural and transactional borrowing profiles to enable real-time, transaction-based lending solutions.

The countries Kuunda operates in are characterised by networks of agents, informal retailers and consumers that are often cash-based and undocumented. Their access to appropriate financial services and traditional financial systems has been constrained as a result. Not only has the lack of access to these services been an economic inhibitor, but it has also been a factor that has negatively impacted the growth of individual productivity within these economies.

Kuunda has built tailored lending products on the back of their proprietary algorithms that are tools that allow people to grow their businesses and enable individuals to feel empowered and become more resilient. These are growth and development tools for the economic populations.

Kuunda's algorithms have been successfully adapted to suit several different use cases. The Hapa Cash product, which is a 1 day facility that funds specific transactions, can be used to finance e-float facilities, airtime advances, short-term financing and fuel purchases. In addition, Kuunda has launched Kazi Cash, a medium-term (7, 14 & 30 day) set of lending products that are focused on business growth that support agents and micro-merchants. This first-of-its-kind instant liquidity solution is geared to helping businesses grow by financing stock purchases, working capital facilities, and fixed term loans to help build sustainable businesses.

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

The project objectives were to provide Kuunda, M-Pesa and FINCA additional support to help scale the reach of the Hapa Cash overdraft faster and more effectively. The main goals of the project were to:
1. Significantly increase agent product training and awareness of the product.
2. Modify the overdraft platform and integrate it into the M-Pesa systems to improve system stability by increasing server capacity, improving the integration and improving the customer engagement engine.
3. Provide ongoing product enhancements to maximise liquidity to active agents.

The project was to be delivered using a three-phase approach with target milestones to be reached as follows:

Phase 1:
- **Milestone 1:** Agents registered with overdraft limits - 50,000 agents with an overdraft limit comprising 17,500 female agents.
- **Milestone 2:** Maintain PAR below target levels - PAR 1 < 2.5%, PAR 10 < 1.5%, PAR 30 < 0.75%, PAR 60+ < 0.5%.
- **Milestone 3:** Monthly active agents using the overdraft facility - >15,000 monthly active agents comprising 6,750 female agents.

Phase 2:
- **Milestone 4:** Agents registered with overdraft limits - 75,000 agents with an overdraft limit comprising 27,500 female agents.
- **Milestone 5:** Monthly active agents using the overdraft facility - >20,000 monthly active agents comprising 9,000 female agents.
- **Milestone 6:** Monthly overdraft disbursement value - USD$300,000 disbursed to agents daily.
- **Milestone 7:** Social impact by growing agent revenues - average increase in agent commission of 20%.

Phase 3:
- **Milestone 8:** Monthly active agents using overdraft - >25,000 monthly active agents comprising 11,500 female agents.
- **Milestone 9:** Social impact by growing agent revenues - average increase in agent commission of 30%.

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[6] Business to Business to Consumer

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As part of the project implementation, Kuunda planned and executed monthly initiatives targeted towards meeting the set milestones. These included as below:

1. **Segmentation -** Using two segmentation algorithms (Pythia and K-Means Clustering) the agent base was segmented using their behavioural data. This enabled Kuunda to plan and execute specifically targeted campaigns to scale the product and increase adoption. The segmentation exercise also allowed Kuunda to track and monitor agent activity and then identify segments where intervention was required to ensure reduced agent churn in the user base.

2. **On-Ground Field Activations –** Deployed of over 370 Trade Development Representatives (TDRs) across multiple territories to educate agents on lending products to increase product uptake and use. The TDR bonus scheme, contributed to a growth in agents' overdraft usage of approximately 3% and in term loans month-on-month of 4%.

3. **Agent Activation Campaigns –** Conducted targeted campaigns using SMS and Outbound Calling to increase product uptake and usage behaviours. Gamification metrics were implemented on the agent overdraft and term loan products to communicate the benefits of maintaining good behaviour to continuously grow limits.

4. **Agent Forums -** In August 2022, M-Pesa conducted Agent Forums in 5 regions in Tanzania: Dar Es Salaam, Arusha, Mwanza, Morogoro and Mbeya. Agents were educated on the overdraft and term loan facilities and were given the opportunity to share both positive and negative feedback that Kuunda used to improve its processes and products.

5. **Lending Campaigns -** In February 2022, M-Pesa ran a 360 campaign (both ATL and BTL) targeted at lending products to increase awareness, product adoption and usage. This was a 4-month long campaign.

6. **Zero Rating Campaign -** In February 2022, M-Pesa dropped the interest rate on the Hapa Cash agent overdraft product; thus rendering the product free for agents to access e-money to complete deposit transactions. As a result the daily disbursements tripled for the first time since inception.

The above initiatives enabled Kuunda to experience steady growth since March 2022 after a difficult year (December 2021 and January 2022) which was marred with technical issues. The value of disbursements on the Agent Overdraft Facility increased by an average of 15% month-on-month and the Term Loan product increased by 10%. This is mainly due to the Zero-Rating Campaign which has been running since the end of February which has contributed to the daily disbursements tripling from approximately US $300 thousand to US $1 million[7]. Monthly Active Users have also increased by an average of 5% over this period. In addition to this, the digital lending campaign that ran from the end of February to June also contributed to this growth through both Above the line (ATL) and Below the line (BTL) activities. M-Pesa intends to maintain zero rating on the Agent Overdraft product permanently.

The majority of the recurring technical issues on both our partner platforms have been resolved. Subsequently Kuunda introduced a service request management system (JIRA) as part of our escalation process to manage the resolution of issues and respond to the customer support more efficiently. This has allowed Kuunda to continuously review the process and ensure adherence to our Service Level Agreements to maintain agent satisfaction with the products.

3. RESULTS ACHIEVED AND NOT ACHIEVED

The original contract project period was for 12 months, however some of the milestone and KPIs targets were not achieved within these timelines. As such, reporting period was extended which allowed Kuunda to make changes to our approach and work more closely with our partners to grow the Hapa Cash Agent Overdraft. The growth rates from May 2021 – June 2021 were affected due to system issues. These technical issues were resolved and most of the lost agents were reactivated. The introduction of the Zero-Rating Campaign in February 2022 has been very positive, increasing the number of active agents between February and October by 51%.

In April 2021, a second product - Agent Term Loan - was launched to complement the Agent Overdraft. The term loan was designed with tenures of 7, 15 and 30 days and interest rates of 6%, 8% and 10% respectively.

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[7] TZS. 700 million to TZS. 2.5 billion conversion rate of 1 Tanzanian shilling to US $0.00043

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With the introduction of the Agent Term Loan, the Milestones were adjusted to include Unique Users, meaning that an agent used both the Overdraft and Term Loan. With this change all the proposed milestones were achieved by October 2022. The table below highlights the growth of Eligible Agents, Registered Agents and Active Agents from April 2021 to October 2022.

Agent Overdraft					
Month	Eligible Agents	Registered Agents	%	Active Agents	%
Apr-21	102,594	46,567	45%	20,959	20%
May-21	106,336	48,441	46%	18,535	17%
Jun-21	107,712	49,759	46%	19,524	18%
Jul-21	106,349	52,103	49%	21,306	20%
Aug-21	106,797	53,699	50%	21,179	20%
Sep-21	94,676	55,335	58%	20,707	22%
Oct-21	95,791	56,707	59%	22,023	23%
Nov-21	98,123	58,154	59%	24,385	25%
Dec-21	98,784	59,471	60%	25,657	26%
Jan-22	98,784	60,702	61%	24,573	25%
Feb-22	93,409	62,280	67%	24,624	26%
Mar-22	92,383	63,765	69%	25,988	28%
Apr-22	90,306	64,958	72%	27,240	30%
May-22	94,856	66,942	71%	28,574	30%
Jun-22	95,165	68,849	72%	30,356	32%
Jul-22	89,413	69,650	78%	30,749	34%
Aug-22	92,040	71,324	77%	32,402	35%
Sep-22	93,432	72,739	78%	35,246	38%
Oct-22	93,085	74,494	80%	37,102	40%

Agent Term Loan					
Month	Eligible Agents	Registered Agents	%	Active Agents	%
Apr-21	33,876	8,897	26%	2,912	9%
May-21	43,483	19,798	46%	9,084	21%
Jun-21	48,922	29,039	59%	10,763	22%
Jul-21	66,462	31,083	47%	12,693	19%
Aug-21	70,239	33,527	48%	12,693	18%
Sep-21	79,246	38,035	48%	14,706	19%
Oct-21	78,499	39,893	51%	14,093	18%
Nov-21	80,244	41,064	51%	14,552	18%
Dec-21	79,306	41,608	52%	15,054	19%
Jan-22	79,306	42,152	53%	15,256	19%
Feb-22	77,591	42,696	55%	16,211	21%
Mar-22	76,133	43,240	57%	22,064	29%
Apr-22	74,214	43,784	59%	21,868	29%
May-22	78,183	44,328	57%	20,225	26%
Jun-22	77,932	44,872	58%	20,234	26%
Jul-22	74,287	45,416	61%	20,369	27%
Aug-22	99,633	45,960	46%	23,374	23%
Sep-22	105,432	46,505	44%	26,405	25%
Oct-22	109,352	57,908	53%	29,584	27%

The intentional focus on Female Agents in the expansion project was difficult at the start as Kuunda relied on data from partners. By December 2021, the total unique registered agent figure stood at 114,218 of which 33,589 (29.41%) were female. Total active agents were 91,000 of which 24,498 (26.92%) were female. By the end of the initiative, the total registered unique agents were 140,576 of which 39,853 (28.35%) were female and total active agents were 105,468 of which 29,006 (27.50%) were female. Of the unique registered agents in December 2021, 55,752 (48.81%) were from rural areas and 58,466 (51.19%) were from urban areas. Active agents were 47.81% from rural areas and 52.19% from urban areas. By October 2021, the unique registered and active agents from rural and urban areas stand as follows:

Registered Agents	Total	Rural	%	Urban	%
Unique Agents	140,576	68,597	48.80%	71,979	51.20%
Unique Female Agents	39,853	21,080	52.89%	18,773	47.11%

Active Agents	Total	Rural	%	Urban	%
Unique Agents	105,468	50,739	48.11%	54,729	51.89%
Unique Female Agents	29,006	15,072	51.96%	13,934	48.04%

For tracking the impact on the agent commissions using the Overdraft and Term Loan, we only looked at the commissions of highly active agents (agents that have used the products more than 10x) to get an active base. We then used a 6-month period to do the comparison by comparing commissions earned in month 1 to the commission earned in month 6. As of October 2022 the agents commission growth > 20% average around 30% and agents commission growth > 30% average around 16%. Female agents commission growth > 20% was 44% and female agents commission growth > 30% was 30% compared to the total active base commission growth.

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Client level - Agent testimonials

My name is Samora.

I am an airtime & mobile money agent. I am 31 years old and live in Morogoro, Tanzania.

I've been working as a full-time mobile money and airtime agent for the last 7 years. My store is situated close to the dala dala (bus) stop. Located on my customers' work commute, it is very important that I provide them with mobile money and airtime services when it's most convenient for them.

What's in my way:
- I didn't have access to loans that would fund my working capital
- I was unable to invest in making my business more productive
- I couldn't afford to buy enough stock for my store

What I need:
- Access to financial products that suit my needs
- The ability to buy products to stock my shelves
- Access to a working capital loan to fund my inventory

I wait for my first customer at 6:30 AM each morning. Before getting to my store I make sure I have enough working capital to stock my shelves for the day. However, sometimes I don't have enough money to buy goods and services which mean that I can't serve my customers.

With Kuunda's help…
Having access to a working capital loan has meant that I've been able to buy stock for my store and grow my business.

"My hopes to carry on serving customers for another 7 years and beyond, now feel like they will become a reality."

My name is Fatuma. I am a mobile money agent with m-Pesa in Morogoro Tanzania.
I have been working as a mobile money agent for the past 4 years. I run my small business out of a kiosk on a busy street, serving the community that I grew up in.

What's in my way:
- I struggle to manage my float everyday
- I have to close my shop early on most days to go and cash out

What I need:
- A way to understand my float requirements daily
- A way to keep trading throughout the day

I often find myself having to close my kiosk earlier than I wanted to because I have run out of float too soon in the day. I then have to travel to a Super Agent and by the time I return to my place of work, most of my customers have completed their transaction elsewhere.

With Kuunda's help…
Having access to instant liquidity has allowed me to serve my customers throughout the day and I never have to close up early.

"I never want to turn any customers away, and now I don't have to".

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I am Konsurata, and I am a mobile money agent for m-Pesa. I live in Dar Es Salaam.

I have a small business that I run out of my store, selling airtime, mobile money services and other consumer goods.

What's in my way:	**What I need:**
● I don't have access to lots of working capital to fund my store ● I lack the funds to buy enough stock for the month	● To stock my shelves with more products to sell ● To sell more products so that I can grow my business

Small business owners that work in the same area as me are able to buy more stock than I usually can, and this makes their stores more attractive to customers. It is difficult for me when I can't serve customers that want to buy from me.

With Kuunda's help:
I have been able to buy more stock for my store and I am no longer one of the first shops in my area to run out of stock during the day.

"I now have one of the most reliable stores in my area and I have high hopes that my success will help me grow my business even more in the future".

Financial sector partners' level

Since the launch of Hapa Cash Agent Overdraft until November 2022, 22,588,377 loans have been disbursed, with a total disbursement value of US $269 million (TSH 628 billion).

Since launch in April 2021 until November 2022, 498,885 Agent Term Loan have been disbursed, with a total disbursement value of TSH 98 billion US $42 million (TSH 98 billion).

Kuunda have raised US$2.25m as a seed round in 2022, with the round being led by Accion Venture Labs. We also secured US$1m from the Bill & Melinda Gates Foundation to scale up working capital lending in Uganda and Pakistan with a specific focus on females micro-SMEs.

After the success in Tanzania with the scale the agent liquidity solution, we have also launched in Pakistan with multiple partners offering the Overdraft and Term Loan products together with two new products. In the next three months, Kuunda will be launching in Malawi, Uganda and Mozambique and then expand in Kenya, DRC and Ivory Coast. We are also looking to launch in Nigeria and Egypt in late 2023.

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4. LESSONS LEARNT

The activities undertaken during the SCBF project have been extremely impactful in enabling more Tanzanian agents to grow their business, particularly amongst the female population.

There were two main reasons why Kuunda struggled to obtain active female agents in the design and proposal phase. The first relates to reliability of the data captured and extracted and the second to having the right business owner on the business licence and bank account.

The following actions were needed to assist in resolving the first point.:
1. Confidentiality agreements which required updating before the confirmation of the SCBF grant.
2. The reliability of the data collected by M-Pesa pertaining to the registered agents.
3. The extraction of the data by M-Pesa.
4. The nature of the business in question.

The second point relates to the following circumstance that is more common than initially anticipated. The registered owner of the business is not usually the same person as the practical owner. It is common practice for the business to be registered in the husband's name as they have the bank account and business licence, even though the wife is often in charge. Therefore, the number of agents was largely underestimated at first.
In addition, the effective operator (the person managing the business) typically is not the owner, but in most cases is female. The gender of the operator is not required to be registered anywhere, so the only feasible way to collect this data is through a census. This data is not usually reliable as the operators tend to change very frequently.

The intricacies associated with the differences between the "registered owner", "actual owner" and "operator" were never discussed during the initial phase but were discussed during the implementation. These points should have been raised at this point, but Kuunda wished to keep the proposal simple and reliable based on hard data that we could obtain. However, Kuunda didn't foresee the challenges associated with obtaining the data from M-Pesa.
Aside from the above, the intervention was implemented precisely as planned. There were changes implemented throughout that are deemed normal for a partnership as M-Pesa and its operations also drastically evolved during these activities. An example of this would be the launch of the "Wezesha" term loan product to M-Pesa's agents.

This product launch was important to all parties involved as the users required the products for similar reasons. The overdraft facility is useful to agents that mostly complete cash-in transactions, and the term loan is mostly used by agents who predominantly process cash-out transactions. The different transaction types are most common in towns and rural areas respectively. SCBF's acceptance of the adaptation to the intervention enabled Kuunda to push the growth in rural areas, where cash (cash-outs) was needed the most for local remittances, drastically.

During the implementation of the capacity building intervention, the main challenges encountered were the following:

- **Obtaining reliable data:** Getting accurate and reliable data from our partner M-Pesa was a challenge.
- **Data privacy agreements:** These agreements required consistent updates as the new data types were implemented.
- **Extracting the data:** Queries had to be changed frequently meaning M-Pesa's extraction was not always straightforward.
- **Pushing on-the-ground activities:** Since Kuunda doesn't have Personal Identifiable Data on the agents, Kuunda don't know where they live and work, so BTL (field) activities are difficult to conduct. Kuunda relied primarily on M-Pesa to perform activities. Kuunda was then left to focus on the more targeted initiatives such as the outbound calls and SMS campaigns.

All parties have put in a substantial amount of effort to achieve the overarching goal of creating more active female agents. This was not a straightforward task when accounting for the issues highlighted above, and factoring in that the data was already under-representing the volume of female agents.

Based on the lessons learnt, in future during the design phase of the project, we will assess the impact on gender through specific gender-based surveys and focus groups. Kuunda intends to engage a gender specialist whose responsibility it will be to provide expertise on how to target and design campaigns that will increase the level of adoption of female agents and how to maintain their frequent active usage of the products.