



► Social Finance Brief

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KMBI's digitalization journey

Lessons for microfinance institutions for their digital finance strategies

Key points

- Microfinance institutions (MFIs) need to carefully select their digital payment partners based on factors such as transaction fees, proximity to clients and top-up facilities
- Digital finance agents often struggle to maintain liquidity in their mobile wallets
- KMBI's experience highlights the benefits of creating a digital finance strategy that facilitates transactions for the MFI and members

Background

The ILO's Social Finance Programme and Kabalikat para sa Maunlad na Buhay, Inc (KMBI) in the Philippines formed a partnership in 2019 to launch integrated risk management solutions and digital financial services. KMBI is a microfinance NGO offering group and individual loans, insurance, capital build-up (savings) and business development services to over 150,000 clients.

As part of the project, KMBI launched a digital finance pilot to train and equip its members to act as merchant-agents for digital transactions. KMBI facilitated the enrolment of its members as merchant agents with fintech vendors. Members used the vendor's software platforms to offer premium contributions to the government social protection schemes.

KMBI's clients across ten pilot locations were offered the opportunity to become merchant-agents with the selected fintech partners. As merchant-agents, members offered services for bill payments, e-loads (phone top-ups),

enrolment to government social security schemes, cash-in/out, transfers and remittances services. These transactions provided a growing revenue stream to the agents, thereby increasing their enterprise income.

The digital finance pilot enabled KMBI to offer a complementary business opportunity for its programme members and at the same time educate them about digital finance. KMBI enrolled 45 clients as digital finance agents. Of these, 71 per cent (32 agents) remained active. Each agent was also able to service an average of 50 persons within their communities.

► **Table of payment partners**

Channel	Services	Reasons for selection	Key lessons
Digipay (through Digipay Agents)	Bills payment service Agent activation	Best value for clients for rebates and convenience fees.	While Digipay had the most profitable scheme for client-agents, agent liquidity remained an issue for the most part. Selecting the right KMBI clients was key, as well as client training.
Paymaya (through Paymaya App and Paymaya Negosyo Agents)	Bills payment service	Strong brand for remittances and tied up with the number one telco in the Philippines (Smart).	High transaction fees became prohibitive for the payment solution since clients were price sensitive. Clients also preferred to pay through other e-money apps that they already use instead of downloading the Paymaya app.
UBx (through the BUx payment solution service)	Payment link service	Widest network of pawnshops, payment centres. The online application is easy to use.	Training both clients and staff was key to the success. Low pricing and proximity to clients were crucial to the use and adoption of the service.

Lessons learned

Improving digital literacy: Many clients had low levels of digital literacy and had to rely on younger family members to complete the digital transactions at first. About 66 per cent of them created an email address because of this pilot.

Reaching clients and training staff during COVID-19: Trainings were traditionally done as face-to-face group sessions in KMBI branches. However, due to mobility issues during the pandemic, training shifted online. KMBI staff were trained via teleconferencing software and each agent was trained through a messaging application or a phone call. Contacting clients through social networks and messengers has been the preferred method of clients to

schedule training, seek helpdesk support, provide feedback and apply for subsequent loans.

Agents found it difficult to top-up their mobile wallets and maintain financial liquidity: Members faced liquidity challenges to top up their mobile wallets to maintain a balance big enough to “fund” larger transactions. This liquidity challenge is a common problem for digital finance agents. Part of the reason for the liquidity crunch is that reaching banks to deposit funds was a challenge, especially during the COVID-19 induced lockdowns. The most successful members were able to use online banking services (for example, one member used her daughter's bank account) or ATM deposits to top-up their payment account, but these services were not available to all agents.

► **Analyn Obiso (Mindanao)**

Ms. Analyn Obiso is one of KMBI's top earning agents for the digital financial services pilot. She runs a small retailer in Davao City. The Digipay platform provided a complementary business to her store as she became a one-stop shop for daily needs and bills payment services. She also served clients beyond shop hours during emergencies.

One of the reasons she was able to top-up her wallet regularly was that her husband made cash deposits in their bank's ATM when he was in town to buy additional inventory. Regular top-ups became key on providing consistent services to her clients as well as marketing her payment services.



This digital finance initiative is part of a broader five-year digital strategy plan of KMBI. KMBI plans to leverage this community-based network for digitalizing its loan repayment and disbursement processes.

A notable spin-off triggered by this project is the creation of the Fintech Collection Application, a reporting module that consolidates payments coming through Paymaya and Digipay, which are both bills payment channels for KMBI. KMBI clients that pay through the two fintech partners have their payment information consolidated within the application, which is then used for reconciliation for the branch and head office accounting.

In addition to creating community agents, KMBI is also pilot-testing an automated collection system through the BUx platform. The BUx payment service leverages an integrated network of pawnshops and payment centres (more than 40,000 channels) to act as collecting agents for KMBI. Clients can now pay through local pawnshops and "bayad" (payment) centres. The pilot is being implemented in five branches and gathering traction. Benefits include more cost savings, convenience and lowered risk of COVID-19 infections for clients.



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