

# **Lessons from *MicroSave's* Action Research Programme 2001**

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

**04 June 2002**

## Lessons from *MicroSave's* Action Research Programme

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

The 31<sup>st</sup> December 2001 marks the end of the first year of *MicroSave's* expanded Action Research Programme, it has been an exciting, learning experience for us all, a year in which the size and scope of the Action Research Programme has increased dramatically. *MicroSave* expanded from two to eight Action Research Partners, and covered a range of activities which included, market research for microfinance, product modification, development and implementation of pilot tests, product costing, a review of an incentive scheme, marketing workshops and an experience sharing workshop at CEO level.

Whilst it is too early in the ARP programme to disseminate lessons, this paper and a paper entitled "Product Costing in Practice – the Experience of *MicroSave*" is evidence that the supply side learning and dissemination agenda is being actively developed. In addition, new *MicroSave* Toolkits on Marketing for MicroFinance Institutions and Staff Incentive Schemes were conceptualised during 2001, and will be produced during 2002, and a Customer Service Standards Toolkit will be produced during 2003.

On a personal note we should like to add the success of *MicroSave* belongs as much, if not more, to the work, dedication and openness of our Action Research Partners, as to the work and dedication of the staff and consultants of *MicroSave*. Many, many thanks.

### The Action Research Programme

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

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

Under the Action Research programme (Output 2 above), *MicroSave* is learning and disseminating lessons relating to product development and the product development process.

This report documents the progress made under the Action Research Programme during 2001. It:

- presents *MicroSave's* package of services,
- summarises the lessons learned from our Action Research Programme,
- covers the selection of our Action Research Partners,
- presents an overview of results, and then
- details the activities undertaken with each of our partners.

Currently *MicroSave* works with 8 institutions in four countries:

1. Kenya – Kenya Post Office Savings Bank (KPOSB), and Equity Building Society (EBS);
2. Tanzania – Tanzania Postal Bank (TPB);
3. Uganda – Uganda Microfinance Union (UMU), Centenary Rural Development Bank (CERUDEB), and FINCA Uganda;
4. South Africa with TEBA Bank and Credit Indemnity.

### Lessons Learned

**Plan, Review and Re-plan:** The truthfulness of the old adage, "If you fail to plan, you plan to fail" is self evident, but frequently ignored. Failing to have a product development team meeting regularly undermines the value of forming the team. Not providing the product development team with sufficient time or budget to monitor the pilot test means that lessons take longer to learn and longer to internalise.

Conversely good planning combined with adequate resources pays dividends, as shown by Equity Building Society in their allocation based costing exercise.

**Ensure Feedback:** Feedback loops need to be built into the process of product development. This is done through setting up a product development team that meets regularly, building continuing market research into the pilot test process and being concerned about customer service standards and satisfaction. Client based feedback loops can be especially powerful (see McCord, M.J., “The Feedback Loop: A Process For Enhancing Responsiveness to Clients”, *MicroSave*, 2002).

**Design a Winning Product:** Do not shortcut the research process. TEBA Bank in South Africa were about to go to the market with a funeral insurance product, this product was designed to free clients from the burdens of financing and arranging a funeral for their family at a time of grief. Surely a winning product! However, participatory market research demonstrated that planning a funeral was an important family obligation to the deceased and a part of the grieving process. Had TEBA Bank's original funeral insurance product gone to the market it would have failed.

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

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

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

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

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

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

**Building Capacity – Start Simple:** For *MicroSave* to promote high quality financial services for poor people, it builds capacity within its Action Research Partners to develop and promote their own financial services. *MicroSave* emphasises simplicity and incremental development. Workshops are used to

introduce concepts, followed by practical work with our partners, in the field or in their offices, directly after the course, to develop and embed tangible results. There are often technically more rigorous – but more demanding, technically sound solutions, such as Activity Based Costing, cannot always be introduced without first building capacity.

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

**Consider Contracting-Out Services:** Where suppliers exist and capacity is required, it is possible to contract out elements of a Pilot Test, whether this is the management of the test, review or evaluation, market research or marketing. Table 1 presents the advantages and disadvantages of working in house or contracting out services.

	“In-House”	“Contracted Out”
Advantages	<ul style="list-style-type: none"> <li>• Allows the MFI/ People who understand and care about the sector to run the process</li> <li>• Provides unique learning opportunities for senior management</li> <li>• Provides important experience to MFI staff</li> <li>• Allows internalisation of issues and lessons learned</li> <li>• MFI staff are likely to be better equipped to draw appropriate conclusions from the results</li> </ul>	<ul style="list-style-type: none"> <li>• Should be done with maximum professionalism</li> <li>• Should save the MFI precious time</li> <li>• Will result in analysed data and a report ready for presentation</li> </ul>
Disadvantages	<ul style="list-style-type: none"> <li>• Requires specialist skills</li> <li>• Takes much time away from other duties</li> <li>• Staff come with only institution specific knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• Most consultancy companies have little / no understanding of the sector within which MFIs operate</li> <li>• MFIs are often “low value” clients and thus neglected or given poor service</li> <li>• If the consulting company is good it will probably be expensive.</li> </ul>

**Table 1: Whether to contract out services**

Source: Adapted from Wright, Graham A.N. “Market Research and Client Responsive Product Development”

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

### Key Questions that should Precede Starting New Product Development

The following questions were posed by the CGAP Product Development Taskforce, on which *MicroSave* is represented, in a paper entitled “Looking Before You Leap: Key Questions That should Precede Starting New Product Development”:

1. **Motivation:** “Are we starting product development to make our MFI more client driven?”
2. **Commitment:** “Are we setting about product development as a systematic process based on defined objectives?”
3. **Capacity:** “Can our MFI handle the strains and stresses of introducing a new product?”
4. **Cost Effectiveness and Profitability:** “Do we fully understand the cost structure of our products?”
5. **Simplicity:** “Can we refine repackage and re-launch existing product(s) before we develop a new one?”

6. **Minimise Confusion, Complexity and Cannibalisation:** “Are we falling into the product proliferation trap?”

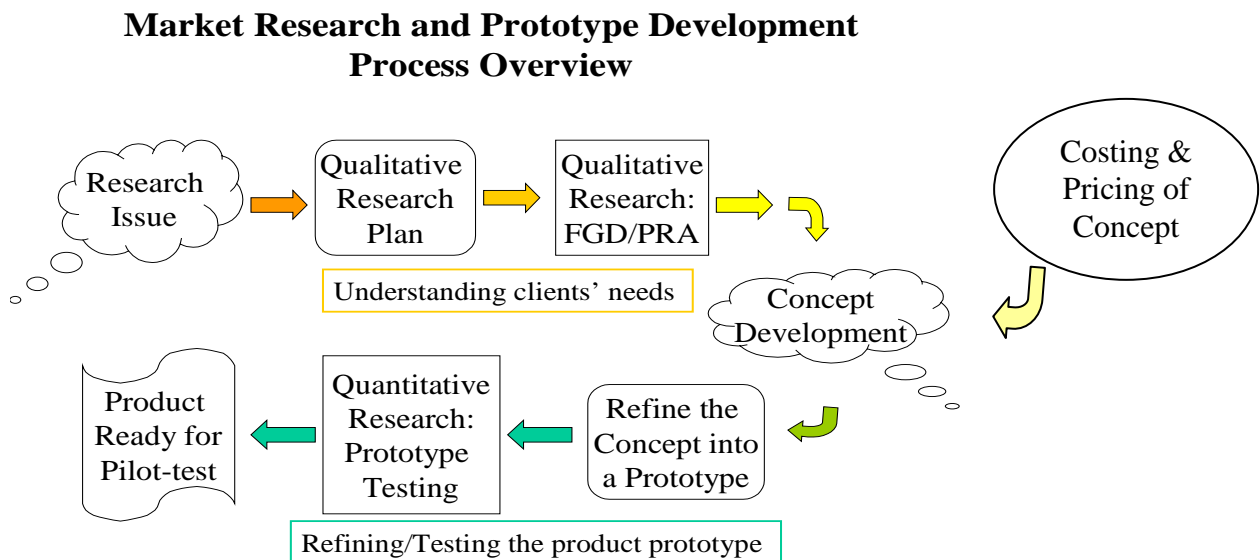
### MicroSave's Package of Services

*MicroSave* assists its Action Research Partners (ARPs) in the process of market-led product development, providing a varied package of services. *MicroSave* ensures its partners understand the issues involved in moving from product design to full-scale implementation, including operations and other supply side issues. *MicroSave* serves as a sounding board and documents at least some of the partners' experiences. *MicroSave's* team of two supply side experts (plus input from the Programme Director) cannot address all of the supply side tasks related to new product introduction (MIS adjustment - including reporting, delivery systems, potential staffing adjustments, cash flow implications, implications for asset/liability management, internal audit, etc.) in depth. Rather the supply side team from *MicroSave* helps orchestrate and trouble shoot while the MFIs draw more heavily on other human and financial resources at their disposal (augmented by some limited external consultancy assistance sourced by *MicroSave*) to make adjustments and follow through on decisions made.

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

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

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



## **The Product Development Process**

The product development process is a systematic step-by-step approach to developing new or refining existing products:

### **I. Evaluation and Preparation**

- 1.1 Analyse the institutional capacity and “readiness” to undertake product development
- 1.2 Assemble the multi-disciplinary product development team, including “product champion”

### **II. Market Research**

- 2.1 Define the research objective or issue
- 2.2 Extract and analyse secondary market data
- 2.3 Analyse institution-based information, financial information/client results from consultative groups, feed back from frontline staff, competition analysis etc.
- 2.4 Plan and undertake primary market research

### **III. Concept/Prototype Design**

- 3.1 Define initial product concept
- 3.2 Map out operational logistics and processes (including MIS and personnel functions)
- 3.3 Undertake cost analysis and revenue projections to complete initial financial analysis of product
- 3.4 Verify legal and regulatory compliance
- 3.5 On the basis of the above plus client feedback sessions refine the product concept into a product prototype in clear, concise, client language.
- 3.6 Finalize prototype for final quantitative prototype testing or pilot testing, according to the risk/cost nature of the product

### **IV. Pilot Testing**

- 4.1 Define objectives to be measured and monitored during pilot test, primarily based on financial projections
- 4.2 Establish parameters of pilot test through the pilot test protocol, including sample size, location, duration, periodic evaluation dates etc.
- 4.3 Prepare for pilot test, install and test systems, draft procedures manuals, develop marketing materials, train staff etc.
- 4.4 Monitor and evaluate pilot test results
- 4.5 Complete recommendation letter documenting the results of the pilot test, comparison with projections, lessons learned, finalised systems/procedures manual etc. and the initial plans for the roll out

### **V. Product Launch and Roll out**

- 5.1 Manage transfer of product prototype into mainstream operations
- 5.2 Define objectives to be measured and monitored during roll out based on financial projections
- 5.3 Establish parameters of roll out through the roll out protocol including schedule, location, tracking, budget, process
- 5.4 Prepare for roll out, install and test systems, finalise procedures manuals, develop marketing materials, train staff etc.
- 5.5 Monitor and evaluate roll out process and results

#### **Box 1: MicroSave's Product Development Process**

Source: Wright et al. “Looking Before You Leap: Key Questions that should precede starting New Product Development”

**Pilot Testing** – *MicroSave* partners are assisted to plan and establish a pilot test to test the product that they have developed. The pilot testing process has ten stages detailed in the *MicroSave's “Toolkit for Planning, Implementing and Monitoring Pilot Tests”*, and outlined in Box 2. Typically assistance is given in planning the pilot test, setting goals and indicators, and in developing financial projections.

### **The Ten Steps of Pilot Testing**

These steps complement each other in a comprehensive manner:

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

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

Source: McCord Michael J. "Planning, Implementing and Monitoring Pilot Tests" Toolkit, *MicroSave*, 2001

**Product Costing** – To enable *MicroSave* partners to develop profitable products, and to develop credible financial projections the programme assists its partners to implement a product costing system. As in the case of our Market Research for MicroFinance course, training is directly followed by direct on-site assistance to embed the skills learned. By December 31<sup>st</sup> 2001, *MicroSave* had developed or was developing Allocation or Activity Based Costing Systems in 7 of our 8 Action Research Partners. On the basis of *MicroSave's* experience with Allocation Based Costing the programme has developed a "***Toolkit for Costing and Pricing Financial Services***" which was modified and further updated during the during the year.

**Incentive Schemes** – During 2001, *MicroSave* reviewed FINCA Uganda's Incentive Scheme observing both positive and negative impacts. This research is being followed up in 2002 with additional research in other Action Research Partners, a workshop in South Africa, and the development and testing of a "***Toolkit for Developing Staff Incentive Schemes***".

**Marketing** – The successful introduction of new products often depends on the ability of the product development team to market the product to customers *and to staff*. Adapting its Market Research for MicroFinance tools, *MicroSave* helps its partners to define the benefits to customers of their products and in communicating the product to staff. *MicroSave* is formalising this experience into a marketing toolkit and workshop. Key products of this process, are field based research leading to benefit statements, publicity material and a marketing plan. *MicroSave* will work with a marketing company in 2002 to develop and test a "***Marketing for MicroFinance Institutions Toolkit***".

**Networking** – *MicroSave* took a significant step in enabling its Action Research Partners to share their thoughts and experiences though the Chief Executive Officers' Workshop held in Nairobi in August 2001. During the workshop, described by participants as "an eye opener", the CEOs' had an opportunity to experience *MicroSave's* market research tools firsthand, to learn about product costing, to share their experiences and to develop and deepen knowledge of one another's institutions and products.

***"The idea of a CEOs' meeting was excellent as the various projects now have total buy-in from ARP institutions"***

CEO Course Participant.

### Course Attendance during 2001

During 2001, *MicroSave's* Action Research Partners attended three core workshops, on “Market Research for MicroFinance”, in May 2001, the CEOs Workshop in August 2001 and on Product Costing in November 2001. Additional courses were provided as required on Market Research for MicroFinance and Marketing.

	Core Courses			Additional Courses					
	MR4MF	CEO Workshop	Costing	MR4MF - ImpAct	MR4MF CERUDEB/UMU	MR4MF EBS	MR4MF / Marketing KPOSB	MR4MF TPB	Marketing TPB
KPOSB	Uganda April 3	Kenya August 3	Uganda November Costing Completed Earlier Not Applicable 3	Uganda September 4	Uganda August 5	Kenya October 28	Kenya November 12	Tanzania December	Tanzania December
Chai SACCO EBS CERUDEB FINCA	3	1	2	2	2				
UMU TPB	3 Trained Earlier	2	2	4	3			10	7
TEBA	2	2	2						

**Table 2: MicroSave courses attended by our Action Research Partners**

### Selection of Action Research Partners

*MicroSave's* Action Research Partners were selected through a competitive process. A Request for Proposals was disseminated, institutions were asked to provide a detailed proposal, along with supporting documentation. Proposals were vetted and the institutions visited. A transparent appraisal process was used to select the most suitable partners. As at December 31<sup>st</sup> 2001, *MicroSave* had seven Action Research Partners, and expected to approve an eighth. An additional partnership with K-Rep to study their Financial Service Associations is being considered contingent on available resources. Table 3 gives more details.

Institution	Country	Product or Reasons for status
<b>Action Research Partners</b>		
Centenary Bank FINCA	Uganda Uganda	Home Improvement Loan Refinement of Step Credit/Flexibility Village Banking products Support to Small Enterprise Partnership and Savings products. Support on the Incentive Schemes.
Uganda Micro-finance Union Kenya Post Office Savings Bank Equity Building Society	Uganda Kenya Kenya	Voluntary Savings Product <i>Bidii</i> product Refining existing products and examining options for additional product(s) to be identified
Tanzania Postal Bank TEBA Bank	Tanzania South Africa	Domicile Quick Account Product Housing Loan, Grow With Us Savings Product
<b>Pending Approval at 31<sup>st</sup> December, 2001</b>		
Credit Indemnity*	South Africa	Proposal received and reviewed in 2002
<b>Possible Action Research Partners</b>		
KREP-FSAs** FINCA-Tanzania Pride-Tanzania	Kenya Tanzania Tanzania	Operations/Systems Research Pending Review. Proposal awaited



Institution	Country	Product or Reasons for status
<b>Unlikely Action Research Partners</b>		
FSA International ** Akiba Bank	Uganda Tanzania	Operations/Systems Research Support pending contingent on appointment of new CEO and a significant change in product development procedures
LandBank	South Africa	Proposal received and evaluated – significant structural problems require investigation and resolution prior to <i>MicroSave</i> getting involved
National Microfinance Bank	Tanzania	NMB has decided that it has other more pressing priorities
<b>Discontinued</b>		
Chai/WOCCU/KUSSCO***	Kenya	Medicare Savings

\*Formal approval expected \*\* Decision pending \*\*\* Work discontinued

**Table 3 - Existing and pending partners of *MicroSave* as at 28.02.02**

## Product Statistics At A Glance

To date four of our partner institutions have launched pilot tests, Tanzania Post Bank has developed the Domicile Quick Account and is in the process of rolling out to its branches, Kenya Post Office and Savings Bank is finalizing the *Bidii* product prior to rollout. TEBA Bank launched its Grow With Us Savings Account and FINCA Uganda are testing their Small Enterprise Partnerships. The results to 30<sup>th</sup> November 2001 are summarized in Table 4.

	Product	Status	Number of locations	Number of Clients	Approx USD
TEBA	GWU	Rolling out		6,669	913,182
TPB	DQA	Beginning roll out	6	23,933	3,768,572
KPOSB	Bidii	Beginning roll out	4	2,092	301,164
<b>Total</b>	<b>Savings</b>			<b>32,694</b>	<b>4,982,918</b>
FINCA	SEP	Pilot-testing	1	170	59,638
<b>Total</b>	<b>Lending</b>			<b>170</b>	<b>59,638</b>

**Table 4: Product Statistics At a Glance**

## Tanzania Postal Bank

Tanzania Postal Bank operates the Domicile Quick Account in six branches, the account continued to show commendable growth both in terms of accounts and deposit balances as of 30<sup>th</sup> November 2001, the total number of accounts grew to 23,933 (21,429 August 31st) with total deposits of approximately USD 3.8m (USD 3.5m August 31st). Strong growth continues to be experienced at the Arusha pilot site with 4,762 accounts (4,157 August 31<sup>st</sup>) now opened.

### Costing at Tanzania Postal Bank

*MicroSave* assisted TPB to develop an allocation-based costing system. TPB have institutionalised the process with costing reports being produced on a quarterly basis. TPB used their new knowledge to introduce branch-based profit centres.

In the case of TPB, Western Union Money Transfer was shown to be the single most profitable product. The passbook-based Postal Account makes a lower profit, as Treasury Bill rates in Tanzania have fallen dramatically, critically affecting the product's interest rate margin.

The costing at TPB showed:

- The Domicile Quick Account (DQA) product made a positive contribution to head office costs
- Controlling head office and indirect costs is vital as these make up the majority of product costs
- The importance of providing management with the information they require to manage their business, as a result of the costing exercise and prevailing economic conditions, budgets at TPB are being closely examined.
- That a costing system should be used not only to cost products but to establish profit centres.

- e) That most, if not all of *MicroSave's* Action Research Partners can easily adopt a relatively simple cost allocation based model.

### The Letter of Recommendation

Tanzania Postal Bank has come to the end of the pilot-testing phase and as a final step to this phase, a Letter of Recommendation was compiled. The Letter of Recommendation reviews the results of the pilot test to date against expectations, it collates key information, and recommends to management whether the product should be rolled out to other branches of the financial institution. Box 3 shows the contents of TPB's Letter of Recommendation.

The Letter of Recommendation recommended that the DQA be rolled out over the course of one year. Since this time TPB have advanced the pace of rollout of the product, such that DQA will be in operation in all of its main branches by the end of August 2002. Rollout dates and targets are given in Table 5.

One of the purposes of the Letter of Recommendation is to ensure that all necessary preparations have been made prior to rolling out the product. In preparation for rollout TPB completed a number of activities with *MicroSave*:

- A comprehensive teller's system manual was developed from the basic manual in operation during the pilot test, and approved by the internal audit department.
- A draft operations manual is being developed.
- The financial projections model for the DQA at Arusha was updated.
- Targets and dates for the rollout were set (as given in Table 5).
- Plans were made to develop a marketing plan for the product in February 2002, as part of the preparation for this ten staff from TPB were trained in Market Research for MicroFinance and supported after the course in performing fieldwork.

A second purpose of the Letter of Recommendation is to ensure that the institution is committed to the new product. Presentations by *MicroSave* at the end of the Letter of Recommendation Technical Assistance and later to the Senior Management Team confirmed TPB's strategic vision to use DQA to replace Postal Passbooks wherever possible.

	Planned Roll Out Month	New Depositors (per month)	Deposits (per month)	Conversion Ratio of Postal/DQA (by end of year 1)	10% of Accounts reach this balance by end 2002
Dar Es Salaam	Late Feb	150	15m	30%	300,000
Ilala	Late Feb	150	15m	30%	300,000
Mwanza	March	200	20m	30%	500,000
Kigoma	March	100	10m	30%	250,000
Shinyanga	March	100	10m	30%	250,000
Bukoba	March	75	7.5m	20%	200,000
Kilimanjaro	May	200	20m	30%	500,000
Tanga	May	75	7.5m	20%	200,000
Mbeya	June	150	15m	30%	300,000
Iringa	June	100	10m	30%	250,000
Tabora	July	75	7.5m	20%	200,000
Morogoro	July	75	7.5m	20%	200,000
Dodoma	July	75	7.5m	20%	200,000
Sogea	August	50	5m	20%	200,000
Mtwara	August	5	5m	20%	200,000

**Table 5: Roll out plans and targets for Tanzania Postal Bank**

### Tanzania Postal Bank - Contents of the Letter of Recommendation

**Section 1** - Summary and Recommendations

**Section 2** - Major Supporting Justifications – this provides the justification for rolling out the DQA product

**Section 3** - Product Description – this gives a concise description of the product features

**Section 4** - Projections to Actual - this details actual results compared to projected results

**Section 5** - The Product and TPB Departments – discussion of the interrelationships between different departments in developing the DQA product

**Section 6** - Confirmation of Systems and Procedures – statement from the Audit Department confirming the Procedures and Systems of the DQA product are functioning well.

**Section 7** - Projections Model – completed projections model based on actual data from the test

**Section 8** - Potential Risks – A discussion of the potential risks to the institution posed by the product and its rollout

**Section 9** - Draft Plan for Rollout – draft plan for rollout which includes procedures for addressing training, infrastructure, marketing and control requirements

#### Appendices

- Procedures Manual
- Systems Manual
- Training Topics
- Customer Service and Care Training Curriculum
- Copies of all Marketing Documents
- Copies of all Audit Reports of the Product
- Pilot Test team Terms of Reference
- Copies of Team minutes
- Pilot Review: Findings and Recommendations by *MicroSave: March 2001*
- Pilot Review: Findings and Recommendations by *MicroSave: May 2000*

#### Box 3: Contents of TPB's Letter of Recommendation.

#### Future plans

*MicroSave* intends to support the work of Tanzania Postal Bank in developing its marketing plans, and in finalising its operations guide. It has already planned an early review of the roll out process in April 2002, so that lessons learned from the first phase of rollout activities can be implemented in subsequent roll out activities.

#### Kenya Post Office Savings Bank

*MicroSave* has been working with Kenya Post Office Savings Bank since 1999 to research, design and develop a computerised savings account. The account was piloted in the Kenyatta Market Branch and was launched on the 14<sup>th</sup> of July 2000.

	October 2001.	November 2001.	December 2001.
# of accounts b/f	470	519	588
# of new accounts opened	49	69	28
# of old accounts closed	-	-	-
# of accounts c/f	519	588	616
% Growth in # of accounts	10%	13%	5%
Net Balance b/f	5,620,572	5,951,708	6,276,621
# Deposits	201	209	168
# Withdrawals	208	229	198
Deposits	1,657,336	2,006,743	2,275,579
Withdrawals	1,326,200	1,681,830	1,342,790
Net Balance c/f	5,951,708	6,276,621	7,209,410
%Growth in Net Balance	6%	5%	15%

**Table 6: Bidii Performance as at December 31<sup>st</sup> 2001 – all figures in Ksh. (Ksh78:\$1).**

The performance of the *Bidii* account has been variable, whilst net deposits have exceeded expectations; targets for opening new accounts have not been met. Interviews with KPOSB staff and market research using *MicroSave*'s market research tools indicated that the product faced significant challenges, in particular:

- a) **Restricted product purpose:** *Bidii* was designed as a product targeted to market traders and small businessmen however, the product has demonstrated much wider appeal and could be operated by many of the existing passbook holders, considerably reducing costs for the Bank.
- b) **The domiciled nature of the account:** *Bidii* can be accessed only at the branch at which it was opened. Whilst KPOSB's MIS suggests that 60% of customers transact in a single branch, customers noted a preference for products they can access at any location within the country. Clients within greater Nairobi express this concern most often.
- c) **Marketing and promotion of the account:** The experience of the Domicile Quick Account of TPB demonstrates that active promotion of the product *inside* the branch makes a dramatic difference to the uptake of the product. *MicroSave* is providing assistance to KPOSB to improve the marketing of *Bidii*.
- d) **A troubled information system:** KPOSB decided to develop an information system in house, whilst the system is operational, KPOSB underestimated the time and effort that would be required firstly to develop the software and secondly to maintain it. Early versions of the software crashed occasionally, and failed to calculate interest payable. KPOSB have responded by strengthening their IT department and plan to migrate the product to their corporate IT system.

## Recommendations

KPOSB with the assistance of *MicroSave* is responding to the challenges identified.

In November the *MicroSave* / KPOSB team presented research to KPOSB's senior management suggesting that *Bidii* could be used as a step towards modernising the passbook-based Ordinary Savings Scheme. A further opportunity is for the *Bidii* account to be adapted to run the "salary accounts" – through which large companies and parastatal organisations pay their salaries. A detailed costing analysis revealed that *Bidii* could save KPOSB the following:

Cost Item	Cost using OSS Ksh.	Cost using <i>Bidii</i> Ksh.	Savings per Transaction Ksh. (%)
Salary Deposit process	52.22	21.78	30.44 (58%)
Withdrawal process	46.05	29.30	16.75 (36%)

**Table 7: Comparison between the transaction costs of *Bidii* and the OSS account.**

Cost savings are available as a result of the reduced teller-client interface time arising from the computerised nature of *Bidii* – these savings mean that KPOSB could potentially more than double the number of clients it currently serves without increasing the congestion in the banking halls. Furthermore, *Bidii*'s fee-based income structure offers KPOSB an opportunity to move from its dependence on (the fast declining) T-bill interest rate (see **Product Costing** section below)

KPOSB Management has already directed staff to sell the *Bidii* in conjunction with the old passbook for clients seeking portability. Thus clients can use *Bidii*'s rapid and flexible features while operating the account at the branch where they opened it and are "domiciled", and transfer money onto their passbooks when they want to go up-country and withdraw money in other KPOSB outlets.

*MicroSave* consultants reviewed the existing *Bidii* IT system and reviewed the IT options available to KPOSB to either give more support to the existing IT system, to move to off the shelf software such as MicroBanker or to build *Bidii* into the existing SYMBOLS system which is being rolled out within KPOSB. The review recommended that the *Bidii* product should be built into SYMBOLS.

KPOSB marketing officers have been trained in qualitative research techniques and have used these skills to better understand the *Bidii* account assisting in institutionalising the lessons learned above. Once KPOSB has confirmed its commitment to rolling out the *Bidii* product *MicroSave* will work with KPOSB

to develop marketing plans for the *Bidii* product, both for the pilot testing branch and for the rolled out branches.

### **Product Costing**

KPOSB was the first *MicroSave* Action Research Partner to receive technical assistance to develop a product costing system in 1999, however, despite intentions the costing system was not institutionalised at that time. Once again *MicroSave* provided assistance to perform a product costing for the first six months of 2001. KPOSB now possesses the skills “in house” to institutionalise product costing.

KPOSB's major profitability comes from its passbook-based account the Ordinary Savings Scheme (OSS). This account has been in operation since the bank started in 1907, and has amassed significant deposits over time. However, profitability on this account is very sensitive to the interest margin, as it earns minimal fee income. With falling Treasury Bill rates, and the potential imposition of higher interest payments to depositors due to the Donde Act or its successor, OSS's profitability threatens to be short-lived.

Save-As-You-Earn, a payroll based savings account, accounts for 10% of the total transactions second to OSS, however despite this, it incurs a loss. Significant costs derive from the special products department, which requires further investigation.

The costing suggests that the Premium Bond product needs to be redesigned. The stock of bonds is too small to pay for the promised prizes. KPOSB needs to project and monitor the trends of this product, by month, to examine when the product is likely to break-even given the value of Premium Bond prizes.

Research by *MicroSave* has shown money transfer services in East Africa to be in strong demand. Customers are willing to pay a fee per transaction, which makes money transfer at KPOSB as elsewhere a highly profitable product that is immune to the interest rate risk of the OSS product.

In terms of the VISA card, KPOSB bears a significant credit risk, which is reflected in the products moderate loss.

### **Other Recommendations**

KPOSB needs to examine the mix and pricing of their products: increasing promotion of profitable fee based products such as money transfer, and introducing a range of fees for services are sensible strategies. Investment incomes can be increased through better monitoring of liquidity and investment. Profitability of the OSS and SAYE accounts can be enhanced through improving the efficiency of delivery, in particular speeding back office transactions through mapping key product processes would allow KPOSB to see where improvements can be made.

### **Pilot Test Letter of Recommendation**

As a final stage to the pilot testing process a Letter of Recommendation was compiled for KPOSB it covered the same aspects as the one for Tanzania Postal Bank Letter of Recommendation described in detail in the section on TPB. KPOSB decided to halt the rollout plans and activities earlier as to sort out the IT problems and as a result no detailed rollout plans have been compiled. *MicroSave* is still waiting for a response from KPOSB in order to complete this part of the Letter of Recommendation.

### **FINCA Uganda**

FINCA Uganda serves over 30,000 clients in both rural and urban Uganda, predominantly using a modified version of FINCA International's Village-Banking product. FINCA Uganda is seeking to extend the range of services it provides with products such as the Small Employment Partnership (SEP) Loan and the development of a new savings product. *MicroSave* is currently collaborating with FINCA Uganda in monitoring and modifying the existing Village-Banking and SEP product/systems, in researching savings products and in improving the existing staff incentive scheme.

**“MicroSave is FINCA Uganda’s best technical assistance provider”**

Guy Winship, Managing / Country Director, FINCA Uganda

**Market Research for MicroFinance Training of Trainers Research**

FINCA Uganda volunteered to have their programme subjected to the scrutiny of participants of *MicroSave’s* Training of Trainers Workshop in January 2001. The quality and depth of the research findings were outstanding.

“The research indicated FINCA’s laudable efforts to introduce more client responsive loan products/systems have received a mixed reception from its clients. Some aspects of the new systems are greatly appreciated, others less so. Several over-riding issues were identified which warrant careful consideration by FINCA management.

All of the products offered by FINCA remain rooted in the large (around 30 member) Village Bank. Thus all members of the Village Bank must borrow and repay on the same schedule, are tied to the lowest common denominator grade within the Village Bank etc. This enforced uniformity within the Village Bank does not recognise the members as individuals with their own businesses and needs, and is likely to undermine the very incentive systems that FINCA is trying to encourage. Until FINCA is able to bring the enforced uniformity down to small self-selected groups (or ideally to remove it subject to group members being on time with their loan repayment instalments) the institution is likely to face high levels of drop-out. Furthermore these drop-outs are likely to occur amongst two key sub-sets of FINCA’s clients: the more established, high value clients who need larger, longer term loans and the poorer, or more vulnerable clients who are struggling with repayments (or just attending meetings on time) and thus reduce the grading of the Village Bank as a whole.

As with many MFIs, FINCA seems to have experienced significant problems communicating the changes in their systems and products, both to Credit Officers and to clients. There is clearly a need for careful re-analysis of how to do this more effectively in the future as the misunderstandings created by the current range of products/systems have not only caused confusion and resentment, but appear to be undermining staff morale and possibly even adding to the drop-out problem they were designed to reduce”.

**Box 4: Source: “Ears to the Ground: Clients Perceptions of Financial Services Offered By FINCA Uganda”, January 2001**

**The SEP Pilot Test**

FINCA Uganda are pilot testing a new loan product operating from their Kampala head office. The Small Employment Partnership uses solidarity groups to give larger loans to successful entrepreneurs. The initial loan cycle follows the standard 16 weeks of the Village Banking product thereafter the clients are free to chose their own loan term and can progress to bigger loans based on the size of their previous largest loan.

*MicroSave* was asked to examine the on-going SEP Pilot Testing process against the *MicroSave* product development process. Interesting points noted during the review included:

- FINCA Uganda had used an earlier version of the *MicroSave* pilot testing toolkit in order to establish the pilot test team and to develop the pilot test protocol.
- Before pilot testing a new product FINCA Uganda had to submit appropriate documentation to FINCA International, which included a very detailed product definition, well developed product manuals, indicators for the pilot test, and a basic projection.

*MicroSave* suggested modifications to the pilot test design, which included:

- More regular review meetings.
- Developing additional indicators.
- Modifying indicators to produce monthly targets.
- Producing a detailed financial projection.
- Developing a *marketing* rather than *mobilization* approach to the product.

- Allowing the number of clients to expand as demand expressed itself and not place an unduly low supply side limit on the pilot test.
- Encouraging Credit Officers to give references on clients of selected Village Banks in order to examine the likely impact of the SEP loan on FINCA Uganda's incentive scheme.

FINCA Uganda has accepted *MicroSave's* recommendations. However, a shortage of management staff, a demanding workload (partly created by other *MicroSave* work) and the promotion of the SEP Programme Manager to a position with FINCA Malawi has meant that progress in implementing the recommendations has been slow.

To date the SEP loan has proven popular with its intended clients:

	October	November	December
Total Groups	17	25	35
Total Clients	112	170	227
Disbursements	75	45	44
Loan Portfolio	89	104	104
Delinquency (PAR)			
1-30	9	11	6
31-60	0	3	1
91-180	0	0	3
180+			
Dropouts	0	0	0

**Table 8: Performance of the SEP Loan**

### **Incentive Scheme Design**

Whilst researching reasons for dropout FINCA Uganda approached *MicroSave* to review its incentive scheme for loan officers. It was felt that the design of the incentive scheme at some points had unanticipated consequences including encouraging field staff to retain only the best performing clients in their groups.

*MicroSave* agreed to a phased research approach, this included Focus Group Discussions with clients and staff, followed by a visit from Martin Holtmann, a recognised authority on staff incentive schemes.

The research noted several points, which impact on the design of an appropriate incentive scheme within FINCA:

- FINCA Uganda's intention to develop new financial services.
- Some abuse of the existing incentive scheme.
- Time lags in processing the data required in the incentive scheme.
- A stepped approach to the measurement and payment of performance.
- Fast rotation of credit staff.
- Urban / Rural differentials.

In examining the three schemes in operation the research noted:

- Shifting goals and objectives.
- Unanticipated consequences of the designed incentive scheme.
- The need for appropriate data validation.
- The negative impact of the current system for the calculation and accumulation of penalties.

The research recommended several modifications to FINCA Uganda's incentive scheme, including:

- Introducing a bonus system for all levels of staff.
- Adopting a linear rather than a stepped approach to setting targets and paying rewards.
- A quarterly rather than monthly bonus to offset current time delays in information collection.
- That the bonus scheme should comprise up to 40% of base salary.

In addition specific recommendations were made for the design of incentives at each level of staff, and for the design of an incentive scheme where the field staff members were rotated less frequently.

### **Savings Product Research**

FINCA Uganda is seeking to apply for Microfinance Deposit Taking Institution status under the new Microfinance Act. This act will allow FINCA Uganda to mobilize deposits from customers. FINCA Uganda approached *MicroSave* to help them to design an appropriate savings product. Specifically, research was targeted to:

- a) Examine the current needs of the target market, how they save up for these needs.
- b) Assess levels of demand for semi-formal and formal savings services, and opportunities for FINCA to attract these savings.
- c) Analyse FINCA's potential competition.
- d) Identify and recommend a product mix that would be appropriate for FINCA's potential market.

The research identified a number of issues FINCA would have to address in the design of its savings service:

- Providing a service located close to the customer to avoid relatively expensive transportation costs on small transactions.
- Access to savings on demand, though proximity of service was consistently ranked more highly.
- Providing a low cost efficient service as there was some price / fee sensitivity.
- A link between savings and loan services (allowing “saving up”, “saving down” and “saving through”).
- The importance of an appropriate “corporate image” when offering savings services – FINCA's image is firmly established as a lending institution.
- Low account opening requirements.
- The importance of marketing and promotion against the traditional reliance upon group mobilization.

Considering three accounts, a notice account, a fixed deposit account and an open access account, clients mostly preferred the notice account with an option that would allow them instant access to their savings in case of an emergency.

### **Product Costing**

FINCA Uganda attended *MicroSave's* product costing course. In the follow up technical assistance FINCA opted to adopt both Allocation Based Costing and Activity Based Costing (ABC). Activity Based Costing is especially relevant for FINCA Uganda given FINCA's concentration on a single Village Banking product.

The Activity Based Costing revealed support or sustaining activities comprise 37% of total costs, and that loan servicing accounts for 50% of branch costs. Detailed analysis shows that the unit costs of sub-activities vary considerably – with the unit cost of following up each delinquent loan of Ush 467 more expensive than the unit cost of each weekly meeting. Also expensive in terms of unit costs were client mobilisation and training.

### **Future Directions**

*MicroSave* will continue to monitor and support the introduction of FINCA's new savings products, along with periodically reviewing progress on the SEP Pilot Test.

### **TEBA Bank**

TEBA Bank offers banking services to miners and mining communities. It launched the Grow with Us (GWU) product in August 2001. The product was a development of its existing payroll based savings account. TEBA Bank used *MicroSave* market research techniques to refine the product further, but formulated its pilot test before becoming an Action Research Partner of *MicroSave*.



### Features of Grow With Us

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

#### Box 5 – Features of Grow With Us

#### Review of GWU Pilot Testing Process

*MicroSave* reviewed TEBA Bank's existing Grow With Us Pilot Test. Activities directly related to introducing the GWU product, were handled professionally. Systems were documented with attention to detail. The updated computer system was introduced using internal and external consultants and very competent and knowledgeable project management.

Other areas related to the *MicroSave* product development process had received less attention. A financial forecast had been prepared for the new product, though this was not detailed and had not been revised to reflect the eventual version of the product chosen for pilot testing. Furthermore, targets for customer and institutional efficiency and the effectiveness of marketing needed to be established. The review highlighted strategic aspects of the product related to salary processing and the transaction volumes each branch can service which TEBA are moving to address.

#### TEBA Bank's Product Development Process

TEBA Bank, like many other banks, follows a project management approach to developing new products. This approach has five stages:

1. **Initiation** – the creation of a project charter that sets out the business case for the product.
2. **Planning** – establishment of research plans, financial plans and a scope plan. The scope plan outlines what the organization can expect to be delivered during the course of the project.
3. **Execution** – research, business requirements definition, system design, systems development, training manuals, procedures manuals and marketing materials, pilot test.
4. **Control** – Change control, risk management and resolution of issues.
5. **Closing** – Finalization of contracts, closing report.

Under this approach, each stage is well documented and controlled - it is a clearly defined process, aimed at delivering a workable product. The pilot test is a time-limited activity designed to test systems and procedures before the product are rolled out.

There are several significant differences between the *MicroSave* product development process and that followed by TEBA Bank. Under *MicroSave's* product development process, the research components are expanded and extended, and takes place at the initiation stage and through to the planning and execution phase. This stage involves concept to prototype research, which obtains client validation of the product. Secondly, the *MicroSave* process sets clear goals for the pilot test rather than longer-term goals for the product. The pilot test is used to assess the *viability* of the product in addition to testing systems and procedures. A review of the pilot test is carried out to determine *if* and *how* the product should roll out. Thirdly, the *MicroSave* pilot testing process is both iterative and interactive, it is designed to document and learn from mistakes, it is interactive as it allows projections to be redeveloped, assumptions to be tested, procedures and training manuals to be used before they are finalised.

The differing approaches of TEBA Bank, FINCA (see below) and *MicroSave* provide valuable opportunities for learning about the dynamics of the product development process and opportunities for alternative approaches.

### Performance of the Grow With Us Product

The Grow With Us Product has performed beyond expectations, by the end of November, it operated in 12 branches, within the mine cash offices – or “front ends”, and an agency agreement with TEBA Limited allowed withdrawals to be made in neighbouring countries. As at 31st December 2001, there were 9,413 depositors with total deposits outstanding reaching almost USD. 1.8m (assuming SAR 11 = USD 1).

	<i>TOTAL</i>	
	# of Accounts	Value in SAR
31-Aug-01	255	472,276
% Growth/Average Balance	100%	1,852
30-Sep-01	1,376	2,179,213
% Growth/Average Balance	440%	1,584
31-Oct-01	4,359	10,623,766
% Growth/Average Balance	217%	2,437
30-Nov-01	7,788	19,994,345
% Growth/Average Balance	79%	2,567
31-Dec-01	9,413	20,183,025
% Growth/Average Balance	21%	2,144

**Table 9 Progress of Grow With Us Account**

### Product Costing

*MicroSave* worked with TEBA Bank to introduce an Allocation Based Costing System. This was achieved quickly and showed some very interesting results: The costing revealed the significance of the Cost of Capital Adjustment or Transfer Price Adjustment<sup>1</sup>, which was made at 10% against TEBA Credit Loans, which are financed internally.

The costing showed that TEBA's lending activities are profitable and relatively low risk. This is primarily because TEBA lends on the basis of security against future payroll payments – furthermore, it monitors the indebtedness of its miners through its own credit bureau (TSDN) – and will only lend if the miner is not overstretched. However, credit risk is increasing.

The TSDN product is both innovative and profitable. In addition to using it to check the credit worthiness of its own clients, for a fee it will run a credit reference check for partner agencies on a potential borrower.

At first glance - the ATM product appears to be losing money – significant capital investment has not yet been reflected in high usage of the ATMs, although usage is increasing. However, the costing of the ATM product requires greater thought and investigation than was possible during a short Technical Assistance input. Where costs were absorbed on a simple transaction basis, this overstates the actual costs of running an automated service, possibly by SAR 4-5 million or more. Neither is using ABC a perfect solution as using staff time as a filter for most costs would drastically underestimate the true costs of the ATM product. If SAR 4-5 million were reallocated to other products, the standard savings product would absorb most of these costs.

TEBA Bank are looking to introduce a Debit Card, which will require a high capital spend, although in this case TEBA have support from DFID's Financial Deepening Challenge Fund on a matching contribution basis. Given this it is essential that the pilot test for the Debit Card is planned and implemented with considerable care, with forecasts being revised as and when better information becomes available.

<sup>1</sup> used to impute the value of the capital provided by the savings accounts

GWU: Although the GWU product has cost more to launch than anticipated, the majority of the loss related to pre-launch advertising expenditure – its performance to date has been beyond expectations. The initial target was for each branch to open 5,000 accounts each over a four-year period. Performance is uneven, whilst in six months the flagship Rustenberg branch had opened 3,255 accounts the 10 smaller rural branches had opened a total of 5,265 accounts. The fee income stream combined with a growing deposit base available for investment suggests that this product should be profitable. TEBA bank should develop their financial modelling on this product and establish a break-even point based on projections from actual data.

### **Future Directions**

TEBA Bank needs to develop a range of products if they are to offer a competitive service to non-miners. A series of new products is being developed from funeral insurance, debit cards, home improvement loans and other loans. In addition to monitoring the GWU pilot test, *MicroSave* plans to work with TEBA bank to set up the Home Improvement Loan Pilot Test, and to provide limited support for establishing the Debit Card pilot test.

In addition to the above, *MicroSave* will work with TEBA Bank and a South African Marketing Agency to develop a *Marketing for MicroFinance Institutions Toolkit*. Terms of Reference for this exercise are currently being drafted.

## **Centenary Rural Development Bank**

Centenary Rural Development Bank (CERUDEB) is known as a market leader for providing savings services to poorer people in Uganda with over 300,000 depositors. However, the bank has surplus liquidity and is actively seeking to develop a range of profitable loan products.

### **Market Research**

After participating in two training courses on Market Research for MicroFinance, CERUDEB staff, assisted by *MicroSave*, conducted research into Home Improvement Loans firstly to develop the product concept and secondly to refine it.

CERUDEB responded to clients' suggestions for improvement by clarifying the types of activity for which it would provide home loans, providing additional flexibility to the credit officer to decide repayment and grace periods, and in rewarding consistently well performing borrowers. Customers suggested that the eligibility criteria were tightened to include a reference from the local council.

### **Pilot Testing**

CERUDEB is preparing to pilot test its Home Improvement Loan in accordance with *MicroSave's* Pilot Testing toolkit. *MicroSave* worked with CERUDEB to:

- a) Draw up terms of reference for the product development team
- b) Refine appropriate objectives for the pilot test
- c) Prepare a Pilot Test Protocol
- d) Initiate the development of a financial projections for the pilot test
- e) Develop a high level procedures manual for the Home Improvement Loan

### **Product Costing**

After receiving training on the SPEED/CGAP/*MicroSave* costing course CERUDEB opted for both allocation and activity based costing. CERUDEB received appropriate technical assistance, this activity is ongoing.

### **Future Directions**

Customer Service - CERUDEB is recognised as a bank of and for "the people" of Uganda. However, its popularity means that its banking halls are overcrowded, with long queues of people waiting to open accounts and to make enquiries. *MicroSave* proposes to work with CERUDEB in the later part of 2002, using its participatory research tools, and its ability to simply map and investigate processes in the front and back offices to improve CERUDEB's service to its customers.

Costing - *MicroSave* will continue to provide support to the development of the Home Improvement Loan product and the introduction of an Activity Based Costing System.

Marketing – *MicroSave* plans to work with CERUDEB to strengthen its ability to market its products through developing marketing materials for the Home Improvement Loan by using benefit statements prepared in collaboration with clients and in developing a marketing plan.

### **Equity Building Society**

Equity Building Society is *MicroSave*'s newest partner. Despite being new to *MicroSave*'s product development approach Equity Building Society (EBS) have launched into partnership with *MicroSave* with great enthusiasm. This has included training on Market Research for MicroFinance and costing combined with practical follow up that has had some startlingly positive results.

### **Market Research for MicroFinance**

Swiss Contact contracted *MicroSave* and consultants it had trained and certified to train its staff in Market Research for MicroFinance. No fewer than 28 Equity Staff including the Finance Director attended the training and the subsequent fieldwork.

Amongst the factors that clients appreciated were:

- a) The accessibility of EBS staff
- b) The fast processing of farmers salaries
- c) Easy access to loans

Amongst the factors clients disliked were:

- a) EBS' perceived range of high charges on both savings and loan accounts
- b) Lack of transparency of the fees on both savings and loan accounts

Clients suggested:

- a) EBS should improve communication relating to tariffs, charges and loan terms and conditions.
- b) The need to communicate in the local vernacular, in clear concise, client friendly language.

From 1<sup>st</sup> January, 2002 Equity responded to its clients by changing the structure of their fees and tariffs, and by prominently displaying the new tariffs in all branches. This policy has been extremely well received by clients.

### **Product Costing**

Three staff from EBS attended the product-costing course held in Uganda, including the Special Projects Manager Samuel Wainaina. Immediately following the course *MicroSave* worked with the product costing team and the Finance Director, James Mwangi to develop a product costing system. A basic allocation based costing system was developed within a week. Although the costing requires refinement it produced some very interesting results. In the case of EBS a notional interest rate of 11% per annum was applied to the average loan balance outstanding in each category of loans with the notional income being earned by each savings product in proportion to its average savings balance.

EBS was genuinely surprised by some of the results, particularly the losses on their ordinary savings product. The preliminary indications are that the loss on the ordinary savings product is a function in part of low levels of staff utilization in EBS' branch network – the tellers in most branches can handle significantly increased volumes of savings transactions.

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

James Mwangi, Finance Director, Equity Building Society

As a result of the costing exercise EBS has:

- a) Increased its data mining, tracking activity rates in all branches and using this information to allocate staff.
- b) Changed its methods of appraising staff performance to include tracking activity rates.
- c) Changed the interest rate on Fixed Deposits.
- d) Started studying the cost of mobile banking.
- e) Adjusted the chart of accounts to better reflect income and costs of particular products.
- f) Increased the range of costs allocated directly to branches.

### **Future Directions**

Following the Product Review EBS plans to work with *MicroSave* to introduce product refinements, and/or a new product. For new products and refinements EBS will use *MicroSave's* product development process.

*MicroSave* intends to work with EBS to study the process of rebirth from a failing Building Society into a thriving MicroFinance Institution, to document the reasons for its success and to look at ways in which the organization can continue to strive and improve. EBS will also take part in an innovative financial systems study, which will examine EBS' approach to individual lending and mobile banking.

EBS has also indicated its interest in working closely with *MicroSave* as it develops new approaches to marketing financial services to poorer people.

### **Uganda Microfinance Union**

Uganda Micro-Finance Union is a small but rapidly growing MicroFinance Institution, which is already establishing a reputation as being an innovative provider of financial services to the poor. *MicroSave* decided to delay working with UMU until a package of institutional support had been agreed upon.

UMU is now receiving a package of institutional support from SPEED Uganda and the SUFFICE programme and have thus been able to partner with ACCION and Shorebank. Staff members of UMU were trained in Market Research for MicroFinance and have recently worked with *MicroSave* to study UMU's Money Transfer Product.

Two staff members attended the SPEED/CGAP/*MicroSave* costing course. UMU decided to introduce both allocation and Activity Based Costing. This exercise is currently being completed.

### **Future Directions**

UMU expects to become regulated as a Microfinance Deposit taking Institution. This will enable UMU to accept and mobilize deposits from the public. UMU and *MicroSave* are developing a research plan to design an appropriate savings product.

### **Credit Indemnity**

Credit Indemnity is expected to be *MicroSave's* newest Action Research Partner. Credit Indemnity is a Micro-Lender based in Pietermaritzberg in South Africa. It provides short-term loans of between one and four months to 160,000 clients. South Africa has a significant Micro Loans sector with over SAR 14bn in loans outstanding to 2.5 million clients. However, loan terms are short and interest rates very high. Competition in the Micro-Loans sector has become intense due to the high profits being made, although competition to attract good clients has yet to be reflected in lower interest rates. This may be because three lenders control 75% of the Micro-Loans market. Credit Indemnity believes that current interest rates are unsustainable, and that the Micro-Lenders have to refocus on delivering a wider range of competitive products to the South African market.

### **Future Directions**

*MicroSave* plans to work with Credit Indemnity to build a research function and to start to move down market to serve the informal (non-payroll based) sector. Research issues are likely to include a joint venture savings linked lending product and to understand why a newly developed Money Transfer

product is not successful. Credit Indemnity may also research, how its strong corporate image, is likely to affect new products it develops.

Finally, *MicroSave* will work with Credit Indemnity to optimise its product costing systems. As a predominantly one-product institution Credit Indemnity wishes to develop an Activity Based Costing system, to examine and track the efficiency of its product delivery.

---

**MicroSave specialises in assisting MFIs to develop new products and refine their existing ones – visit our website: [www.MicroSave.net](http://www.MicroSave.net) !**

On the website you will find:

- Toolkits:
  - Market Research for MicroFinance
  - Costing and Pricing Financial Services
  - Planning, Conducting and Monitoring Pilot-Tests: Savings Products (with projection model)
  - Planning, Conducting and Monitoring Pilot-Tests: Loan Products (with projection model)
  - Product rollout: A Toolkit for Expanding A Tested Product Throughout The Market (due 2002)
  - Designing Staff Incentive Schemes (due 2002)
  - Product Marketing Strategy (due 2002)
  - Customer Services (due 2004)
  - Institutional and Product Risk Analysis Framework (due 2003)
  - Corporate Brand and Identity (due 2004)
- Lists of trainers certified to teach the acclaimed “Market Research for MicroFinance” course
- Studies on the product development process, potential for new products, informal sector financial systems, how and why poor people save, impact assessment and so on, including:
  - Market Research and Client-Responsive Product Development
  - Looking Before You Leap: Key Questions That Should Precede Starting New Product Development
  - Savings and The Poor: The Methods, Use and Impact of Savings Amongst the Poor in East Africa
  - Relative Risks to the Savings of the Poor
  - ASA's Culture, Competition and Choice: Introducing Savings Services into a Microcredit Institution
  - Needs and Savings Services – An Infinite Variety
  - Drop-outs Amongst East African MFIs
  - The Effects of HIV/AIDS—A Silent Crisis among MFI Clients
  - Health MicroInsurance: A Synthesis of Case Studies from four Health Care Financing Programmes in Uganda, Tanzania, India and Cambodia
- Authors of *MicroSave* papers include: Stuart Rutherford, Robert Christen, David Hulme, Graham A.N. Wright, Leonard Mutesasira, Imran Matin, Michael McCord, Brigit Helms, David Cracknell, Renée Chao-Beroff, Jennefer Sebstad, Jill Donahue, Susan Johnson, Robert Hickson, Gerhard Coetzee and Monique Cohen.

[www.MicroSave.com](http://www.MicroSave.com)

★ “There is a range of *publications* available for fast, easy download ... on market research, impact assessment and financial services for remote areas and the informal sector. ...

★ “The “*Toolkits*” section, covering topics such as costing and pricing of financial services, institutional culture and change, and pilot testing of products, will be of particular interest to practitioners. ...

★ “You can spend a lot of time on this [*MicroSave*] site – it's packed with interesting stuff ... this is a weighty, content-driven site.”

- Rob Hitchens in the *Journal of Small Enterprise Development* Vol. 12 No.3, September 2001.

**Annex 1: Principle On Site Technical Assistance Provision During 2001:**

	Concept Development	Issue Based Market Research	Pilot Test Review Visits	Costing	Issue Based Consultancy	Establishing Pilot Test
KPOSB Kenya	Existing ARP	Competition Matrix Kenyatta Market Marketing research Competition Matrix Nyeri	Pilot Test (March) Roll out Preparation (Oct)	Allocation Based Costing (Sept)	Information Systems Review (Nov) Preparation of Manuals (Oct – Nov)	Not Applicable
EBS Kenya	Planned 2002	Review of Client Perceptions of Loan Products (Oct)	Not Applicable	Allocation Based Costing (Nov – Dec)		Planned 2001
Chai SACCO (Partnership ceased)	Not Applicable	Client Perceptions of MicroCare Product (July)	Not Applicable	Not Applicable	Not Applicable	Not Applicable
CERUDEB Uganda	Housing Loan Concept Development (Sep – Oct)	Client Satisfaction May / June		Activity Based Costing (Nov, Dec)		December
FINCA Uganda	Savings Product Development November	Village Banking Dropouts (May-June) Incentive Schemes (Nov- Dec)	Review of FINCA SEP Pilot Test October	Activity Based Costing (Nov - Dec)		Planned 2001
UMU Uganda		Client Satisfaction (May – June)		Activity Based Costing (Nov, Dec)		Planned 2001
TPB Uganda	Existing ARP	DQA Review in Dar and Zanzibar (April)	Pilot Test Review March Preparation for Rollout (Oct)	Allocation Based Costing (April, Sept, Oct)	Preparation of Manuals (Oct – Nov) Marketing Course (Dec)	Not Applicable
TEBA South Africa	Existing Product		Review of TEBA's GWU Pilot (June)	Allocation Based Costing (Nov)		Planned 2001 around Housing Loan Product

**Annex 2: Windsor CEOs' Workshop Course Evaluation**

Marking Scale	Individual Scores															Average	1	2	3	4	5			
																Very Poor	Poor	Reasonable	Good	Excellent				
Usefulness/ relevance of workshop	5	4	5	5	5	5	5	4	5	4	5	5	5	5	5	5	5	5	4.83				22.22	88.89
Clarity/ ease of understanding of workshop	5	4	5	5	4	5	5	5	4	4	5	5	5	4	4	4	5	5	4.61				38.89	61.11
Quality/ interest level of workshop	5	4	5	5	5	5	5	5	4	5	4	5	5	4	5	5	5	5	4.78				22.22	88.89
Marking Scale	Individual Scores																Too little	Little	Just Right	A Bit Too Much	Too Much			
Depth of presentations	3	3	3	3	3	3	3	3	3	3	3	3	2	3	3	3	4	3.00		5.88	83.33	5.88		
Length of sessions	4	3	3	3	3	3		3	3	3	3	3	3	3	3	3	3	3.06			88.89	5.88		

**Any other comments to improve the workshop contents**

- ◆ Good balance between details, analysis and interpretation
- ◆ Well organised, each presenter had relevant subjects
- ◆ Workshop should be made more interesting and less packed for the CEOs. Include or arrange for paid visits to parks or areas of historical importance.
- ◆ Provide some per diem to participants
- ◆ Have more participants presenting their own experiences to enrich the workshops
- ◆ Fewer subjects per day
- ◆ Improve on the number of workshop days to enable in-depth discussions
- ◆ Two days for the champions for details
- ◆ Well organised
- ◆ More time for group discussions
- ◆ Liase with ARPs for areas of interest in the next course
- ◆ Enjoyed the scenarios where there wasn't much information and the session groups had to figure out what happened. Example ASA discussion
- ◆ Once a year workshops supported
- ◆ Exercises need slightly more time
- ◆ Well organised, facilitated and co-ordinated
- ◆ Planning, time-keeping and handouts excellent

**Additional recommendations**

- ◆ Set up linkages



- ◆ Provide more workshops
- ◆ Case study – visits to ARP in the host country
- ◆ Frequent visits to assist in product costing
- ◆ Maintain same spirit of close cooperation
- ◆ Empower them in terms of IT solutions for their operations since currently they have IT problems
- ◆ Increase interactions

**Any other comments**

- ◆ Keep it up
- ◆ Good workshop
- ◆ Hope it benefits many institutions
- ◆ Very useful
- ◆ High level of participation, demanding and useful but tone of information still maintained
- ◆ An eye opener
- ◆ Very relevant to growing institutions as well as established ones
- ◆ The idea of a CEOs meeting was excellent as the various projects now have total buy-in from ARP institutions
- ◆ Well organised forum
- ◆ The best workshop I have ever attended

**Annex 3: Product Costing Course Evaluation**

			1	2	3	4	5																		
<b>Marking Scale</b>	<b>Individual Scores</b>														<b>Average</b>	<b>Very Poor</b>	<b>Poor</b>	<b>Reasonable</b>	<b>Good</b>	<b>Excellent</b>					
Usefulness/ relevance of workshop	5	5	4	5	5	4	4	4	5	5	4	4	4	3	5	5	4	5	4	<b>4.42</b>			1	9	9
Clarity/ ease of understanding of workshop	4	4	5	5	4	4	3	4	3	2	4	4	5	3	3	4	4	4	4	<b>3.84</b>		1	4	11	3
Quality/ interest level of workshop	5	4	4	4	4	4	4	4	4	4	4	5	4	4	4	3	5	4	5	<b>4.16</b>			1	14	4
<b>Marking Scale</b>	<b>Individual Scores</b>															<b>Too Little</b>	<b>Little</b>	<b>Just Right</b>	<b>A Bit Too Much</b>	<b>Too Much</b>					
Depth of presentations	3	4	3	2	3	3	3	3	3	3	3	3	2	3	3	4	4	3	<b>3.05</b>		2	13	3		
Length of sessions	4	3	3	2	3	3		3	3	3	3	3	3	3	1	2	2	3	<b>2.76</b>	1	3	13	1		

**Any other comments to improve the workshop contents**

- ◆ I think they were very good. The facilitators were very knowledgeable on the subject
- ◆ Introduce various illustrations in each topic
- ◆ The timing should be slightly extended to at least 3 days
- ◆ The last presentation was done by one facilitator for the whole day. It would be more interesting if more than one person did this.
- ◆ The sessions were too hurried. Time for completing exercises was just too short
- ◆ Introduce more variety than just group discussions. A bit more presentation would do
- ◆ Facilitators could be more lively and make the learning process fun filled
- ◆ By using data from more than one organisation so as to capture all the different possibilities which are in the field
- ◆ Modelling was very useful (cost allocation). ABC presentations could have benefited from the same
- ◆ Proper explanations before exercises are given out
- ◆ Alternating theoretical concept presentation with interactive questions
- ◆ Have different presenters / facilitators in a day
- ◆ Have more facilitators
- ◆ Should be more practical
- ◆ Perhaps three days
- ◆ Be slightly more organised
- ◆ More live experiences
- ◆ Course participants should also present their experience

### **Additional recommendations**

- ◆ It requires more time
- ◆ Good meals and cool environment
- ◆ Enjoyed short presentation on viability analysis (savings) same exercise for loans would be great, also perhaps more time on this topic given its increasing importance
- ◆ It would make the workshop more lively if people spent some time reading some materials before the workshop begins, especially those who are not accountants
- ◆ The workshop should be conducted in two more days
- ◆ The sessions were too hurried. Time for completing exercises was just too short
- ◆ Additional time was required
- ◆ May be longer period so that the contents could be more clear
- ◆ Should take more days
- ◆ Should involve at least one senior member of management
- ◆ Involvement the most senior managers of MFIs

### **Any other comments**

- ◆ It was very excellent
- ◆ Maybe an extra day would have made all the difference
- ◆ It was fun though brief
- ◆ It is a great initiative for micro-finance development in Uganda
- ◆ Additional time was required.
- ◆ Some of the overhead transparency fonts were too small to be read.
- ◆ The method of presentation was too monotonous – a little more plenary discussions could have been a change
- ◆ It was generally good and covered relevant issues
- ◆ Presenters were clear, patient, and had understanding of subjects presented. Also accessible for questions
- ◆ Visits to individual organisations (follow ups) a great idea. Look forward to a lot being accomplished
- ◆ I am still looking forward to the practical part of it
- ◆ Follow up at institution is highly appropriate to help us implement course material
- ◆ Follow up extremely necessary by both the representative teams and the organisers
- ◆ Well done to MSA and Speed, Presenters good

## Published References

**Cracknell**, David and Henry Sempangi, “Product Costing in Practice: The Experience of *MicroSave*”, *MicroSave* (2002).

**McCord**, Michael J., “It Can Work: A Toolkit for Planning, Implementing and Monitoring Pilot Tests”, *MicroSave* (2001)

**Wright**, Graham A.N., Monica Brand, Zan Northrip, Monique Cohen, Michael McCord and Brigit Helms, “Looking Before You Leap: Key Questions That Should Precede Starting New Product Development”, *MicroSave* (2001).

**Wright**, Graham A.N. “Market Research and Client Responsive Product Development”, *MicroSave* (2001)

## Unpublished Internal Documentation referred to:

**Cracknell**, David “A Brief Review of the SEP Pilot Test FINCA Uganda” *MicroSave* (2001)

“A Review of the Grow With Us Product”, *MicroSave* (June 2001)

“Review Mission Protocol”, *MicroSave* (2001)

“TEBA Bank’s Product Development Process” *MicroSave* (January 2002)

**Cracknell**, David and James Mwangi, “Equity Building Society Costing Spreadsheets” *MicroSave* (November 2001)

**Credit Indemnity**, “Proposal to *MicroSave*” (2001)

**Equity Building Society Market Research Team**, “Market Research Report – Clients’ perceptions of Equity Building Society’s Loan Products”(draft), Equity Building Society, (November 2001)

**McCord**, Michael J., Henry Sempangi and TPB Product Development Team, “TPB Letter of Recommendation” TPB and *MicroSave* (2001)

**Mukwana**, Peter and KPOSB Marketing Department: “A Competition Matrix, for the *Bidii* Product”, KPOSB (2001)

**Holtmann**, Martin, “Staff Incentive Schemes for FINCA Uganda, *MicroSave* (January 2002)

**Sempangi**, Henry and KPOSB Costing Team, “KPOSB Product Costing Spreadsheets” (November 2001)

**Sempangi**, Henry, David Cracknell, Michael J McCord and Stefani Coetzee, “TEBA Bank Costing Spreadsheets” *MicroSave* (2001)

**Sempangi**, Henry and FINCA Uganda Costing Team, “FINCA Uganda Product Costing Spreadsheets” (December 2001)

**McCord**, Michael J., “*Bidii* Savings Account Pilot Testing and Rollout Process Findings and Recommendations March 2001” *MicroSave* (April 2001)

**McCord**, Michael J., David Cracknell, Henry Sempangi and Kibona, “TPB Product Costing Spreadsheets”

**MicroSave Workshop Report** “Ears to the Ground” (March 2001)