MicroSave Briefing Note # 50

Lessons from *MicroSave's* Action Research Programme (2005)

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Under its Action Research Programme, *MicroSave* learns and disseminates lessons relating to market-led microfinance. This note documents lessons learned during 2005. Lessons learned during 2001 to 2004 are documented in Briefing Note # 10, 20, 30 and 40 and associated papers.

The Action Research Partners (ARPs) as of December 2005
Kenya – Kenya Post Office Savings Bank (KPOSB) and Equity Bank
Tanzania – Tanzania Postal Bank (TPB), PRIDE Tanzania and FINCA Tanzania
Uganda – Uganda Microfinance Limited (UML), U-Trust, Commercial Microfinance Limited (CMF)
South Africa – Teba Bank

FINCA Uganda and Centenary Rural Development Bank are Associate ARPs and receive a lower level of support from *MicroSave*

Strategy

Strategic alignment: The degree of alignment between an institution, its staff, management and stakeholders around critical success factors is a key determinant of success. A number of our ARPs including Equity Bank, UML, and KPOSB are investing in strategic alignment.

Shared vision: *MicroSave's* approaches have worked best where the ARP and *MicroSave* have shared a common view of target market and institutional priorities. Management changes often require a period of adjustment to different institutional priorities and this can affect ongoing activities.

Strategic marketing: The strategic marketing framework, built around the three pillars of product marketing strategy, branding and delivery channels has formed an excellent basis for building a common vision.

Modified MicroSave approach: The vital importance of strategic alignment, shared vision and strategic marketing has caused *MicroSave* to re-evaluate its approach to the provision of technical assistance. During the majority of 2005, *MicroSave* provided a significant proportion of its assistance using a toolkit by toolkit-based approach. Under this approach *MicroSave* would work at the same time within several ARPs on the same issue. However, review with partners, showed that interventions too closely packed together in time, or if not part of the institutions core objectives for that period were less effective.

Governance: Some of *MicroSave*'s strongest ARPs have excellent governance mechanisms, which can be essential especially during times of transition. In these institutions Boards have been recruited that can actively contribute to strategy and oversight through the application of specialist knowledge.

Risk Management: Basel II risk management guidelines focus on operational risk management in additional to traditional banking risks. Managing operational risk entails identifying risk owners, risk measures and indicators and creating a comprehensive framework for risk management. Most of *MicroSave*'s ARPs are currently developing risk management policies and mechanisms to comply with Basel II.

Branding

Branding is more than just logo: Many consider branding in its narrowest sense of a logo and colour scheme. However, to be effective, the physical brand must be aligned with attributes that support the brand – the brand promise. A brand that suggests fast efficient service and yet fails to deliver it can damage an institution by creating negative Word of Mouth.

Take care when contracting out: Branding as an exercise is carried infrequently as such few financial institutions in the low-income sector have in-house capacity to conduct brand analysis. The usual approach taken is to subcontract a marketing company. However, few marketing companies take the time to carry out full brand analysis for often relatively smaller customers, in a market segment that they don't understand well.

Link into strategy: Branding is a key element in becoming more market led and should clearly and effectively communicate to its target market. A brand, whether for a product or an institution, must be carefully aligned with the strategy of that institution moving forward.

Post Transformation Savings Mobilisation

Microfinance institutions that have transformed into licensed deposit taking institutions are sometimes surprised to find that savings mobilisation is difficult and challenging. This is proving to be the case in the competitive Ugandan market. *MicroSave* is exploring reasons for this with its partners, factors include:

Marketing and segmentation: Transformed institutions find it difficult to understand and market to segments beyond the usual borrower. Institutions must strive to attract net depositors, and a proportion of these should hold relatively higher values in their accounts. Newly transformed institutions often market savings through credit officers, who are incentivised on lending who then promote the credit products through marketing savings.

Differentiation and positioning: Investment in expensive media for launching a transformed institution may appear to make sense. However, other recently transformed institutions often deliver the similar message to the market. A more carefully crafted attempt to differentiate the newly transformed institutions from competing institutions may be more effective than a costly marketing campaign.

Staff incentives for savings: Care needs to be taken when designing incentive schemes for savings. These schemes which are often group based must be carefully weighted against a basket of criteria to encourage, net savers, high value and/or active accounts. See Briefing Note # 48 for more details.

Lending

Pilot testing: Experience drawn from the majority of our ARPs indicates that even relatively simple lending products, such as salary based lending must be pilot tested otherwise issues that are small during the early stages of rollout can be easily overlooked – causing delays and significant losses.

Loan portfolio assessment: During 2005 *MicroSave* tested a Loan Portfolio Assessment Toolkit; this Toolkit tests a sample of loans at branch level and at head office level for internal control, accuracy and compliance to policies and procedures.

Compliance: Equity Bank realised after introducing new procedures through process mapping that it needed to ensure compliance. It developed a compliance checklist to check regularly on the extent of compliance. By this measure alone Equity Bank was able to increase income through the correct application of penalty fees and charges.

Communications and Customer Service

Unlike some of *MicroSave*'s toolkits, such as costing and pricing, or process mapping, neither customer service nor internal communications really have a defined conclusion. Service levels vary constantly and require constant monitoring, maintenance, and attention to detail if high standards are to be maintained. This has implications for resources both in both in terms of personnel and budget.

Feedback loops:
A vast range of communications mechanisms are used to communicate with staff and customers, for example, telephone, email, reports, meetings, and memos. However, the quality and timeliness of communications are rarely assessed. Feedback loop analysis carried out by an experienced researcher can identify causes of delays and blockages.

Growing a service culture throughout the institution: Customer service is often regarded as a front office issue, as this is where customers and staff interact. However, many aspects beyond the control of the front office, including systems, procedures, internal handovers, internal and client communications and service level monitoring influence service levels. Institutions need to nurture a culture where staffs are aware of their contribution to customer service and where individuals can take responsibility for service levels. Staff can be rewarded for their contributions for maintaining service levels, through Employee Relationship Marketing schemes.

Performance

Staff Incentive Scheme:
Several ARPs have been experimenting with staff incentive schemes. For staff incentive schemes to operate effectively, there needs to be a culture of performance management within an institution. Some ARPs have found it challenging to design objectives, which can be measured on their systems in an accurate and timely manner. Secondly, institutions need to carefully check the design of the scheme through cost benefit analysis to ensure there is a benefit when the objectives are achieved.

Electronic Banking

A reality for many ARPs:
For many of our larger ARPs, the Postbanks, Teba Bank, Centenary Rural Development Bank and Equity Bank electronic banking is becoming a reality. For most, the first step is the introduction of Automated Teller Machines, which has often necessitated a banking system upgrade. UML has been pilot testing a Point of Sale-based system to extend access to services into more remote areas.

Promises versus delivery:
Delivery of e-banking solutions often lags behind the promises made by system architects and information technology vendors, with cost overruns being common. Considerable care is required during contracting.

Strategic choices for MFIs:
Investment in e-banking can be very expensive, and development of new solutions risky. Given this, while larger institutions may be able to develop their own e-banking system, but many MFIs will need to be part of a larger outsourced solution.