MicroSave Briefing Note # 60

Lessons from *MicroSave's* Action Research Programme (2006)

David Cracknell, Henry Sempangi, Peter Mukwana, Trevor Mugwang'a, Lisa Parrott and Graham A.N. Wright

Under its Action Research Partner programme, *MicroSave* learns and disseminates lessons relating to market-led microfinance. This note documents lessons learned during 2006. Lessons learned during 2001 to 2005 are documented in Briefing Note # 10, 20, 30, 40 and 50 and associated papers.

The Action Research Partners (ARPs) as of December 2006
Kenya – Kenya Post Office Savings Bank (KPOSB) and Equity Bank
Tanzania – Tanzania Postal Bank (TPB), PRIDE Tanzania and FINCA Tanzania
Uganda – Uganda Microfinance Limited (UML), U-Trust, Commercial Microfinance Limited (CMF) and Centenary Bank
South Africa – Teba Bank

FINCA Uganda is an associate ARP and receives a lower level of support from *MicroSave*

A Changing Environment

The environment for banking the poor in East Africa is changing. There is much greater interest from commercial banks in mobilising deposits from the mass market across the financial sector. Factors driving this include saturation of traditional corporate and high net worth segments and decreasing delivery costs. The year also saw the rise and rise of investment funds and philanthropic investments. However, there is a continuing and growing need to invest in human resources/technical capacity, which remains a key constraint to growth within the sector.

The rise in profile of the microfinance industry has seen increased political interest in the mechanism throughout East Africa for disbursing government credit to low-income clients.

Toolkit Lessons

The lessons under this section have been derived from the application of our tools. See www.*MicroSave*.net for more details.

Strategic Planning: Strategic business planning usually requires several interventions, firstly to create the framework for the plan to determine the critical success factors and to outline tasks and indicators. Secondly, the plan needs to be detailed and resourced. Lastly, the strategy must be well communicated and operationalised. Plans often fail because they are not integrated into management monitoring and decision making processes.

Branding: Typically re-branding accompanies a market led transformation as an institution seeks to communicate its client-focused approaches. Re-branding must be accompanied by internal brand building to overcome potential resistance to change to maximise positive benefits and for staff to 'live the brand'. Uganda Microfinance Limited is using Employee Relationship Marketing such as staff sports days to reinforce the physical brand with its corporate values.

Risk Management: There is a clear gap between having a risk policy and practising risk management. Under Basle II central banks require the submission of operational risk policies. However, operational risk is much wider in scope than traditional banking risks. Often risk owners fail to actively monitor and manage the risks they own and risk management is rarely a measurable criterion in performance appraisals.

Process Mapping: While process mapping is refining procedures throughout *MicroSave*'s Action Research Partners, one of the biggest challenges is succeeding to introduce new procedures effectively and uniformly. The involvement of policy makers is vital to avoid selectively implementing changes. Often institutions fail to update manuals with accepted changes, which results in different procedures between branches.

Credit Control and Administration: Credit control and administration is always important to financial institutions but it is too often overlooked. Departmental structures and responsibilities must evolve and change as an institution grows. Reports providing simple and clear information on portfolio quality must be available. Regular reviews and loan portfolio assessments can highlight irregularities and improve levels of compliance to procedures. U-Trust in Uganda reviewed and improved their credit control and administration, with new staff and new management structures, dramatically improving repayment rates.

Customer Service: Many Action Research Partners struggle to place customer service effectively within their institutional structures, with some placing the department under operations, others under marketing, still others as a stand alone function. Often the department is under funded and it fails to effectively monitor and measure customer service standards. However, with clear guidance and profile within the institution, it is possible to have significant results, as demonstrated by improving customer service levels at KPOSB following demonstrated executive support for customer service.

Pilot Testing: Banking systems are often inflexible in their application of fees and charges and / or are not designed around providing micro-banking products and services with grace periods and some free services. This has led several Action Research Partners to decide to manually adjust fees and charges on the basis of transactions that clients have performed. However, this strategy usually backfires as staff fail to apply fees manually.

Post Transformation

Microfinance institutions that have transformed into licensed deposit taking institutions in Uganda are having much more success in mobilising deposits with improved branding, marketing and promotions. However, this has been achieved in a more complex environment where some control has been ceded to external investors, to the Central Bank and to an empowered board.

Post formalisation staffs from transformed institutions appear to have much greater mobility. Barriers between the banking and microfinance sectors do appear to reduce, especially in the case of simultaneous multi-institution transformation. This includes to and from banks and also between transformed institutions. In part this is driven by an increase in demand for key skill areas and consequent increases in salary levels and "poaching" of staff between institutions.

The profile and acceptability of microfinance as a career is increasing at executive level too. This appears to be particularly the case in marketing with many new senior entrants from the FMCG sector.

Market led growth is client responsive

Centenary Bank in Uganda and Equity Bank in Kenya are expanding rapidly. Growth is informed by client research targeting improvements in products and service levels.

E-Banking

Card Processes: With the growth of institutions managing client deposits electronically through magnetic stripe and chip based cards, card management has become a key discipline. This means managing card processes for application, card production, branding and personalisation, delivery and internal control. It is not easy. Even more difficult is encouraging low income, low education cardholders to use the solution. Typical approaches include ATM assistants, training clients on issuing cards and picture based z-folds that are inserted with the card.

Other Challenges include: Contracting vendors and suppliers who have more experience in contracting than the institution and Know Your Customer regulations that place conditions on account opening which disproportionately affect low-income clients.

Governance

Poor governance is a major hurdle to implementing a market led approach. Excellent boards are able to take difficult decisions concerning management quickly and efficiently. They are able to support management in creating and championing change and innovation. Another common challenge for our Action Research Partners has been when executives have unclear lines of authority and where two or more executives have overlapping responsibilities. In some cases, this uncertainty was responsible for growing friction between management and staff.

Communications

As microfinance programmes develop and particularly as they move into delivering savings services the importance of good network communications becomes ever more important. Often institutions seek to minimise the cost of communications believing that communications are expensive. However, a careful cost benefit analysis may show that the cost of poor communications in terms of downtime, additional reconciliations and loss of customers is far more expensive than upgrading links or changing service provider.

Growth Management

Growth management remains a major challenge to market led financial institutions. A continual process of evolution is required in departments and functions. Informal approaches gradually formalise and individual specialisations develop. During rapid growth it becomes difficult to maintain institutional culture and internal loyalty to the brand. Delivering consistent levels of customer service becomes very difficult.

Managing Mission Drift

With growth, increased competence and institutional credibility, new profit making opportunities arise, often in market sectors beyond those targeted by the microfinance institutions. Some penetration of new markets may be necessary to cross subsidise delivery of services to the core market segment, fixed deposits for example. However, to ensure this does not negatively impact on mission it is important to set targets for the core market segment.

Maintaining Capacity Requires Regular Inputs

Action Research Partners that *MicroSave* has formerly trained in key skills, such as FINCA Uganda, continue to require capacity building inputs as staffing changes, in order to maintain and improve internal skills.