

# **Lessons from *MicroSave's* Action Research Programme (2003)**

David Cracknell, Henry Sempangi,  
Peter Mukwana and Graham A.N. Wright

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## Acronyms used in this report

ARP	Action Research Programme
ARPs	Action Research Partners
ATM	Automated Teller Machine
CI	Credit Indemnity
CEO	Chief Executive Officer
DQA	Domicile Quick Account – Tanzania Postal Bank’s savings product
FINCA	Foundation for International Community Assistance
FGD / PRA	Focus Group Discussions/ Participatory Rapid Appraisal – qualitative research tools
GWU	Grow With Us – Teba Bank’s savings product
KPOSB	Kenya Post Office Savings Bank
MFI	Microfinance Institution
SEP	Small Enterprise Partnership – FINCA Uganda’s small group lending product
TPB	Tanzania Postal Bank
TMS	The Marketing Shop – A South African financial marketing consultancy
UMU	Uganda Microfinance Union

### **Please Provide Feedback to *MicroSave***

This report summarises lessons learned from *MicroSave*’s Action Research Programme. However, *MicroSave* is conscious of the evolution of the microfinance industry worldwide. Many microfinance institutions are now aware of the need to develop flexible, efficient and effective financial services that respond to the needs of customers.

*MicroSave* would be very interested to learn more about other institutions product development and market-led initiatives. We would like to obtain your feedback on the usefulness of the *MicroSave* range of studies and toolkits, so that they can be improved further. Feedback can be addressed to the *MicroSave* team on [info@MicroSave.net](mailto:info@MicroSave.net).

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## Introduction

The 31<sup>st</sup> December 2003 marks the end of the third year of *MicroSave's* expanded Action Research Programme, during which *MicroSave* continued to refine its market-led microfinance agenda. In addition to its existing suite of services, at the request of its Action Research Partners *MicroSave* began exploring customer service and corporate branding.

*MicroSave* continued to disseminate lessons from the Action Research Programme, publishing "Lessons from *MicroSave's* Action Research Programme (2002)", (Cracknell et al, 2003) and a paper entitled "Lessons from Pilot Testing – The Experience of *MicroSave*" (Cracknell et al, 2003). Briefing notes were added on Market-led microfinance, the Action Research Programme and Strategic Marketing. A new electronic briefing series was introduced and 5 e-briefings posted.

Lessons from the Action Research Programme continue to inform the revision of *MicroSave's* Toolkits. During 2003, *MicroSave's* Pilot Testing Toolkit was substantially revised. A new toolkit on Process Mapping was published.

As in previous years, the success of *MicroSave* belongs as much, if not more, to the work and dedication of its Action Research Partners as to the work of the staff and consultants of *MicroSave*. Many, many thanks.

## The Action Research Programme

*MicroSave's* goal is to promote the development of high-quality financial services for poor people. It does this through the following four key outputs:

1. "Increased knowledge and understanding of product development related issues amongst key stakeholders, through research, curriculum development and dissemination".
2. "Increased capacity of selected Action Research Partners (ARPs) in East and Southern Africa to deliver secure, high-quality financial services for poor people".
3. "Increased capacity of local service providers and international networks to deliver technical assistance and training on market research".
4. "Effective project management and outputs quality control maintained".

Under the Action Research programme (Output 2 above), *MicroSave* is learning and disseminating lessons relating to product development and the product development process – and now, as a result of its expanded agenda, *MicroSave* is disseminating lessons on market-led microfinance.

This report documents the progress made under the Action Research Programme during 2003. It presents *MicroSave's* package of services, it summarises the lessons learned from *MicroSave's* Action Research Programme, covers the selection of ARPs, presents an overview of results, and then details the activities undertaken with each of the partners.

As at 31<sup>st</sup> December 2003 *MicroSave* was working with 9 institutions in four countries; in Kenya – Kenya Post Office and Savings Bank (KPOSB), and Equity Building Society (Equity), in Tanzania – Tanzania Postal Bank (TPB) and FINCA Tanzania; in Uganda – Uganda Microfinance Union (UMU), Centenary Rural Development Bank (Centenary), and FINCA Uganda; in South Africa with Teba Bank and Credit Indemnity.

## Key Lessons Learned During 2003

*Unplanned explosive growth:* Responding to customers' needs with appropriate products and delivery systems, can result in phenomenal growth, particularly in the case of savings services. Unplanned growth can be fatal, as systems and procedures break under the strain. New staff inducted rapidly into an institution can undermine internal control. Office space becomes cramped which significantly reduces productivity. Under unplanned explosive growth, a rapid institutional response is required which is likely to impact directly on short-term profitability. It is far better to prepare carefully for take off.

*Financing growth:* A feature of market-led growth is rapid expansion. Financing this expansion becomes a major challenge for the institution. For a credit led institution each new branch requires funds, to establish the branch, to hire additional staff and most significantly to finance an expansion in the loan portfolio. For a regulated financial institution, liquidity may be less of an issue but keeping within the bounds of the regulatory norms established by the Central Bank can become a perpetual challenge.

Initiatives like the Microfinance Information Exchange (the MIX), and AFRICAP have been established partly in response the growing need for increasingly commercial capital.

*Preparing for take off:* Preparing for market-led growth is essential. There is no substitute for ensuring that appropriate policies, procedures and management systems are in place. As an institution grows it will need to upgrade liquidity and treasury management procedures, institute asset liability management, and develop new mechanisms for managing credit risk as lending changes in character and volume. Selected decentralisation of decision-making is likely to be required with the development of regional management structures.

At the head office a new senior management cadre often needs to be developed and new departmental structures established. Typically, marketing, personnel and operations departments formalise and/or add senior capacity.

*Prioritising change:* A market-led institution can be faced with a huge range of challenges. In responding to challenges prioritising, sequencing and communicating change is of tremendous importance. Failing to prioritise change risks failing to resource a particular intervention properly, at worst can mean fundamental changes are not implemented in a timely fashion. Failure to properly communicate change can lead to significant resistance by those directly affected by the change.

*Automating growth:* Information systems, procedures and templates can partially automate the management of growth. Information systems once networked can facilitate much more than transactions. Networks automate inter-branch accounting, provide online real time information and through an intranet can significantly improve internal communications.

ATM machines can be installed on the back of the Wide Area Network, decreasing the cost of transactions, increasing the accessibility of services to customers and enabling an institution to manage continued growth in customer numbers.

Even without a network a financial institution can significantly automate growth. For example, both Credit Indemnity in South Africa and ASA in Bangladesh have prepared a template for opening new branches in which each step of the branch locating, and opening process is carefully detailed.

*Rollout through standardisation:* Once financial services have been successfully pilot-tested, they can be rapidly rolled out through adopting a standardised approach. A rollout team moves from branch-to-branch upgrading systems, and providing training on products, procedures. Marketing, and launch activities are carefully coordinated. Rollout and launch activities are refined as lessons are learned.

*Process mapping:* Continuous improvement of process and systems is essential to the delivery of market-led financial services and controlling risks surrounding growth. Growth may stretch existing processes and systems dangerously as UWFT in Uganda found after developing popular individual lending products. MicroSave in association with Shorebank Advisory Services developed a Process Mapping

Toolkit, which was tested during the year within Equity Building Society. Initial results are very encouraging with improvements in speed of service in most areas, combined with enhanced internal control.

*Communications:* One of the most persistent issues to arise through *MicroSave* based research is the impact of poor communications, both internal and external. Poor communications are evidenced through inconsistent application of policies and procedures, through poor quality service and persistence of service issues. Damaging gaps can appear between management and staff and between the institution and its customers. Fortunately there are also examples of excellent practice within *MicroSave's* Action Research Partners; such practice includes creative use of intranets, weekly briefings from the CEO and the careful study of feedback loop mechanisms.

*Word of Mouth Marketing:* Word of Mouth is the single most significant factor in the marketing of financial services. In a survey conducted by *MicroSave* in Uganda (Wright and Rippey, 2003), 58% of people surveyed said that the advice of friends and relatives was the determining factor in deciding which financial service to use.

*Influencing Word of Mouth:* Entire marketing departments in the corporate sector are devoted to influencing Word of Mouth. Yet the importance of Word of Mouth is only beginning to be recognised in the microfinance world, despite the influence of positive Word of Mouth in the growth of institutions like BRI in Indonesia and ASA in Bangladesh.

- *Design and delivery of services:* The best way to influence Word of Mouth is to deliver services to clients, in the manner they want, and to *carefully* communicate the financial service to the intended customers.
- *Completing the feedback loop:* Completing the loop from understanding customer needs, to implementing solutions, to informing customers of positive change is essential. In 2003, Equity Building Society created very positive Word of Mouth through communicating the results of customer focused market research back to customers. Customers received individual letters, advising them that Equity had listened to concerns about Equity's services and as a result Equity was implementing a number of improvements. Where customers' suggestions were not taken up Equity explained why.
- *Corporate branding:* Corporate branding is a deliberate attempt of the financial institution to influence customer perceptions. An institution delivers its service in an identifiable, uniform manner through a consistent infrastructure, thereby positively influencing customers' perceptions of the stability and excellence of the institution.
- *Public relations:* Ensuring that others can champion the institution creates powerful and trusted endorsements of the institution. One ARP employed a journalist as a marketing manager, which allowed it to gain positive publicity.

*Improving customer service:* Customer Service is much more than staff attitude towards customers. Ultimately Customer Service is the delivery of an effective financial service, efficiently in an appropriate manner. Taking this approach *MicroSave* examines customer service issues through the framework of the 8 P's of financial marketing<sup>1</sup>.

A continuous focus on customer service is vital in an expanding institution, in order that service quality does not suffer during growth. Innovative methods to enhance product knowledge include using the intranet, strategically placing product posters within Head Office and training staff through branch management.

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<sup>1</sup> These are People, Product, Price, Procedures, Place, Promotion, Physical Evidence, Positioning

*Automating costing:* Most *MicroSave* ARPs have developed product-costing systems. However, Teba Bank and Credit Indemnity in South Africa have moved further to automate their costing systems. Credit Indemnity has introduced a data warehouse, which has allowed it to automate the production of activity based costing at product, branch, and client segment levels.

*Product development is a skill:* Product development is a skill, which can be effectively institutionalised. *MicroSave* ARPs working on successive products have in many cases been able to adapt and internalise *MicroSave*'s product development process.

*Rapid rollout through standardisation:* Maintaining a consistent multi-skilled team, who adopt an increasingly tried and tested approach to rollout has allowed *MicroSave* Action Research Partners to rollout their financial services rapidly and effectively.

*Enhancing delivery channels:* *MicroSave*'s work with Teba Bank in South Africa and the rapid expansion of ATMs throughout East Africa has demonstrated that electronic banking has huge potential for enhancing the delivery of financial services for the mass market. Electronic banking includes the use of Palm Pilots, ATMs, Debit Cards, Smart Cards and cell-phone banking. However, there are multiple difficulties and challenges to overcome before electronic banking for the poor can become a reality. These include, financial literacy, ensuring access to services through a carefully developed distribution strategy, supportive infrastructure and communications and an appropriate regulatory environment. A range of partnerships will be required to develop an appropriate solution that can provide flexible, accessible, convenient low cost services.

*MicroSave* explored these issues further in a "Virtual Conference on Electronic Banking for the Poor", in February 2004, the proceedings of the virtual conference can be downloaded from *MicroSave*'s website [www.MicroSave.net](http://www.MicroSave.net).

***Conversations With the Practitioners***  
*A forthcoming MicroSave publication*

What does being a "market-led" micro-finance institution mean in practice? What does the concept of being a "market-led" and "client-focused" institution mean to some of the leading microfinance practitioners? In particular what have the leading micro-finance institutions done to become "market-led"? What lessons can be learnt from the leading microfinance practitioners? And what advice do microfinance experts give in this regard?

Over the past year interviews on these and related issues have been undertaken with some of the leading microfinance practitioners in Africa and elsewhere. The outcome of these interviews is a soon to be published book: "*Conversations with Practitioners*". These wide-ranging discussions with leading practitioners as well as with international experts are presented in an easily accessible format, based around themes covering the "why" and "how" of market-led microfinance. The book discusses the need for microfinance institutions to be market-led and to have a client focus, along with some of the challenges that will need to be overcome and pitfalls to be avoided. The book is a valuable first-hand account of current thinking on issues related to market-led microfinance from a practitioner's perspective.

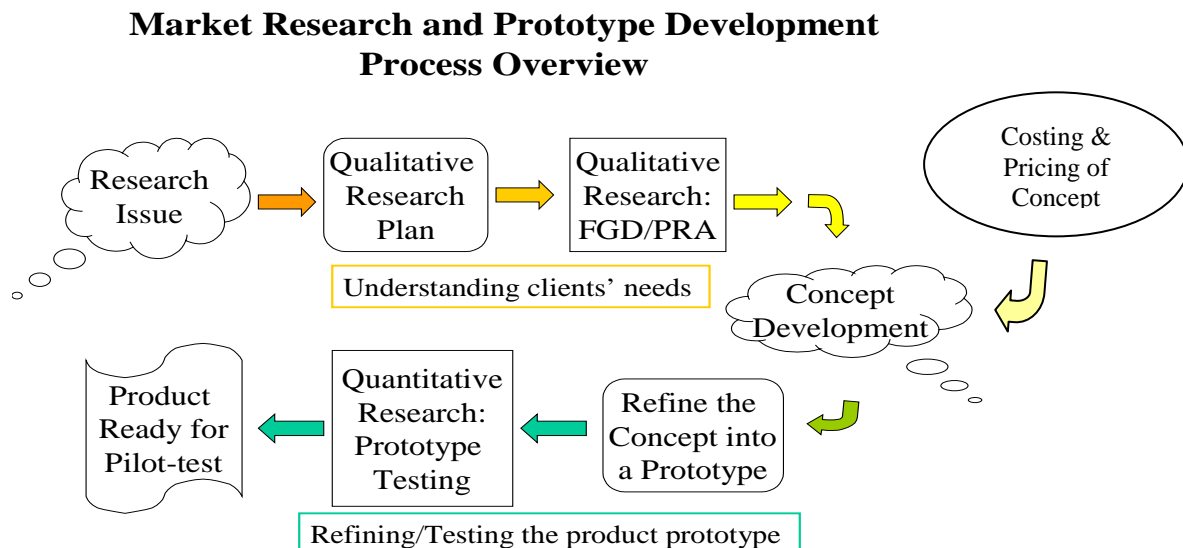
**Box 1: Conversations with the Practitioners**

***MicroSave's Current Package of Services***

*MicroSave* assists ARPs in market-led product development by providing a varied package of services. However, *MicroSave*'s team of three supply side experts (plus occasional input from the Programme Director) cannot address all the supply side tasks related to market-led microfinance in depth. Rather

*MicroSave* helps orchestrate and review while ARPs draw more heavily on other human and financial resources at their disposal, augmented by limited external consultancy assistance sourced by *MicroSave*.

**Market Research for MicroFinance:** ARP staff are trained in the use of *MicroSave*'s participatory research tools, using the *MicroSave* "Market Research for MicroFinance Toolkit". ARP staff are provided with expert post workshop facilitation as they practice the skills introduced in the workshop in listening to and understanding their clients. The market research tools are used to develop initial product ideas into concepts and to refine product concepts into prototypes for testing. This process can be represented as follows:



**Figure 1: Market Research and Prototype Development**

Source: Wright, Graham A.N., "Market Research and Client Responsive Product Development"

**Pilot Testing:** *MicroSave* assists its partners to establish pilot tests to test products they have developed. The pilot testing process has ten stages detailed in *MicroSave*'s "Toolkit for Planning, Implementing and Monitoring Pilot Tests" (see Box 2).

#### The Ten Steps of Pilot Testing

These steps complement each other in a comprehensive manner:

1. Composing the Pilot Test Team
2. Developing the Testing Protocol
3. Defining the Objectives
4. Preparing All Systems
5. Modelling the Financial Projections
6. Documenting the Product Definitions & Procedures
7. Training the Relevant Staff
8. Developing Marketing Plan and Materials
9. Commencing the Product Test
10. Monitoring and Evaluating the Test

#### Box 2: The Ten Steps of Pilot Testing

Source: McCord, Michael J. et al. "Toolkit for Planning, Implementing and Monitoring Pilot Tests"

Typically assistance is given in planning the pilot test, setting goals and indicators, and in developing financial projections. During 2003, the "Toolkit for Planning, Implementing and Monitoring Pilot Tests" was significantly revised. Revisions included:

- Cross references to other *MicroSave* resources and toolkits where applicable

- **Systems Development:** Added checklists, and discussed introducing new products on existing systems
- **Financial Projections:** Added sensitivity analysis and scenario analysis to the financial model
- **Processes and Procedures:** Added process mapping
- **Marketing:** Added reference to marketing plan, rewrote section on product marketing
- **Monitoring and Evaluation:** Added pilot test monitoring tools and protocols

A paper entitled *Lessons from Pilot Testing – The Experience of MicroSave* (Cracknell et al. 2003) expands on practical lessons learned pilot testing products with *MicroSave* Action Research Partners. These lessons are summarised in Briefing Note 24.

**Product Roll Out:** *MicroSave* performs detailed reviews as its ARPs rollout products. *MicroSave* has summarised its understanding of the factors that contribute to a successful rollout of financial services in a toolkit – “*Product Roll-out: A Toolkit for Expanding a Tested Product Throughout the Market.*” This toolkit was refined during 2003 with the addition of monitoring tools.

**Product Costing:** To enable ARPs to develop profitable products, and to develop credible financial projections *MicroSave* assists with the preparation and implementation of a product costing system. *MicroSave's* “*Costing and Pricing Financial Services Toolkit*” was updated during the year to simplify the pricing methodology. The recommended pricing methodology is to first consider the cost of provision, second to consider the prices offered by the competition and finally to consider the value customers place on the product to determine whether any premium price can be justified. During 2004, *MicroSave* will work on extending the product costing methodology to branch based costing.

**Incentive Scheme Design:** *MicroSave* commissioned Martin Holtmann to develop the “*Designing Staff Incentive Schemes Toolkit*”, this was tested during 2002 and 2003. Lessons learned from these experiences will be brought into the Staff Incentives Toolkit in 2004. The original toolkit was based mainly on Staff Incentive Schemes for credit programmes, in the revised toolkit Staff Incentive Schemes for Savings programmes will be considered.

**Product Marketing:** The successful introduction of new products often depends on the ability of the product development team to market the new product to customers *and to staff*. Adapting its Market Research for MicroFinance tools, *MicroSave* helps its ARPs to develop a product-marketing plan. The plan combines competition analysis, benefit statements, tag lines, Unique Selling Propositions (USPs), positioning statements, and Frequently-Asked-Question (FAQ) guides with an analysis of both the macro and microenvironments facing the institution. This experience is reflected in a “*Product Marketing Strategy Toolkit.*”

**Strategic Marketing:** *MicroSave* collaborated with TMS Financial, a South African marketing company to perform Marketing Audits of its ARPs. These audits highlighted strategic dimensions beyond product marketing, which *MicroSave* have developed into a “*Strategic Marketing for Microfinance Institutions Toolkit.*”

**Risk Analysis:** As some pilot tests ran into difficulties *MicroSave* became aware that in retrospect many challenges could have been predicted, and that many of the risks faced could have been mitigated through carefully considered management responses. This led *MicroSave* to work with Shorebank Advisory Services and its ARPs to create a “*Institutional and Product Development Risk Analysis for Microfinance Institutions Toolkit*”. *MicroSave* assists its partners to consider risk at key stages of the pilot test process - during the establishment of the pilot test, during pilot test reviews, and before the product is rolled out. This toolkit is available on the *MicroSave* website.

**Process Mapping:** During 2003, *MicroSave* in collaboration with Shorebank Advisory Services developed a “*Process Mapping Toolkit*”. This approach was tested in redefining the savings policies of Equity Building Society and will be further tested during 2004. Process mapping has proven a remarkably powerful tool as it can be used to:

- Improve the efficiency of product delivery through identifying redundant or lengthy processes



- Enable a comparison of observed processes against documented procedures
- Design or improve procedure manuals
- Develop easy to understand training materials
- Highlight areas of potential risk within the product delivery process
- Consider the adequacy of internal controls

**Customer Service:** During 2003, *MicroSave* started developing a customer service methodology. Whilst taking cognisance of existing customer service methodologies which focus on the customer / staff interface *MicroSave*'s customer service approach goes further. The *MicroSave* approach uses a workshop based investigative tool in which staff identify and examine customer service issues. Client based research tools and feedback mechanisms complement this analysis.

**Enhanced Cooperation Between ARPs:** Two practice groups met to share knowledge and experience between ARPs, the Staff Incentive Schemes and Information Technology Practice Groups. Practice group sessions on Credit and Customer Service are expected to follow in 2004. ARPs collaborated with *MicroSave* and its consultants to continue to test and develop *MicroSave*'s range of practice based tools. These included continued review of staff incentive schemes, involving Equity, FINCA Uganda, KPOSB and TPB. Similarly *MicroSave* expects to further develop and test the Institutional and Product Risk Analysis Toolkit during 2004.

### Course Attendance during 2003

During 2003, *MicroSave*'s ARPs attended two core workshops, the CEOs' Workshops in February and October. Optional workshops included Staff Incentive Schemes, Customer Service, IT Practice Group and Strategic Marketing. Participation is outlined in Table 2.

	<i>MR4MF TOT</i>	<i>CEOs Workshop I</i>	<i>CEOs Workshop II</i>	<i>Staff Incentive Schemes</i>	<i>Customer Service</i>	<i>IT Practice Group</i>	<i>Strategic Marketing</i>	<i>Total</i>
<i>Equity</i>		2	3	3	20		3	31
<i>KPOSB</i>	2	3	3	4		2	2	16
<i>TPB</i>		2	2	3		1		8
<i>Centenary</i>		0	0					0
<i>UMU</i>		2	1	2				5
<i>FINCA</i>		2	2	2				6
<i>Uganda</i>								
<i>Teba Bank</i>		2	2	1		3		8
<i>Credit</i>		3	2	1				6
<i>Indemnity</i>								
<i>FINCA</i>		2	2	2				6
<i>Tanzania</i>								
<i>Non-ARP participants</i>	26	9	6	4			20	65
<i>Total Participants</i>		27	23	22	20	6	25	151

**Table 2: ARP attendance at *MicroSave* courses during 2003**

**Market Research For Microfinance Trainers of Trainers Workshop:** Nakuru, Kenya, 19-30<sup>th</sup> May 2003  
A total of 28 international participants completed research on customer perceptions of Equity Building Society, whilst learning *MicroSave*'s Market Research For MicroFinance tools.

**CEOs Workshop:** Mount Grace Hotel, South Africa, 19-20<sup>th</sup> February 2003

The CEOs workshop considered the strategic direction of *MicroSave* for 2004-2007. Presentations were given on customer service at TPB, costing and pricing of financial services, alternative perspectives on product development. To maximise and facilitate cross learning between Action Research Partners four practice groups were established. The four practice groups were Information Technology, Staff Incentive Schemes, Customer Service and Credit.

**CEOs Workshop:** Aberdare Country Club, Nyeri, Kenya, 14-16<sup>th</sup> October 2003

This CEOs workshop was updated on preparations for the new *MicroSave* project. Presentations were given on lessons from pilot testing, electronic banking at Teba, remodelling a postal bank and process mapping at Equity Building Society. Feedback was provided on the progress of the practice groups.

**Customer Service:** Merica Hotel, Nakuru, Kenya, 5<sup>th</sup>-6<sup>th</sup> November 2003

The customer service workshop was held as part of a customer service audit at Equity Building Society. Approximately 20 people from all levels within the institution participated in a two day workshop held at the Merica Hotel in Nakuru, Kenya.

**Staff Incentive Schemes:** Windsor Golf and Country Club, 13-14<sup>th</sup> October 2003

This workshop was one in a series of staff incentive scheme workshops reporting on the ongoing development of staff incentive schemes within *MicroSave*'s Action Research Partnership.

**Strategic Marketing Workshop:** Mountain Village, Arusha Tanzania, 25<sup>th</sup> – 27<sup>th</sup> November 2003

The strategic marketing workshop presented the strategic marketing concepts of corporate branding and identity, product marketing, customer service and delivery channels to a group of institutions that had low exposure to *MicroSave* but high potential to become future Action Research Partners.

**Selection of Action Research Partners**

*MicroSave*'s ARPs were selected through a competitive process. A request for proposals was disseminated and institutions were asked to provide a detailed proposal with supporting documentation. Proposals were vetted and the institutions visited. A transparent appraisal process was used to select the most suitable partners. As at December 31<sup>st</sup> 2003, *MicroSave* had nine ARPs, as indicated in Table 3.

<i>Institution</i>	<i>Country</i>	<i>Product</i>
<i>Centenary Rural Development Bank*</i>	Uganda	Home Improvement Loan ( <i>HIL</i> )
<i>FINCA</i>	Uganda	<i>Open Access Savings</i> Refinement of Step Credit/Flexibility Village Banking products
<i>Uganda Micro-finance Union</i>	Uganda	<i>Express Savings</i>
<i>Kenya Post Office Savings Bank</i>	Kenya	<i>Bidii Savings Account</i>
<i>Equity Building Society</i>	Kenya	<i>Jijenge Contractual Savings Product</i> <i>SAKO Plus Loan Product</i> Refining existing products
<i>Tanzania Postal Bank</i>	Tanzania	Domicile Quick Account ( <i>DQA</i> )
<i>FINCA-Tanzania</i>	Tanzania	<i>Uvibiashara Leasing Product</i>
<i>Teba Bank</i>	South Africa	<i>Grow With Us (GWU) Savings</i> , Teba Bank's Debit Card, <i>Grow With Us (GWU) Loans</i>
<i>Credit Indemnity</i>	South Africa	

**Table 3 - Partners of *MicroSave* as at 31.12.03**

\* Centenary Rural Development Bank was moved to Associate Status during 2003.

**Product Statistics At A Glance**

To date seven of *MicroSave*'s partner institutions have launched pilot tests. Tanzania Post Bank has rolled out the *Domicile Quick Account*. Kenya Post Office Savings Bank is in the process of rolling out its *Bidii* product. Teba Bank has rolled out its *Grow With Us Savings Account* and is currently pilot testing its debit card product. FINCA Uganda abandoned its *SEP loans* pilot test and is currently testing

*Open Access Savings.* FINCA Tanzania started testing its *Uvibiashara* leasing product. Centenary rolled out its *Home Improvement Loan*. The results to 30<sup>th</sup> November 2003 are summarised in Table 4.

<i>Institution</i>	<i>Product</i>	<i>Status</i>	<i>Number of locations</i>	<i>Clients Nov 03</i>	<i>Clients Nov 02</i>	<i>US\$ Nov 03</i>	<i>US\$ Nov 02</i>
<i>Teba Bank</i>	GWU	Rolled Out	18	87,705	45,529	16,272,087	6,633,744
<i>Teba Bank</i>	A Card	Pilot Test	n/a	770		132,000	
<i>TPB</i>	DQA	Rolled Out	21	57,938	40,723	9,782,938	6,973,000
<i>KPOSB</i>	<i>Bidii</i>	Partial Rollout	15	12,746	4,277	2,545,600	698,254
<i>FINCA Uganda</i>	Open Access Individual	Pilot Test	2	3,286		163,000	
<i>FINCA Uganda</i>	Open Access Group	Pilot Test	2	326		462,850	
<i>Equity</i>	Jijenge	Rolled Out	15	4,242	1,104	403,468	58,442
<i>Equity</i>	Product Refinement		15	233,253	155,883	40,982,863	27,461,448
<b>Total</b>	<b>Savings</b>			<b>400,266</b>	<b>247,516</b>	<b>70,744,806</b>	<b>41,147,332</b>
<i>FINCA Uganda</i>	SEP	Test Cancelled	3	122	415	30,000	146,095
<i>FINCA Tz</i>	<i>Uvibiashara</i>	Under Pilot Test	1	9	3,619		
<i>Centenary</i>	HIL	Rolled Out	16	3,231	440	5,540,210	739,027
<i>Equity</i>	SAKO Plus	Under Pilot Test	4	690	259	134,952	95,241
<i>Equity</i>	Product Refinement		15	65,333	41,144	22,107,800	14,967,265
<b>Total</b>	<b>Loans</b>			<b>69,385</b>	<b>42,258</b>	<b>27,826,581</b>	<b>15,947,628</b>

**Table 4: Product Statistics At a Glance to 30<sup>th</sup> November 2003**

## Progress During 2003 by Action Research Partner

### Equity Building Society

*Growth Management:* Equity expanded rapidly with its rate of growth peaking at over 15,000 new accounts per month, during the final quarter of the year. This rate of growth is set to continue in the short term, with the opening of additional branches.

Rapid growth is placing significant stress on Equity's systems, staff and management. In particular, as the number of depositors increases Equity faces a rapid increase in demand for loans. Equity is responding through strengthening and decentralising management, by improving procedures and controls and by introducing a Wide Area Network. To improve its loan portfolio management it is strengthening loan management systems, putting in place a series of additional controls and credit committees. Despite significant progress much remains to be done.

*Product Development:* Equity developed two products with *MicroSave*- *Jijenge* a contractual savings account and *SAKO Plus* a loan based upon customers' savings history with Equity.

*Jijenge:* *Jijenge* is a contractual savings account, which enables Equity clients to save a fixed amount weekly or monthly. The major features of *Jijenge* are presented in Box 3.

#### Features of Equity's Jijenge Savings Account

*Opening balance:* No minimum required

*Minimum deposit:* Kshs.500 monthly, which can be paid in weekly, bi-weekly, and monthly increments

*Early access:* Allowed under penalty

*Priority access to emergency loans:* Up to 90% of the balance of the savings can be obtained be obtained with a preferential interest rate, immediate disbursement, and no fees

*Maturity date:* Assigned by the customer

*Interest paid:* On a tiered basis to incentivise long-term deposits.

*Fees and Commissions:* No ledger fees, deposit fees, or standing order charges

**Box 3: Features of the Jijenge Savings Account**

Performance of the *Jijenge* product during 2003 is given in Table 5. Between September 2002 and January 2003, all of the pilot-test branches under performed. Upon review, the principal reason was a slackening in the selling effort – marketing and awareness campaigns, but more importantly the branch service desks were not manned at all times. As a more complex product with longer-term customer commitments *Jijenge* requires a customer service officer to close the sale

After meetings with Equity managers and marketing representatives, and due pressure from senior management branches reported significant growth in new accounts, with three of the four pilot test branches surpassing their targets.

**Table 5: *Jijenge* performance during 2003**

	<i># Accounts</i>	<i>US\$</i>
<i>November 2002</i>	1,104	58,442
<i>January 2003</i>	1,857	128,526
<i>May 2003</i>	3,271	262,161
<i>August 2003</i>	3,914	360,223
<i>November 2003</i>	4,242	403,468

However, after May 2003, growth in sales of the *Jijenge* Account again slackened. Equity's rapid expansion had a negative effect on *Jijenge* and SAKO Plus as customer service staff moved from sales desks to opening standard savings accounts. Branches that were able to retain the *Jijenge* sales desk in the banking hall for longest consistently reported the highest sales

Understanding of the product amongst Equity Branch Managers and staff improved during the year. In the words of one senior manager "*Jijenge* is the most talked about product in Equity". *Jijenge* has found an important niche – the account is being used in many branches to provide security against which salary advances can be made, particularly among teachers and city council employees who are often paid late.

*MicroSave* in association with Equity conducted research on the *Jijenge Account* from in June 2003 in 6 branches. The research sought to:

- Ascertain clients' understanding and perception of the *Jijenge Account*.
- Establish staff reactions to clients' perceptions of the *Jijenge Account*.
- Review marketing plans and activities that have been taken place in the branches and
- Determine whether the physical infrastructure of the branches is adequate to support *Jijenge*

The major findings of the review revealed that some clients believed that the minimum one-year contractual period of the *Jijenge Account* was too long. Staff were enthusiastic about the product. They appear content with the physical infrastructure put in place to support the product, although they had concerns relating to the level and quality of marketing support. Recommendations were provided in relation to push marketing, pull marketing and promotional material. Not all the staff members interviewed had a comprehensive understanding of the product.

**SAKO Plus:** The SAKO Plus pilot test is operating in four branches. Murarandia, Kangema, Kiriaini and Kangari. SAKO Plus loans are secured on the savings history of Equity clients. Features of SAKO plus are given in Box 4 below.

### Features of the SAKO Plus product

*Borrowing Limit:* Borrow up to 4 times savings balance depending on ability to repay the loan  
*Collateral:* No collateral required below Ksh.100,000 (\$1,282)  
*Graduated loans:* Access to higher value loans is given on successful repayment of earlier loans  
*Interest Rate:* Set competitively

#### Box 4: Features of the SAKO Plus Product

Performance of the SAKO Plus product is given below. Sales were particularly slow from May 2003 as sales desks were removed and staff reallocated to respond to a rapid increase in Equity's deposit accounts. In addition, the high existing workload of Equity credit officers meant that there was limited spare capacity to appraise new SAKO Plus clients.

	# Accounts	US\$
<i>November 2002</i>	259	95,241
<i>January 2002</i>	502	201,592
<i>May 2003</i>	603	221,870
<i>August 2003</i>	650	204,491
<i>November 2003</i>	690	134,952

**Table 6: SAKO Plus performance during 2003**

A team from Equity and *MicroSave* staff performed reviews of the SAKO Plus product. The review demonstrated that although Equity staff were well trained, there was poor display of product information within branches and poor reporting on the product. It was also clear that different branches were interpreting SAKO Plus policies and selling the product in different ways. Issues related to the Bankers' Realm system were identified.

A review of the Mururandia Branch uncovered two serious issues. Loans to tea farmers were being provided on the basis that interest payments would be made monthly during the course of the loan, with capital repayments being taken from the mini and annual tea bonuses paid to tea farmers. This means that the yield on the loan portfolio is considerably lower than expected due to late repayment of capital. In addition, as the Bankers Realm system anticipates receiving full repayments of interest and capital monthly it indicates significant levels of arrears on these loans, when in fact they are being repaid as agreed. Nevertheless sales of SAKO Plus in Mururandia were much higher relative to other branches, which was attributed to the Branch Manager marketing the product directly to members of a competing SACCO society.

*Process Mapping:* *MicroSave* provided assistance to Equity to rework their policies and procedures through a process mapping exercise. The objective of process mapping was to standardise policies and procedures, improve efficiency, assess risk, optimise internal controls and develop training guides. With the assistance of a consultant, Equity followed the participatory process outlined in *MicroSave's "Process Mapping Toolkit"* The new savings procedures were tested in one branch over the course of a month and were then rolled out to all branches.

The process mapping exercise and associated changes in procedures led to reductions in cycle time as indicated in the Table 7. Cash transaction time increased slightly due to an extra procedure being introduced to improve internal control.

Activity	Pre-pilot	Post-pilot
Account opening	12.6 minutes	9.78 minutes
Cash transaction (time with cashier)	1.96 minutes	2.17 minutes
Cash transactions (total cycle time)	7.14 minutes	4.96 minutes
Magnetic cards	1 month	2 weeks

**Table 7: Key Timings After Process Mapping**

Standardisation and improvement of policies led to significant benefits to Equity which have included, better risk management, better understanding and consistent application of policies and an ability to handle more business with existing resources. The participatory process also led to the identification of quick wins, and improvements in branch layout.

*Market Research for Microfinance:* Equity hosted 28 participants of *MicroSave's* Market Research For Microfinance Trainers of Trainers course. The research focused on client perceptions of Equity, which were largely positive. Customers commended Equity for its fast efficient and knowledgeable service, its ease of procedures and access to branch management. Suggestions were made to use other languages in written materials, which Equity is considering. Customers highlighted the need for Equity to connect its branches through a Wide Area Network, to better communicate fees and charges and to offer more flexible collateral requirements and loan terms.

*Customer Service Review:* Twenty Equity staff participated in a customer service workshop. The workshop tested a new *MicroSave* customer service diagnosis and analysis tool. Using this tool Equity examined customer service issues in relation to each of the 8Ps of financial marketing. Participants were asked how frequently particular customer service issues arose, where they occurred and how serious the impact was upon Equity. Frequent and/or high impact customer service issues were then discussed in an open forum and potential solutions discussed. From the huge range of issues identified Equity created a matrix listing the major themes and a range of strategies to address these themes.

Some of the significant issues identified by Equity included, poor product knowledge by clients and staff, inconsistent promotion of products and services, a fall in service quality related to growth, failure to identify where service quality was deteriorating and lengthening queues.

Amongst the strategies proposed to overcome these shortcomings most related to improving communication. They included:

- *WAN:* It is anticipated that Equity's Wide Area Network will be fully functional by the end of the first quarter 2004. This will allow branchless banking, greater standardisation of service delivery and will remove current manual reconciliation processes between branches.
- *Product Training:* Immediately following the customer service workshop Equity dispatched a head office manager to provide additional on site product training to all branch staff. A question and answer session is followed by written tests. This training has demonstrated poor product knowledge amongst tellers, and poor savings product knowledge amongst loan officers. The training has also demonstrated poor knowledge of new loan procedures.
- *Intranet:* Equity's intranet is developing rapidly, in terms of features, functionality and usefulness. Staff throughout Equity will have online access to key information about Equity including its products, procedures, and structure. The intranet will be used to log key service and IT failures and to maintain Frequently Asked Question Guides
- *Frequently Asked Question Guides:* A frequently asked question guide was developed to ensure that staff were able to answer basic questions about Equity Building Society in a correct and consistent manner.



- *Front Office Manager*: A new Front Office Manager position has been created in all larger branches. The Front Office Manager is intended to be a first point of contact for customers. The Front Office Manager ensures that customers are directed to the correct service point reducing time in branch for the customer and ensuring efficient operations for staff and provides direct assistance where necessary.

### Tanzania Postal Bank

Tanzania Postal Bank is working with *MicroSave* to rollout the *Domicile Quick Account (DQA)*. Unlike the Postal Account, which is a manual passbook based account, *DQA* is fully computerised. It offers faster, more efficient service than the existing account. The features of *DQA* are provided in Box 5.

<b>Features of the Domicile Quick Account</b>	
<i>Tagline</i> :	“Time is money – save both”
<i>Fast</i> :	A computerised savings account
<i>Safe</i> :	A card based account that is safe from fraudulent use of the identity card
<i>Easy to Open</i> :	A minimum opening balance of Tsh. 5,000, two photographs and a school / work identity card or a letter from the ward executive
<i>Earns interest</i> :	Interest is computed monthly and paid annually on a sliding scale that rewards higher value savers
<i>Ledger fees</i> :	Clients pay a ledger fee of Tsh.350 per month and Tsh.100 per withdrawal.

**Box 5: Features of the Domicile Quick Account**

**Performance of the Product:** *DQA* continues to expand though at a more modest pace, increasing by over 17,000 accounts during the year (42%) and by USD 2.8 million (40%), see table 8.

<i>DQA</i>	<i># Accounts</i>	<i>US\$</i>
<i>November 2002</i>	40,733	6,973,000
<i>January 2002</i>	43,830	6,867,000
<i>May 2003</i>	49,160	7,663,000
<i>August 2003</i>	52,737	7,044,000
<i>November 2003</i>	57,938	9,782,938

**Table 8: *DQA* Results During 2003**

In terms of the value of transactions, excluding Western Union *DQA* has become TPB's leading product. By November 2003 *DQA* accounted for 50% of the total value of transactions, reversing the relative position of the products at July 2001 see figure 2 for more details.

TPB's Postal Savings Account is still significantly larger as a source of deposits and it still accounts for a larger number of transactions than *DQA*. However, the trend for *DQA* is increase both in terms of overall deposits and overall transactions.

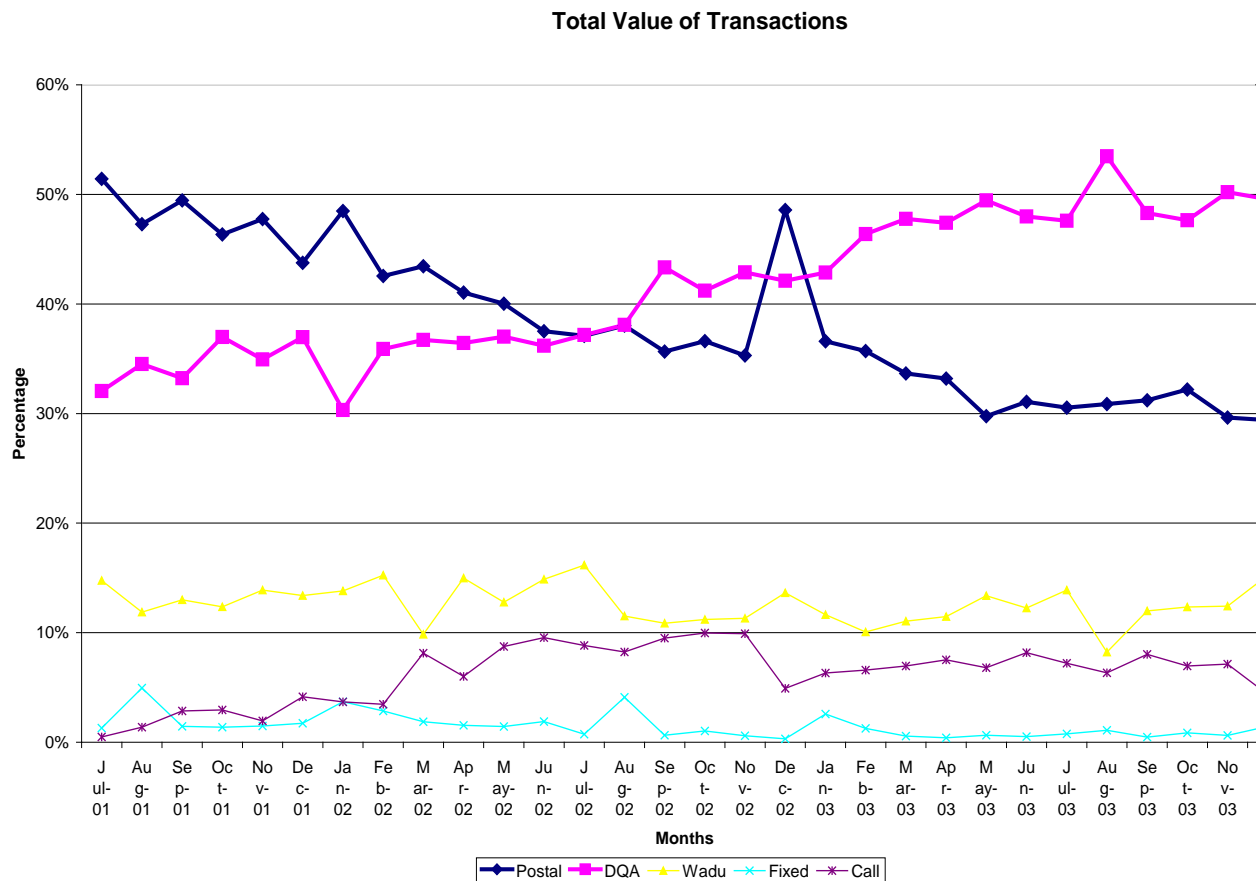


Figure 2: Relative Transaction Value of Different TPB Products

*Rollout:* On September 1<sup>st</sup>, TPB introduced the Equinox computer system into 8 of its largest branches – Mkwepu, Kariakoo, Metro, Dar Es Salaam, Arusha, Mwanza, Mbeya, Zanzibar. The system has experienced teething problems that were addressed by a team of consultants and staff.

As customers from any of the 8 online branches can transact at any online branch the *Domicile Quick Account* has been renamed the *Quick Account* in online locations. TPB plans to extend the Equinox system to other branches during the second quarter of 2004. TPB will provide truly branchless banking for a large number of TPB customers. To improve service further TPB will renovate the Arusha branch, relocate the Mwanza and Dodoma branches and open a new outlet at Ubungu.

*Feedback Loop:* MicroSave launched a study of feedback mechanisms within TPB. The study considered how client and staff suggestions and concerns were collected and acted upon by TPB. It involved interviews and focus group discussions at all levels within TPB. Many conclusions were reached and are being responded to by TPB. Major conclusions included the need to perform better analysis of research already conducted by TPB. Decisions need to be taken faster and with better information. There was a consistent client concern to improve the speed of service and a consistent staff concern to improve the speed of internal responses. TPB strengths included accessible management, good person-to-person contact and well-structured meetings. Weaknesses included manual systems, delayed decision making, people being kept out of the loop and a lack of responsiveness.

Recommendations included making the marketing department a customer feedback node that passes feedback to responsible departments, creating a more deliberate delegation system, strengthening performance evaluation systems and developing mechanisms to hold committees accountable. In order to implement the recommendations of the Feedback Loop Study, TPB and the Feedback Loop Study consultant prepared an Action Plan, which has been adopted into the annual workplan for TPB in 2004.



*Credit Reviews:* During the year *MicroSave* carried out three reviews of TPB's troubled microcredit product. TPB launched a microcredit product in 2001. In 2001 the operations were limited to Rombo district and Moshi Urban. In 2002 the programme was extended to four other districts within the region - Moshi Rural, Mwanga, Sawe and Hai districts. The expansion into other districts resulted in a drastic ten-fold increase in the number and value of loans disbursed.

The growth posed serious challenges to the programme. Challenges included inadequate information systems, insufficient staffing and poor management. Policies and procedures associated with the product needed to improve to incentivise loan collection.

Although TPB responded by appointing additional staff, audits and eventually changing management, as at 30<sup>th</sup> November 2003, portfolio at risk remained unacceptably high, and several of *MicroSave's* recommendations remain unimplemented. Critically, TPB need to reassess whether they should be providing microcredit services.

*Product Costing:* TPB produced a costing of all of its products. With low Treasury Bill rates in Tanzania the Postal Account and the *Domicile Quick Account* have been hit hard in terms of earnings, which has reflected in losses in both products. As a response to reducing profitability TPB have decided to double the withdrawal fee from Tsh.100 to Tsh.200 per withdrawal. This is still considered too low by *MicroSave*, since market research indicated that customers would be prepared to pay up to Tsh.500 per withdrawal if quality and service is maintained.

## **FINCA Uganda**

During the year *MicroSave* worked with FINCA Uganda on introducing two new savings products, and saw FINCA Uganda decide not to continue with their SEP loan. The SEP loan was a significant departure for FINCA Uganda from the Village Banking approach of FINCA International in that individual loans were provided through small groups of business people. The features of the product are given in Box 6 below.

<b>Features of the SEP Loan</b>
<i>Group Size:</i> Client groups between 5-10 members
<i>Client Profile:</i> Aged between 18-60, with a business and a good credit history
<i>Repayment instalment:</i> less than 50% of net family income
<i>Loan Size:</i> Between Ush.500,000 – 5,000,000
<i>Length of Loan cycle:</i> for initial borrowers 16 weeks, from cycle 2 8-32 weeks for a A-Grade client
<i>Fees:</i> Loan processing fee charged on a sliding scale decreasing for more group members and 2% per month
<i>Minimum Collateral:</i> 125% of the loan required

**Box 6: Features of the SEP Loan**

*SEP Loan Progress:* A decision was made not to rollout the SEP product. This reflected weaknesses in the product, product management, and FINCA Uganda's strategic decision to develop individual lending products. The fundamental product weakness was failure in-group cohesion. Group members failed to follow up on colleagues who missed payments. This forced loan officers to follow up clients individually. However, the situation was worsened as in the initial stages of the pilot test FINCA Uganda management failed to adequately monitor the status of the SEP Pilot Test, thereby allowing loan default and non-application of procedures to weaken the product further. Finally, FINCA Uganda decided to introduce an individual lending product with tighter controls on delinquency. By November 2003, the individual loan had 290 clients with a total of US\$ 200,000 outstanding.

*Savings Products:* MicroSave worked with FINCA Uganda to prepare the pilot test of two savings accounts. An individual savings account and a group based savings account. The products have broadly similar features, which are described in Box 7 below.

<b>Features of the Open Access Accounts</b>
<i>Low Minimum Balance:</i> Ush.5,000
<i>Low Opening Balance:</i> Ush.10,000
<i>Frequent Withdrawals:</i> No limit on number of withdrawals permitted
<i>Permanent record:</i> Passbook based
<i>Help Desk:</i> Customer care staff in attendance to attend to customer queries
<i>Fees:</i> No ledger fees, Ushs. 500 per withdrawal, fee for below minimum balance
<i>Individual or Group Based Accounts:</i>

**Box 7: Features of the Open Access Accounts**

MicroSave worked with FINCA Uganda to prepare financial projections, reviewing systems preparedness, finalising concept to prototype market research, determining objectives and developing marketing material. One of the most persistent challenges that faced FINCA Uganda was the development of appropriate information systems. FINCA Uganda chose to develop a teller module for their existing SIEM system. However, the review noted that programming support for the SIEM system was based in Guatemala with only limited support available locally as the software was written in Spanish.

By November 2003, the individual account serviced 3,286 current FINCA members, whilst the Group Savings Account catered for 336 groups. Detailed performance figures are given in the tables below.

<i>Open Access</i>	<i># Accounts</i>	<i>US\$</i>
<i>November 2002</i>		
<i>January 2003</i>		
<i>May 2003</i>	12	2,750
<i>August 2003</i>	991	31,200
<i>November 2003</i>	3,286	163,000

**Table 9: Performance of Open Access Account**

<i>Group Savings</i>	<i># Accounts</i>	<i>US\$</i>
<i>November 2002</i>		
<i>January 2003</i>		
<i>May 2003</i>	229	359,000
<i>August 2003</i>	302	420,050
<i>November 2003</i>	326	462,850

**Table 10: Performance of Group Savings Account**

MicroSave conducted a second review, after the Savings and Group Savings products had been launched. The review demonstrated that FINCA Uganda had learned from the failure of the SEP Loan in that the preparations for and implementation of the savings pilot test had improved considerably.

However, a large number of recommendations were made to strengthen the pilot test further. These included:

- i. Improving the supervision of savings operations
- ii. Introducing separate financial projections for the savings products
- iii. Significantly strengthening operational risk analysis around the pilot test
- iv. Improving pilot test monitoring
- v. Preparing for a public pilot test of the savings product

Concerns were expressed that FINCA Uganda will find it difficult to handle large volumes of savings transactions. The current pilot test specifications call for FINCA Uganda to manage only 100 transactions per teller per day, however, procedures, systems and staff should be able to handle peak workloads of 300-400 transactions per teller per day if FINCA Uganda is going to operate a mass market product. Concerns remain that FINCA's SIEM system is not as fully featured and functional as competing packages available on the market place, although further software updates are expected.

## Teba Bank

Teba Bank grew out of Teba Savings Fund, a payroll and savings facility for South Africa's gold and platinum mineworkers. Teba Bank's outlets are mainly located on mines, in mining towns and through eleven offices located in the Eastern Cape. So far, five agency offices in rural areas have been enabled to take deposits and open accounts as well as making payments. Teba Bank's *Grow With Us* (GWU) product is key to the Bank's expansion plans as it is a multi-purpose savings account, used in their off mine branches. The features of the *Grow With Us* account are given in Box 8.

### Features of Grow With Us

*Minimum balance:* Low minimum balance R40  
*Convenient deposits:* Cash, cheque and electronic deposits  
*Convenient withdrawals:* Cheque and cash withdrawals  
*Convenient Account Management:* Allows electronic transfers between accounts  
*Help desk:* Assists customers with filling out withdrawal slips and other related matters  
*Interest:* comparable with other financial institutions, calculated on a minimum daily balance and capitalised monthly  
*Savings book:* supplemented by introduction of ATM/debit card in the medium-term.  
*Withdrawal limit:* R10,000 unless prior arrangements are made with the regional manager.

#### Box 8: Features of Teba Bank's *Grow With Us* Product

*GWU progress:* The GWU account grew strongly during the first six months of 2003. Growth slowed against target during the second half of the year due to short-term operational difficulties resulting from the introduction of a new banking system and the lack of EFT functionality on the GWU account. By November 30<sup>th</sup> 2003, the GWU account had reached 87,705 accounts totaling more than US\$16 million.

<i>GWU</i>	<i># Accounts</i>	<i>US\$</i>
<i>November 2002</i>	45,529	6,633,744
<i>January 2003</i>	54,977	7,839,280
<i>May 2003</i>	69,517	10,381,498
<i>August 2003</i>	79,009	12,476,920
<i>November 2003</i>	87,705	16,272,087

**Table 11: Performance of the GWU product**

*Pricing Strategy:* Concern was raised that the pricing strategy for the GWU product would lead to many small depositors losing their funds through the application of monthly ledger fees. This would pose a serious reputational risk, which would result in decreased sales of the GWU product. After research TEBA Bank decided to adjust the pricing of the GWU product by increasing the withdrawal fee and eliminating the ledger fee. The new pricing strategy has been implemented and the feedback from the regions is positive on the uptake and acceptance of the new pricing.

*Customer Service:* During 2003, Teba Bank focused on improving its level of customer service. An analysis of front line staff requirements resulted in a number of additional teller, service advisor and loans officer positions being approved and filled. In addition, the Damelin customer care course, customised for Teba Bank staff, was revised and updated, with more emphasis on staff attitude management and customer care standards.

*A-Card:* The *A-Card* is a multifunctional debit card that is currently being developed and pilot tested by Teba Bank. Introducing an electronic banking product is a very complex endeavour. Early in 2003, Teba Bank launched a pilot test to ensure the interoperability of the *A-Card* on other banks' infrastructure. Rather than choosing to switch through a licensed bank Teba opted to obtain the necessary clearing licenses itself. In this move Teba joined the Big Four South African Bank's in the clearing mechanism.

After formalising linkages and ensuring connectivity, Teba Bank launched two pilot tests during the period. The first pilot was to launch the card in a restricted pilot test in the Randfontein region primarily to test functionality off TEBA Bank's own network. In the second pilot "Community C" aimed develop a network of community telephones, in which the *A-Card* would be used for airtime top up.

*MicroSave* conducted two reviews of the *A-Card* during the year. Amongst other recommendations, the first review noted that a key challenge for the *A-Card* was to develop financial literacy tools for customer training to explain the use and functionality of the card to issuers, merchants and customers. Teba Bank successfully submitted a proposal to the *MicroSave / ARB Product Development Fund* to develop financial literacy tools and to train Teba Bank and partner organisation staff in the use of the tools.

The second review noted the increasingly polished delivery of the card and card services. This was evident not only in the *A-Card's* technical functionality, but in the quality of the marketing materials developed and technical contributions from other Teba departments. There is increasing consistency in Teba Bank's approach to new potential partners.

The review recommended the creation of a Partners' Pack. The Partners' Pack would consolidate information required by new card issuers and would enable Teba Bank to process an increasing number of new partners more quickly and in a more consistent manner. The Partners' Pack would ensure that Teba Bank address a wide range of communication requirements, including documenting a technical overview, product related information, issuer training, legal and regulatory compliance etc.

*GWU Loan Review:* Teba Bank plans to introduce a new unsecured loan product called the *Grow With Us* Loan. As progress in developing and testing this loan has been slower than anticipated, Teba Bank asked *MicroSave* to conduct a review. The review recommended changes to the way consultancy support was being provided to the product to improve relevance and responsiveness and to ensure value for money. Improvements were recommended to the financial projections including the addition of sensitivity and scenario analysis, as were changes to loan recovery procedures.

*Product development process:* *MicroSave* reviewed Teba's product development process. The review was a participatory exercise with Teba Bank staff breaking down the steps of the product development process into typical tasks, and examining responsibility for those tasks.

### **Centenary Rural Development Bank**

**Product Performance:** After extensive research indicating the demand for home improvement loans, Centenary Rural Development Bank launched their Home Improvement Loan (HIL) in November 2002. The features of the loan are given in Box 9:

#### **Features of the Home Improvement Loan**

*Use:* to assist Ugandans to develop their homes.

*Loan Term:* six months to two years depending on use.

*Interest:* priced at the Centenary Bank's base interest rate in effect at the time of disbursement and fixed for the term of the loan.

*Security / collateral:* up front savings of 20%, with land titles and employer guarantees.

*Amount:* ranges from Ushs.100,000 (\$54) to a maximum of Ushs.10,000,000 (\$5,405)

*Process:* involves application, verification / valuation and approval by the loans officer and loans committee respectively.

*Payment mode:* monthly for salary earners with some flexibility in repayment schedule for non-salary earners.

#### **Box 9: Features of the Home Improvement Loan**

The detailed performance of the *HIL* is given in Table 12 below. Although Centenary managed build a significant portfolio of more than \$5 million dollars by November 2003, the performance of the product has differed greatly between branches. In general the two pilot test branches of Mbarara and Mitiyana gave a greater number of smaller loans than branches launching the product subsequently.

	# Accounts	US\$
<b>November 2002</b>	440	739,027
<b>January 2003</b>	660	1,034,315
<b>May 2003</b>	1,758	2,598,111
<b>August 2003</b>	2,376	3,418,299
<b>November 2003</b>	3,231	5,540,210

Table 12: Performance of HIL during 2003

MicroSave conducted a review of the rollout of the *HIL* in March 2003, this noted:

- *Rollout by memo:* The rollout of the *HIL* was performed, through a single head office memo - with no formalised training. Subsequent monitoring of the product was poor with the Head Office simply collecting performance data on the product.
- *Simultaneous rollout of products:* The simultaneous rollout of the easier to market and process multi-purpose salary loan reduced demand for the Home Improvement Loan, whilst focusing Centenary Bank staff on the salary loan.
- *Poor marketing and communications:* Marketing was highly centralised, concentrating on expensive radio advertising. Marketing materials were of variable quality from eye catching and informative brochures to poor posters. Communications around *HIL* needed to improve with no Frequently Asked Question Guides, and insufficient upward communications channels to resolve loan officer queries on the product.
- *Policies and Procedures:* The policies and procedures associated with the product were interpreted very differently from branch to branch, with very different attitudes to the collection of securities, the acceptability of multiple loans, and the application of the compulsory savings requirement.
- *Cannibalisation:* The pricing of the *HIL* product risked cannibalising the more expensive working capital loan.

Over the following six months Centenary took action against some of the points in the review. To avoid cannibalisation of working capital loans, Centenary increased the interest rate on the *HIL* to 28%. Policies and procedures were more uniformly applied with the compulsory application of the 15% Fixed Deposit Requirement. Furthermore, the corporate policy now allows loans to be made on *kibanja* mortgages of up to Ushs.5 million.

### Kenya Post Office Savings Bank

**The Bidii Savings Account:** The *Bidii* Savings Account is a computerised savings account that offers significant advantages over Kenya Post Office standard passbook based Ordinary Savings Account. The features of the *Bidii* Savings Account are provided in Box 10:

Features of <i>Bidii</i> Savings Account
<i>Fast:</i> service through a computerized card based account
<i>Safe:</i> as lost cards can not be used on the account
<i>Low opening balance:</i> minimum balance: Ksh.500
<i>Low account opening fee:</i> Ksh.300
<i>Interest paid according to balance:</i> minimum balance to obtain interest Ksh.10,000
<i>Withdrawal fee:</i> Ksh.30

Box 10: Features of the *Bidii* Savings Account

**Performance of Bidii:** During 2003 Kenya Post Office Savings Bank (KPOSB) began to experience noticeable growth in its *Bidii Savings Account*. The number of accounts grew by 198% during the year to 12,746, whilst deposits grew by 264% to more than US\$ 2.5 million over the same period. Strong growth continued into 2004, so that by the end of January 2004 more than 18,000 accounts had been opened.

	# Accounts	US\$
November 2002	4,277	698,254
January 2003	4,536	729,686
May 2003	6,114	1,066,000
August 2003	8,461	1,480,000
November 2003	12,746	2,545,600

Table 13: *Bidii* Results During 2003

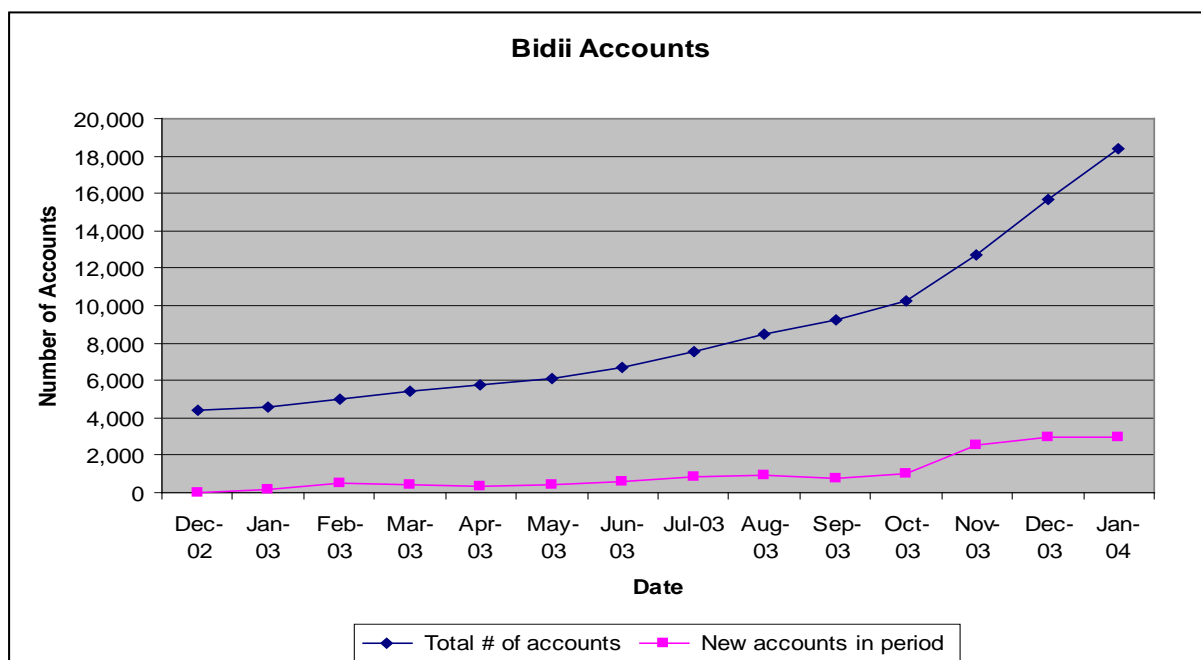


Figure 3: Performance of *Bidii* during 2003

Progress resulted from the gradual reduction of operational and strategic constraints combined with the gradual rollout of the product. The following factors explain the improvement.

**Staff accounts:** During the year, staff members were encouraged to open *Bidii* accounts, through which their salaries were paid. Although initial take up of the account was low, partly due to an earlier failed attempt to computerise salary accounts, by the end of March 2003, nearly all Head Office staff had opened an account. This proved important for two reasons firstly, it convinced staff of the benefits of the *Bidii* account, which in turn empowered staff to sell the *Bidii* account to KPOSB's customers. Secondly, the payment of staff salaries through the *Bidii* account provided an opportunity to pilot test computerised salary processing, an area where KPOSB sees huge potential for growth.

**Internal commitment to the product:** Throughout 2002, many within KPOSB perceived *Bidii* as a special purpose product for market traders, which indeed, is how the product had been designed. *Bidii* had been developed by the Business Development Department and lacked a powerful sponsor within Operations. This changed in 2003, with the promotion of the former Business Development Manager to become General Manager Operations.

**Relaunch:** KPOSB re-launched the *Bidii Savings Account* internally in several branches due to very poor performance. During the re-launch all branch staff received training in the product and were encouraged to have their salaries paid through a *Bidii* account. Previously, staff at Nyeri had given competition from Equity Building Society as the main reason for the poor performance of the product. However, after re-launch in April and May there was a dramatic increase in the number of new accounts - staff awareness, knowledge of, and support for *Bidii* appeared to have influenced product performance to a much greater extent than local competition

Branch	March	April	May
Nyeri	36	89	115

**Table 14: New accounts at Nyeri Branch before and after relaunch**

**Rollout:** Rollout of the *Bidii* product was delayed due to Oracle licensing issues and the halting of procurement by parastatals by the new government. Once these issues were resolved, KPOSB was able to rollout *Bidii* to new locations. Table 15 shows KPOSBs progress in rolling out the *Bidii* product.

	Date Rolled Out
<b>Head Office Branch</b>	March
<b>Market Street</b>	March
<b>Afya Street</b>	October
<b>Cannon Street</b>	October
<b>Wabera Street</b>	October
<b>Nacico</b>	October
<b>Eldoret</b>	November
<b>Kisii</b>	November
<b>Nyahururu</b>	November

**Table 15: Rollout of the *Bidii* Product**

**Rollout Review:** In July a combined team from *MicroSave* and KPOSB reviewed the initial rollout of the *Bidii* product visiting all eight branches that at that time operated the account. The rollout review produced the following observations.

- **Management:** The product lacked clear guidance from the senior management on the future importance of *Bidii* to the bank - moving the product to Special Products Department rather than directly into the operations division evidenced this. There was also limited understanding of the cost effectiveness of *Bidii* amongst staff.
- **Targets:** Targets for the product were very modest and easily achievable – prominence was given to achieving high targets for the OSS account. Low targets reinforced staff attitudes, and staff attitudes reinforced low sales.
- **Cross Selling:** KPOSB was missing opportunities to sell its more efficient *Bidii* account to its existing customer base.
- **Domicility:** Currently the account only works at the branch at which the account was opened. KPOSB needed to develop temporary procedures to address this issue, to allow account holders access to the account, at a premium fee, from other branches.
- **Procurement:** A range of equipment necessary for professional operation and the expansion of the *Bidii* product was not being procured due to the new government halting direct procurement in para-statal institutions.

As a result of the review KPOSB made a number of changes. It moved *Bidii* from Special Products Department to Operations Headquarters. Senior Management endorsed the product. Targets were examined and set at higher levels. Cross selling to existing OSS customers was actively encouraged.



KPOSB applied to the *MicroSave* / ARB fund and secured modest funds to facilitate further rollout of the product commencing in October.

Although there has been a significant growth in the number of *Bidii* Savings Accounts, performance remains patchy. Many branches are not meeting their targets. A further review from *MicroSave* revealed fundamental weaknesses in marketing.

Staff at all branches professed difficulty in marketing *Bidii* due to a shortage of front line staff. However, both *MicroSave* and KPOSB management are aware that branch attitudes towards marketing are a more fundamental concern in as much as members of branch staff believe that marketing is a head office activity that occurs periodically rather than a responsibility of the branch - supported by head office. It was also found that many front line staff were frequently mis-selling the *Bidii* account by starting with the statement "The problem with this account is that it is domiciled." A clear corporate policy on marketing the *Bidii* account and on handling the domicility issue exists and needs to be better implemented.

*Product Costing*: KPOSB performed a product costing based on the June 2003 results. This shows that the *Bidii* account is currently making a loss. This is not unexpected given that the relative size of the *Bidii* account (around 2% of total deposits) and the exceptionally low income currently derived from Treasury Bills and Treasury Bonds in Kenya. As deposit volumes and / or investment rates rise the product is expected to become profitable. There is also the potential to adjust transaction fees upwards slightly.

## **FINCA Tanzania**

During the year *MicroSave* assisted FINCA Tanzania to prepare the *Uvibiashara* micro-leasing product. The *Uvibiashara* product is designed to provide loans for small capital assets.

### **Features of the *Uvibiashara* Leasing Loan**

*Use*: to finance loans for purchase of fixed assets operated in defined sectors

*Loan Term*: Four to fifteen months depending on size of loans

*Interest*: 28.5% per annum flat

*Security / collateral*: 20% cash collateral, 125% security on assets other than the leased asset

*Amount*: Tsh.500,000 to Tsh.5,000,000

*Process*: Application and review by dedicated *Uvibiashara* Leasing Officers

*Payment mode*: monthly for salary earners with some flexibility in repayment schedule for non-salary earners

#### **Box 11: Features of the *Uvibiashara* Leasing Loan**

*Uvibiashara Pilot Test*: *MicroSave* reviewed FINCA Tanzania's preparations for the *Uvibiashara* micro-leasing product. This included a detailed review of operational processes and procedures, which recommended the simplification of processes and procedures for smaller value loans, the development of training materials and the separation of marketing plans, and related information from the procedures manual. FINCA Tanzania's SIEM system required additional testing and development prior to pilot testing.

The *Uvibiashara* financial projections model developed by FINCA Tanzania was reviewed. Sensitivity analysis was performed which showed that key assumptions included the loan loss provision, the allocation of indirect costs, the costs of funds for lending, and the turnover of clients.

*Launch of the Uvibiashara Pilot Test*: FINCA Tanzania hired a manager to control the *Uvibiashara* Pilot Test and three loan officers. FINCA Tanzania has now launched the *Uvibiashara* pilot test. FINCA decided from the outset that this would be a very tightly controlled and rationed pilot test with a gradually increasing client load. As at November 30th there were 9 *Uvibiashara* loans, and another 15 clients with applications in process. Total disbursements amounted to Tshs. 3.8 million. The current estimate is that the pilot test and rollout phase will last 18 months. Three loan officers have been



recruited and have been given an initial target of 5 micro-leases per month to allow them to do detailed analysis before making the loans

	# Accounts	US\$
<b>November 2003</b>	9	3,619

**Table 16: Performance of Uvibiashara during 2003**

*Customer Service Tool:* MicroSave started work on a customer service diagnosis and analysis tool. It was first tested with FINCA Tanzania. A total of 60 questionnaires were distributed and 45 were returned. Key improvements to the tool were identified. A modified customer service tool will be further tested within other MicroSave ARPs before being incorporated in a Customer Service Toolkit in 2004.

The tool revealed that staff felt that there was duplication of procedures, poor customer service, poor levels of customer understanding. Other issues related specifically to elements of the FINCA methodology – including customers' dislike of carrying large amounts of cash whether from disbursements or banking repayments.

### **Uganda Microfinance Union**

MicroSave worked with Uganda Microfinance Union to prepare for pilot testing the *Express Savings Account*. This involved working on costing, preparing financial projections, planning the pilot test and market research aimed at refining the product concept and developing marketing material.

*Financial Projections:* Financial projections for *Express Savings* were developed that showed different pricing combinations – with or without ledger fees, and at varying levels of withdrawal fees. A change was made to MicroSave's standard savings projection model to model a gradual improvement in efficiency – which in the experience of other ARPs often follows computerisation. Sensitivity analysis suggested key variables to be monitored during the pilot test included the number of accounts open, the average account balance, investment yield, the number of transactions per teller per day, and the number of transactions.

*Concept to prototype market research:* Concept to prototype market research was used to finalise the features of the product. Focus group discussions were used to create a benefit statement. A benefit statement analyses the key benefits of the product in clear, concise and client friendly language, and is used to create marketing material.

*Product Costing:* An allocation based costing methodology was used to produce a costing for UMU's products, as earlier attempts to introduce Activity Based Costing had stalled. Whilst the product costing did not change UMU's perceptions of which products drove the profitability of UMU, the relative profitability of different products was surprising. UMU's profit drivers were the larger business loans, the "Micro-Corporate Loan", and the "Employer Guarantee Loan".

UMU's working capital loan made a small profit as a loan, but when combined with its compulsory savings component, it made a sizeable loss. Factors in the low profitability of the working capital loan included, manual systems for processing savings and loan repayments, very small initial loan sizes and the intensive loan follow-up required. UMU has already doubled its minimum working capital loan, and is currently computerising its procedures.

A second product costing carried out in early 2004 showed that UMU's changes in policies and procedures had made a difference and the working capital loan when combined with its compulsory savings component made a moderate profit.

*Deferring Express Savings:* UMU decided to defer the further development of its *Express Savings Products* until 2004. This was in part due to UMU wishing to obtain a license as an MDI before

developing its savings product, and in part due to UMUs ambitious branch expansion plans which were absorbing significant management time and attention.

### **Credit Indemnity**

Credit Indemnity (CI) has become a division of African Bank. This may impact upon the autonomy of CI's existing management to make decisions, but it will enable CI to utilise African Bank's license to develop savings products.

*Product Development:* CI is pilot testing an 18-month lower interest loan in six branches. Initial results have been encouraging. Letters were sent to 7,000 customers of different profiles, from which there has been a 10% uptake. Later this year CI plan to produce research on lending to the non-salaried sector which is a major un-served sector in the South African financial market place.

*Elasticity of Demand Research:* CI have been working with a researcher, Professor Dean Karlan to establish the elasticity of demand for their loan products, in order to take informed decisions about their future interest rate strategy. The research is progressing well and will be extended to a larger group of clients. In total 70,000 letters offering different interest rates were sent out to dormant CI customers. Customer response was encouraging with a 14% return rate as compared with a normal return rate of 4% from dormant clients.

*Activity Based Costing:* CI expects to introduce Activity Based Costing in the first quarter of 2004. Currently all the relevant data has been captured and cost centres allocated into the general ledger. Modifications to the costing are being made in line with changes to CI's scorecard system.

*Market Research:* Credit Indemnity continues market research around savings product development. Initial research highlighted that a significant proportion of CI's borrowers already have a bank account. Therefore, CI intends to develop a savings product, which carries an automatic entitlement to an overdraft or credit line depending on savings history. There remains however, concern as to whether CI will be seen as a safe or desirable place to save given its history and image as a credit retailer.

### Principle On Site Technical Assistance Provision During 2003

	<i>Establishing Pilot Test</i>	<i>Pilot Test/Rollout Review Visits</i>	<i>Costing</i>	<i>Staff Incentive Schemes</i>	<i>Issue Based Consultancy</i>
<i>KPOSB Kenya</i>		<i>Bidii</i> rollout reviews	Allocation Based Costing	Staff incentive schemes review	
<i>EBS Kenya</i>	<i>SAKO Plus</i>	<i>Jijenge</i> Rollout reviews <i>SAKO Plus</i> Pilot	Mobile bank costing		Process mapping Customer Service Strategic Marketing
<i>CERUDEB Uganda</i>		<i>HIL</i> Rollout	Allocation Based Costing		
<i>FINCA Uganda</i>	<i>Open Access Savings Group Savings</i>	<i>Open Access Savings Group Savings</i>		Staff incentive schemes review	
<i>UMU Uganda</i>	Express Savings		Allocation Based Costing	Staff incentive schemes review	
<i>TPB Tanzania</i>		<i>DQA</i> Rollout Micro-credit reviews		Staff incentive schemes review	Feedback Loop Strategic Marketing
<i>FINCA Tanzania</i>	<i>Uvibiashara</i> Pilot Test preparation	<i>Uvibiashara</i> Rollout review			
<i>Teba Bank South Africa</i>	<i>GWU</i> loan preparation <i>A-Card</i> Pilot Test preparation			Staff incentive schemes review	Product process review

Table 17: Principle On Site Technical Assistance Provided by *MicroSave* to its ARPs During 2003

# MicroSave Briefing Note # 10

## MicroSave's Action Research Programme Review 2001<sup>1</sup>

David Cracknell, Henry Sempangi, Graham A.N. Wright, Leonard Mutesasira, Peter Mukwana and Michael J. McCord

Under its Action Research programme, **MicroSave** is learning and disseminating lessons relating to the product development process. This note documents the progress made during 2001.

**The Action Research Partners (ARPs) as of December 2001**  
Currently **MicroSave** works with eight institutions in four countries:

1. **Kenya** – Kenya Post Office Savings Bank and Equity Building Society
2. **Tanzania** – Tanzania Postal Bank
3. **Uganda** – Uganda Microfinance Union, Centenary Rural Development Bank, and FINCA Uganda
4. **South Africa** – TEBA Bank and Credit Indemnity

### The Lessons Learned To Date:

**Plan, Review and Re-plan:** The truthfulness of the old adage, “If you fail to plan, you plan to fail” is self evident, but frequently ignored. Failing to have a product development team meeting regularly undermines the value of forming the team. Not providing the product development team with sufficient time or budget to monitor the pilot test<sup>2</sup> means that lessons take longer to learn and longer to internalise. Conversely, good planning combined with adequate resources pays dividends, as shown by Equity Building Society in their allocation based costing exercise.

**Mainstream the Product:** In larger institutions, new products can become sidelined, identified as a niche product developed by a particular department. New products should be regarded as priorities for the institution if they are to receive the support they require to make it to the market.

**Design a Winning Product:** Do not shortcut the research process<sup>3</sup>. TEBA Bank in South Africa was about to go to the market with a funeral insurance product. This product was designed to free clients from the burdens of financing and arranging a funeral for their family at a time of grief. Surely a winning product! However, participatory market research

demonstrated that planning a funeral was an important family obligation to the deceased and a part of the process. Had TEBA Bank's original funeral insurance product gone to the market it would have failed.

**Use Market Research to Identify Quick Wins:** MicroSave market research uncovers a significant number of “quick win” ways to improve existing or new products, which do not take an elaborate pilot test. In the case of FINCA Uganda, this was in improving communication to field staff when policies changed; for Equity Building Society one quick win was in relating charges more clearly to services delivered and for many other ARPs' opportunities to improve marketing of their products.

**Develop Confident Financial Projections:** A product will only be successful if it can make a profit. A financial institution needs to develop financial projections that demonstrate *on the basis of the best knowledge available*, that the product will be profitable. A financial model is built based upon key assumptions, which must be reviewed as the pilot test progresses.

**Ensure Feedback:** Feedback loops need to be built into the process of product development. This is done through setting up a product development team that meets regularly, building continuing market research into the pilot test process and being concerned about customer service standards and satisfaction. Client based feedback loops can be especially powerful<sup>4</sup>.



<sup>1</sup>For more details on the Action Research Programme visit **MicroSave**'s website: [www.MicroSave.net](http://www.MicroSave.net)

<sup>2</sup>For more on **MicroSave**'s Toolkit on “Planning, Implementing and Monitoring Pilot-Tests”, visit **MicroSave**'s website: [www.MicroSave.net](http://www.MicroSave.net) under the Toolkits section.

<sup>3</sup>For more on the product development process see Wright, Graham A.N., “Market Research and Client Responsive Product Development”, **MicroSave**, 2001 – available on **MicroSave**'s website: [www.MicroSave.net](http://www.MicroSave.net) under Study Programme section.

<sup>4</sup>See McCord, M.J., “The Feedback Loop: A Process For Enhancing Responsiveness to Clients”, **MicroSave**, 2002

### **Uncover and Understand Loss Making Products:**

Financial institutions need to understand the cost structure of their products<sup>5</sup>. Most of *MicroSave*'s Action Research Partners have at least one loss-making product. Generic reasons for loss making products, include inappropriate pricing, high head office overheads, low volumes of activity, over exposure to interest rate risk, low levels of fee income and over-elaborate back office processes.

*“Product Costing has already become an indispensable tool... after only three months costing it is impacting on many of the strategic decisions being made within the institution”*

### **Pay Attention to Pricing Your Products:**

*MicroSave*'s Action Research Partners, frequently pay more attention to the costs of their operation, and indeed costing their products, than pricing their products. For Tanzania Postal Bank one problem was an institutional resistance to changing the interest rates on the Domicile Quick Account at a time when the investment income available to the bank was plummeting. In the case of Equity Building Society market research discovered that clients uniformly disliked the way that Equity priced their products, the Building Society was perceived to be expensive because of the way they communicated the interest rate on their loans when these were in fact cheaper than many competing products.

**Craft Your Incentive Scheme:** A well-designed incentive scheme can significantly enhance staff performance. However, an existing incentive scheme can pose major challenges to the development of new products, especially where the new product affects the dynamics of the incentive scheme. Initially some FINCA Uganda Credit Officers were opposed to the introduction of the new Small Enterprise Partnership product, as moving their existing, high-value clients to the new product affected their bonus payments.

**Building Capacity – Start Simple:** For *MicroSave* to promote high quality financial services for poor people, it builds capacity within its Action Research Partners to develop and promote their own financial services. *MicroSave* emphasises simplicity and incremental development. Workshops are used to introduce concepts, followed by practical work with our partners, in the field or in their offices, directly after the course, to develop and embed tangible results.

There are often more rigorous – but more demanding, technically sound solutions, such as Activity Based Costing, which cannot always be introduced without first building capacity.

### **Develop an IT Solution Appropriate for Your Pilot Test:**

Developing IT systems can be very challenging, but is made more so when the product changes and develops through its initial design, to concept to prototype work and during the pilot test. To control costs, it is essential that the product is well specified before IT development gets underway, where investment in IT is likely to be very heavy – it may be worth developing a low tech interim solution for the pilot test as TEBA Bank have done for their Home Improvement Loan.

**Consider Contracting-Out Services:** Where suppliers exist and capacity is required, it is possible to contract out elements of a Pilot Test, whether this is the management

*MicroSave assists its ARPs in the process of market-led product development, providing a varied package of services. It help ARPs understand the issues involved in moving from product design to full-scale implementation. MicroSave serves as a sounding board and documents at least some of the partners' experiences.*

of the test, review or evaluation, market research or marketing.

**Communicate Your Product:** Examples of poor communication are all too common, whether in disseminating new policies, training staff or marketing products. Fortunately *MicroSave*'s “Market Research for MicroFinance” tools can clearly identify lapses in communication and can be used to facilitate the communication of products to staff and customers in “clear, concise client-language” through developing benefit statements and FAQ guides.



<sup>5</sup>For more on *MicroSave*'s Toolkit on “Costing and Pricing Financial Services”, visit *MicroSave*'s website: [www.MicroSave.net](http://www.MicroSave.net) under the Toolkits Section

<sup>6</sup>See Holtmann, M. et al “Designing Staff Incentive Schemes”, on the *MicroSave* website under the Study Program



# MicroSave Briefing Note # 20

## Lessons from *MicroSave's* Action Research Programme (2002)

David Cracknell, Henry Sempangi, Graham A.N. Wright, Leonard Mutesasira, Peter Mukwana and Michael J. McCord

Under its Action Research Programme, *MicroSave* learns and disseminates lessons relating to market-led microfinance. This note documents lessons learned in 2002. Lessons learned in 2001 are documented in *MicroSave* Briefing Note # 10.

### The Action Research Partners (ARPs) as of December 2002

**Kenya** – Kenya Post Office Savings Bank and Equity Building Society

**Tanzania** – Tanzania Postal Bank and FINCA Tanzania

**Uganda** – Uganda Microfinance Union, Centenary Rural Development Bank, and FINCA Uganda

**South Africa** – TEBA Bank and Credit Indemnity

**Market-Led Microfinance:** *MicroSave's* goal to “promote high quality financial services for poor people” focused *MicroSave* on product development. However, from the constraints faced by our ARPs, *MicroSave* realised that the *delivery* of demand-led financial services, required an institutional focus on market-led microfinance. And on improving both efficiency and effectiveness, through strategic marketing, customer service, process mapping and risk analysis in addition to market research and product development.

**Being Responsive to Your Clients Concerns Can Significantly Improve Profitability:** *MicroSave's* experience, particularly with Equity, and Tanzania Postal Bank, suggests that taking action to address your clients' concerns can significantly increase your volume of business and thereby your profitability. Since re-engineering its products and improving customer service, in 2002, Equity grew by 40% and its profits have doubled.

**Practice Strategic Marketing:** In 2001, *MicroSave* developed a “**Product Marketing Strategy Toolkit**”. Whilst performing marketing audits with TMS Financial a South African marketing company, *MicroSave* became aware of the strategic dimensions of marketing. Strategic marketing includes product marketing, corporate image and branding, customer service and delivery systems. Using this awareness *MicroSave* developed a strategic marketing workshop, which will form the basis of a “**Strategic Marketing for Microfinance Toolkit**”

**Develop a Commitment to Customer Service:** Customer Service represents one of the few tangible, controllable aspects of financial services. Yet, MFIs are only beginning to appreciate the value and importance of customer service, as institutions focused on customer service gain market share. In 2002, *MicroSave* began to explore customer service within its ARPs, carrying out a Customer Service

Audit within Tanzania Postal Bank in collaboration with UNISIS a Ugandan human resource consultancy, several additional Customer Service Audits are planned, which should enable *MicroSave* to draft a “**Customer Service Toolkit**” during 2003/4.

**Use Focused Market Research:** Understanding customer requirements is a critical dimension of the market-led agenda. Use focused market research – in product design, in product refinement, in product marketing, in customer service, in uncovering corporate image, and in developing competitive intelligence.

**Build Your Corporate Brand:** Every MFI has a corporate image – its image in the market place, which strongly influences actual and potential clients. To influence public perceptions about your MFI you need to consciously develop a corporate brand. Corporate branding is particularly strong in our South African partners, but efforts by Tanzania Postal Bank to strengthen its corporate brand have had a significant impact on the institution's credibility.

**Perform Marketing Audits:** From the experience of *MicroSave's* ARPs most effective financial marketing functions evolve gradually over a number of years. A “Marketing Audit” aimed at improving the effectiveness of marketing, which brings experienced financial marketing consultants to examine your marketing function can have a substantial impact. The challenge is that to date few financial marketing consultancies understand the microfinance market place. More information on Marketing Audits will be available in *MicroSave's* “**Strategic Marketing for Microfinance Toolkit**”

**Organise the Rollout of your Products:** Once a financial service has been piloted, how you introduce the product to each new location has a significant impact upon the success or failure of the product. In each new location as a minimum, staff training, marketing the product to clients *and staff* and customisation of systems and procedures will be required. See “**Product Rollout: A Toolkit for MFIs Expanding a Tested Product Throughout its Market**”.

**Be Proactive in Risk Analysis and Management:** Proactive risk identification, analysis and management are essential in developing a market-led MFI's, products and services. Frequently challenges that arose during pilot testing within our ARPs could have been identified, analysed and managed before the pilot test started. Problems related to capacity, management commitment, financial resources, and the adequacy of information

systems. This led *MicroSave* to investigate risk within product development, to employ Shorebank to perform a risk management review and to draft a “**Toolkit For Institutional and Product Development Risk Analysis for MFIs**”.

**Adopt Continuous Improvement:** “Continual improvement of the organization’s overall performance should be a permanent objective” Hoyle (2002). Frequently “best practice” in microfinance has focused narrowly on the goals of sustainability and outreach, and more recently in improving transparency. Yet, the broader agenda imposed by market-led microfinance, necessitates an institutional commitment to continuous improvement.

**Learn from the Formal Financial Sector:** *MicroSave* works with a range of partners, from NGO MFIs, Parastatal savings institutions, commercial banks, to licensed moneylenders and insurance companies. Many of the lessons currently being learned by MFIs - as they become increasingly market-led, have already been learned by the formal financial sector. The context of microfinance may be different as it works with a specific, underserved, and often hard to reach segment of the population, but microfinance remains a segment within the financial sector.

**Build a Management Team:** Market-led microfinance places huge demands on a microfinance institution. The range of skills and high degree of competency required, demands the creation and building of a competent cross functional management team. Several ARPs had to significantly upgrade their management teams during 2002, in preparation for transformation and / or growth.

**Mine Your Data:** Typically microfinance institutions gather mountains of data, on client selection and impact, and through client application, exit interviews and in routine monitoring. Few MFIs maximise the use of this data, for example in creating client scorecards for risk assessment, in analysing the behaviour of different market segments, or in product costing and pricing. Institutions that actively mine their data can develop a key strategic advantage over their competition.

**Ensure Your Product is Compatible with Your IT System Before Pilot Testing:** IT systems should not drive product definition. However, on several occasions our ARPs have pilot tested products that were incompatible with their IT systems, which failed to calculate fees, charges or apply interest correctly. Late identification of problems led to extensive delays, disappointed customers and a declining image.

**Work Your Financial Projections:** Financial projections are used to ascertain if and when a new product is likely to become profitable. In practice the assumptions underlying financial projections are reviewed infrequently. To maximise

the value of your financial projections, regularly compare your projections with actual data, perform sensitivity analysis to determine the impact of key variables, and check your assumptions.

**Operationalise Product Costing:** Product costing will provide valuable intelligence about the costs and revenues of products, but will only add to profitability when it influences strategic decision-making or it targets additional investigation.

**Perform Process Analysis to Improve Efficiency:** “A desired approach is achieved more efficiently when related resources and activities are managed as a process” Hoyle (2002). Mapping processes is an effective way of identifying potential improvements in the operation of a particular product, to record procedures for training manuals, to review potential risks and their associated controls, and to enable a comparison of observed against documented processes.

**A Project Management Approach Can be Adapted to the Pilot Testing Process:** A project management approach that draws upon defined project phases from conception and start up, to definition, to risk management, to planning and executing the project, closure and project evaluation – can be adapted to the pilot testing process, with the major proviso that the pilot testing process needs to be more iterative than is common in a project management approach.

**Develop Strategic Collaborations:** Strategic collaborations offer opportunities to gain knowledge, quickly and appropriately, whether this is through employing people who know a particular product area, through sharing knowledge or through more formalised joint venture arrangements. Properly chosen these collaborations can significantly reduce the risk involved in developing new financial services.

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All *MicroSave* references available on [www.MicroSave.net](http://www.MicroSave.net).

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