

## Solutions chosen by the MFI

XacBank focuses on expanding its services in rural areas through a combination of the following approaches:

### Branch

XacBank has 21 branch offices – one in each aymag center. Each branch consists of 6-7 staff members: a branch manager, an accountant, a SME loan officer, micro credit officers, a driver, a cashier and a customer service officer/teller (see Appendix E for Branch structure).

### Mobile banking combined with Local Loan Approval Committee (LAC)

A typical mobile banking crew consists of a driver and two credit officers (one for micro credit and one for SME loans). They travel by a Russian-made jeep from a branch in an *aymag* center to *soums*, usually 50-100 km in distance, once or twice a month. During their visit, the mobile banking crew meets the Loan Approval Committee (LAC) members, reviews the loan applications (which are received by the LAC members between the visits), evaluates the collateral, makes a final approval of the loans together with the LAC, and disburses the loans. Since the loan repayment is scheduled once a month, the mobile bank collects the repayment during their visit. Each visit takes about 1-2 days in each *soum*.

A loan approval committee (LAC) is formed at the *soum* level. It consists of three members. Criteria for selecting LAC members are:

- Age: 40 years or older
- Residency: many years of stable residency in the community
- Work experience: representatives from government agencies (such as school teacher, governor's office) and representatives of community members
- Knowledgeable of the community members and well-respected in the community.

LAC members are responsible for:

- Promotion
- Distributing loan applications
- Distributing repayment schedule
- Monitoring loan performance
- Collecting late repayments and transferring to the branch through Agriculture bank branch in the *soum* (Repayment, if paid on schedule, is collected by mobile bank.)
- Receiving loan applications
- Calling and informing the branch about loan applications
- Reviewing loan applications and approving together with the mobile bank crew.

LAC members are paid based on their portfolio. Below is the current incentive chart:

Portfolio size	Monthly salary per LAC member
\$16,597 or less	\$ 12.80
\$16,598-33,195	\$ 21.30
\$33,196-49,792	\$ 38.30

Total cost for running a mobile banking crew (assuming two visits per month per *soum*) and hiring LAC members (3 members per *soum*, assuming average portfolio of USD5652) is estimated to be USD 207.70 (approximately). It is estimated that using this approach XacBank, on average, generates revenue of approximately USD 479 per month (assuming two visits, each approving 20 loans or USD 5,952 in loan portfolio, at interest rate of 3.1-3.5% per month, charging 0.5% of the loan amount for loan fee, and a fee of 66 cents per loan application form). -

### Franchise with Savings and Loan Cooperatives

XacBank feels the long-term, sustainable solution for reaching the rural households in remote areas (beyond the *aymag* centers) is through a franchising model. The first experimental use of this model was in the 4<sup>th</sup> quarter of 2003, with a loan package to a rural savings and loan cooperative (SCC) in Tuvshruuleh *soum* of Arhangay *aymag*.

The main concept is to offer franchise services through a community-based savings and loan cooperative (SLC). Since few SLCs currently exist at *soum* level and the concept of SLCs (as used in market economy) is relatively new, XacBank feels it is important to assist local communities by providing training on SLCs, facilitating creation of initial SLCs, mentoring closely at the beginning stages of development, providing extensive and intensive technical assistance and training to build the capacity, transferring its know-how through carefully developed manuals and training, and developing systems. Two main types of training are provided:

- How to run lending and savings services
- XacBank methodology and products.

The criteria for selecting SLCs to qualify as XacBank franchise are:

- At least, one year experience of providing financial services
- Regular reporting on financial performance
- 24 or more members

Once the selected SLCs have gained strength, XacBank provides wholesale loans and closely monitors the SLCs in processing loans according to XacBank policies and procedures. In order for SLCs to accept XacBank franchise agreement they must:

- Place 15% of assets in XacBank as a deposit
- Channel a wholesale loan fund at 2% per month.

Gradually, SLCs are expected to become sustainable and XacBank will withdraw its involvement except the channeling of wholesale loans.

## Rationale for the solution chosen

The main reason for using a combination of the above three approaches is to take advantage of the complimentary nature of each approach. Branch structure is feasible in *aymag* centers, but not at the *soum* level. While not a long-term sustainable solution, mobile banking combined with local loan approval committees offers an effective solution before the piloting the franchise model. The franchise model is the ultimate model for the long run since it allows building a local community-based organizational model while enabling XacBank to expand its services to *soum* level herders and farmers. However, in the short-run, there is a lack of strong organizations that can become XacBank franchises. Thus, XacBank is providing extensive technical assistance and training to create and strengthen the capacity of savings and loan cooperatives (SLCs). SLCs are expected to serve as the XacBank franchises in the *soum* level. The advantages and disadvantages of each approach are summarized below.

	Advantages	Disadvantages
Branch network	Offers full range of services Trained, professional staff Control for fraud Close monitoring and management of portfolio quality	Expensive Not profitable at <i>soum</i> level (thus, not able to offer services at <i>soum</i> level)
Mobile banking with Loan Approval Committee (LAC)	Ability to reach <i>soum</i> level clients Cheaper than setting up a branch at <i>soum</i> level	Lack of monitoring of portfolio quality Lack of skills among LAC members Inability to mobilize deposits For clients, inability to deposit their repayment when they have the cash or put deposit in their savings account Slower disbursement (only once or twice a month on scheduled days) Inability for clients to access the XacBank staff (when they need emergency loans, etc.) Security issues (while the staff is traveling with loan funds)
Franchise model with Savings and Loan Cooperatives (SLCs)	Ability to offer both loans and deposits at <i>soum</i> level Proximity and easy access to clients Building local capacity and community-based organizations Expanding outreach rapidly No operating costs(Once the SLCs are set up and running, they will be responsible for their own operating costs.) Improved risk management (since the local people each other better) Closer monitoring of loan performance	Lack of knowledge and understanding about franchise model Lack of financial management skills among rural people