



MICROSAVE

PROJECT COMPLETION REPORT

APRIL 2008



CGAP



FSD Kenya
Financial Sector Deepening

FSD Kenya was established in early 2005 to support the development of inclusive financial markets in Kenya as a means to stimulate wealth creation and reduce poverty. Working in partnership with the financial services industry our goal is to significantly expand access to services among lower income households and smaller scale enterprises. FSD operates as an independent Trust under the supervision of professional trustees, with policy guidance from its programme investment committee. Finance is provided by a number of development partners including the UK's DFID, the World Bank, Ministry of Trade and Industry and the Swedish International Development Agency (SIDA).

To ensure coherence in activity and maximise impact, FSD's work is guided by focal themes. Reviewed annually, these themes will evolve as financial markets develop, priorities change and new opportunities are presented for FSD. We currently have three theme areas:

- 1) **Core financial system**, working with banks, SACCOs and MFIs; and deepening the payment systems to reach excluded markets.
- 2) **Rural finance** working with retail players while scaling up – especially service provision based on systems of large numbers of small community based organisations.
- 3) **GrowthFin - finance for growth** targeting small and medium enterprises.

**The review was undertaken by Rob Hitchins of the Springfield Centre for Business in Development.
It was commissioned on behalf of the development partners supporting *MicroSave*
The views expressed herein do not necessarily represent those of FSD Kenya, CGAP, NORAD,
Austrian government or associated agencies**

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Acronyms

ARP	Action Research Partner
CSP	Certified Service Provider
FSD Kenya	Financial Sector Deepening Kenya
FSD Tanzania	Financial Sector Deepening Tanzania
MDI	Microfinance Deposit Taking Institution
MR4MF	Market Research for Microfinance
SAM	School of Applied Microfinance
SSP	Senior Service Provider
VSD	Visual Compact Disc
YEP	Young Executive Programme

EXECUTIVE SUMMARY

INTRODUCTION

MicroSave is a four-year project funded by DFID, CGAP, the Austrian Development Agency and NORAD. MicroSave started in 1998 and is in its third and final phase, which runs from 2004 to 2007 with a value of US\$ 5.9m. On completion of this final phase MicroSave will convert into a commercial service providing organisation.

THE REVIEW

The main aims of this independent review were to assess the performance of the project's third phase and the overall experience of MicroSave over its full nine year history, identifying key achievements and lesson learned.

OVERVIEW

MicroSave's mission is *"to strengthen the capacity of financial service providers to deliver market-led financial solutions."* The goal of Phase III is *"to increase access by poor people to high-quality financial services"* and its purpose is *"to inform and build the capacity of the financial sector to provide high-quality financial services for poor people."* The project comprises of three main components:

- Action research partners (ARP): to create successful market-led financial service providers targeting the poor, as laboratories and demonstration vehicles for the rest of the industry.
- Toolkits and resources: to prepare and disseminate knowledge resources derived from working with ARPs to operationalise market-led approaches for use by the financial sector.
- Service provider capacity building: to develop the capability of technical service providers to supply support services, based on knowledge resources developed, after the project ends.

ACHIEVEMENTS

The project has completely or largely achieved its objectives and outputs. The project team is dedicated and has achieved a high degree of credibility in the industry. It deserves considerable credit for its substantial achievements. Credit is also due to *MicroSave's* funders for affording the project space and flexibility to develop its approach over time. Without this enlightened funding and accountability backdrop *MicroSave's* iterative approach would not have been possible and the outcomes referred to in this report would have been compromised.

MicroSave has been effective in promoting the adoption of market-led microfinance practices internationally. It has been relevant, contributing to substantial improvements in pro-poor financial services within the region. It has been good value for money, producing a wealth of outputs within the region and beyond. MicroSave has made an undisputed contribution to the availability of better financial services for poor people across the globe. It is not possible to attribute definitively MicroSave's impact at a global level, but within the region ARPs alone serve in excess of 2m savers and 250,000 borrowers. MicroSave has led a paradigm shift in microfinance thinking and practice, one which puts the needs of poor consumers at the heart of financial sector development. MicroSave knowledge resources are widely disseminated and used by microfinance practitioners across the globe. It is plausible that MicroSave has significantly influenced at least fifty financial service providers.

More specifically, most ARPs have experienced business growth, with clear evidence of strategic and operational changes resulting from MicroSave interventions. Their opinions of MicroSave are resoundingly and uniformly positive. MicroSave has produced more than fourteen toolkits, sixty briefing notes, four VCDs, several books and over one hundred other papers and notes. Knowledge resources have been developed to a high standard and disseminated widely and are commonly characterised as practical, hands-on and useful. The project has trained and certified thirty-nine senior service providers and thirty-six other consultants, nine YEP and six MicroSave staff, who have completed seventy-six paid assignments. In addition, hundreds of ARP personnel have acquired capacity through exposure to MicroSave support. Whilst the extent of MicroSave's influence on the local technical service market is less certain, a number of service providers are active and continuing to utilise MicroSave tools. The more well-regarded providers have been certified by MicroSave.

Other achievements: MicroSave has performed exceptionally well against all its formal objectives, exceeding many of them. The project has also achieved a number of other notable outcomes which were not originally specified inter alia: the School of Applied Microfinance; CEO Fora; the commercialisation of MicroSave; and the launch of MicroSave in India.

Critical success factors: Several distinctive characteristics underpin MicroSave's success:

- A demand-side window on the supply-side, putting poor consumers at the heart of financial sector development by asking "*what do the poor want from financial service markets. . . and why aren't they getting it?*"
- Insight, rigour and discipline, balancing a research-driven approach with on-the-ground practicality.
- An iterative, common sense approach, based on pilot activities and a learning-by-doing ethos, yielding dividends in terms of responsiveness and a solid platform for expansion.
- Accessible and localised, seeking local solutions to local problems.
- Credibility with industry – achieved through insight derived from research, technical ability and practicality – making strong partner buy-in possible.
- A "third eye" for industry players, who often struggle to distinguish between their own short term organisational interests and a wider perspective on the industry's future direction.

CHALLENGES

In view of MicroSave's considerable achievements, any challenges or weaknesses discussed here are not fundamental, but are salient to a lesson-learning agenda for other agencies who might seek to build upon MicroSave's approach:

- The risks of branding projects.
- Being close – but not too close – to partners.
- The perils of mission creep.
- Sustainability of non-commercial functions.

LESSONS

MicroSave has accumulated considerable achievements and faced considerable challenges. Important lessons can be derived from this experience for development agencies seeking to stimulate the development of markets so that they better serve the poor. These include:

- A wider financial sector development agenda – moving from organisations to systems.
- The centrality of good market understanding to effective intervention.
- Build scope for pilot initiatives and flexibility into intervention design.
- Interventions need to be guided by a strategy or "pathway" for wider systemic change.
- The role of agencies as catalysts to facilitate market system change, not participate in markets directly.
- The importance of a rigorous, transparent approach to sustainability from the outset.
- Market development requires time, good people and multi-faceted interventions, not necessarily enormous resources.

Chapter 1

INTRODUCTION

1.1 BACKGROUND

The Market-led Microfinance Project (or *MicroSave*) project is a four-year project funded by the Financial Sector Deepening Kenya (FSD Kenya) or the Department for International Development (DFID), the Consultative Group to Assist the Poor (CGAP), the Austrian Development Agency (ADA) and the Norwegian Agency for Development Cooperation (NORAD). *MicroSave*, which started in 1998, is in its third and final phase, running from January 2004 to December 2007 with a value of US\$ 5.9m.

At the time of the mid-term review in November 2005 it was determined that on completion of the final phase the *MicroSave* project should convert into a commercial service providing organisation. Accordingly a commercial entity *MicroSave Consulting Limited* was legally established in 2007. A project in India, based on *MicroSave's* experience in Africa was also established in 2006. For a summary of the evolution of *MicroSave* over its three phases between 1998 and 2007 see Table 4 in Chapter 4.

1.2 OBJECTIVES OF THE REVIEW

MicroSave and its funders have commissioned an independent review of the project. Detailed terms of reference can be found in Annex 1, but in summary the review had three main objectives:

- (a) A formal project completion report assessing the performance of the third phase project against the defined project objectives and outputs with particular focus on effectiveness, efficiency and relevance of the programme.
- (b) A review of the overall experience of the *MicroSave* programme over its full nine year history, identifying the achievements and key lesson learned.
- (c) Critical analysis of the on-going strategy for the future development of *MicroSave* examining the prospects for sustaining and enhancing its future contribution to financial market development.

1.3 REVIEW APPROACH

The review was conducted during November and December 2007 by Rob Hitchens of the Springfield Centre in the United Kingdom. The review process consisted of:

- An examination of project documentation and e-mail briefings from the *MicroSave* Programme Director in Africa. For a list of key resources examined see Annex 2.
- A twelve-day visit to Kenya, Tanzania and Uganda, including interaction with the *MicroSave* project team, examination of *MicroSave* resources, semi-structured interviews with funders, partners and other key stakeholders and informants. The review's schedule and details of key informants can be found in Annex 3.
- Email and telephone exchanges with stakeholders and informants who were unavailable for face-to-face meetings or where further follow-up was required.

Some additional comments and caveats regarding the review. *MicroSave's* partners are large and complex commercial organisations. Understanding these organisations takes time and a depth of interaction which is neither possible in a short review of this nature nor always welcomed by busy businesspeople (particularly as *MicroSave's* involvement is reducing). For these reasons, the review has not attempted to explore the minutiae of individual partners, but to establish a general picture of *MicroSave's* influence on partners and to validate the findings of a variety of secondary sources which *MicroSave* and others have generated.

MicroSave has been subjected to a great many reviews and studies over its lifetime. Many of these have been substantial pieces of work, examining in technical detail all aspects of *MicroSave's* work and have required significant resources and drawn upon the expertise of leading figures from the microfinance field. All of have been extremely positive about *MicroSave's* performance. The challenge for this review therefore was not to duplicate work already completed, but draw upon these excellent resources and offer a different and perhaps broader perspective and with the benefit of greater hindsight.

MicroSave has been about developing markets for financial services in Eastern and Southern Africa regions. Where warranted therefore the review has made comparison with other market development programmes, not just in the financial sphere, which have faced similar challenges and experiences to *MicroSave*. An overview of these programmes can be found in Annex 4.

Finally, one of the objectives of the review was to review *MicroSave's* commercial plans. Following discussion with *MicroSave* and representatives of its funders it was determined that it was not

feasible or appropriate for the review to examine the specific details of MicroSave's commercial plans after 2007. These are currently not available for examination because they are still being formulated. Moreover commercial plans of this nature are by necessity not in the public domain. Given these considerations, the review has focused on some of the strategic considerations and implications of MicroSave's impending commercialisation. These are considered in Chapters 3 and 4 of the report.

1.4 STRUCTURE OF REPORT

This report consists of four chapters. After this introductory chapter, Chapter 2 provides an overview of the project and the wider context in Eastern and Southern Africa. An assessment of Phase III of the project is presented in Chapter 3. A review of the overall MicroSave experience and lessons learned from that experience is covered by Chapter 4.

The report also contains a number of annexes: the terms of reference of the review, documentary resources examined, the review's schedule and key informants consulted, summaries of other significant market development programmes, performance against project performance matrix, coverage of toolkits and capacity building and semi-structured interview templates.

Chapter 2

PROJECT BACKGROUND AND CONTEXT

2.1 PROJECT OVERVIEW

The overarching mission of MicroSave is “strengthening the capacity of financial service providers to deliver market-led financial solutions.”

Based on a successful pilot phase and subsequent second phase of the project it was recommended that in Phase III MicroSave should reduce its emphasis on research and focus more strongly on demonstrating the commercial viability of a market-led approach and also to start developing a cadre of local consultants and trainers to ensure that MicroSave’s knowledge and influence are able to continue beyond the life of the project.

2.1.1 Action research partners

The aim of this component is to create a variety of successful and profitable, market-led financial service providers targeting low-income segments of the population. The ARP originally served as a kind of laboratory for MicroSave to develop solutions for more market-led microfinance. In this phase greater emphasis has been placed on ARP as vehicles to demonstrate to other financial service providers the market potential lying in low-income segments and the ways in which those segments can be reached.

Table 1: MicroSave Phase I and II timeline and outcomes

	Phase I	Phase II
Period (budget)	1998-2000 (\$1m)	2001-2003 (\$3.9m)
Key outcomes	First systematic effort to bring the perspective of poor clients into MFIs. Development and delivery of market research courses, research and dissemination of concepts about savings and client awareness.	Global reputation for client-responsive approach to financial services for the poor. Putting market-led approach into practice. Expansion of high quality research, toolkit development, training and dissemination.

The goal of Phase III is “to increase access by poor people to high-quality financial services” and its purpose is “to inform and build the capacity of the financial sector to provide high-quality financial services for poor people.” The duration of Phase III is from January 2004 to December 2007, with a budget of US\$5.9m and a staff of six full time people, based primarily in Nairobi.

There are three main components to MicroSave’s approach: action research partners (ARP), toolkits and resources; and capacity building of service providers. For Phase III the ARP component was budgeted to account for 58% of resources (at cost), the toolkits and resources component 23% and the service provider capacity building component 19%. In reality actual resource allocation has been approximately 49%, 25% and 26% respectively.

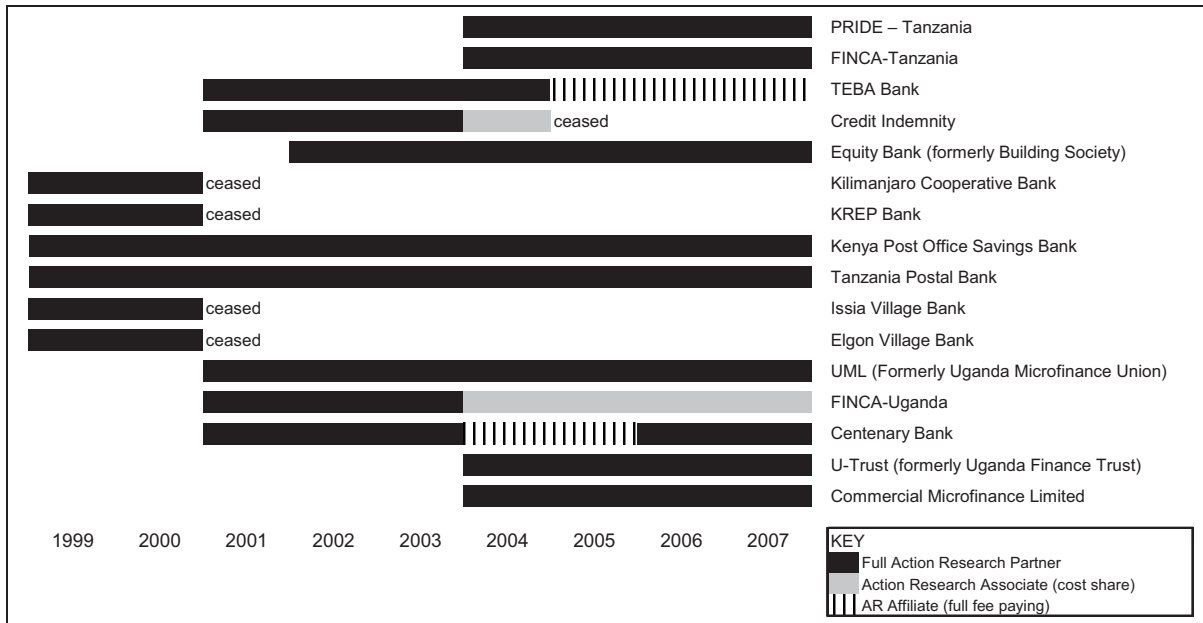
Each component is described briefly below. Across all components MicroSave acts in a number of different roles, inter alia researcher, think tank, catalyst, adviser and trainer, coordinator and information portal.

As in previous phases, MicroSave invited expressions of interest from financial service providers to become ARPs. Nine ARPs were selected, five of which had been in partnership with MicroSave in Phase II (see Figure 1). Selection was based on geographic coverage in East and South Africa and a consideration of potential demonstration effect on the wider financial sector.

MicroSave’s specific involvement with each ARP is determined in mutually-agreed six-month work plan of technical assistance, which historically has been provided free of charge. Such structured engagement is deemed necessary to effectively and equitably ration MicroSave support and align the schedules and priorities of MicroSave and ARPs. Latterly nominal fees have been introduced for some ARPs for certain technical assistance.

In addition to the main “full ARP” some partners can graduate to “Associate” status, where the relationship with MicroSave is less intensive, either because the partner has developed to such an extent that MicroSave support is no longer required or because the relationship is not proving productive for either party. Access to MicroSave technical assistance is limited and a greater degree of cost sharing is introduced. “Affiliate” status is afforded to those partners

Figure 1: MicroSave's ARPs 1990 - 2007



who have been suspended from the programme but are to be kept on a “watch list” for potential readmission. In this case, access to MicroSave is confined primarily to networking and basic information or full fee-paying services. As Figure 1 shows the majority of partners in Phase III have been full ARPs.

2.1.2 Toolkit and resources

The aim of this component is to prepare technical toolkits and resources and disseminate these and lessons learned from working with ARPs to operationalise market-led approaches to microfinance. These resources are intended to be used by ARPs and the wider financial sector, regionally and globally.

The development of toolkits and other resources has largely been determined by requirements on the ground. MicroSave identified the need for certain toolkits based on interaction with ARPs. MicroSave then developed the toolkits, drawing on specific experts where necessary and then further refining toolkits through practical application with ARPs or technical service providers.

2.1.3 Capacity building of service providers

The final component of the project approach is to develop the capacity of technical service providers to supply support services based on the toolkits developed. This component is in addition to the capacity building measures within ARP and for MicroSave’s own

staff. The intention is that this will enable technical service providers to continue assisting financial service providers to adopt a market-led approach after the completion of the project.

In this phase MicroSave sought to train and certify consultants in a broader range of topics beyond the original Market Research for Microfinance (MR4MF) toolkit. This effort has focused on the development of quality consultants to the financial sector at both senior and junior levels:

- (a) Senior or Certified Service Providers (SSP and CSP).³ Senior Service Providers are intended to be the “best of the best.” Promising service providers are identified and trained for free; after training MicroSave identifies two assignments for the service provider, one conducted with mentoring support from the project (usually within ARPs) and one conducted independently; if assignments are completed to satisfaction of MicroSave and the client the service provider is certified. Certified Service Providers receive less intensive MicroSave support: service providers train at their own cost (ie they self-select); after training they identify and conduct two assignments independently, which MicroSave monitors; if these assignments are satisfactory the service provider is certified. Names of service providers are listed on the MicroSave website.
- (b) Young Executive Programme (YEP): batches of three interns are selected to be trained intensively in toolkits “on the job” within MicroSave over a period of eighteen months, by pairing with MicroSave staff on assignments – usually within ARPs – and then certified.

³ A further category, CSP Lite, was also introduced, which did not involve certification.

2.2 CONTEXT: FINANCIAL SERVICES IN EAST AND SOUTHERN AFRICA

The access of poor people to financial services has become the focus of increasing political, business and development attention across the region over the past five years. The FinScope and FinAccess studies (1) conducted over recent years show that levels of access, whilst improving, remain low. Around half the adult population of South Africa does not have a bank account. In East Africa the figures are starker: less than 20% of the adult population has a bank account and 38% of Kenyans, 54% of Tanzanians and 62% of Ugandans are completely “unbanked” (ie lacking any form of access to financial services). Such limited access comes at high economic and social costs and also represents a lost opportunity for the financial services industry.

East Africa in particular has received considerable volumes of international aid to support microfinance for the poor. Despite this funding, levels of outreach by traditional NGO microfinance programmes remain low. Studies in Kenya have concluded that such programmes remain small players in the financial market, accounting for approximately 2% of deposit accounts and 6% of loan accounts (2).

Despite its modest direct impact, microfinance continues to receive considerable attention from donors and, more significantly, increasingly from governments. Partly this is taking the form of dedicated (but not necessarily effective) regulation and supervision of MFIs. Of greater concern is a trend by governments to channel some of their social programme funding through MFIs. Some believe that large infusions of non-commercial finance of this nature

into the microfinance sector are tarnishing the image of the industry, causing a proliferation of less-than-reputable MFIs, intent on pursuing “easy money”. For instance, during the review there were several high profile, negative media stories regarding “sharp practices” by such operators; indeed there was a riot by disgruntled customers outside one such MFI in Kampala.

However, the financial sector in the region is changing. New commercial players are entering the lower-income segment of the market, backed by new investment, increasing competition and bringing economies of scale, lower costs of funds and introducing new practices and products. The demonstration effect of some of the better NGO players, such as K-REP Bank and KWFT, has encouraged such entry. Change has also been brought about by a more enabling stance in government policy and regulation of the financial sector. Technological innovation has been a major driver too, permitting the spread of electronic banking, such as SMS-based banking, electronic point of sale devices in retail outlets and ATMs across the region. Finally, macroeconomic pressure, for example declining Treasury Bill yields, has contributed to change in the commercial sector, forcing banks to shift their focus from serving governments to the mass consumer market.

In parallel to mainstream banks entering the low income market segment, a number of the more successful traditional NGO microfinance providers are transforming into regulated commercial financial service providers, driven by a quest to mobilise deposits and grow in scale and professionalisation, to enable them to offer a fuller range of more keenly-priced financial services to their customers.

Chapter 3

ASSESSMENT OF PHASE III OF MICROSAVE

3.1 OVERALL PROJECT PERFORMANCE (GOAL AND PURPOSE)

The project has **completely** (score 1) **or largely achieved** (score 2) its **objectives** and outputs as defined in the Phase III Logical Framework. The project team is focused, professional and dedicated and has achieved a high degree of credibility in the industry, particularly in East Africa and with its direct partners. The team deserve considerable credit for their substantial achievements. For progress against project performance matrix see Annex 5.

The project goal is “to increase access by poor people to high-quality financial services” and is reflected in targets at two levels:

Globally:

- Market-led savings products reach 3m people by 2007.
- Market-led credit products reach 400,000 people by 2007.

In East and South Africa:

- Market-led savings products reach 1.5m people by 2007.
- Market-led credit products reach 200,000 people by 2007.

MicroSave has made an undisputed contribution to the availability of more and better financial services for poor people across the globe. It is not plausible to definitively isolate and attribute impact at this level to MicroSave, particularly on a global basis, in a context of growing competition and technological change in the financial sector, let alone wider economic trends. However within East and Southern Africa, MicroSave’s ARPs alone are serving in excess of 2m savers and 250,000 borrowers, figures which have grown and are continuing to grow rapidly. Therefore assuming only modest levels of uptake and application of MicroSave resources beyond these direct partners then MicroSave can justifiably claim to have achieved these outreach figures.

Do these services reach the poor? It was not within the review’s purview to conduct an impact assessment but taking average deposit account balance as a crude proxy it would appear that that financial services provided by ARPs are reaching the lower income

segment of the population. Studies by the World Bank (3) indicate a median deposit account value per capita of US\$111 for the bottom quintile of the income spectrum globally (by GNI/capita). A random selection of ARPs indicates average deposit account balances ranging between US\$108 and USD187.

The project purpose is “to inform and build the capacity of the financial sector to provide high-quality financial services for poor people.” This is reflected in the following targets:

- More than fifty MFIs⁴ re-orient to a market-led approach to microfinance using MicroSave resources, which includes:
- At least five of the leading MFIs in each of Kenya, Uganda and Tanzania and South Africa.

MicroSave has contributed demonstrably to – in the words of several observers – a “paradigm shift” in international, regional and local thinking and practice regarding market-led microfinance, a paradigm which most notably puts the financial service needs of poor consumers at the heart of financial sector development. MicroSave knowledge resources are widely disseminated and used by financial services providers, consultants and trainers, aid-funded programmes and other practitioners across the globe. Again, accurately tracking MicroSave’s global outreach is not feasible, but based on observed and anecdotal evidence of the application of MicroSave tools in financial service providers, service provider assignments, training activities and dissemination coverage it is plausible that MicroSave has significantly influenced at least fifty financial service providers.

There is direct evidence that at least three or four ARPs in Kenya, Uganda and Tanzania have substantially adopted market-led approaches with some success. Beyond the ARPs there is evidence of other financial service providers having been influenced in some way by MicroSave; other significant examples would include Safaricom’s M-PESA and Faulu. Less attributable to MicroSave, but significant nonetheless is the considerable change in the financial sector landscape noticeable in East Africa over the last three or four years, with new players and investors moving into the low-income segment of the market (eg Barclays) and the wave of commercial transformation sweeping through the “traditional” MFI sector.

⁴ Taken to mean all forms of financial service providers that serve lower-income clients. The review generally favours the term “financial service provider” except when referring explicitly to NGO providers of financial services.

MicroSave has been less successful in South Africa, having worked with only two financial service providers. This lack of traction in South Africa might partly be attributed to sheer physical separation from MicroSave's hub of operations in Nairobi and the different dynamics of the financial sector in South Africa. However the primary reason appears to have been difficult organisational dynamics within the two organisations in question. Personalities are important when it comes to organisational change processes.

Overall therefore the review concludes that **the project has been effective** in promoting the adoption of market-led microfinance thinking and practices across the region and beyond **and has been relevant** by contributing to substantial improvements in financial service quality and access for the poor within the region.

The achievements of the three individual phases of MicroSave are not easily disaggregated; earlier phases have laid strong foundations upon which subsequent phases have built and activities and outputs do not always fit neatly within the timeframe of a single phase. With that caveat, MicroSave taken as a whole across all its phases has **been efficient and constitutes good value for money**, producing a wealth of relevant outputs within the region and beyond.

There is not a host of programmes following a similar approach to MicroSave's so comparisons should be made with caution. In terms of crude outreach, the impact achieved with overall funding of approximately US\$9m certainly compares favourably to the multi-million dollar injections of capital that some funders have provided to individual financial service providers. The efficiency of the project begins to look even more positive if one considers its leverage, ie the corresponding amounts of private finance that financial service providers have directed to pro-poor financial services as a result of MicroSave's interventions (for example, new product roll outs or organisation-wide initiatives to enhance customer service). For many, MicroSave's influence on Equity Bank's success alone – deemed "profound" and "fundamental" by the current Equity CEO – would justify MicroSave's funding.

Programmes focusing on wider capacity building or skills development for the industry tend not to have direct financial service provider partners (ie the equivalent of ARPs) and therefore are not well-placed to track impact in terms of financial service provision. However MicroSave's impact in terms of developing local technical service providers compares very favourably to such programmes. AFCAP (US\$2.75m, 3 years), worked with 40 service providers who trained approximately 400 people. CAPAF (US\$5.7, 7 years) worked with 19 service providers who have trained approximately 6,150 people.

How does MicroSave compare to other projects which have tried to stimulate market development? Recognising the vastly differing contexts and developmental tasks between countries and sectors, MicroSave appears to be broadly comparable, albeit more resource intensive, reflecting its technically-oriented, action research-based approach. The DFID-funded FinMark Trust in South Africa "*substantially contributed*" to increased access to financial services for approximately 2m people in the period 2002–2005, at a total programme cost of US\$10m. The ILO's FIT-SEMA project in Uganda stimulated a paradigm shift towards business-focused radio programming for the poor, reaching 7m people on a sustainable basis at a cost of US\$1.5m over seven years. The multi-donor-funded Katalyst programme works in twenty industrial, service and agricultural sectors in Bangladesh, with a total programme value of approximately US\$25m. Its intervention to strengthen information flows to poor farmers in the vegetable sector through commercial agricultural input distribution systems cost around US\$120,000 over three to four years and has positively and sustainably impacted on over 1m farmers. Like MicroSave all these programmes have explicitly sought to put poor consumers at the heart of their analysis and actions. (For overviews of these programmes see Annex 4.)

Arguably MicroSave has experienced diminishing returns as it sought to consolidate during its final phase: it has concentrated on deepening the quality and durability of existing outputs rather than on expanding (eg new partners or new toolkits). However, this natural – and justifiable – winding down towards the end of the phase has been accompanied by a diversion of resources as MicroSave geared up for commercialisation following the 2005 mid-term review and a reduction in capacity as the former project director departed to establish MicroSave in India. Nonetheless, this does not diminish MicroSave's achievements.

3.2 PERFORMANCE OF INDIVIDUAL PROJECT OUTPUTS

3.2.1 Output 1: Action research partners

The objective of this output was to "*assist in the creation of successful market-led micro-finance institutions created under the Action Research Partner programme*", with three targets:

- At least four sustainable ARPs (ideally at least one in each of Kenya, Uganda, Tanzania and South Africa).
- Products developed with support of ARPs programme reach for savings more than 1.1m clients and for credit more than 125,000 clients.
- At least five innovative new products developed with MicroSave support.

The ARP programme has continued to be the heart of MicroSave both as a core focus of activity and in terms of resources expended (accounting for nearly half of Phase III budget). MicroSave has worked with a total of twelve partners during the current phase, nine on an intensive basis.

In this phase greater emphasis has been placed on achieving concrete results with individual partners to serve as demonstration effects to the wider industry. By project end seven ARPs are operating profitably. ARPs have developed eight new savings and nine new loan products with MicroSave support during the project phase, with a considerable number of other products refined significantly. Over two million savers and 0.25m borrowers use a new or significantly refined product with ARPs, in which MicroSave has played a developmental role.

Most partners have experienced general business expansion and revenue and profitability growth during the project period. Of course this growth has been influenced by a variety of factors such as overall macroeconomic performance, Treasury Bill yields, increasing competition and the roll out of automation across the industry and therefore cannot be attributed solely to MicroSave's intervention. However partners acknowledge that MicroSave has affected positively the timing, pace and direction of change within their organisation. As one senior ARP official observed *"without [MicroSave] we would have learnt by our mistakes. . . but that would have been very costly."* Other partners stated that MicroSave has *"contributed a great deal"* to their business development and has *"saved us a lot of money."*

There is clear evidence of strategic and operational changes resulting from MicroSave interventions. Products in which MicroSave has played a role in many partners account for a significant amount of total lending and saving business. In one case a savings product accounts for approximately 85-90% of deposits by value; another case saw 15% growth of new saving account by value in 2006; another 100% growth in the eighteen months after launch. Qualitative examples include the application of market research and pilot testing to new products and charges (eg SMS banking and savings products), the withdrawal of unviable products after costing exercises, reductions in floor area rented within branches as a result of branch costing exercises and the use of elements of processing mapping and customer research tools in internal human resource management. In general, the absorption and continued application of tools related to market research, product development and pilot testing, together with an engrained customer-oriented ethos are the most widespread manifestations of MicroSave's impact on ARPs. Evidence of independent application of tools without MicroSave support – for example market research and

pilot testing used and customised in-house – are particularly encouraging in terms of gauging the sustainability of MicroSave's contribution to ARP.

The opinion of MicroSave amongst all ARPs is resoundingly and uniformly positive. MicroSave's support is regarded as having been *"eye-opening"*, *"based on research"* and *"very useful and systematic"*. In fact one benefit repeatedly identified was a more structured and disciplined way of working, *"a systematic approach to doing things. . . this was new for us"*, *"we always ask now 'can we do it the MicroSave way?'"* Similarly, almost all partners valued MicroSave's *"hands-on"* and *"practical"* approach.

To what extent is it possible to gauge whether MicroSave's work with ARP has resulted in the anticipated demonstration effect within the industry? MicroSave's influence within two recognised industry leaders, Equity Bank and CMF, has certainly raised the profile of market-led microfinance and created a discernible "buzz" within the industry. The competitive bar has clearly been raised. The fact that a major industry player like Barclays is reticent to engage with MicroSave because of the project's perceived proximity to Equity is perhaps an indication of a new level of seriousness about serving lower income segments in the industry.

Given the hundreds of ARP staff exposed to MicroSave's resources, an additional factor driving change is diffusion of new practices as a result of the significant levels of staff turnover within the industry. Anecdotal evidence suggests that personnel movement is a mechanism for such diffusion. This phenomenon is borne out by the experience of the ILO's FIT-SEMA programme, where the movement of personnel was found to be a significant factor in the diffusion of more customer-oriented programming practices throughout the commercial radio sector in Uganda. However to be effective this diffusion really needs to be accompanied by management buy-in.

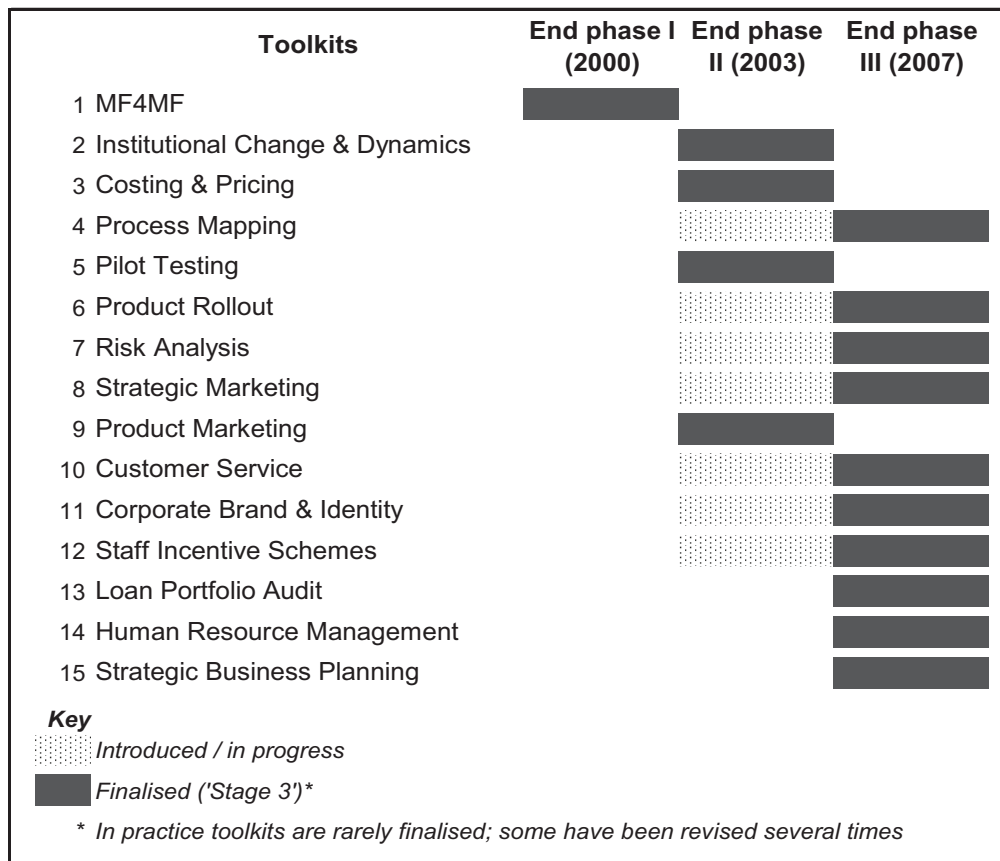
3.2.2 Output 2: Toolkits and resources

The objective of this output was *"relevant toolkits and resources developed for use by Action Research Partners and the wider global financial sector"*, with the following targets:

- At least ten of the leading MFIs in each of Kenya, Uganda, Tanzania and South Africa actively using MicroSave toolkits or training.
- Complete range of toolkits and ToT materials developed (13) covering key elements of market-led microfinance.

MicroSave has been prolific, producing a diverse range of toolkits, briefing notes, booklets, case studies and other resources. It is not

Figure 2: Development of MicroSave’s toolkits over time⁶



possible to locate definitively a specific toolkit’s production at a particular point in time because toolkits have been developed in an evolutionary manner, adapted and revisited over time reflecting MicroSave’s learning as toolkits are applied within ARPs and beyond⁵. Equally what constitutes a “toolkit” as opposed to another form of resource is not always clear cut. In its final phase MicroSave has focused on completing or significantly revising at least thirteen toolkits (See Table 1).

In addition to the “flagship” toolkits MicroSave has produced sixty briefing notes, four VCDs, several books and over one hundred other papers and notes. Similarly, some of these resources have been worked upon over extended periods of time, revised or used to derive additional outputs. However during this phase MicroSave has worked on at least twenty case studies or papers and forty briefing notes and at the time of the review was working to finalise a series of VCDs for widespread distribution. Six toolkits are available in French and five in Spanish; a range of other documents and web resources have also been translated into these languages.

Toolkits and related resources have been developed to a high – but relevant – standard and have been disseminated widely through a variety of channels. Materials are commonly characterised, again, as “practical”, “hands-on” and “useful.” MicroSave staff have organised or participated in over thirty workshops, seminars or training events. Of particular note is MicroSave’s role in establishing the School of Applied Microfinance (SAM) in 2005. This is now run by JM Mantle, a Kenyan consulting firm, with substantial inputs from MicroSave (and CGAP). In the three years it has been operating it has trained nearly 300 people, with excellent feedback (eg “more practical than Boulder”).

MicroSave’s website has witnessed pronounced growth during the phase receiving in excess of 18,000 visits and 12,000 downloads per month on average in 2007, compared to 8,600 visits and 770 downloads per month in 2004. The bulk of visitation continues to originate from North America (80%), with the balance evenly distributed around the globe, including Africa (4%). Resources

⁵ Toolkit development is as a four-stage process in MicroSave, with Stage 3 seeing a toolkit effectively finalised.

⁶ Trainer of Trainers Guide not included here. Institutional Change & Dynamics and Individual Lending are sometimes reflected as toolkits (eg in MicroSave’s Publications Catalogue 2007) and in other cases not (eg training and certification records).

relating to market research, process mapping, marketing and costing and pricing are among the most popular downloads in 2007.⁷

The exact levels of coverage achieved by the project within the region are difficult to ascertain accurately, given the diffuse ways in which dissemination and knowledge transfer occur. (Within the region at least, a survey of the supply-side of the financial sector – using adapted consumer research tools to explore the extent to which MicroSave knowledge products are recognised, understood and used – might give a clearer sense of this wider impact. An alternative approach might be to “follow the service provider” – tracking the work done by a sample of MicroSave’s CSPs and assessing their influence on client financial service providers. MicroSave’s monitoring and evaluation is discussed briefly in Section 3.4.)

However considering the level of MicroSave’s direct interaction with local industry stakeholders alone (through its support, training and information provision) and not accounting for secondary sources and multiplier effects, it is certain that considerable numbers of industry players in Kenya, Tanzania and Uganda have been exposed to MicroSave’s resources. Therefore it is likely that at least ten organisations in each country are using toolkits and related resources in some form, although in South Africa, as noted above, penetration has been lower. Penetration is strongest within the ARPs, where there is evidence that toolkits and related resources continue to be used independently of MicroSave. There are also signs of take up and application by other financial service providers and local technical service providers. Internationally, take up for MicroSave resources has also been strong.

It is clearly the case that a significant volume of MicroSave knowledge is now out in the public domain with signs of independent take up and adaptation. Generally speaking the toolkits closest to the MicroSave’s main areas of competence (MR4MF, Processing Mapping, Pilot Testing, Costing and Pricing and Marketing) receive the strongest take up and highest levels of continuing application. This is an indication of sustainability. The sustainability of more specialised toolkits (eg Staff Incentive Schemes or Strategic Business Planning) is uncertain. They remain publicly available through MicroSave’s website, but they have received less take up from local service providers. They are therefore more closely tied to MicroSave alone. As MicroSave becomes

commercial, the prospect of these toolkits being captured within MicroSave is more pronounced than for the main toolkits referred to above.

Underpinning the development and distribution of the toolkits and related resources has been MicroSave’s role as a researcher, think tank, catalyst and information portal – roles that have a public good dimension. There are few signs that such roles are being readily assumed by other players in or around the industry. It appears likely therefore that generation of new knowledge resources will reduce given MicroSave’s more private or commercially-oriented future. Clearly MicroSave may well continue to fulfil some of these roles where it serves its commercial interest, but in the words of one service provider there is a risk that MicroSave’s “wealth of microfinance knowledge” will be lost to the industry as a whole – “commercialisation is good for MicroSave, but not for the industry.” This issue is explored in more detail in Chapter 4.⁸

3.2.3 Output 3: Capacity building of local service providers

The objective of this output was “increased capacity of service providers to deliver technical assistance and training on toolkits” reflected in two targets:

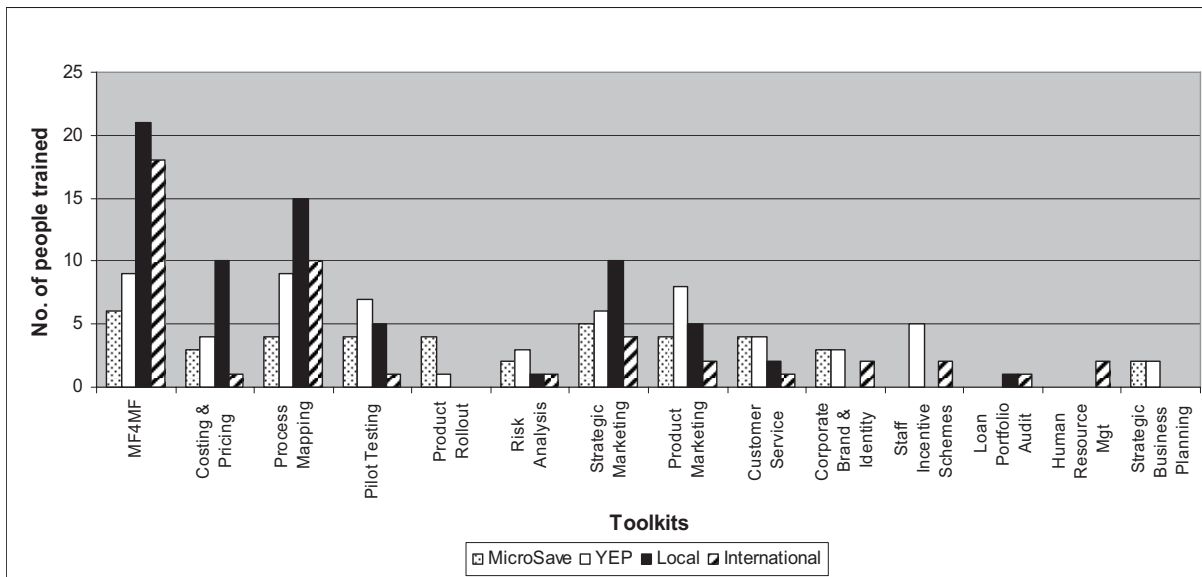
- More than twenty assignments conducted by certified service providers on a fee-for-service basis by end 2007.
- Consultants certified to deliver all MicroSave-Africa toolkits and training courses.

MicroSave has focused its capacity building efforts on different classifications of individual: certified or senior service providers (CSP or SSP respectively), people trained through the Young Executive Programme (YEP) and, of course, its own staff. By the end of the project thirty-nine senior service providers, thirty-six other consultants, nine YEP and six MicroSave staff have been certified and seventy-six assignments have been completed. In addition to these certified individuals, a considerable number of individuals within ARPs have acquired capacity (although not necessarily certification) through exposure to MicroSave training or other support. Certification has not been evenly distributed across toolkits, with the bulk of certification focusing on MicroSave’s main toolkits (see Annex 6).

⁷ Specifically: MR4MF, Process Mapping, Costing and Pricing, Pilot Testing, Corporate Branding, Strategic Marketing, Loan Portfolio Audit and Institutional Change toolkits; the MicroSave Catalogue.

⁸ Arguably MicroSave in India may assume these roles, but early indications suggest that the challenges facing the industry in India are not the same as those in East or South Africa, putting MicroSave on different trajectories in these two regions for the foreseeable future.

Figure 3: MicroSave’s capacity building of technical service providers (cumulative, 2004 - 07)



The review looked at capacity building slightly differently from MicroSave’s classification, distinguishing between local technical service providers (ie within the East and Southern Africa region), international service providers (outside the region), YEP and MicroSave staff. There is evidence of service capacity development across all these groups, particularly with respect to certain toolkits. Capacity development is most pronounced amongst YEP, due to their proximity to MicroSave and their opportunity for focused application of toolkits within ARPs.

The extent of MicroSave’s influence on the local technical service market is uncertain. The review interviewed a sample of local service providers, their clients and other informants involved in service market development. The picture is mixed. A market clearly exists (eg SACCOCAP has short-listed twenty-six service providers suitable for providing support services to SACCOs), but it is highly variable in terms of service quality, diversity, motivation, know-how and resources. Some service providers are active, via MicroSave or independently, and continue to utilise MicroSave tools, particularly MR4MF, Costing and Pricing, Process Mapping, Pilot Testing and Marketing. It does appear that the more well-regarded providers have been certified by MicroSave.

However, for commercial reasons local service providers tend not to specialise, preferring to pursue a mixed variety of work, meaning that many have not followed through toolkit application and certification to the same extent as other groups;⁹ similarly only 4-5% of participants in SAM have been local service providers.

Table 2: MicroSave’s Young Executives: where are they now?

1	Independent consultant, West Africa
2	MicroSave Consulting
3	MicroSave Consulting
4	MicroSave India
5	Development project staff, East Africa
6	Independent consultant, East Africa
7	Independent consultant, East Africa
8	Independent consultant, Middle East
9	Independent consultant, East Africa
10	Independent consultant, East Africa

Many service providers remain oriented towards development agencies, reinforcing a tendency to generalise or “to go where the donors are” in the words of one service provider. Some observers suggest that the prevalence of development funding in the industry has raised fee rates excessively. However service providers interviewed vary their rates considerably, charging what they feel the market will bear (ranging between US\$150 and US\$800+ per day).

On the demand side, consumers’ (ie financial service providers’) willingness to pay for services is nascent and attitudes to local service providers ambivalent. Most ARPs have purchased some form of business service within the last twelve months, including audit, advertising, public relations, market research and consultancies on human resource and operations manual development. At the same

⁹ For the top six toolkits (in terms of numbers trained) on average only 30% of local service providers have gone on to gain certification, compared to 89% of international service providers, 65% of YEP and 100% of MicroSave staff (See Annex 6). However, it should be noted that the extent to which certification is important for building service markets is unclear.

time ARPs stated that good local service providers are in limited supply – “not specialised enough”, “too many people want to do half a job”, “unusable” – and prefer to rely on international service providers or networks (CGAP, FINCA, WWB and ACCION being frequently cited) . . . and, of course, MicroSave.

The development of business or technical service markets is difficult: services are often intangible, affecting consumer perceptions and willingness to pay, and they are particularly dependent on human resource quality. Given these conditions, it was always going to be difficult for this output to achieve substantial impact on the local market. To its credit MicroSave took a structured and quite intensive approach to service provider development (more so than AFCAP, for example) but in practice it did not have sufficient capacity to tackle local service provider development any more substantially than it has. Further development would have needed a more focused and substantial effort and “more creative support mechanisms” in the opinion of one experienced technical service provider. MicroSave’s efforts appear to have been hampered by several factors.

First, the scale of service provider development was constrained by the level of resources, particularly staff and time, which MicroSave could devote to this challenging area. The project was not a dedicated service provider development programme; its historic focus had been on research, toolkit development and support to ARPs. For this phase technical service provider development objectives and activities were introduced, supported by one dedicated member of staff. Inevitably this relatively modest level of resources dictated what MicroSave could achieve. For example: the number of YEPs that could be handled at any one time was limited to three; during the phase the project altered its technical service provider development approach to something less resource intensive and more demand-led¹⁰ ; and, the SAM training programme evolved as a means of expanding coverage with limited project resources.

Second, there was a degree of tension between MicroSave’s work with ARPs and technical service provider development. Working with ARPs has been critical in developing toolkits and offering opportunities to test them. As far as possible MicroSave sought to work on the terms of ARPs, for example in terms of the focus and scheduling of work. However working in an ARP-responsive manner meant that interactions were often quite punctual: isolated inputs relating to different tools, involving different personnel on all sides. At times suitable assignments on which aspiring service providers could work were not available. At other times intensive inputs were required within an ARP, where the introduction of a new service

provider was a distraction. It was therefore difficult for MicroSave to offer a stable platform for effective service provider development, a process which requires continuity and relationship management to build trust.

Third, MicroSave’s direct role in supporting ARPs, coupled with its own high standards, is perceived to have cast a shadow over the market. The wider experience of business service market development is that it is difficult for projects both to provide services directly and stimulate others to do so concurrently. The strength of the MicroSave brand, its donor funding and the intensity of its relationship with some partners¹¹ undoubtedly give MicroSave a competitive edge in the market place: MicroSave is a hard act to follow. Moreover once it was determined that MicroSave should become a commercial service provider itself, its incentives for developing potential competitors were diminished. A wry observation from one industry player was that “[MicroSave] hasn’t worked itself out of a job.”

In fairness to MicroSave, any distortionary effects are likely to have been small. There is sufficient latent demand and space in the market for local technical service providers to determine their own niches and offers, should they so wish. A small number of more motivated and professional service providers – trained and certified by MicroSave – are beginning to do this, for example running their own short training programmes. However the local technical service market is far from being able to serve the emerging – and increasingly bifurcated – needs of the industry: the sophisticated requirements of large players striving to be competitive in a dynamic context; and the more basic needs of other players as they grapple with their transformation into the financial mainstream. A number of ARPs recognise this problem: “we don’t have access to local services” . . . “if it’s only MicroSave [out there] they won’t be able to hold our hands now, there’s too much demand.” Once MicroSave has commercialised and operates over a wider geographic area – as demand indicates it shall – its ability to serve the local market will become more constrained, at least in the short term.

3.3 OTHER NOTABLE ACHIEVEMENTS DURING PHASE

MicroSave has performed exceptionally well against all its formal objectives, exceeding many of them by some margin. In addition the project has achieved a number of other notable outcomes which were not originally specified or intended:

- (a) The establishment of the School of Applied Microfinance. MicroSave played an instrumental role in establishing this two-

¹⁰ A reason behind MicroSave’s shift from developing SSPs to the less intensive development of CSPs.

¹¹ The 2005 mid-term review estimated MicroSave’s technical assistance to be worth approximately US\$200,000 per partner.

week annual training programme, now in its third year. Whilst the programme still receives considerable support from MicroSave and other donor-funded initiatives, it is owned and operated by a local service provider and – like MicroSave itself – represents a positive step towards the localisation of capacity-building resources for the industry.

- (b) The CEO Fora. The project's initiative to bring together the elite of industry CEOs regularly, to engage on matters affecting the financial sector as a whole, has been well-received and valued. Such strategic coordination mechanisms are required as an industry matures, to develop common visions and positions for the industry and to take concerted industry-wide actions in response to systemic challenges. Such groupings were instrumental to the FinMark Trust's achievements in South Africa. However, representative bodies in most industries in the developing world are typically dysfunctional; highly politicised, with limited relevance to members and dependent on development agencies rather than membership fees. This is certainly the case in the East African financial sector where many bodies are ineffective or even moribund. For example, during three days of negative press coverage about microfinance in Uganda, the industry's position was never presented by Association of MFIs in Uganda (AMFIU). For such groupings to work, they are usually selective and homogenous in their membership and offer real value to their members. This tight offer, based around clear mutual interest, is the glue which holds groups together and ensures their on-going relevance, vibrancy and survival. This seems to have been the case with CEO Fora, although there are some concerns that if the project ends these fora will also cease. However there are modest signs of potential spin-offs emerging, for example a grouping of the Microfinance Deposit-taking Institutions (MDI) in Uganda.
- (c) The commercialisation of MicroSave. Successful projects present agencies with a different kind of problem from unsuccessful ones: how to walk away from a success story? A justification can always be made for carrying on, doing more, replicating, seemingly into perpetuity. In the case of MicroSave a clear decision was taken to withdraw and, commendably, this has been adhered to. MicroSave Consulting Limited has the potential to secure the sustainability of some of the functions performed by MicroSave the project through commercial revenue generation. At the time of the review MicroSave Consulting Limited had approximately 45 assignments in the pipeline. By offering some of its highly-regarded support services on a commercial footing it subjects them to the test of the market – “they (MicroSave) need to be market-led too” pointed out one ARP. Commercial pricing will also deal with the

rationing problem that MicroSave has faced when offering its support for free. As noted above, the commercialisation of MicroSave does raise some issues however and these are discussed in Chapter 4.

- (d) The launch of MicroSave in India. As direct spin-off from this project, a MicroSave initiative in India offers a platform for building on the lessons from MicroSave in Africa and applying them in a context with tremendous potential for poverty outreach and impact.

3.4 PROJECT MANAGEMENT

The review was not required to scrutinise MicroSave's management arrangements. However effective management systems appear to be in place and reporting appears to have been timely and comprehensive. The project has established a dedicated and capable team, who are now looking forward to the opportunities and challenges presented by commercialisation.

During the conduct of the review it was necessary to interrogate MicroSave's monitoring and evaluation system. MicroSave has generally been diligent in recording and compiling its activities and outputs. The project's ability to assess its impact is mixed however.

Where it works with ARPs directly, MicroSave has been able to observe and track changes within partners with a high degree of certainty. Close working relationships with partners over time have provided MicroSave with access to information and allowed it to establish baseline positions. This information, together with focused interventions, makes it easier to attribute specific changes in practice and performance in partners to MicroSave's intervention. This has included tracking portfolio performance, new product introductions and revisions to existing products. Several cases studies have also been produced using this information.

Assessing the impact of MicroSave's work in wider capacity building and knowledge dissemination is more challenging. These interventions are more diffuse by definition, in terms of geography and target groups and MicroSave's access to information is more limited. MicroSave has managed to keep track of organisations and individuals reached directly, but the project's wider influence on knowledge and practices is impossible to attribute definitively (although anecdotal evidence is positive).

This is not a problem faced by MicroSave alone. For example, The Donor Committee for Enterprise Development is currently embarking on an initiative to improve practices and standards of

measurement in this regard. Interventions of this nature have always struggled to identify and attribute the influences of their knowledge dissemination. This has also proved to be the case for interventions which have tried to be more facilitative in their approach, working through others rather than intervening directly in the market. The objective of such interventions is to leverage the dynamism and resources of others, thus stimulating wider and more sustainable change. However it is these hoped-for multiplier effects which, in a complex socio-economic environment, are very difficult to measure.

Chapter 4

REVIEW OF THE OVERALL MICROSAVE EXPERIENCE

4.1 INTRODUCTION

Over its nine year life, MicroSave has accumulated considerable achievements and faced considerable challenges. From this experience important lessons can be derived for development agencies seeking to stimulate the development of the financial sector – or indeed other sectors – so that they better serve the poor.

It is only with the benefit of that rare commodity, hindsight, that it is possible to embark on such lesson-learning. As a pioneering programme MicroSave not only lacked the benefit of such hindsight, but it frequently found itself in uncharted territory. The lessons and observations recorded below are not directed at MicroSave therefore – which is drawing to a close as a project – but to the wider development community.

The project has also been evolutionary, with different emphasis and activities over time (see Table 3). Whereas the previous chapter referred to Phase III of the project as “MicroSave” and “the project” this chapter refers to MicroSave in aggregate over its three phases.

4.2 KEY ACHIEVEMENTS

By any measure MicroSave has been a successful project or series of projects. In addition to exceeding consistently most, if not all, of its stated objectives throughout its life, MicroSave can claim a number of noteworthy achievements:

- (a) Opened a *demand-side window on the supply-side*¹² at a time when prevailing industry attitudes were firmly supply-driven (in terms of products, delivery methodologies and organisational performance measures). This represented a paradigm shift, putting poor consumers at the heart of financial sector development, by asking “what do the poor want from financial service markets... and why aren’t they getting it?” MicroSave would acknowledge undoubtedly a debt of gratitude to other leading thinkers in this regard, particularly Stuart Rutherford and his work in Bangladesh, but it has, more than almost any other organisation, striven to put it into practice.
- (b) Injected *insight and rigour* through its research into the industry – “MicroSave opened our eyes.” Understanding consumers’ needs and responding to those is now an article of faith in a way that wasn’t the case a decade ago.
- (c) Brought *discipline*, balancing a research-driven approach with on-the-ground practicality and structured methods – “We always ask ‘can we do it the MicroSave way?’” This is a particular achievement in view of the roots of much of the industry in either charity-oriented NGOs or state-owned banks, neither of which are renowned for their professionalism or hard-nosed approach to getting things done.
- (d) Adopted an *iterative, common sense approach*, which sought to build on “knowns” and which wasn’t overly ambitious at the outset. In the face of vast development problems, such as widespread lack of access to financial services, it is tempting for development agencies to respond with commensurately large-scale programmes. Whilst ambition and scale are certainly required in development, they are not always ideal starting points. “Big splash” initiatives often acquire a momentum – political and operational – of their own which can be discordant with realities on the ground. MicroSave’s pilot-based origins and learning-by-doing ethos have yielded dividends, in terms of responsiveness and establishing a solid platform for expansion over time.
- (e) Sought to be *accessible and localised*. CGAP has noted the need for localisation of capacity building support for the financial sector (4) (5). Capacity building needs are recurrent and usually context specific, making it inappropriate and commercially unfeasible to fly in international experts on a periodic basis. MicroSave has sought to provide local solutions to local problems.
- (f) Established strong *credibility* with the industry, through insight derived from research, technical ability and practicality, which made partner buy-in possible.
- (g) Acted as third *“third eye”* and *“strategic sounding board”* for industry players who often struggle to distinguish between

¹² Various documents (eg the Phase III Project Document and the Phase I Mid-Term Review) refer to MicroSave addressing both the supply-side and demand-side of the market for financial services. The latter is not strictly accurate, as the project has never worked directly on, for instance, consumer financial education or establishing consumer protection groups. What the project has done is ensure consistently that supply-side development is firmly grounded in a solid understanding of the demand-side.

their own short term organisational interests and a wider perspective on the industry's future direction and requirements.

- (h) A number of important unplanned outcomes which have benefitted the industry, including the establishment of the School of Applied Microfinance, the CEO fora and contributions to other important initiatives in the sector, such as M-PESA and FinScope / FinAccess.

Finally, a good deal of credit is also due to MicroSave's donors, in addition to the excellent MicroSave team, for affording the project space and flexibility to develop its approach over time. Without this rather enlightened and nurturing funding and accountability backdrop MicroSave's iterative approach would not have been possible and the outcomes referred to throughout this report would have been compromised.

4.3 CHALLENGES

In view of MicroSave's considerable achievements, any challenges or weaknesses discussed here are not fundamental, but are salient to a lesson-learning agenda for other agencies who might seek to build upon MicroSave's approach:

- (a) *The risks of branding projects.* There are discernible benefits to projects creating an identity for themselves, which allows them to distance themselves from the arcane and perplexing world of development and present a more accessible, comprehensible or business-like approach to stakeholders, particularly in the private sector. However branding is not without risks. Many observers have commented that MicroSave "sometimes shouted too loud" creating unnecessary hostility or scepticism about genuine achievements. At some point MicroSave stopped being a project and became an organisation with a strong identity – a player in the market. With a strong brand comes strong ownership, but also the risk of displacing local players' ownership of development processes and outcomes. For example, the Katalyst and FIT-SEMA programmes in Bangladesh and Uganda created project brands for the same reasons cited above, but always took great care to ensure that in any initiatives they supported they took a low-profile or back-seat position relative to local stakeholders.
- (b) *Being close – but not too close – to partners.* Without doubt MicroSave has been successful because it has engaged closely and developed a detailed understanding of ARPs. In the words of some ARPs "we should have a MicroSave sign on the door, the relationship is that close", "[MicroSave] comes in and camps out in your office", "they are almost part of management." However proximity to or length of engagement with partners –

if excessive – can become distorting and anti-competitive and can undermine perceptions about a project's neutrality and hence its ability to engage with other important players. As MicroSave has sought to influence others beyond the "charmed circle" of ARPs, it is certainly the case that some key players have been reticent about engaging with MicroSave.

- (c) *The dangers of mission creep.* In a context of pervasive industry weaknesses, MicroSave found itself – with some justification – addressing an ever-increasing range of organisational constraints, as the implications of market-led approach became apparent. To some extent, this stretched MicroSave beyond its capacity – if not beyond its competence – and arguably away from demonstration to the many towards direct service provision to the few. The lower take up and application of some of the more specialised tools beyond MicroSave is an illustration of this problem.
- (d) *Equating sustainability with commercialisation.* The decision to commercialise MicroSave was unquestionably warranted with respect to some of the services that the project has provided. Many of these services have a strong private benefit and are clearly valued by relatively large organisations with the financial wherewithal to pay for them. However the project has also performed a variety of functions which have a strong public benefit and are likely to be required by the industry on a recurrent basis. These include industry research (as opposed to firm-specific research) and information provision, skills development for the industry's pool of labour, standard setting and certification, coordination of key industry players to address industry-wide issues, advocacy and advice to policy makers.

Commercialising these functions is unlikely to be a route to sustainability: either because they are not in MicroSave's commercial interest or, if they are, there is a risk that they are captured by the strong – and now private – MicroSave brand. Arguably sustainability for these functions lies within either publicly- or collectively-funded bodies, be that government, industry representative bodies, academia, think-tanks and research and training organisations. (See Section 4.4 and Table 3.)

4.4 LESSONS LEARNED

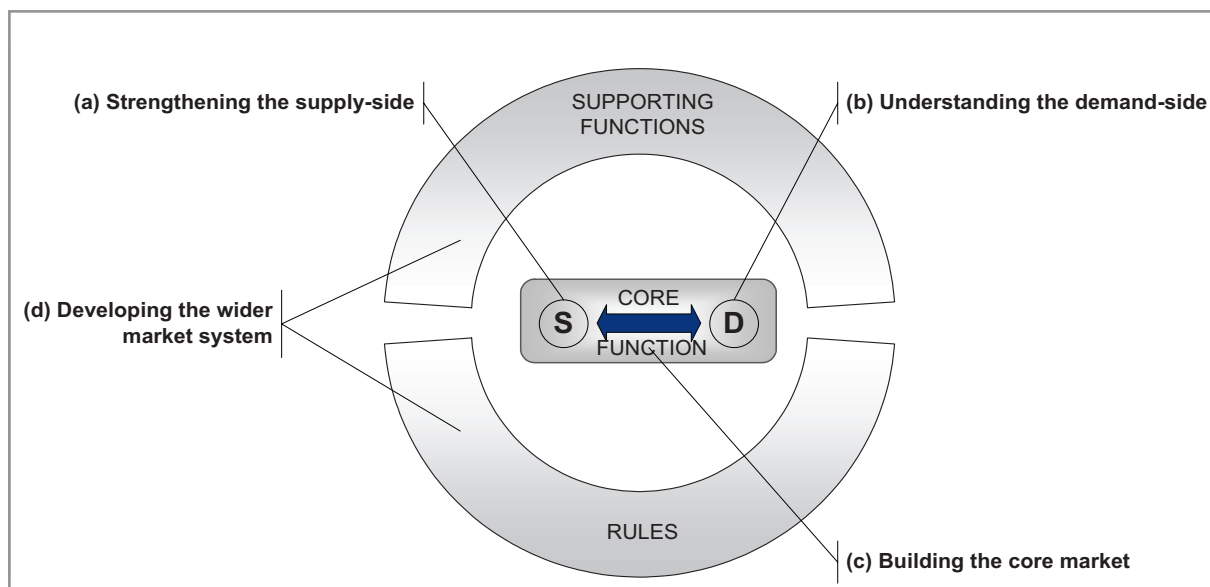
Many of the lessons identified below are not new; they are consistent with widely-recognised challenges in financial sector development (and indeed that of other fields). MicroSave's experience can shape future donor intervention strategies and tactics for pro-poor financial system development in a variety of ways.

- (a) *Increasing access through financial sector deepening.* Increasing financial access and financial sector deepening are not mutually exclusive, as sometimes presented by some practitioners, but represent different levels in a hierarchy of objectives for change. To address the symptom of limited access, the root causes of insufficient financial sector depth need to be addressed. In many respects MicroSave has been about deepening; building sustained capacity for the provision of a diversity of more relevant financial services through a variety of channels. This deepening extends not only to financial services and channels through which they are delivered but to the underlying foundations – supporting functions and rules, like technical services, ratings, policies and regulations – of the financial sector which will ensure its vitality and vibrancy in the long run. Agencies and governments should recognise that single-minded pursuit of access targets can make shortcuts seem appealing, but that such shortcuts often do not develop depth and sustainability. In fact they can do the reverse, undermining institutional development, distorting incentives and displacing ownership.
- (b) What does deepening mean? MicroSave’s evolutionary experience points to *a wider financial sector development agenda – from organisations to systems* (see Figure 4). To borrow from Winston Churchill, the final phase of MicroSave should not be regarded as the end per se but merely the end of the beginning. This reflects a shift in agency focus from (a) the supply-side (building viable organisations or delivery mechanisms) to (b) understanding the demand-side to (c) building markets (bringing the two together and developing appropriate products). The challenge now is to (d) try to strengthen the underpinning foundations of these markets as

they grow and evolve (technical services, market research, skills and education, advocacy and coordination, ratings, policies and regulations). Just as agencies have moved away from the direct provision of finance to the poor or of capital to financial service providers, the new challenge is not to provide some of these supporting functions and rules directly, but ensure that they are embedded sustainably within regional, national or local financial systems. This is a very similar evolution to that experienced in other fields of private sector development.

- (c) In this regard, MicroSave’s experience is instructive. MicroSave, particularly during Phase III, has been about *localisation* – ie *embedding certain functions within regional, national and local financial systems*. MicroSave’s experience illustrates the extent of the prevailing capacity deficit in the region. Over time it has got sucked into addressing an increasing variety of issues which reflect wider systemic weaknesses. In East Africa at least the time is ripe for such a localisation agenda. Growth and competition in the industry means that key players are more receptive to these challenges than they were to three or four years ago. Interestingly, in India MicroSave has taken a more explicit and concerted approach to embedding some of its functions within the local institutional fabric from the outset, *inter alia*: initiating CEO fora at the start; establishing a Financial Services Learning Centre with a local partner and working with leading management and training organisations (and also charging nominal fees for MicroSave services to ARPs) to engage and empower the local technical services industry; collaborating with leading research organisations and representative bodies on industry research, policy and dissemination to contribute to policy dialogue.

Figure 4: Evolution of intervention focus from financial organisations to financial systems



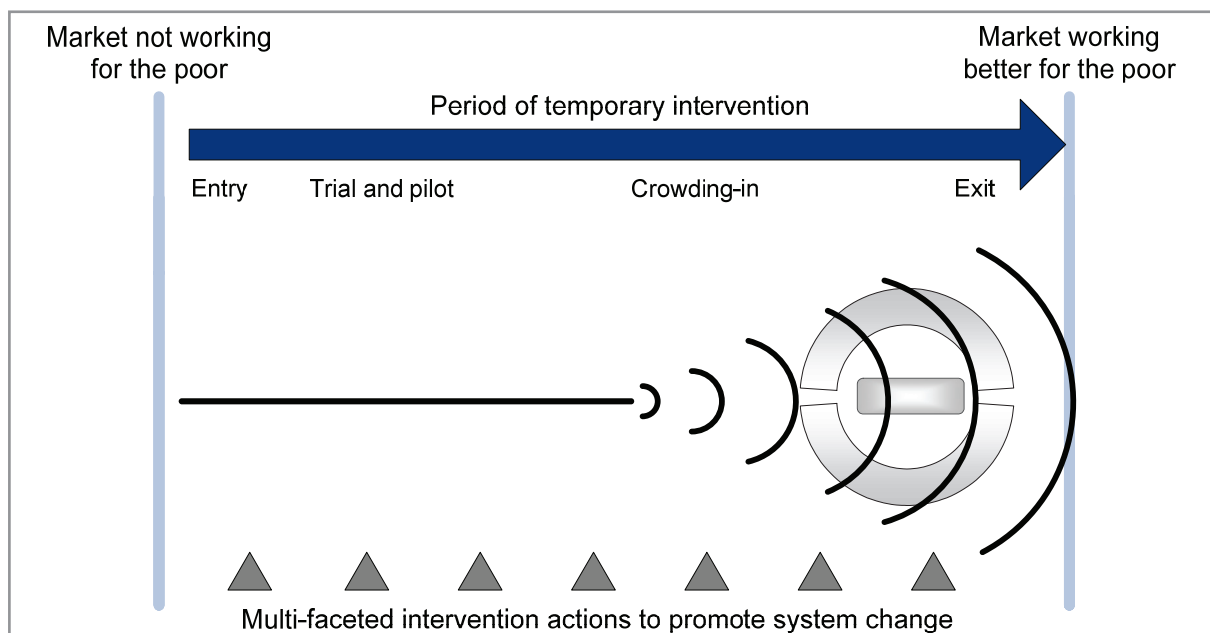
- (d) MicroSave has shown that to be effective development agency intervention must be guided by *excellent market understanding*. Initially for MicroSave this meant understanding the demand-side – financial consumers; then grappling with the supply-side and why it wasn’t responding to consumers’ requirements. Similar effort will now be required to build up a more complete picture of other dimensions of financial services systems in specific contexts – supporting functions and rules – to better understand wider systemic weaknesses and how they can be addressed in a sustainable manner. This is particularly pertinent when it comes to the pervasive capacity constraints that are identified across the microfinance field. The experience of AFCAP, to cite one example, shows that (typically) insufficient effort has been directed at understanding the technical service market to permit effective intervention.
- (e) However agencies can’t understand markets simply by analysing them from afar. In general development agencies should avoid heavy-handed intervention but they also need to *engage and learn by doing*. This points to the importance of pilot initiatives as the starting point for market development interventions rather than grand and overly-ambitious schemes. Interventions need to be flexible and responsive to shifting dynamic conditions and emerging opportunities. MicroSave has been successful because it has been close to the market and engaged with key market players. It has been entrepreneurial and iterative. This has implications for project design, funding and staffing. In a number of fields, there is a growing trend to establish intervention mechanisms which have a clearly defined mandate, overarching objectives and strategy, but with

considerable operational flexibility within that framework (for example the FinMark Trust in South Africa, Catalyst in Bangladesh and the and Financial Sector Deepening Programmes in East Africa).

- (f) However flexible, entrepreneurial and pilot initiatives need to be bounded by strategic direction; they cannot simply be a haphazard collection of interesting activities. Over time MicroSave’s research and pilot activities have been used to develop a more concerted and coherent direction. At the close of the project, it is clear that a range of additional measures will be required to build on some of MicroSave’s achievements, such as embedding certain public roles into new institutional homes and addressing some of the wider constraints that MicroSave has uncovered. This reflects the need for agencies to have a “pathway to crowding-in” to guide their interventions (see Figure 5.).

A strategy for wider and sustained pro-poor market change, where project activities are aimed at stimulating change in motivations, know-how and resources of market players, so that their level of engagement and ownership increases – “crowding-in” – and allowing aid-funded activities to reduce and ultimately withdraw, leaving the market functioning healthily. This might include public-private coordination of regular generic industry research, certification of technical service providers or collaborative action to incorporate the industry’s human resource requirements more appropriately in education and skills development curricula. The Financial Sector Deepening Programmes have adopted such a strategy.

Figure 5: The pathway to crowding in - exit strategy as entry strategy



- (g) MicroSave’s experience also clearly illustrates the need for agencies to *distinguish between facilitating change and becoming a direct participant* in markets, say by delivering services directly. MicroSave’s action research-oriented programme demanded that it engage closely with partners to learn and demonstrate the efficacy of its approach. There was a clear developmental benefit to these activities which justifies such a direct role. Over time however the level of private benefit from these direct activities began to exceed the developmental benefit being derived. At this point a line was crossed between *facilitating* and *providing* and arguably MicroSave began its journey towards commercial service provider (albeit not on commercial terms initially). It is common for projects to justify their direct engagement in markets on the grounds of a “demonstration effect”. In practice projects often find themselves being drawn further into the market; in such cases the only thing that is demonstrated is that for a certain function to work effectively it requires long term donor support. This illustrates the need for agencies to be very conscious of the rationale for engaging directly in markets, the risks of such engagement and as early as possible, thinking through how they will withdraw. The pathway to crowding-in referred to above is not an exit strategy, but actually an entry strategy.
- (h) The need for a *rigorous and transparent approach to sustainability*, based on a realistic understanding of the incentives and capacity of market players. As observed above, some of MicroSave’s functions were of a private or commercial nature. The decision to see the future sustainability of these functions resting on their commercialisation was valid. However, the risk is to equate commercialisation of these functions with commercialisation of the entire organisation (always a risk when a project has transformed into an

organisation with a strong identity). In reality MicroSave has also performed functions which were less commercial or more public or collective in nature. Commercialising MicroSave therefore was not the route to ensuring sustainability of these functions. These functions will be important to the market’s future operation and they may wither away as the commercial MicroSave comes into being. But it is not valid to argue that since they are public functions they should be funded by donors. Such functions need to be sustainable, supported by local resources and initiatives. It is vital that agencies develop transparent and realistic visions of sustainability for the different market functions they are trying to promote: understanding which market players have the incentives and capacities to perform specific functions and supporting their uptake accordingly. This means thinking concretely about “who should do what?” and “who should pay for what?” (Table 3 is only indicative.)

- (i) *Wider systemic development takes time and requires multi-faceted interventions. . . but not necessarily enormous resources.* It has taken MicroSave nine years to achieve the level of impact that it has. It has required building market understanding, considerable flexibility, a variety of strategies of varying intensity and focus and leveraging local ownership and initiative. Effecting change in other dimensions of the financial system will require similar kinds of intervention, for example, the development of local support services. The contrasting experiences of MicroSave and AFCAP are instructive in this regard. Unlike MicroSave AFCAP didn’t develop sufficient market understanding, was overly-rigid and supply-driven and lacked credibility and creativity. That is not to say that MicroSave should have addressed some of these other dimensions. One of the factors underpinning MicroSave’s

Table 3: Sustainability: who does and who pays?

Market players		
Functions	Who does?	Who pays?
Generic industry research	Specialised firms; Academia; Think tanks	Banks (collectively or individually); Government
Basic skills development	Academia; Training organisations; (Banks – input to curriculum?)	Students; Employers (Banks) Government
Standards and certification	Specialised private organisations; representative bodies	Technical service providers (seeking certification); Representative bodies
Coordination	Representative bodies; government	Private sector members; Government
Advocacy	Representative bodies	Private sector members
Advice to policy makers	Think tanks; Private advisers	Government

success was its relative tight focus and specialisation. Most observers agree that MicroSave was most effective when it stuck to its distinctive core competencies around market research and product development. Wider market development interventions will require strategic programmes to develop and support a variety of MicroSave-like initiatives directed at different systemic dimensions as part of a broad portfolio approach to pro-poor financial sector development. For example, Katalyst in Bangladesh operates as a strategically-coherent umbrella programme for a range of sub-projects (albeit mostly run within the same organisation) – referred to as “market teams” – aimed at different sectors and sub-sectors.

- (j) *Successful market development interventions need good people.* It is increasingly recognised that significant injections of development finance can be harmful to markets. If projects are not to rely on financial firepower, they need to develop credibility and add value in other ways: they need to have a compelling offer to market players. MicroSave’s research-based

approach has offered new insights to the industry; their structured approach has brought discipline and accessible new techniques; and they have offered a “third eye” perspective. All these have been central to their strong credibility to the industry.

- (k) *The role of agencies as catalysts for market system change.* Markets are dynamic and will always change. Ultimately the role of development agencies in changing markets will always be secondary to the role played by the main market protagonists. However appropriate interventions can be catalytic – altering the pace and direction of change, so that markets better serve the poor. MicroSave has shown that a combination of insight, disruptive innovation and influence, aimed at the right players at the right time can yield tremendous results by leveraging the actions of market players, and achieve impact well beyond the actual financial value of the development intervention itself.

Table 4: MicroSave in summary

	Phase I	Phase II	Phase III
Date/Budget ¹³	1998–2000 / \$1m (Pilot phase)	2001–2003 / \$3.9m	2004–2007 / \$5.9m
Goal	To promote secure high-quality savings services for poor people.	To increase the availability of high quality financial services for poor people	To strengthen the capacity of financial service providers to deliver market-led financial solutions.
Purpose	To develop a sustainable programme to build the capacity of MFIs seeking to provide secure, high-quality savings services for poor people.	To inform and build the capacity of MFIs seeking to provide high quality financial services to poor people	To inform and build the capacity of the financial sector to provide high-quality financial services for poor people.
Outputs	Increased knowledge and understanding of savings-related issues amongst key stakeholders. Increased capacity of 5 selected MFIs in E Africa to deliver secure, high-quality savings services for poor people. Increased capacity of local service providers to deliver technical assistance and training on institutional assessment, ownership, governance and management issues and savings product development.	Increased knowledge and understanding of product development related issues amongst key stakeholders, through research, curriculum development and dissemination. Increased capacity of Action Research Partners to deliver services Increased capacity of local service providers and international networks to deliver technical assistance and training on market research.	Assist in the creation of successful market-led microfinance institutions under the action research partner programme. Develop toolkits and resources for use by action research partners and the global microfinance industry. Increase capacity of service providers to deliver technical assistance and training on toolkits developed.
Key achievements	First systematic effort to bring the perspective of poor clients into MFIs: “Successful microfinance services are grounded in a deep understanding of the cultural, social, and economic context of the clients and their own expressed needs and opinions” Development and delivery of market research courses, research and dissemination of concepts about savings and client awareness	MicroSave achieved a “high reputation . . . across the global microfinance industry. . . in demonstrating the importance of a client-responsive approach to the provision of financial services to poor people.” Putting market-led approach into practice with ARP Significant expansion of high quality research, toolkit development, training and dissemination activity. MR4MF regarded as one of the most valued tools in microfinance. Local service provider development started	Demonstrating that market-led approach is commercially viable; high profile success-stories All toolkits and related resources completed and disseminated extensively across region and globe Structured capacity building of local, regional and international service providers. Evidence of penetration, take up and continuing usage of MicroSave tools in the region and beyond Commercialisation of MicroSave and launch of India programme.
Challenges	Addressing the supply-side ability to respond to new insights into the financial service requirements of low income segments of the population. More intensive support to individual MFI deemed necessary.	Reducing research to focus on demonstrating commercial efficacy of market-led approach More time and effort to bring toolkits to point where they can be used to train local service providers. Moving away from free support services to partners.	Continuation of certain public or collective functions once MicroSave becomes commercial. From organisations to systems: the need to move beyond MicroSave and selected ARPs to wider development of financial system.

¹³ There is some variance in budget figures recorded in different documents. This is in view of the fact that MicroSave has raised additional funds beyond its official funding during project phases.

Annex 1

TERMS OF REFERENCE FOR PROJECT COMPLETION REVIEW

1. BACKGROUND

MicroSave, through its work in East and South Africa, has emerged as one of the world's leading exponents of market led micro-finance. The programme works directly with financial service providers in Kenya, Tanzania, Uganda, and South Africa in building capacity to deliver high-quality financial services to poor people. Its influence has extended far beyond the region and MicroSave research materials, toolkits and other resources are now widely used throughout the world. In the six years since its pilot phase commenced the programme has helped bring about a paradigm shift in thinking about how to deliver pro-poor financial services. It is now widely recognised that achieving a real impact on the financial services needs of the mass of poor households by moving from a primarily supply driven to a demand led approach.

The first phase of MicroSave focused on understanding the demand side, primarily through its "Market Research for Microfinance" toolkit and training program. The second phase broadened the scope of the programme to include the supply side by supporting financial institutions to meet identified demand. By the conclusion of the project MicroSave had exceeded all its targets. Working with nine action-research partners, MicroSave supported the delivery of new savings products to over 260,000 clients and refined products reaching a further 380,000. The prolific production of research material and toolkits on product development added 34 publications eight toolkits and training courses to MicroSave's publication inventory. Aggressive dissemination efforts allowed materials to reach 400 MFIs, 340 service providers and 94 donors. Eighteen regional business service providers were certified to deliver the 'Market Research for Micro-finance' course, along with 28 within international network organisations and a further 73 within the MFIs themselves. A review recognised this success and strongly recommended a third and final phase.

MicroSave's third and final phase (2004 – 2007), called the Market-led Microfinance Project, aims to complete and consolidate the work to date. The purpose of this phase is to inform and build the capacity of the financial sector to provide high-quality financial services for poor people with the goal of increasing access by poor people to high-quality financial services. The cornerstone of this phase is "proving" that the research, toolkits, and technical services translate into concrete results on the ground. Work with the Action Research Partners is expected to lead to at least five sustainable financial

institutions in the four target countries that will offer a strong demonstration effect and ARPs will reach 1.5 million savers and 200,000 borrowers with improved services. The other two main components of the program (toolkit development and dissemination; and building and certifying service providers) complement and feed into the Action Research Program. In addition – and perhaps more importantly – these activities are critical for extending the MicroSave philosophy and technical capacity beyond Africa and beyond the project period. The technical toolkits and trainings cover a range of topics from market research through product development to strategic marketing, to support operationalisation of the market led approach. Using these toolkits to develop service providers to deliver training and technical assistance has been an area of greater emphasis, which enables MicroSave to reach beyond its immediate action research partners and over time.

2. OBJECTIVES

The review will have three objectives:

- A formal project completion report assessing the performance of the third phase project against the defined project objectives and outputs with particular focus on effectiveness, efficiency and relevance of the programme
- A review of the overall experience of the MicroSave programme over its full nine year history, identifying the achievements and key lesson learned
- Critical analysis of the on-going strategy for the future development of MicroSave examining the prospects for sustaining and enhancing its future contribution to financial market development

3. SCOPE OF WORK

3.1 Review of relevant reports and review including:

- Project proposals/memoranda for the three phases
- Strategic plan for MicroSave III
- Annual business plans for MicroSave III
- All annual reports over MicroSave III
- Sample of quarterly reports over MicroSave III
- All previous MicroSave reviews

- 3.2 Evaluate the performance of the Action Research Partner (ARP) programme, focussing particularly on the extent to which MicroSave has impacted at both a strategic and operational level on institutions and the resultant. This will require a detailed review of relevant reports and other literature available, analysis of performance data for ARPs and interviews with a range of staff within ARPs. Time will not permit detailed institutional reviews of all ARPs and it will therefore be necessary to select a limited number of ARPs for more detailed reviews and draw extensively on existing materials to deepen the analysis
- 3.3 Review the relevant toolkits and resources developed for use by action research partners and the wider global financial sector. Assess the quality of the material developed, relevance to the market and examine evidence for impact on both ARPs and the wider financial sector. This will require use of multiple sources of evidence – interviewing ARPs and target users of the toolkits in both financial institutions and business service providers.
- 3.4 Assess the impact of MicroSave work to develop the capacity of service providers to deliver technical assistance and training using MicroSave toolkits. This will involve examining the impact of the Young Executive Programme (YEP), training of senior service providers (SSP) and the certification programme which MicroSave runs.
- 3.5 Assess the success of the MicroSave III project against its defined outputs and objectives, using the attached FSD Kenya project completion report template (attached at annex 1). This review would include analysis of effectiveness, efficiency, relevance and competition. Effectiveness would be analyzed in the context of doing the 'right' things and comparing outputs to outcomes. Efficiency would be analyzed in terms of doing things right in terms of transforming inputs to outputs. Relevance would be analyzed in the context of competition in the microfinance sector in the countries of operation, especially in comparison to other capacity building and consulting services.
- 3.6 Review the impact of the MicroSave project over its three phases on the development of inclusive financial markets in the East Africa region and beyond. This should be firmly grounded within a market development perspective, assessing MicroSave's contributions but also assessing any weaknesses or failures in the approach. The aim should be to identify the lessons for development agencies and others supporting the development of pro-poor financial markets. Specific issues which should be examined critically include:
- Overall length of the project,
 - Levels of subsidy and how these were applied, including effectiveness and efficiency,
 - Selection of project partners,
 - Approach to sustainability,
 - Approach to capacity building, including relevance and competition,
 - Implementation approach.
- 3.7 Review the current strategy for MicroSave Consulting Ltd. This review should examine the current business plan for MicroSave Consulting Ltd and comment on its viability. The review should examine MicroSave's its current position in the market, examining where it has a competitive advantage and how it will need to change as markets evolve. A specific focus should be on the role of development agencies as clients, either directly or indirectly and how MicroSave is positioned to move to more commercial relationships with financial institutions and other market players in the longer term. Recommendations should be provided to the MicroSave management team for ways to enhance the current strategy to improve market position or profitability. An assessment should be made of the extent to which the commercialisation strategy will achieve the development goal of sustaining the impact of the donor-funded MicroSave project.
- 3.8 Review role of the proposed non-profit vehicle and how it contributes to the overall strategy. A specific issue to be addressed will be the potential for market distortion from the continued availability of grant funding. Recommendations should be made to both MicroSave management and potential donor funders on how this vehicle should be developed in order to contribute positively to a market development approach.

4. CONDUCT OF THE WORK

A maximum of 20 days is allocated for the assignment. Of this up to 14 days will be spent in the East Africa region. It will be essential to visit both Uganda and Tanzania in addition to Kenya. While MicroSave has also worked with partners in South Africa this has received much less emphasis in the third phase and can be satisfactorily covered through telephone interviews.

The reviewer will formally report to the MicroSave Project Management Committee (PMC). Progress on implementation will be monitored by:

- David Ferrand representing FSD Kenya, FSD Tanzania, FSD Uganda and Austrian Development Agency.
- Jennifer Isern representing CGAP and NORAD

5. OUTCOMES AND DELIVERABLES

The consultant will produce a report of not more than 30 pages (with any necessary Appendices in addition to this amount) in electronic form in either Microsoft Word 2003 (or compatible) or Portable Document Format (PDF). A maximum of eight hard copies will be produced on request by MicroSave.

6. TIMETABLE

The work will commence from 1st November 2007 with the desk review of the background reports and literature which will be provided by MicroSave electronically. Field work will commence 26th November. A draft report will be provided by 14th December for comment by the PMC and MicroSave. These comments will be provided no later than 21st December. A final report should be provided responding to these comments no later than 18th January 2008.

Annex 2

KEY DOCUMENTARY RESOURCES

Resources reviewed

- Project proposals and memoranda for MicroSave Phases I-III
- Mid-term reviews for MicroSave Phases I-III
- Quarterly and annual reports to the Project Management Committee for MicroSave Phase III
- Annual work plans for MicroSave Phase III
- Internal project monitoring and management reports
- MicroSave dissemination materials (including website and VCDs)
- Personal correspondence with MicroSave project management
- MicroSave India materials and personal correspondence with project management
- Strategy documents for FSD Kenya and CGAP
- Economic and financial sector background resources from the World Bank, DFID, Economist Intelligence Unit and others

Key references cited in report

- (1) FinAccess: Results of national survey of access to financial services (Kenya, Tanzania); Financial Sector Deepening (2007) and FinScope: Results of national survey of access to financial services (South Africa); FinMark Trust (2007)
- (2) Johnson, S; The dynamics of competition in Karatina's financial markets; Imp-Act Working Paper No. 9 (2003)
- (3) Demirguc-Kunt, A; Measuring Access to Finance: An Update of Activities; Prepared for International Year of Microcredit Advisers Group Meeting, World Bank (2005)
- (4) Helms, B, Isern, J & D'Ambrosio-Vitale, N; CGAP's Pilot Microfinance Capacity-building initiative in Africa: What have we learned?: Focus Note No. 14; CGAP (1999)
- (5) Goodwin-Groen, R; Building Capacity For Retail Microfinance; Donor Brief 24; CGAP (2005)

Annex 3

REVIEW SCHEDULE & KEY INFORMANTS CONSULTED

21 - 23 November:	Preparation
25 November:	Depart UK
26 - 28 November:	Kenya
29 November - 1 December:	Tanzania
2 - 4 December:	Uganda
5 - 7 December:	Kenya
7 December:	Depart Kenya
10 - 14 December:	Report writing / follow up

Date	Person	Position / Organisation	Notes
<i>KENYA</i>			
26 November	David Cracknell (and MicroSave team)	Africa Programme Director, Microsave	
	Nyambura Koigi (and management team)	CEO, Kenya Post Office Savings Bank	
27 November	Michael Mithika	Director, JM Mantle Consulting	
	Mutuo Mbilla	Course Coordinator, School of Applied Microfinance	
	Crispen Bokea	Central Bank of Kenya	
	David Ferrand	Director, Financial Sector Deepening Kenya	
	Frank Matsaert	Senior Growth, Trade and Investment Adviser for East Africa, DFID	
28 November	Eric Sile	Director, SACCOCAP	
	Cecilia Kariuki	SACCOCAP (former YEP)	
	Ben Nkungi	CEO, Association of Microfinance Institutions, Kenya	
	Kamau Kabucho	FineLine Consulting	
	Graham Wright	India Programme Director, MicroSave	Email
5 December	MicroSave team		
6 December	James Mwangi	CEO, Equity Bank	
7 December	MicroSave team		Debriefing
	FSD Kenya		Debriefing
<i>TANZANIA</i>			
29 November	Jason Meikle	Managing Director, FINCA Tanzania	
	Bernadethe Gogadi	Director of Planning, Research and Development, Tanzania Postbank	
	Ian Robinson	Director, Financial Sector Deepening Tanzania	
	Patricia Mwangi	Adviser, Financial Sector Deepening Tanzania	
	Jennifer Isern	Lead Microfinance Specialist, CGAP	Skype
	Farai Jena	CGAP	Skype
	Lisa Parrott	Formerly responsible for training and capacity building, MicroSave	Telephone

Date	Person	Position / Organisation	Notes
30 November	Tully Mwanbapa (and team)	Director of Marketing, CRDB	
	David Porteous	Consultant, Bankable Frontiers Associates	Skype
	Marshall Bear	Independent consultant (capacity building specialist)	Skype
	Rashid Malima	Director, PRIDE Tanzania	Email
1 December	Altemus Milinga	Consultant, MF Services and Tanzania Association of Microfinance Institutions	
UGANDA			
3 December	John Giles	Managing Director, Centenary Bank	
	Joseph Kimbowa	General manager Operations, Centenary Bank	
	Fabian Kasi	CEO, FINCA Uganda	Email
	Edigold Monday	Executive Director, CMF	
	Paul Kiyingi	Head of Operations, CMF	
	Robert Musinguzi	Branch Support & Compliance Manager, CMF	
4 December	Charles Nalyaali	CEO, UML	
	Mathias Katamba	CEO, U-Trust	
	Nasika Pace	Consultant	Email
	David Baguma	AMFIU	Email
UK			
Dec - Jan	Heather Clark	Independent Consultant	Email / Skype
Dec - Jan	Brigit Helms	IFC	Email / Skype

Annex 4

OVERVIEW OF OTHER MARKET DEVELOPMENT PROGRAMMES

FIT-SEMA, UGANDA

Project details: 7 years, US\$1.5m, ILO project with multiple funders inter alia Netherlands, Sida.

Context: Poor quality of business-related programming in radio broadcasting restricts information flow in the economy and limits accountability, particularly to the poor who lack access to alternative sources of information and voice.

Goal: To improve the quality and relevance of commercial radio programming on a sustainable basis.

Challenge: Changing the prevailing radio business model.

Distinctive approach: Rather than buying airtime from radio stations to broadcast specific information, FIT-SEMA worked to build the capacity and incentives of radio stations and other players to improve programming.

Main activities: Work with small number of radio stations to improve programme innovation and quality, demonstrate “business case”, “crowd-in” other stations and strengthen wider market functions, such as audience research, sponsorship and advertising, journalism practices and training, broadcasting coordination and regulation. No direct funding of radio stations.

Achievements: More than 25 stations offering 55 new business-focused programmes and reaching 7m more listeners many in extremely remote areas, on a sustainable basis. Case study evidence shows direct links between improvements in the incomes and livelihoods of thousands of poor producers and the extra voice and advocacy provided by radio that has resulted in rules being enforced, government commitments enacted and corruption exposed.

KATALYST, BANGLADESH

Project details: 5 years, US\$25m, multiple funders: DFID, SDC, Sida, CIDA, Netherlands

(Katalyst programme works in twenty industrial, service and agricultural sectors to improve the poor’s position in these markets.

One intervention is described below: strengthening information flows to poor farmers in the vegetable sector through commercial agricultural input distribution systems, which cost US\$120,000 over 3–4 years.).

Context: Low productivity stemming from incorrect cultivation practices and use of inputs restricts the productivity, potential income and nutritional benefits of vegetable cultivation.

Goal: to Improve the productivity of vegetable farming on sustainable basis.

Challenge: Building information and advice as embedded services in the value chain.

Distinctive approach: Rather than paying for the direct delivery of training to farmers, Katalyst worked initially with one (and then several) large input supply firms to build their capacity to offer training to retailers so that they, in turn, would change their business offer to farmers (ie provide better information and advice) as part of their sales and customer relations strategy.

Main activities: Light-touch support to agricultural input suppliers to develop a training programme for agricultural retailers and so build retailers’ incentives and capacity to offer better information and advice to farmers.

Achievements: New business model in supply chain, covering over 3,000 retailers and improving performance among 1m farmers. Case studies show that overcoming this information constraint has brought productivity gains typically of 20–30% in vegetable production thus helping to enhance competitiveness relative to Bangladesh’s neighbours. In another sector, aquaculture, where Katalyst has followed a similar approach of improving the flow of information through the value chain, extensive surveys showed additional net productivity gains of 6% relative to a control group in the first year alone (a figure that can be expected to rise in future years).

FINMARK TRUST, SOUTH AFRICA

Project details: 3 years, US\$10m, DFID-funded trust

Context: Low reach of financial services (38% at project start) among low-income groups, excludes them from the mainstream economy and restricts their contribution to growth.

Goal: To make financial services markets work more effectively for the poor.

Challenge: Understanding and addressing a range of systemic constraints in a politicised and divided context.

Distinctive approach: Rather than setting up a “provider for the poor” or changing isolated regulations, FinMark worked to address the underlying causes of low access – information, innovation, stakeholder relationships and regulatory processes.

Main activities: Multiple – building a shared view of the industry’s future, supporting service innovation, developing information services, improving regulatory process, stimulating consumer education.

Achievements: Increase in “banked” population to 46.5% (2.3m people), new information services, stronger public roles.

References

Elliot, D, Gibson, A & Hitchins, R (2008); *The Making Markets Work for the Poor (M4P) Approach*; DFID & SDC (2008) (forthcoming)
Gibson, A (2006); *Developing Financial Services Markets for the Poor; FinMark in South Africa*; Making Markets Work for the Poor Cases Study series; Employment and Income Division, SDC

Anderson, G and Hitchins, R (2007); *Expanding the Poor’s Access to Business Information and Voice through FM radio in Uganda; Making Markets Work for the Poor Case Study series*; Employment and Income Division, SDC

Anderson, G & Elliott, D (2007); *The Role and Impact of Radio in Reforming the Rural Business Environment in Africa*; Working paper; Employment and Income Division, SDC

Gibson, A (2005); *Bringing knowledge to vegetable farmers. Improving embedded information in the distribution system; The Katalyst cases; Case Study no. 1*; Katalyst, Bangladesh

Annex 5

PROGRESS AGAINST PROJECT PERFORMANCE MATRIX

Project title	Project purpose	Project period	Initial funding agreed	Total funding agreed	Total disbursed	Review attached?
MicroSave: Market-led Microfinance Project	To inform and build the capacity of the financial sector to provide high-quality financial services for poor people	January 2004-December 2007	\$1,690,607	\$1,690,607	\$1,633,236	Yes

Retail capacity development		Sector-wide development				Market segment addressed	
(1) Investment	(2) Capacity building	(3) Product development	(4) Market integration	(5) Service provider	(6) Research & innovation	(7) Policy and institutions	Urban
	++	++		++	++		++
							++
							++

Outputs	Planned activities over review period	Comments on actual activities undertaken during project
1. Successful market-led micro-finance institutions created under the Action Research Partner programme	1.1 Select ARPs to maintain diverse portfolio of maximum 10 ARPs 1.2 Support ARPs in all aspects relating to market-led microfinance, especially product development and key points of market research, product testing, service delivery, costing/pricing and marketing. 1.3 Ensure all partners have adequate understanding of issues in moving from product design to full-scale implementation 1.4 Serve as sounding board and document ARP experiences 1.5 Promote and facilitate collaboration and cross-learning between ARPs	The ARP programme has continued to be the heart of <i>MicroSave</i> both as a core focus of activity and in terms of resources expended (accounting for nearly half of Phase III budget). <i>MicroSave</i> has worked with a total of twelve partners during the current phase, nine on an intensive basis. <i>MicroSave</i> has provided technical assistance across the range of technical areas related to a market led approach. Most partners have experienced general business expansion and revenue and profitability growth during the project period and there is clear evidence of strategic and operational changes resulting from <i>MicroSave</i> interventions. By project end seven ARPs are operating profitably across the region. The opinion of <i>MicroSave</i> amongst all ARPs is resoundingly and uniformly positive and <i>MicroSave</i> has achieved considerable credibility with the industry. An output of particular note, which was not specified in the project design, is the CEO Fora for ARP, which has been very well received by all protagonists.

Outputs	Planned activities over review period	Comments on actual activities undertaken during project
<p>2. Relevant toolkits and resources developed for use by Action Research Partners and the wider global financial sector</p>	<p>2.1 Develop test and deliver remaining toolkits from planned suite of 13 to support market-led microfinance</p> <p>2.2 Develop, test and deliver remaining ToT materials for 13 toolkits</p> <p>2.3 Prepare and distribute 12 two page briefing notes</p> <p>2.4 Develop and distribute 2 resource CDs containing toolkits and other relevant materials</p> <p>2.5 Prepare and distribute 3 booklets on strategic marketing, experiences from ARPs and impact of market-led microfinance</p> <p>2.6 Hold an average of one training workshop per annum in each focal country (Kenya, Uganda, Tanzania and South Africa), total 12, to introduce key toolkits</p> <p>2.7 Hold two introductions to market-led microfinance workshops targeting senior management of leading MFIs</p>	<p>It is not possible to locate definitively a specific toolkit's production at a particular point in time because toolkits have been developed in an evolutionary manner, adapted and revisited over time. Equally what constitutes a "toolkit" as opposed to another form of resource is not always clear cut. In this phase <i>MicroSave</i> has focused on completing or significantly revising at least thirteen toolkits</p> <p>Similarly, other knowledge resources have been worked upon over extended periods of time, revised or used to derive additional outputs. During this phase <i>MicroSave</i> has worked on at least twenty case studies or papers and forty briefing notes and at the time of the review was working to finalise a series of VCDs for widespread distribution. Six toolkits are available in French and five in Spanish; a range of other documents and web resources have also been translated into these languages.</p> <p><i>MicroSave</i> staff have organised or participated in over thirty workshops, seminars or training events. Of particular note is <i>MicroSave</i>'s role in establishing the School of Applied Microfinance (SAM) in 2005.</p> <p><i>MicroSave</i>'s website has witnessed pronounced growth during the phase receiving in excess of 18,000 visits and 12,000 downloads per month on average in 2007, compared to 8,600 visits and 770 downloads per month in 2004.</p>
<p>3. Increased capacity of service providers to deliver technical assistance and training on toolkits</p>	<p>3.1 Competitively select 10-15 senior consultants</p> <p>3.2 Undertake classroom based training with senior consultants in toolkits</p> <p>3.3 Support hands-on practical training of senior consultants with toolkits in ARPs</p> <p>3.4 Mentor and certify senior consultants in delivery of toolkits</p> <p>3.5 Competitively select 4-8 junior consultants for intensive training</p> <p>3.6 Train and certify 2-4 junior consultants on Basics of Product Development and Basics of Strategic Marketing</p> <p>3.7 Support the marketing of CSPs through direct introductions, promotion of brand and use of web-based resource</p>	<p>By the end of the project thirty-nine senior service providers, thirty-six other consultants, nine YEP and six <i>MicroSave</i> staff have been certified and seventy-six assignments have been completed. In addition to these certified individuals, a considerable number of individuals within ARPs have acquired capacity (although not necessarily certification) through exposure to <i>MicroSave</i> training or other support. Certification has not been evenly distributed across toolkits, with the bulk of certification focusing on <i>MicroSave</i>'s main toolkits.</p> <p>The extent of <i>MicroSave</i>'s influence on the local technical service market is uncertain. A market clearly exists, but it is highly variable in terms of service quality, diversity, motivation, know-how and resources. A variety of service providers are active, via <i>MicroSave</i> or independently, and continue to utilise <i>MicroSave</i> tools, particularly MR4MF, Costing and Pricing, Process Mapping, Pilot Testing and Marketing. It does appear that the more well-regarded providers have been certified by <i>MicroSave</i>. The launch of <i>MicroSave</i> Consulting Ltd has the potential to ensure some level of service provision continues after the project ends. However supply-side capacity currently appears insufficient to meet latent demand.</p>

Performance target	Output/activity	Target	End of project achievement	Variance against target
<ul style="list-style-type: none"> Active action research partners "Graduated" action research partners Terminated action research partners Sustainable action research partners Refined loan product clients New loan product clients Refined savings product clients New savings product clients 	Output 1	<ul style="list-style-type: none"> 9 4 3 6 88,000 41,000 570,000 535,000 	<ul style="list-style-type: none"> 10 4 1 7 348,400 120,338 1,749,459 667,927 	<p>MicroSave has been less successful in South Africa because working relations or conditions with selected partners deteriorated.</p>
<ul style="list-style-type: none"> MFIs reading/using papers/toolkits Case studies/papers Toolkits completed Book/booklets Briefing notes Resource CDs Dissemination workshops Introduction to Market-Led MF workshops 	Output 2	<ul style="list-style-type: none"> 200 7 13 3 12 2 12 2 	<ul style="list-style-type: none"> No data 20 14 1 41 1 + 4 VCD = 5 31 3 	<p>Toolkits in wide usage throughout the region (although exact outreach is difficult to ascertain) with evidence of continued independent application of some toolkits within MFIs. School of Applied Microfinance established on an-ongoing basis. Less penetration in South Africa (Score = 2)</p>
<ul style="list-style-type: none"> Senior Consultants certified in courses Junior Consultants certified in product development Junior Consultants certified in strategic marketing Fee-for-service assignments 	Output 3	<ul style="list-style-type: none"> 24 2 2 30 	<ul style="list-style-type: none"> 40 6 2 77 	<p>Also 36 other consultants, and 6 MicroSave staff certified YEP Certification is not evenly distributed across toolkits</p>

Assessment of performance against project purpose

- > 50 MFIs to re-orient to a market-led approach to microfinance using *MicroSave-Africa* resources
- These MFIs include:
- At least 5 of the leading MFIs in each of Kenya, Uganda and Tanzania and South Africa
- MicroSave has contributed demonstrably to international, regional and local thinking and practice regarding market-led microfinance. MicroSave knowledge products are widely disseminated and used: (Score = 1)
- There is direct evidence that at least 3-4 ARPs in each of the E African countries have substantially adopted market-led approaches with some success. There is further evidence of other service providers less directly involved with MicroSave adopting more market-led approaches. Not achieved in S Africa. (Score = 2)

Assessment of impact on pro-poor financial market development

To increase access by poor people to high-quality financial services Globally:

Market-led savings products reach 3m people by 2007
Market-led credit products reach 400,000 people by 2007

In East and South Africa:

Market-led savings products reach 1.5m people by 2007
Market-led credit products reach 200,000 people by 2007

MicroSave has made an undisputed contribution to pro-poor financial services across the globe. It is not possible to definitively isolate and attribute impact at this level to MicroSave, particularly on a global basis, in a context of growing competition and technological change in the financial sector. However within East and Southern Africa, MicroSave's ARP's are serving in excess of 2m savers and 250,000 borrowers, figures which are growing rapidly. (Score = 1)

Lessons from project

MicroSave's experience points to a wider financial sector development agenda – moving from organisations to systems.

The centrality of good market understanding to effective intervention.

Build scope for pilot initiatives and flexibility into intervention design.

Interventions need to be guided by a strategy or "pathway" for wider systemic change.

The role of agencies as catalysts to facilitate market system change, not participate in markets directly.

The importance of a rigorous, transparent approach to sustainability from the outset.

Market development requires time, good people and multi-faceted interventions, not necessarily enormous resources.

Key recommendations

As the project is coming to an end, there are no specific recommendations for the project. However FSD Kenya should consider incorporating some form of assessment of MicroSave's impact on non-ARP financial service providers into a supply-side survey of the financial sector during the next twelve months. Alternatively or complementarily, FSD Kenya could conduct a case-based exercise, which tracks a sample of technical service providers trained and certified by MicroSave and assesses the impact of their work on client financial service providers.

Overall project performance score

1 – completed achieved

PCR prepared by	Date	Reviewed by	Date
Rob Hitchins, Springfield Centre	08/02/2008	David Ferrand, Director	21/02/2008

Annex 6

COVERAGE OF TOOLKITS AND CAPACITY BUILDING

Toolkit and capacity building coverage 2007														Average certification rate	
Toolkits														All	Top Six*
2007 (cumulative, at Q3)															
	MR4MF	Costing & Pricing	Process Mapping	Pilot Testing	Product Rollout	Risk Analysis	Strategic Marketing	Product Marketing	Customer Service	Corporate Brand & Identity	Staff Incentive Schemes	Loan Portfolio Audit	Human Resource Mgt	Strategic Business Planning	
MicroSave	6	3	4	4	4	2	5	4	4	3				2	
MicroSave	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%				100%	
YEP	9	4	9	7	1	3	6	8	4	3	5			2	
YEP	100%	100%	89%	57%	100%	33%	33%	13%	75%	33%	0%			50%	
LSP/MFI	21	10	15	5		1	10	5	2			1			
LSP/MFI	90%	11%	13%	40%		100%	10%	20%	0%			100%			
International	18	1	10	1		1	4	2	1	2	2	1	2		
International	100%	100%	60%	100%		100%	75%	100%	100%	100%	100%	100%	100%	95%	

* By nos trained

- MR4MF
- Process mapping
- Product marketing
- Pilot testing
- Strategic marketing
- Costing and pricing

Annex 7

SEMI-STRUCTURED QUESTIONNAIRE TEMPLATES

The review did not conduct formal surveys. However it conducted semi-structured interviews and sought feedback by email from some informants. Two matrices were used to guide these interactions and record notes, but were adapted considerably according to the informant in question (ie financial service provider, technical service provider, government, donor etc)

Business change	Context	MicroSave
<p><u>Bottom line</u>: [Profit, sales, competitive position etc]</p> <p><u>Clients</u>: [who, profile, nos]</p>	<p>[Trends, critical incidents, policy/regulation, competitors]</p>	<p><u>History</u>: [first contact, timeline, critical incidents]</p> <p><u>Support</u>: [what did MS actually do? Nature of deal?]</p>
<p><u>Products</u>: [offer, features]</p>	<p>Organisation (date / time) Impact on business: bottom line; outreach; capacity (motivation, know-how, resources)</p> <p>Role of MicroSave Context + counterfactual Supporting functions</p> <p>Counterfactual</p> <p>[What if? Who else?]</p>	<p><u>Perceptions</u>: [Perceptions; key words; distinctive offer; strengths/weaknesses; how would you describe]</p>
<p><u>Strategy</u>: [vision, positioning, distinctive niches etc]</p> <p><u>Operations</u>: [practices, capacity, staff, systems]</p>		<p>Supporting functions</p> <p>[Sources of knowledge/info/TA/support – where do you go if...? Who else do you use...?]</p>
<p>Other observations:</p>		

Email questionnaire (financial service providers)	
Q.1	<p>Please describe briefly critical changes in your organisation over the last 3-5 years. This might include changes in:</p> <ul style="list-style-type: none"> ▪ bottom-line business performance or growth ▪ overall strategy ▪ client profile/segment ▪ products ▪ operations
Ans	
Q.2	Do you feel positive or negative about the context for financial service provision to poor people in your country; what do you regard as the most significant challenges facing the "industry" in coming years?
Ans	
Q.3	How and when (approximately) did you first come into contact with MicroSave?
Ans	
Q.4	What are the main types of support you have received from MicroSave; which were <u>most</u> useful; which <u>were</u> the least useful?
Ans	
Q.5	What key words would you use to describe MicroSave and their work?
Ans	
Q.6	What do you regard as the distinctive strengths and weaknesses of MicroSave?
Ans	
Q.7	If you had not received support from MicroSave where else might you have sought similar kinds of assistance; who do you regard as important resources for the industry?
Ans	
Q.8	From the beginning of 2008 MicroSave will operate as a commercial company: would you be prepared to purchase their services and if yes, which ones?
Ans	
Q.9	Do you use any other service providers to support your organisation (eg audit, IT support, advertising, market research, human resource development)? If possible, please give some examples.
Ans	
	Other remarks



