Saving Mobilization
(Training Handout)
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I -- BACKGROUND

Introduction

Saving is defined as cash held back from day-to-day spending by an act of will. Saving is fundamentally about choosing between current and future consumption. It is part of one's income that is not spent on current consumption (Wolday and Tekie, 2014, p. 2). Saving includes all financial mechanisms that allow users to safely and conveniently store and use value. By managing and increasing saving, the underserved can build financial resilience and manage to pay for goods and services that they would otherwise be unable to afford (World Economic Forum, 2018).

There is a strong link between saving, investment, and economic growth. Theoretically, given the limitation on the free flow of capital from one country to another, saving plays a critical role in determining the level of investment or capital, which can mobilize and enable labour, natural resources, and other resources to ensure growth of output in an economy (Wolday and Tekie, 2014, p. 11). As such, saving from the public represents an unused financial potential which could be put to productive use -- from the unproductive hoarding of illiquid assets to activities where the marginal productivity of capital (MPk) is higher, thus facilitating a more efficient allocation of resources. Efficient financial intermediation "destroys" sub-optimal consumption and investment choices and results in better investments (Adams, 2009).

According to the premise of the traditional neo-classical analysis of determinants of economic growth such as the basic Harrod-Domar growth model, there is a direct relationship between a country's rate of savings, s, and its rate of growth, g, represented in an equation, \( g = s/k \), where k is the capital output ratio. If, for instance, the annual rate of growth of the national income is targeted at 7%, and it is assumed that k is 4, then the domestic saving rate should be 28% if the targeted growth rate of 7% is to be realized (Kasekende, 1998). Ensuring adequate levels of domestic savings is important not only to guarantee sufficient financing for capital accumulation, but also to avoid an excess of investment over savings, which may create inflationary pressures or balance of payments problem. For this reason, some of the principal arguments advanced in favour of savings mobilization are the maintenance of relatively low and stable inflation rates (Kasekende, 1998).

**Financial intermediaries** connect surplus and deficit agents and channel funds from people who have the extra money (savers) to those who do not have enough money to carry out desired activities (borrowers). Since the financial intermediaries are intermediating deposit from the public into loans, they must be supervised by the public, usually central banks, to protect savers. Indeed, the regulation, especially the requirement of annual external audit and the on-site and off-site supervision of central banks could provide transparency to the financial intermediaries like MFIs, which could help the latter to build trust and confidence to mobilize public deposit and access donor and bank credit lines (Wolday and Tekie, 2014. P. 60) (See also A Note on Financial Intermediation, ANNEX I).

Indeed, the volume of demand, savings and time deposits of commercial banks and specialized banks from individuals, private and public enterprises, financial institutions and the government has been continuously increasing in the last ten years or so. Similarly, the voluntary and compulsory savings of deposit taking MFIs have registered significant increases more recently. The saving mobilized from members of the financial cooperatives have also shown an increasing
trend. Thus, despite the recorded high inflation rate since 2008, the number of financial intermediation and volume of savings mobilized have shown remarkable increases. On the other hand, there has been a significant rise in the demand for loan, particularly in the last five years. If Ethiopia is to meet the strategic objectives and targets of the GTP and MSE development strategy, there is a need to make massive effort to mobilize investable funds or savings from the household, government and corporate sectors.

The current government development strategy, GTP II (2015/16 – 2019/20) therefore emphasize local saving mobilization to finance development. During GDP I, the share of gross domestic saving in GDP increased from 9.5 percent in 2009/10 to 21.8 percent in 2014/15 due to measures including: awareness creation and community mobilization activities, expanding financial institutions and services, raising the minimum deposit rate, strengthening existing and introducing new saving mobilization instruments such as saving for housing program, Renaissance Dam Bond, introducing private social security schemes, strengthening government employees social security scheme, which were accompanied by rapid economic growth and structural economic transformation (FDRE, 2016).

The National Financial Inclusion Strategy stipulates that sustained, prudent and responsible financial inclusion is needed to successfully achieve the two overarching goals of the Growth and Transformation Plan 2015/16-2019/20: increasing domestic savings and increasing jobs by fostering a vibrant productive sector (which is in part achieved through a greater range of financing instruments to micro, small and medium enterprises and smallholders). The strategy also projects that by 2020, 60% of adults (+18 years) will have transaction accounts (from the current 22%, according to FINDEX 2014), and 40% of adults will save at regulated financial inclusion from the current 14% (NBE, 2017). The FINDEX 2014 survey suggests that there is a huge potential for saving mobilization in that 48% of adults reported that they saved or set money aside, but only 14% reported saving at a financial institution.

The financial sector in Ethiopia has been expanding substantially. As of March 2016, 18 banks (of which 16 are private and 2 are state-owned with one development bank), 17 insurance companies (of which 16 are private and 1 state-owned), 35 microfinance institutions, and 5 capital goods finance companies operated in Ethiopia. In line with international trends, there is a growing though still nascent digital financial services industry. According to the Federal Cooperative Agency there are approximately 18,000 savings and credit cooperatives (1.8 million members) spread throughout the country (mostly in rural areas). Capital markets are at a nascent stage, mainly transacting treasury bills and government bonds (NBE, 2017). Although the number of bank branches and sub-branches increased by 19.2% during 2015/2016 and reached 3,282 branches in March 2016, the relative number of access points to adult population is low, with only 7.3 commercial bank branches, 3.7 microfinance branches, 0.95 insurance offices, 16.3 point of sale (POS) machines and 3.6 automatic teller machines (ATMs) available per 100,000 adults. As a comparison, Mozambique had, in Dec. 2014, 5 commercial banks, 9 ATMs and 95 POS per 100,000 adults (NBE, 2017). Access points concentrated in Addis Ababa.

With increasing branch outreach (including deep in rural areas), more professionalism, and with staff with relevant knowledge of local realities, licensed microfinance institutions (MFIs) hold high promise as effective tools to saving mobilization, with great potential to generate resources that can finance their loan operation, as well as generating finance for national development. Yet, their outreach to the unbanked is still limited. The microfinance institutions currently operating in Ethiopia (now more than 35) meet less than 20% of the demand for financial services (Wolday and Tekie, 2014, p. 64). Moreover, so far, their main focus have been expanding access to microcredit. Thus, though MFIs in Ethiopia have been allowed by Proclamation (1996) to mobilize
“public saving” (quite rare in the industry), the recent extensive research on the operation of 12 MFIs by the Women Entrepreneurship Development Programme (WEDP) (see Storraw, et al 2014) suggests that, so far (in-spite of the evidently huge potential) the ‘voluntary’ saving mobilized by such institutions (including some of those who had the license some 15-20 years back) constitute on average only 8-12% of their loan outstanding. This is not in line with industry practice demonstrated in other countries (as will be discussed below).

This is partly related to capacity limitation on MFIs and their staff, as well as the low attention given to saving mobilization. Indeed, most of the institutions in the past enjoyed a great deal of relatively easy access to variety of funds to finance their loan portfolios, either from donors, government, mother NGOs, etc., and the need to mobilize voluntary saving has largely been undermined. The only (indirect) incentive to microfinance institutions to seriously take the issue of ‘voluntary’ saving mobilization has come more recently when the Government introduced Net-saving as one of the criteria (indicator) to access soft loan from RUFIP II (which is supported by UN-IFAD and others). This established a clear message on the need to mobilizing saving by microfinance institutions, and – importantly -- most microfinance institutions expect that future soft loans from donors, etc. would have similar criteria. It looks like most of them are just waking-up to the challenge.

This training hope to fill some of the capacity gap among MFI staff, particularly those at the frontline.

Do Poor People Save?

There are always debates as to whether the poor actually can save. Many argue that the poor are too poor to save. The microfinance field in many parts of the developing world increasingly demonstrated otherwise – that the poor can and actually do save in multiple ways to meet various needs. In addition to the need to meet regular expenses of consumption and production, we can list these items in three main categories, emergency needs, life-cycle events, and investment opportunities.

Emergencies that create a sudden and unanticipated need for a large sum of money come in two forms - personal and impersonal. Personal emergencies include sickness or injury, the death of a bread-winner or the loss of employment, and theft or harassment. Impersonal ones include events such as war, floods, fires and cyclones. Each creates a sudden need for more cash than can normally be found at home. Indeed, if there is one thing those with too little have too much of, it is the awareness that even the kind of life they have is far from guaranteed. (Grameen Foundation, 2014). So for the poor, it is especially important that one manage well what money one has, and managing money well begins with hanging on to what one has (Rutherford, 1999).

In many developing countries, marrying daughters is an expensive business, and burying deceased parents can be very costly. These are just two examples of lifecycle events for which the poor need to amass large lump sums. Other such events include childbirth, education, home-building, widowhood and old-age generally, and the desire to bequeath a lump sum to heirs. Then there are the recurrent festivals like Eid, Christmas, etc. Many of these needs can be anticipated, even if their exact date is unknown. The awareness that such outlays are looming on the horizon is a source of great anxiety for many poor people.

Moreover, as well as needs for spending large sums of cash, there are opportunities to do so. There may be opportunities to invest in an existing or new business, or to buy land or other
productive assets. The poor, like all of us, also like to invest in costly items that make life more comfortable - better roofing, better furniture, a fan, a TV.

As outlined above, for the majority poor households, the primary problem they face involve managing risk and uncertainty, including smoothing their consumption needs (Adams and Vogel, 2016). Thus, particularly those with low, irregular and unreliable income, saving is critical. Poverty shaped some of their behaviour, rendering them often cunning, conservative survivalists, who were forced by circumstances to find myriad ways to deal with crisis, periodic shortages (Dichter, 2007). For example, rural Bangladeshi households follow the well-established tradition of musti chaul – of keeping back one fistful of dry rice each time a meal was cooked, to hold against lean times, to have ready when a beggar called, or to donate to the mosque or temple when called on to do so (Collins, et al, 2009). Banerjee and Duflo (2007), looking at detailed household survey data from 13 countries, find that even extremely poor households do not use all of their income to afford basic necessities (Dupas and Robinson, 2011). Research in many countries increasingly demonstrated that the poor really demand (modern) saving services, even more than the other category of the population, not in spite of, but because of their poverty and vulnerability (See also the Morocco Case Study). Indeed, they cannot afford not to save.

Thus, the current consensus among experts in the field is that the poor save fixed amounts of money regardless of income, varying their consumption according to income. In other words, poor people do not save according to the equation Savings = Income – Fixed Consumption but according to the equation, Consumption = Income – Fixed Savings. Their decision to save is, therefore, not an income-surplus function, but rather a reserve. Current evidence suggests that the biggest impacts in microfinance come from savings accounts – provided that they are inexpensive and serve a specific purpose -- and digital payments (Demirguc-Kunt, et al, 2017, p. 19).

In a seminal paper on rural finance, Rutherford (1999) provides an excellent way of analyzing how people accumulate ‘usefully large sum’ of money to meet their various financial needs. According to him, the only reliable and sustainable way open to the poor is to build them from their savings. There are several ways in which savings can be built into usefully large sums of money, but they fall into three main classes, as follows:

1. **Saving up.** This is the most obvious way. Savings are accumulated in some safe place until they have grown into a usefully large sum. Many poor people lack a safe and reliable opportunity to save up. As a result, they may be willing to accept a negative rate of interest on savings, in order to be able to make deposits safely. We see this in the case of the deposit collectors that work in the slums of Asia and Africa.
2. **Saving down.** In ‘saving down’, the poor are lucky enough to have somebody give them an *advance* against future savings. The savings then take the form of loan repayments. Many urban moneylenders offer this service at high cost. Some MFIs offer a similar service but do so at a lower cost and with greater reliability. The recipient of a loan makes a large number of repayments at short intervals and these repayments can be sourced from the borrower’s capacity to save. The advance can therefore be spent on any of the uses in the three classes listed above.

3. **Saving through.** In this third case savings are made on a continuous and regular basis, and a matching lump sum is made available at some point in time during this flow of savings deposits. The services offered by insurance (in which case the savings take the form of premium payments) are of this type, though the poor are very rarely offered formal insurance services. "Saving through" is also offered by many forms of savings club, including, notably, rotating savings and credit associations, or ROSCAs (known in East Africa as merry-go-rounds or cash-rounds). ‘Saving through’ therefore constitutes the most common class of device that the poor are able to provide for themselves.

**What are the Potential Sources of Financial Services?**

Johnson et al. (2005) elaborated on alternative ways of channelling financial services to poor people. In order to consider where the frontier of sustainable rural service delivery currently lies, they use two dimensions to map coverage: population density and poverty incidence (Figure 1). Lower population density relates to high transactions costs on both the supply and demand sides. Higher poverty incidence implies smaller transaction sizes on the demand side.
For the purposes of sustainable financial service delivery, high population density areas with low poverty incidence (quadrant 1) present the most promising environments. Quadrant 2 offers high population density and higher poverty incidence, so that transactions costs related to distances are lower, but providers are likely to encounter lower transactions sizes, or lower absorptive capacity of individual businesses because the weaker economic environment in such areas is also likely to make productive investments more risky. Quadrant 3 reflects areas of low population density but low poverty incidence: the service delivery problem here is also less severe if transactions sizes are high enough and risks sufficiently diversified. Quadrant 4 reflects the most extreme case of high poverty incidence and low population density, and hence the most challenging environment for service delivery.

**Which models have the potential to reach remoter areas and poorer people?** The four main models that are considered here are conventional banks, MFIs, savings and credit co-operatives (SACCOs) and rotating and accumulating savings and credit associations (ROSCAs and ASCAs). While banks and MFIs are relatively familiar types of institutions, it is important to briefly explain how ROSCAs, ASCAs and SACCOs operate.

**ROSCAs** are the simplest form of financial intermediation: a number of people form a group and contribute an agreed amount on a regular basis. The fund is usually given to one person who takes all of the money, until everyone in the group has received the money in turn. The system has a very high degree of flexibility, with the participants determining the amount to be saved; the number of people involved; the frequency of contributions; the number of people receiving the payout; and how funds can be used. **ASCAs** build on this basic model by introducing a central fund into which the contributions are deposited. Instead of the fund being automatically distributed...
to each member in turn, members can take loans at an agreed interest rate. The nature of guarantees and collateral required will also be agreed. **SACCOs** are essentially a formalized version of an ASCA, which allows for legal registration and hence greater scale of operations. The essential organizational principle of a SACCO is **one member- one vote** rather than one share one vote as in a company so that all members have an equal role in governance (Johnson et.al, 2005).

**Equb** is the local version of Rotating Saving and Credit Association (RoSCA), whereby group members meet regularly to collect contributions of equal amounts from the members and to allocate the amount. This allocation is based on a lottery system, as a loan to one member. **Equb** has an important cultural and economic significance in the traditions of Ethiopian population. A study conducted on the establishment of the Rural Development Bank in Ethiopia (1995) estimated that the volume of money revolving within **Equb** is in the range of 8-10 % of the GDP (IFAD, 2001). In a sample survey undertaken in 1960, it was estimated that 60% of the respondents belonged to one or more **Equb** (Dejene, 1993, p. 11). This system is somewhat equivalent to the **Esusu** in Nigeria, Liberia and Sierra Leon; the **Tontines** in Senegal, Burkina Faso, Ivory Cost, Niger; and **Sanduk** in Sudan.

On the other hand, **Iddir** is a local informal insurance mechanism whereby members regularly contribute to a pool from which they are entitled to a lump-sum to meet expenditures mainly related to burial ceremonies in the case of death of a family member. **Iddir** is widespread in most areas. In a sample study of 15 Ethiopian Villages, it was confirmed that 90% of households were members of at least one **Iddir**, with 41% of households belonging to more than one **Iddir**. Funeral insurance is given out when a member dies. Such a pay-out (excluding farm and other labour contributions) corresponds to about 40% of total monthly household consumption in survey areas (Dercon, et. al, 2006).

Rural communities in the southern part of Ethiopia also have a local version of Accumulating Saving and Credit Associations (ASCAs).

The Figure below suggests that these models are distributed across a spectrum in which banks are the most centralized and MFIs, SACCOs and ROSCAs/ASCAs are increasingly decentralized models. In decentralised models clients have a greater role in organisational decision making. They argue that **decentralized models have inherent advantages in reaching remoter and poorer people**, although they face significant challenges in terms of their long-term effectiveness and sustainability.
Compared to Banks and MFIs the cost structure of SACCOs is different. First, funds can be raised at low cost because they are mobilized among a group, which often has a common bond or purpose. Second, the interest on these funds is usually in the form of a dividend that is calculated as a residual rather than a committed cost at the outset. Third, when SACCOs start, they usually do so in low-cost offices with low overheads and voluntary labour or low salaries (especially compared to bank staff). In terms of default, the costs of recovery can also be kept low because of guarantees based on a member’s own shares and guarantees from other members. ROSCAs and ASCAs manifest similar features with very minor variations.

SACCOs, ASCAs and ROSCAs as user-owned and managed models offer additional features that appeal to poor people. First, these organizations’ survival depends on the degree to which they respond to their members’ needs for financial services. Second, there is a high degree of client ownership and participation: users have a direct influence in determining the financial services that are provided, including the interest rates, and they are able to renegotiate the repayment schedule when they face genuine financial difficulties (see, Johnson, 2005). After all, people are there to assist one another and offer social support. This flexibility means that members are not as ‘frightened’ of taking loans from these systems as they would be from others. Moreover, unlike the case of MFI group-solidarity systems, other members of a group are not forced to make repayments on the defaulter’s behalf.

Apart from these, the poor also make use of other informal sources including individual money lenders, friends/relatives, in-kind mechanism, savings at home, etc to manage their financial lives.

**The Poor Often Utilize Traditional Means of Savings**

The form of holding wealth or capital formation which a rural economic unit chooses depends on the return, risk, convenience and flexibility or liquidity of the alternative investment opportunities. When saving “in cash” is not convenient, the poor resort to saving in real asset (crops put into storage, a pig fattened -- hence the idea of "piggy bank" -- a tree planted, or children raised (and educated) as an investment in human capital, helping one’s neighbours, and putting on a feast to raise claim for future assistance (social capital) (Schimdt and Cropp, 1987: 26).

Indeed, liquidity management is the never-ending process by which social capital gets built up, leveraged – and sometimes abused. Mas (2015) refer to as liquidity farming the practice of
nurturing potential sources of future liquidity, beyond one's income, assets, and saved resources that can be harvested when they need some extra money to meet daily shortfalls or emergencies.

…..The liquidity farm can be sowed and fertilized in a number of ways. For instance, spending a little money at the village festivities to demonstrate belonging and commitment to the community; engaging in occasional conspicuous displays of wealth and consumption that demonstrate success and hence resourcefulness; engaging in acts of generosity that invite reciprocity; participating in communal fund-raising efforts to demonstrate solidarity with kith and kin; shopping regularly at popular stores or taking regular loans with a microcredit institution even when they are not strictly needed to build up trust; and saving with people in the community, in the form of money guards, or loans to friends, or village groups, to build interdependence.

Guerin, et al (2017) also describe the well-established Tamil Nadu village (South India) practice of “ceremonial expenses as “relational savings”. In Tamil villages, money and more broadly wealth are considered as something that must circulate. As events, ceremonies are concrete opportunities to display and give visibility to family status (mariyatai). Ceremony costs can often seem puzzling, especially in comparison to incomes, but they are closely tied to the gifts expected (from invitees). A ceremony’s clout is measured in terms of guest number and “quality”, the food served, and gift received: this all aims to maintain, or possibly upgrade or at least not downgrade the family status of the organizers. Ceremony organizers keep precise accounts of gifts.

But the return on such investments are not always very large since investments are made in order to save (and not vice versa) when other saving opportunities are unavailable (Schimidt and Kropp, 1987: 26). Indeed, informal savings mechanisms are useful, but they do not remove the need for formal services. In developed countries, for example, people with a choice usually use formal services. (An analysis of an Indian case is presented on Annex II).

What does the formal option offer that the informal does not?

Formal savings services offer greater safety, higher rates of return, quicker access to funds, and greater anonymity (Vonderloack and Schreiner, 2001).

**Safety:** If one lives in an urban slum or in straw hut in a village, finding a safe place to store cash savings is not easy. Bank notes tucked into rafters, buried in the earth, rolled inside hollowed-out bamboo, or thrust into clay piggy banks, can be lost or stolen or blown away or may just rot. Because of inflation, often very high in many developing countries, certainly their value will decline. But the physical risks are the least of the problem. Much tougher is keeping the cash safe from the many claims on it -- claims by relatives who have fallen on hard times, by importunate neighbours, by hungry or sick children or alcoholic husbands, and by landlords, creditors and beggars. Finally, even when one has a little cash left over at the day’s end, if one doesn’t have somewhere safe to put it he/she will most probably spend it in some trivial way or other (Rutherford, 1999).\(^vi\) **In-kind storage** is notoriously unsafe; grain rots, cattle die, chickens disappear, etc. It is common that to deter the theft of the highest-value in-kind storage assets – jewellery -- people attach it to their bodies. Indeed, in many developing areas the homestead can never be left vacant (Vonderloack and Schreiner, 2001). In contrast to these risks of informal mechanisms, formal savings services from banks in most countries are regulated for safety and soundness.

As a risk management strategy, households both in urban and rural areas not only set aside resources as saving for future at individual and household level, but also they often join local self-
help groups (religious, cultural, etc.) as ‘informal insurance’ mechanism. Such groups exist in variety of forms, depending on local culture. *Iddir* is perhaps the most popular one among the population in many areas of Ethiopia. But such groups also have different names depending on the locality (e.g. *Wakefeta, Walda, Kire*, etc., etc.). Indeed, the expansion of *Iddir* to urban areas is perhaps associated with growing social insecurity, and recourse to *Iddir* (and *Equb*, ~RoSCA) is considered as one of the most significant survival strategies or coping mechanisms (Levine, 1974). Such local community clubs or self-help groups often provide informal insurance mechanism, especially at times of death of family members. The *Iddir* takes the responsibility for costs associated with death or covering the funeral related expenses, thus lowering possible financial burden, especially among the poor. In some cases such groups also cater to meet the special needs of their fellow members in extremely difficult situations, e.g. loss of house to fire, loss of significant livestock, and sickness of bread-winner. Members often pool their financial and other resources for such emergencies, providing small loans (financial as well as in-kind) to members most in need.

But the support from such informal mechanism often fall short of meeting the full needs of the poor, and cannot go beyond the short-term. For example, loan terms from VSLAs in Ethiopia is for a maximum of 3 months (Zegeye, et al, 2012 p. 94). Risks are often high. It is not uncommon for people who have already received a RoSCA pool to default on their debt by stopping contributions, and for collectors to abscond with the savings of their clients. Where savings are not immediately redistributed, the large sums may tempt treasurers to embezzle (Vonderloack and Schreiner, 2001). Wright and Mutesasira (2002) study showed that over 99% of poor people saving in the informal sector lost an average of 22% of the amount they have saved in the last year; and unsurprisingly, people who had access to formal savings services had saved on average three times more in the last twelve months. Utilization of such resources also operate under prevailing power structure, where the poor, especially women, do not have much of a voice, as the system often is subject to ‘elite capture’ whereby those in power take advantage of such resources at the expense of the less powerful (James, 2015, p.8).

**Access to funds**: Financial emergencies are a fact of life for the poor, so they want quick access to their savings. Unfortunately, while in-kind storage items can be liquidated to cater for such needs, distress sales fetch low prices and have high transaction costs. Some items, like livestock, cannot be sold in pieces to meet immediate needs (hence the famous term *You can’t Sell Half a Cow*). Informal cash group savings either do not allow quick access or do so only through deposit-guaranteed loans. For example, savers with deposit collectors or members of Annual Saving clubs can get a quick loan based on their history of regular deposits and their current balance (and incurring cost), but they cannot get their savings back until the end of the agreed term (e.g. a year). In contrast, withdrawals from bank accounts in banks are possible any working day.

**Returns**: Cash stored somehow at home obviously does not earn any interest. On the other hand, savers must pay deposit collectors to save, a negative return. RoSCAs do not pay interest to savers. Annual Savings Clubs do typically pay interest on savings because they lend some accumulated balances out, though often risky. Most types of in-kind storage depreciate and so have negative returns. In contrast, formal deposit accounts always offer positive interest rates. After inflation and fees are counted, the effective rate may be negative, but the typical total return still exceeds that of most informal mechanisms.

**Anonymity**: Keeping the level of resources one has anonymous is valued in many contexts to safeguard it from many potential claims on it (see also the Morocco Case Study). Women are often burdened disproportionally by the “kin tax” – pressure from family members to share money
that women have earned and would otherwise use for business purposes (Buvinic and Jaluka, 2018). There is growing evidence that middle-class individuals take on (costly) loans they do not need as a way to signal poverty and avoid requests for financial help from friends and relatives, especially in communities where there exist strong social norms (e.g. West Africa) which necessitate that an individual provides support to friends and relatives if she is asked for money and has cash on hand. Similarly, a recent experimental study in Western Kenya finds that women are willing to pay a substantial cost (in the form of either a fee or foregone returns) in order to hide income from their relatives (Dupas and Robinson, 2011).

Unfortunately, in-kind storage is often not only non-anonymous but also conspicuous. Deposit collectors do not hide savings; anyone can see the collector everyday on the doorstep or at the market stall. Likewise, RoSCAs and Annual Savings Clubs are by definition social. Bank accounts, in contrast, can be hidden from neighbours and perhaps even from spouses (Vonderlack and Schreiner, 2001). Anonymity matters especially because the secret accumulation of assets might strengthen a woman’s fall-back position and allow her to bargain more effectively within the household, and encourage autonomous decision making (Buvinic and O’Donnel, 2017).

The most recent assessment done by ICCO/STARS in West Arsi area of Ethiopia also reveal how women use different mechanisms to make sure that they control their earnings:

“... With-in the household, men often do not show to wives the amount of money in their bank account, or money hidden somewhere under the ground, etc. Wives, especially those who are married to a man who hides money would also like to do likewise. “... Some of these wives earn money from variety of micro businesses, including chicken enterprises, production of local alcohol (Araki, Tella), food preparation, butter making, retail trade on agricultural produces, pottery, “Kubet” (=fuel) making from animal dung), etc....”... Wives would like to make sure that they ‘control’ the money they earn from these businesses. So they keep the money somewhere hidden, under the ground, in the clothes they put to support their waste (called ‘Mekenet’), etc. Most women also hung a small bag (made of a piece of cloth) on their neck, which they keep always, even when they sleep. The husband may know that some amount of money is kept there, but could not know how much” (ICCO-STARS, 2017).

A unique data set from Chile and a meta-analysis of 13 experimental studies in various country contexts on savings accounts support the conclusion that women prefer saving more than men do for business development or expansion (Buvinic and Jaluka, 2018). Many studies have identified that for many women, the status of being a supplicant in relation to men is galling and humiliating, particularly as in contexts of scarcity, where they have to literally plead for every penny to meet basic foods and other needs (Kabeer, 1999).

To sum-up: the poor, who are still dependent dominantly on informal saving mechanisms, have little means of leverage particularly in the face of emergencies to which they are often vulnerable. The Gash and Gray (2016) comprehensive study in Burkinafaso indicated that over the 7 months study period, participant households experienced multiple shocks (unexpected and expected expenses). These shocks include: illness/injury, family death, livestock loss, poor harvest and “others” (the “other” category include: roof collapsing, divorce in the family, burglary, death of someone outside their family, old debt, home repair, bicycle repair, wedding, baptisms, children’s clothing purchase, holiday celebration, etc.). Throughout the 7 month time line of the study, there were 334 shocks reported by the 46 respondents. The number of shocks indicates an average of 7.3 shocks per respondent, or each household experiencing approximately one shock per month.
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Facility with such serious challenges, some negative coping strategies practiced by those who do not have adequate liquidity often include: 1) Sale of assets -- often at a depressed price. In western Uganda, vulnerable rural farmers, who do not have the access to better financial services, are often vulnerable and victims of unfair terms whenever they have to exchange their coffee for various household consumption items they need immediately. As one Oxfam-Novib study revealed (Gobezie, 2013):

In this part of remote rural Uganda, communities live in isolated environment, with poor connection to cities and market. Small traders (middle men and women) move around, house to house, looking for those who need items which are regularly used in household consumption, typically oil, rice, fish, salt, etc and barter them in exchange for coffee (including coffee still on the tree) from the households. There seem to be no standard for the exchange, on quality or quantity. So it all depends on the negotiation potential and information of those participating in the barter. The discussion with some of the locals reveal that normally middle men take advantage of the farmers, not only by lowering the price of the coffee, but also by under-scaling the quantity.

These farmers are typical example of poor people who sell assets, especially crops and other assets, in advance. These ‘advances’ are a form of financing, since the buyer provides, in effect, a loan secured against the yet-to-be harvested crop. 2) Mortgage and pawn -- enables poor people to convert assets into cash and back again. It is the chance (not always realised) to regain the asset that distinguishes this second method from the first. The most common examples are the ‘pawn shop’ in town and ‘mortgaging land’ in the countryside. 3) Also most common is Informal Borrowing – taking loans, often at an exorbitant interest rate, from local informal lenders (Rutherford, 1999).

As many field research demonstrated (see, for example, those of Freedom From Hunger by Gash and Gray, 2016), if households cannot have immediate access to resources for health emergencies, they will make negative trade-offs or spend more of their time piecing together funds from multiple sources to cover the upfront medical costs. Lives can be lost in this process. Other coping mechanisms can include working harder, start new (inferior) economic activity, migrating, reductions in food consumption, reliance on low-nutrition foods, or even forgoing healthcare, taking children out of school, etc.\(^\text{xii}\). In extreme cases in India, Ethiopia and Bangladesh, the starving eat a drought resistant legume, known as kasseri dal, even though it can lead to paralysis (Tony, 1989). Indeed, the poorest use multiple coping mechanism simultaneously since individual mechanisms do not yield enough money to cover the entire cost of the shock (Gash and Gray, 2016; Holloway, et al, 2017).

Moreover, the fear of being unable to deal with these emergencies makes the rural household-firms less inclined to investing as well as less inclined to experimenting with new technologies, since these could threaten their ability to cope with emergencies. …In anticipation of potentially significant income shocks and the absence of insurance, individuals might thus adopt a low risk, low return technologies over high risk, high return technologies (Demirguc-Kunt et al, 2017, p. 18). Producers who cannot meet their needs for capital must settle for suboptimal production strategies. When producers are unable to make the necessary upfront investments or cannot bear additional risk, they have to forgo opportunities to boost their productivity, enhance their income and improve their well-being. This is more so especially when rural households lack access to institutional financial services (e.g credit) (Gonzalez Vega, 2017).

Facilitating Local Saving Mobilization to Finance Development
Is there a market for formal saving services?

In developing countries, the returns to many types of investments in human or physical capital appear to be high, yet investment levels remain quite low. For example, it has been estimated that 63 percent of under-five mortality could be averted if households invested in readily available preventative health products. Why don’t people make these investments? While credit constraints are the most obvious culprit, and while recent evidence does suggest that relieving credit constraints can increase investments in bednets or clean water connections, the up-front costs of many preventative products (such as bednets) are not massive. Households should be just as able to gradually save up for such investments as to take out loans and gradually pay them back (Dupas and Robinson, 2011). Global experience suggests that there is a huge demand for a convenient, safe and reliable saving services among the poor. Just as the existence of moneylenders indicates a demand for credit among the poor, the widespread use of informal savings mechanisms may signal demand for formal deposit services (CGAP, 2006 c).

As very well summarized by Cull and Morduch (2017), the original perspective that was carried forward by the Microcredit Summit Campaign, donors, and investors, and most of the RTCs that sought to analyze “impact of microfinance” was framed in terms of impacts on business and entrepreneurship. .... It was posited that through business comes increases in income and, from that, social gains. This, though, is a particular (and narrow) view of finance. Finance is also needed by households to purchase consumer goods, however, and to help with basic, week-by-week financial management (microfinance as liquidity service). ... Indeed, microfinance has both been oversold and undersold. It has perhaps been missing its biggest market, the billions of wage-workers (and small holder farmers) who have no interest in (nor time for) self-employment but whose needs for finance are fundamental to their well-being. The early enthusiasm for microcredit in the 1990s and early 2000s was fueled by mostly anecdotal evidence and descriptive statistics about dramatic economic and social benefits (World Economic Forum, 2018).

An alternative view emerges from financial diaries. The diaries are most closely associated with the work of Collins et al. (2009), which details the financial lives of low-income families in Bangladesh, India, and South Africa. Their focus is on the complete set of household financial transactions connected to earning, spending, saving, borrowing, and informal sharing. ... The picture that emerges is very different from the early microfinance vision. Collins et al. (2009) find that even if microfinance does not raise income or launch businesses, it may help households cope with the ups and downs of incomes and needs that arise through the year. A central finding of Collins et al. (2009) can be boiled down in terms of global poverty statistics: the hidden burden of living on $1 a day per person (or wherever the global poverty line is set) is that rarely does anyone actually receive $1 per person each and every day. Instead, farmers have high and low seasons, laborers have better and worse months, and many people are vulnerable to the ups and downs created by boom and bust economic business cycles. The financial problem of being poor, then, is both an issue of low resources on average and an issue of the uncertainty and unpredictability of those resources. Microfinance can then be an important asset in smoothing consumption, not just for investment. ... This shift takes the discussion from microfinance to a broader topic of financial inclusion. Financial inclusion goes beyond loans to saving, insurance, and payments (Cull and Morduch, 2017).

The most recent research by Christen and Anderson (2013) as well as Dalberg Global Development Advisors (2016) provided one of the most excellent categorisation of global smallholder farmers and their likely financial service needs. These are: commercial smallholder
farmers in tight value chains, commercial smallholder farmers in lose value chains, and non-commercial smallholder farmers. Interestingly, among these three groups, (estimated to be up to 500 million smallholder farms worldwide with 2.5 billion people living in these households) non-commercial smallholder farmers constitute the majority (60%) (see chart below). The study clearly identified that these later group, especially the very poor households frequently face obstacles to accumulating substantial savings.

The recent Findex (2014) global survey indicates that 56% of adults do not have an account (saving, loan and insurance coverage). 48% of adults are reported to have set aside money as saving while only 14% save in financial institutions. 44% of adults have borrowed in some form
while only 7% accessed it from financial institutions and this implied that majority of adults are excluded. According to the Findex data, only four percent of the unbanked report that the only reason for not having a bank account is that they do not need one (Microlead, 2017). The study by Wolday and Tekie (2014, p. 85) of 2000 households suggests a very strong demand for formal saving services in Ethiopia. Asked about their preferences among three financial products, namely loan, saving and insurance, 71.3% of the sample households (74.8% in urban and 70.1% in rural areas) preferred savings, compared to loan and insurance products. Same study indicated that 78.8% of the sample respondents had savings either in cash or in-kind. In a stable economy with adequate infrastructure, other forms of savings will often be inferior to financial savings. When financial intermediaries are not available near their village, people tend to save informally and in-kind by investing in livestock, hide cash at home, save in the form of agricultural products and trees, and participate in rotating savings and credit associations (or Equeb). In many cases, these informal savings schemes are relatively riskier, illiquid, indivisible, and impose uniform terms. Moreover, saving informally and in-kind have their own challenges. For example, savings in the form of cow may have challenges of being susceptible to disease; it must be sold as a whole – not in parts – to obtain cash; and it is exposed to the risk of theft and fluctuations in the market price, where the transaction impose time and financial costs (Wolday and Tekie, 2014, P. 88).

The dramatic success of Bank Rakiat Indonesia (BRI), among others, has indeed been very inspirational for many to follow suite. While Grameen Bank, which assumed that what the poor lack to get out of poverty is access to ‘microcredit’ -- including lobbying that microcredit is a ‘human right’ (see Adams, 2009) -- did not emphasize on voluntary saving, BRI, although they also aim at enhancing access to small loan to the poor, they equally emphasise that the poor also demand saving services – perhaps more so than microcredit. Both Institutions started formal operation in the 80’s (BRI much earlier in various forms), and more or less comparable developing countries in Asia. After a decade or so experience of implementing their programmes (and reaching more or less similar number of microcredit clients), Grameen managed to mobilize some US$133 Mill (and still depend on external donors, borrowing to finance their loan portfolio), while BRI managed to mobilize more than US$ 2.6 Bill. In 1989, BRI units began generating surplus liquidity, financing more than 100% of their loan portfolio, from local saving (Seibel, et al 2010), with typically 6:1 ratio of saving accounts to loan (see Box 2 about BRI ‘mapping’ strategy, as well as Kasekende, 1998, p. 93-94 and Zegeye, et al, 2012, p. 30). The practice in such institutions also evidenced that typically, in a balanced financial intermediary, the number of depositors is three-to-ten times the number of borrowers (Adams, 2009).

These and other experiences in the microfinance field were inspiring for many practitioners to adapt mechanisms for local saving mobilization. In recognition of the value of saving services to the poor as well as the importance of generating liquidity from local sources to finance development, the microfinance regulatory framework by the Ethiopian National Bank (NBE) in 1996 allowed all microfinance institutions to mobilize ‘voluntary’ savings from the ‘public’, from day one of receiving the license.

Indeed, commercial banks also are now down-scaling their operation, in an attempt to open up outreach to the unbanked, though they still have low presence in many rural areas, with little experience serving poor people. Cooperatives have a presence in many areas, yet with low capacity, and management problems, are still struggling to correct the biased perception by the public towards them related to bad performance in previous regimes (NBE, 2017). With increasing branch outreach (including deep in rural areas), more professionalism, and with staff with relevant knowledge of local realities, licensed microfinance institutions (MFIs) hold high promise as effective tools to saving mobilization, with great potential to generate resources that can finance
their loan operation. Since the issuance of the Microfinance Law in Ethiopia in 1996, 35 MFIs have been registered by the National Bank of Ethiopia (NBE) to deliver financial services, including deposit mobilization through large network of over 1000 branches and sub branches. This has expanded and deepened financial outreach, bringing services physically nearer to where clients, especially poor clients, reside. Yet, so far the main focus of service providers have been expanding access to microcredit. Whatever savings they have mobilized so far is dominantly a ‘mandatory saving’ mobilized as part of the loan operation. In-spite of the evidently huge potential, the ‘voluntary’ saving mobilized by such institutions (including those who secured the license some 15-20 years back) constitute on average only 8-12% of their loan outstanding. Their loan operations have therefore been financed from Bank loan, grants, etc., in the absence of which, they limit their outreach on loan.

Common Saving Products of MFIs

Savings products come in three basic types: demand deposits, contractual products, and time deposits.

**Demand deposit products** allow savers to deposit and withdraw what they want when they want with no advance commitment. Depositors must simply maintain the minimum required balance. Demand-deposit accounts can also be used to transfer payments. Demand-deposit transactions may be made using passbooks, ATM cards, or checks. *Passbook accounts* use only passbooks; *savings or regular savings* accounts use ATM cards or passbooks; and *current accounts* use checks as well as ATMs. In many countries only certain types of institutions are permitted to offer current accounts. Current accounts are likely to be considerably more volatile than regular savings.

In most underserved markets, more savers – particularly small savers – want demand deposit accounts more than any other product. The poor find them particularly useful because *they do not require a regular income flow* and because *they permit withdrawals*, which are crucial for emergency needs. Perhaps for this reason, savers typically prefer liquid accounts, even though most may actually withdraw infrequently. … For the MFI, demand deposits tend to provide a large, *stable volume of funds* but are costly and demanding to manage. Their low financial costs (i.e saving interest rate) are overshadowed by high administrative costs. Because demand-deposit products especially attract the poor and allow withdrawals, average account balances are usually lower than for any other product, while the number of transactions can be much higher. The *unpredictable sizes and timing of passbook transactions* necessitate more rigorous internal control and liquidity management than is needed for other product types.

With *contractual savings*, also known as *accumulated fixed-term deposits* or *programmed savings*, clients commit to depositing a fixed amount of their choosing regularly for a specified period of time. After the maturity date they can withdraw the entire amount plus the interest. Early withdrawal is prohibited or penalized. Contractual products help depositors to accumulate funds to meet specific expected needs, such as expenses associated with school, a festival, a new business, an equipment purchase, or a new house. They also can enable depositors to capture a portion of a regular fixed payment such as salary or pension payment that can be automatically deposited into the account. In some cases clients shape a generic contract to meet their needs by choosing between a range of terms offered by the MFI, for example weekly or monthly payments in any increment of US$1 with three-month, six-month, or twelve-month term. In other cases, the MFI tries to attract depositors by setting the product’s name and maturity to match a specific need. For example, with *Christmas account* clients save a fixed amount monthly for eleven months and withdraw these funds with interest before Christmas.
Poor people often like contractual products. The products provide the discipline to save for future needs, and because they resemble familiar informal schemes, the poor understand them easily. Although fixed payments can exclude those whose income is unreliable, payment schedules can be softened. Nevertheless, contractual products may meet little demand among the poor if their incomes are already committed to loans or business that require regular payments. For the MFI, a contractual product has many advantages. Compared to passbook product, it typically has a more predictable cash flow and larger account balances. It also can be a simple means to foster goodwill and inspire clients to save; offering a range of contractual products can be as easy as changing a product’s name and maturity, yet can make clients feel that the MFI is attuned to their needs. Contractual products also generate information on clients’ capacity to repay loan.

With a time deposit, also known as a fixed deposit, a client makes a single deposit that cannot be withdrawn for a specified period of time. The MFI offers a range of possible terms and usually pays a higher interest rate than on its passbook or contractual products. Time deposits can meet substantial demand among farmers, non-poor savers, and people who occasionally receive remittances. Unless the minimum deposit is small and the terms are short, time deposits may not meet much demand among other poor clients. Although poor farmers may want to deposit a large sum at harvest time, some institutions that serve primarily day labourers and micro-entrepreneurs have found that their time deposits attract virtually no funds.

For MFIs that serve a mixed-income market, time deposit can provide a significant source of relatively low-cost fund – often the largest source, particularly if an MFI can attract large and institutional depositors. This is because time deposits tend to be larger than other types of deposits and involve fewer transactions. However, time deposits that attract larger depositors or are offered in competitive markets can be volatile, which can be difficult for less sophisticated institutions to manage. In the Philippines, this has led many rural banks to limit time deposits to no more than 25 percent of their savings portfolio.

Compulsory savings as a condition for obtaining a loan and the collection of voluntary savings reflect two completely different philosophies. The former assumes that the poor must be taught to save and that they need to learn financial discipline. The latter assumes that the economically active poor already save in a variety of forms; what is required for effective savings mobilization is that the institution learns how to provide instruments and services that are appropriate for local demand. BRI’s 6:1 ratio of savings accounts to loans, compared with Grameen’s 1:1 ratio, highlights the difference between requiring compulsory savings from members and mobilizing voluntary savings from the public.” (Kasekende, 1998, p. 93-94).

<table>
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<tr>
<th>EXERCISE</th>
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<tr>
<td>Debate on Traditional and Modern Saving Schemes</td>
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*Divide Trainees into 2 groups
*Group 1 Discusses advantages and dis-advantages to the poor of traditional saving mechanisms (e.g Iddir, Equeb, Inkind, Saving at home, etc)
*Group 2 Discusses advantages and disadvantages of modern saving means.
*Invite presentations by each group
*Moderate general discussion on every issue raised
II – PRODUCT DEVELOPMENT, REDESIGN

Customers take up financial services because of their underlying needs rather than the products themselves. Needs therefore become a rational for use. Customers will use a financial service – or a mix of services – if it can help them to do what they need to do – for example, meeting heir children’s educational needs. Four universal financial needs are identified in the industry measurement framework: the need to transfer value, the need to maintain liquidity, the need to stay resilient in the face of financial shocks, the need to meet goals, whether they are consumptive, life cycle or productive. Needs can be met only by using financial services. Each of the financial needs can be viewed as representing a market, as opposed to a market defined by a product categories (World Economic Forum, 2018).

Products and services are, however, often developed in a top-down fashion, rather than customized to the needs of different target groups. Product development is not supported by detailed market research. It appears that in Ethiopia, only some MFIs (especially the state-sponsored ones) make occasional attempts on market research, including customers' consultation meetings to gain insights about their performance in meeting clients’ needs.

Indeed, mobilizing savings, particularly in rural areas, requires careful planning and product design. More branch openings by microfinance institutions in the past couple of decades has deepened financial outreach, bringing services nearer to where clients, particularly poor clients, reside. Indeed, distance is one of the most important determinants of transaction costs. However, distance is not just the physical space between service providers and potential clients. Geography, psychology, religion, language, sex, ethnicity, culture, and social class also create distance (Gonzalez-Vega, 2003). Typically, the inconvenience of formal institutions is not restricted to their location; long queues, short hours and bureaucratic requirements add to the difficulties. Commercial banks also pose a cultural, not just a distance, barrier for poor people who do not feel welcome at bank branches (DFID, 2013). In one community forum, a woman confessed that she was afraid to venture into a bank as there was always a ‘mean-looking man’ standing at the door with a big stick in is his hands and she thought that was meant to keep poor people like her away! There is need for more financial awareness and demystification of such beliefs including making financial services more user-friendly. Especially most recently, communities in Muslim dominated areas raise concern about lack of financial products and services among conventional financial service providers that meet their specific demands. More specifically, because of the interest on deposits, or riba, they have a challenge depositing in the existing formal financial institutions. Some service providers, especially banks are trying to reach out to these market segment by adjusting their products and services.

Some product refinements and/or introducing new ones can substantially boost saving mobilization. In both developed and developing countries, many people have difficulty saving as much as they would like (Dupas and Robinson, 2011). Indeed, recent findings from behavioural economics also tell us that every one – even those with low incomes – are probably saving less than they could, because building up savings also requires attention and self-control. In fact, the problems of attention and self-control may loom particularly large for poorer people. The mental resources needed to save are stretched thin, too. Poor people have so many pressing things they must attend to, that saving what little they can gets little or no attention; their reserves of ‘self-control’ are taxed in so many ways that there is little left over to devote to building up a stock of savings (Grameen Foundation, 2014). Limits to attention, or commitment problem (the inability to realize future plans due to lack of self-control) in inter-temporal consumption and savings decisions may cause savers not to reach their savings goals. When faced with severely
limited resources, individuals tend to automatically (and often unconsciously) “tunnel” or intensely focus on the most pressing problem while neglecting all other demands. Such focus can be beneficial in the short term but becomes counterproductive over time, as tasks that are important but not urgent -- planning for the future, investing in key relationships -- are crowded out of the tunnel (ideas42, 2014). Often a client’s decisions are made not from ‘rational’ decision-making, but out of need. When living in poverty, people are more likely to make decisions in continual reaction to dire circumstances. This is the fundamental tragedy of poverty as seen through a financial lens: the ‘triple whammy’ of incomes that are both low and uncertain, within contexts where the financial opportunities to leverage and smooth income to fit expenditure are limited (Collins, et al, 2009). (Some details about the “psychological obstacles” is presented on Annex III).

Supporting the poor in their effort to manage money well is a fundamental task for financial service providers. This requires offering financial services that meet their needs. Some level of market research helps in understanding the financial services needs and demands of potential clients.

**Market Research**

Market research is an activity designed to understand the MFI’s operating environment and to identify the needs of the clients and potential clients. Market research is usually conducted with a view to responding to those needs and opportunities by improving current marketing, promotion, and outreach activities; refining existing products or developing new products; as well as re-engineering delivery systems.

An MFI that is just venturing into developing savings services will need to undertake the most extensive research. Its fundamental question will be, in the proposed service area, what products are required and what are the best systems to deliver them. To do this, it will want to understand, on the one hand, clients’ financial needs, and on the other hand, what formal and informal financial services are currently meeting these needs. Learning this financial landscape, the institution need to analyze how the poor actually manage their financial lives, and the effectiveness of the instruments that they are utilizing.

An MFI that is already offering services will want to answer questions about its ability to attract and retain clients. It will want to know whether its customers are satisfied and whether they perceive it as a good safe place to save, why it is losing clients, why it is not gaining more clients, and what is determining its rate of growth and profitability. Related to these concerns will be an interest in knowing about its competition.

Finally, an MFI that is well established and operates in a competitive market will want ongoing information on the market it serves and its competitiveness. Questions that will be of interest include: Whom do I really want to reach? What products are most marketable? How can I improve my products – what do clients dislike about them? What new products can I introduce? How do I stay a step ahead of the competition? How am I differentiated in the market, and how does the market perceive this position? How do I become the most profitable institution possible? In this and all cases, the questions that an MFI aims to answer will drive what type of market research it undertakes.

**Research Options and Tools**
Once the MFI has defined its research questions, it will need to determine what types of market research to use to answer them. Market research takes many forms, some of which are more demanding and informative than others. When an MFI is developing its products, it will want to use several of the more demanding tools, in particular participatory rapid appraisal, focus-group discussions, and competition analysis. After this start up phase, MFIs that strive to offer client-driven services will continue to collect information by employing less demanding tools such as drop out questionnaire, the review of routine monitoring reports, and structural discussions about clients and staff meetings. They will use this on-going information to alert them to issues that require more in-depth research activities.

Some mature MFIs established a research unit, with qualified staff with relevant skills. They do occasional field research with existing as well as potential clients about their services, deploying tools such as Focus-Group discussions, Participatory Rapid Appraisal (PRA), etc. They also employ a regular Customer consultative groups and competition analysis.

Customer consultative groups: Customer consultative groups comprise eight to twelve of the MFI’s experienced clients who are paid a small stipend to participate every quarter in focus-group discussions with senior staff. With MFIs that offer group-based services, these clients are usually group leaders. Consultative groups must be developed carefully and persistently, but they eventually yield important insights and information. Some MFIs also use this approach with their frontline staff and hold quarterly “frontline staff consultative groups.” These groups provide a longitudinal overview of the MFI’s operations and how they are perceived by its clients. In addition, the ongoing discussions over time allow the development of excellent rapport and trust, enabling the MFI to examine sensitive issues with greater ease.

Competition analysis: Competition analysis provide an at-a-glance view of formal- and informal-sector competition that the MFI faces in the market. This allows the MFI to assess the relative strengths and weaknesses of its products and to develop and refine strategies for marketing them. Checking the competition analysis with clients and potential clients is important because how potential clients perceive products can differ significantly from the actual terms of these products.

To develop the product concept, the team should define eight aspects of the product – the “eight P’s”:

- **Product design**: the product features such as the opening and minimum balances, amount that can be deposited, when and how often withdrawals can be made and whether notice is required or other conditions apply, and how frequently interest is paid.
- **Price**: the interest rate paid for different size of accounts; the frequency and basis for calculating interest; and withdrawal, statement, and ledger fees.
- **Place**: the distribution or delivery system by which the product is made available where and when it is wanted. Options include branches, sub-offices, mobile bankers, lockboxes, working with informal-sector providers, and delivering through or by groups.
- **Positioning**: how the MFI defines its distinct competitive position in the mind of the target customer. Distinguishing features might be low transaction costs, high interest rates, flexible deposits, quick access in case of emergencies, security of deposits, or professional services. Positioning refers to how potential clients perceive the product and the institution relative to its competition.
- **Physical appearance**: the presentation of the product, such as how the branch looks, whether it is tidy and newly painted or decaying, and the appearance of brochures, posters, and passbooks.

- **People**: how the clients are treated by the people involved with delivering the product – in other words, the staff of the MFI. It also includes recruitment, internal communications, performance monitoring, and training. To get the best performance from staff, MFIs need to recruit the right staff and then invest in training on customer service, products, the MFIs' processes and procedures.

- **Process**: how the transaction is processed and documented, including the wait involved and the forms to be filled.

A product Competition Analysis Framework is provided below, detaining the **core product** (benefit the product is providing), the **actual product** (design features, terms, interest rate, eligibility requirement, etc) and **augmented product** (how, where products are communicated, delivered, etc).

<table>
<thead>
<tr>
<th>Box 1</th>
<th>Product Competition Analysis Framework</th>
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<tr>
<td>Item</td>
<td>Definition</td>
</tr>
<tr>
<td>Core Product</td>
<td>The reason why the customer pays money – a benefit the product is providing (e.g financial returns, security) or the need it fulfills (e.g liquidity, livelihood)</td>
</tr>
<tr>
<td>Actual Product</td>
<td>The specific features that characterize what the customer is buying, including the product design (terms, interest rates, eligibility requirements) and package (length and clarity of the application, colour of the passbook). ... For a passbook savings product, this would include the interest rate, minimum balance requirements, withdrawal fees, account opening form and passbook design. ... These are three of the “Eight P’s – Product design, Price, and Physical appearances”</td>
</tr>
<tr>
<td>Augmented Product</td>
<td>How the customer receives (understand?) the product – the way it is delivered and serviced (turn-around time, hours of operation, waiting-room facilities, and customer service in terms of friendliness, accessibility, staff knowledge). These are six of the “Eight P’s – Promotion, Place, Positioning, Physical appearance, People, Process”</td>
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An interesting product redesign based on a closer understanding of the real needs and interests of low income clients and potential clients in a quite conservative society of Morocco is presented in the following Box.

### Box 2

**Market-based Product Development**

Case Study (Morocco)

Reflections from **Ismail Douiri** (director general at Attijariwafa bank in Morocco).

In 2008, when my company, Attijariwafa Bank, the largest financial institution in Morocco, looked to address one of the most underserved areas in retail banking in the country – that of providing financial services for low-income customers – we never expected it would be the *monthly bank statement* that would put people off signing up for their first account.

Most people without bank accounts were looking for solutions to save money, not to borrow. Families were looking for health insurance and savings products to pay for their children’s education. They also explained why, despite living near several bank branches, they hadn’t walked into one before: they were turned off by their fancy appearance, and thought they were not for “people like them”. Marble, glass, modern furniture and lighting, bright colours, computers on all desks, anonymous advisers and tellers who weren’t from their neighbourhood and abided by a strict business dress code, seemed very intimidating. Those who knew more about banking services said that the fees were too high, despite our basic banking fees being below £1 per month, including free check books.

These were all concerns we could have foreseen. What we didn’t expect was for our prospective new customers to say what they valued most was **privacy** and **confidentiality**. Wives wanted to hide their savings away from their husbands, otherwise they might be tempted to spend them unwisely. Households did not want their neighbours to know that they had a bank account, otherwise they may try to borrow money from them. They wanted no change to their way of life, just the comfort of knowing that their savings were stored properly and available upon request in a simple and convenient way. They didn’t want the bank account to make them feel different from other people in their communities. In the traditional Moroccan way of life, displaying wealth has always been frowned upon. In the old medinas, even the most beautiful riads, traditional houses with open rooms organised around internal courtyards still have anonymous, often unpainted external walls.

Many popular Moroccan proverbs associate fancy appearance with suspicious or malicious intentions. One of the five pillars of Islam is Zakat, which dictates that a share of personal income and assets be given to the poor, preferably family and neighbours, with a strong recommendation to keep the donation confidential out of respect for the dignity of the receiving party. Belonging to a community and having an established social position was not so much about the assets that one owned, but, among other things, how these assets were used for the good of the community. Put in context, the reaction of many of our prospective new customers was perhaps only another expression of these old traditions and the relationship to money these traditions implied. So, when presented with the product that Attijariwafa bank was thinking of offering them, people liked most of its features but unanimously rejected one: the bank statement.

This piece of paper would arrive monthly at a house, where often many families would live. It may get lost on its way because informal housing has made some postal addresses unreliable. And the idea that someone else may read this slip of paper with details of their financial assets was a horrifying concept to anyone concerned about keeping their finances private. For us, sending out bank statements was also cumbersome and expensive, but unfortunately, it was also mandatory. But we were able to make a case for exempting this feature, on the condition that a statement could be printed at no charge at any branch or ATM. Our bank account for low-income customers was launched in 2009, with feedback from customers also shaping how we set it up and our distribution method. When we first considered reaching low-income customers, 9 million people in Morocco didn’t have a bank account. Six years on, we’re now catering for them. I think we’re the bank that most adapted to the needs of the unbanked population.


**Some potential saving products**
As discussed earlier, the key gap for most MFIs in terms of successfully mobilizing voluntary saving is effective marketing of already existing saving products, especially Passbook savings, which, if appropriately communicated, can be taken-up by potential clients as they can potentially satisfy most of the demand among the majority poor. However, the field research also clearly indicated that there are also real opportunities to design more demand-based products to different target groups.

_Piggy Banks_

The fact that rural villages are in a very scattered areas, and often very far from offices, meant that poor people often have difficulty frequently coming to offices and put small amounts of money in savings accounts. Even for those who can come to offices, it was clear that they often feel ashamed of coming with only small amounts. Interestingly, in an attempt to respond to the needs of the very poor who might not have huge liquidity to save at a time, some MFIs have revised their minimum balance saving policy to as low as Br 1. However, it has become increasingly clear that this revised policy could not remove the other challenges for the potential depositor: that of having to travel to and from branch offices, not to mention the feeling of intimidation of the potential depositor who may come with as low balances as just Br. 1. .. The idea behind Piggy Bank product is that any individual can buy the Piggy Bank, a small (locked) box, keep it at home, and put whatever small amount of money, even cents, any time. Such a secure storage technology can enable individuals to avoid carrying loose cash on their person and thus allow people to keep some physical distance between themselves and their money. This may make it easier to resist “temptations”. At any time, clients can come with their boxes to offices (where keys are kept) and unlock, to take money out of it. These devices provide a very good opportunity for the poor to keep aside whatever small amount of money with in their home before it is spent on trivial activities. (_ACSI Case is presented below_).
ACSI - Saving Product Development
(by Getahn Gobei, contribution to the training programme, ILO – Making Microfinance Work, Addis Ababa)

April 25, 2010

The Amhara Credit and Savings Institution works in an environment where the infrastructural set up is extremely poor. ACSI started operation in 1995/6, and currently it is serving over 700,000 credit clients as well as well over 300,000 ‘voluntary’ saving clients. Given the geography, the scattered living style of the population and the poor physical infrastructure, particularly the road-network, operations in the region, especially in rural areas, is very problematic. Microfinancing activities as undertaken by institutions like ACSI are such that one needs to not only identify and disburse loans to the right client in isolated remote areas, but also ensure full repayment through daily monitoring and follow up of each client, with very low loan sizes. Very small savings (as small as $1 or even less per transaction) have to be encouraged and mobilized from these same poor people. Live cash has to be transported in a situation where the security is problematic.

Saving is a very valuable service to poor people who are vulnerable to various shocks throughout their life, and to meet life-cycle needs and some investment opportunities. Indeed, in the absence of conventional insurance schemes, voluntary savings serve as ‘self-insurance’. Poor women can have their own savings pass book which they can manage independently. The policy of ‘unlimited withdrawal’ is one of the most liked aspect of savings. Cognizant of this fact ACSI has been providing saving services along side credit. About 50-60% of credit portfolio is financed from local saving mobilization.

However, though ACSI has been expanding financial services to these people, including in remote rural areas, it cannot meet all kinds of demands from existing as well as potential clients. Indeed, the fact that rural villages are in a very scattered areas, and often very far from offices, meant that poor people often have difficulty frequently coming to offices and put small amounts of money in savings. Even for those who can come to offices, it was clear that they often feel ashamed of coming with only small amounts.

This information has been coming in from the field both from staff as well as from occasional field research managed by the Head office of ACSI. Cognizant of these facts, the concept of a Piggy Bank model has been designed by the Planning and Research department, and presented to Management which very much welcome the idea. The idea behind the new product is that any individual can buy the Piggy Bank, a small (locked) box, keep it at home, and put whatever small amount of money, even cents, any time. At any time, clients can come with their boxes to offices (where keys are kept) and unlock, to take money out of it, or to formally save at the institution. Indeed, the additional incentive for the poor to bring their boxes to the institution and formally save is that in their home their savings cannot generate interest; and this aspect has been actively communicated.

A small scale interview of sample clients and potential clients as well as branch staff has confirmed that there is a real demand. Sample boxes have therefore been produced for sample testing at some Sub branches. With positive feedback received from these pilot tests, it has been further developed and adapted to local areas, and distributed at a cost. Major improvements has been on the quality of the metal it is made of, and the size of the box. In some areas, smaller size is preferred, while in other areas larger size is preferred. The name of the box has to be adapted to local situation, and therefore has been re-named ‘Muday-Bank’. ‘Muday’ is a small apparatus (a small box) produced by women from local materials (normally grass), for keeping money and other valuables (including gold, etc). Branch and Sub branch staff has been trained on this new initiative, how it works and the potential impact on institutional saving, as well as how they can market the product in their areas of operation.

This is the most liked initiative for clients, particularly women, who have difficulty travelling from remote rural villages to offices frequently. The institutional saving collection is growing steadily due to this very convenient modality. With less than one year, more than 2,500 boxes have been sold. Active marketing and promotional activities, particularly in rural and geographically difficult areas, is expected to enhance the demand for boxes even more. More boxes are being produced and distributed to branch offices. In three years time institutional volume of ‘voluntary saving’ is expected to increase at least by 50%.

~ ~ ~

Time Management Strategies

Page 1 of 1

Box 3
Commitment Saving

Adjusting saving mobilization efforts with seasonality of income of clients (e.g., farmers, whose income is dependent on nature) is being adopted in many contexts as a very effective mechanism to support rural livelihoods. The study by Wolday and Tekie (2014) suggests that savings and cash flows of rural households in Ethiopia are relatively higher between November and February, which is consistent with the harvesting season of rain-fed agricultural products. Tailored saving products could provide greatest services to potential clients. A striking example was found in a study of fertilizer adoption in western Kenya. The biggest difficulty farmers adopting new technologies faced was not in 'understanding' the methods and their benefits, but in timing savings in order to purchase the fertilizer when they needed it. When financial tools were provided that solved this problem – cash proceeds collected from farmers at ‘time of crop sale’ and put in a commitment savings account at a local bank -- fertilizer use and production increased. Likewise, Opportunity International Bank in Malawi offers tobacco farmers commitment savings accounts to set aside profits from one harvest to fund the inputs (primarily fertilizer) for the next planting season, which boosted production (Christen and Anderson, 2013).

This was made possible by getting the fundamentals right – by making it easier for poor people to get a “grip on time and money” and supporting them in their effort for better attention and self-control, so that income earned in the past and income anticipated in the future can be tapped in the amounts required at the time most needed (Collins, et al 2009, Rutherford, 1999). In agricultural households in particular, commitment savings products can be used to set aside end-of-season profits to pay for the next season’s input expenses. Such restricted savings products allow farmers to use their own money to finance planting costs, thereby avoiding the interest expense and financial burden of a loan, as well as the transaction costs of engaging with financial service providers, input suppliers, and/or loan officers. Commitment savings accounts are also easy for clients to understand, and they present a secure form of savings that cannot spoil, perish, or be stolen, unlike crops and livestock, and that is not vulnerable to demands from family (including spouses) and friends (Christen and Anderson, 2013, p. 20).

An experiment in the Philippines on commitment saving suggests a positive change on clients’ saving behaviour (Ashraf, et al, 2006). The saving product was intended for individuals who want to commit now to restrict access to their savings for a certain specified period of time. After twelve months, average savings balance increased by 81 percentage points for those clients for whom the product was offered relative to other groups who didn’t have such an opportunity. Key goals for such a savings are Christmas/birthday/celebration/graduation (47% of sample), education (20% of sample), etc. Moreover, 69% of clients set date-based goals, while 30.7% set amount-based goals. Details of clients’ specific savings goal is provided on Annex IV.

Door-to-door collectors

Some potential products include those that can help households manage money on a day-to-day basis. The WEDP study team learned that Susu-type informal saving collectors are popular in big market areas like Merkato in Addis Ababa, as well as in big market areas in other parts of the country which could be effectively introduced in the microfinance operations. Known in Ghana...
and other western African countries as ‘Susu collectors’, these business people are providing a saving service highly demanded by clientsxx. They move around business premises or houses of their clients to collect a fixed, pre-determined amount of money every day throughout the month. At the end of the month (or a month and half) the collector give the accumulated sum -- less one day’s collection -- back to the saver. There is no interest on saving. In effect, the collector charges the client a service fee (the one day collection), which can translate into a 3% fee, or negative interest rate of 7% (CGAP, 2006 b). There is a big demand for the service by clients mainly because they do not spend time for saving, and because it allows them to put aside money earned every day before they spend it on some trivial expendituresxxi. Some microfinance institutions, including those supported by Action Aid, are trying to mimic this experience into their mainstream microfinance saving operations. AdCSI in Ethiopia also manage the product, deploying its field staff every Friday to collect savings from clients. Busa Gonofa is another example in Ethiopia piloting the product (see Buusa Gonofa, 2016). Such efforts, however, are simple extension of existing Pass Book savings product, with no serious consideration on the business case of the service.

**Box 4**

**Using Doorstep Delivery of Savings Services**

Some of the biggest obstacles to low-income populations’ ability to save money in formal accounts is distance from branches, irregular income, and lack of incentives to save formally. To address some of these challenges, many financial institutions worldwide deliver financial services right at customers’ doorsteps, either through employees or agents. In doing so, financial service providers bring savings services closer to the client, and can also embed basic financial education into the doorstep service, encourage customers to save regularly, and overcome language and cultural barriers through careful assignment of staff or agents to different customer communities.

An experiment conducted in rural Sri Lanka showed that door-to-door collection services not only increased customers’ average savings deposits, but also their household income; after being offered a free, safe and user-friendly way to save without leaving home, individuals increased their working hours and consequently increased their income.

Doorstep delivery of savings services is most common in West Africa. In Ghana, for example, many banks and informal service providers offer this service through individual “susu” collectors, who collect daily savings from customers at their doorstep. Traditional “susu” collectors generally return the accumulated amount at the end of the month, minus a deposit fee, whereas financial institutions allow customers to accumulate larger balances. In 2012, CGAP estimated there were between 3,000 and 5,000 susu collectors in Ghana, serving over half a million customers. (MICROLEAD, 2017)

**Pension Saving**

Other important services like ‘long term savings’ and insurance needs of the poor are largely met through informal mechanisms, like Iddirs and other self-help local clubs. Indeed, the low and uncertain cash flow of low income households make immediacy the default criteria to decide which needs are addressed and which are postponed. The families generally end up grappling with the most immediate needs and the long term needs are postponed. And of the long term needs, expenses related to old age are given lowest priority. There are two main reasons for that. The first is the lack of immediacy itself, old age related needs being the most distant and least prominent. Even when families manage to build some resources for their longer term needs, the higher priority needs such as acquisition of assets and marriage overtake the needs related to old age (Piggot, et al, 2013). Additional informal mechanism to insure the long term future is having as many children as possible, and to live with childrenxxii. But increasing research also evidenced that in many cultures, given the cultural shift away from joint family structures, many do not feel
that they could depend on their children for care, and individuals are generally receptive to the idea of savings in old age schemes.

As part of a qualitative research approach in its recent assessment on saving in old age schemes in India, MicroSave employed an innovative tool to stimulate discussion with participants. Pictures were given to help understand people’s expectations of old age living. Respondents were asked to describe how they imagined their old age, and whether they could describe the lifestyle of any older people who they looked up to. (See Piggot, et al 2013). Many programmes are taking advantage of this market opportunity. For example, a new pilot savings scheme, youSave being trialed by the Solomon Islands National Provident Fund (NPF) through technical support and a small grant from the Pacific Financial Inclusion Programme (PFIP), focused on providing retirement savings plans for self-employed Solomon Islanders. Market Vendors were the first registrants. Yet, for the vast majority of lower income people in developing countries, especially those in the informal sector, pensions are not available or insufficient to meet the needs of target people.

Saving products that are now most popular in other developing countries like Bangladesh, especially ‘pension savings’, are on pilot stage in some big and government supported microfinance institutions in Ethiopia. Unfortunately, it was realized during the WEDP field assessment at branches that very little is being done to promote them at local branches, and as a result they are attracting very few clients. In many of the branches of the microfinance institution that is piloting such scheme, potential clients have not heard of the existence of such products. The following Box highlights the experience of similar schemes in other contexts.

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<td><strong>Long-term Savings and Micro pensions</strong></td>
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Pensions are generally understood as a regular flow of receipts from retirement to death. They became common in the rich world as industrialization advanced and formal employment replaced casual or self-employment as the main source of income for most people. But in many developing countries, formal employment is not the norm. Most poor villagers and slum dwellers patch their livelihoods together from a mix of self-employment, casual employment, or low-grade formal employment. To them, the idea of “retirement” is foreign. The question they raise about their old age is “what happens when I can no longer support myself?” A poor rural resident was asked about his long term plans. “... You ask us ‘what do we do when we are too old to work? I’ll tell you what the answer is -- we pray to die. Quarrymen like us have no savings or pension schemes’.

**Grameen Bank’s Pension Product:** Of all the novelties of Grameen II, the new collection of products that have replaced the classic version of Grameen in all its branches -- the new savings products -- are among the most popular. Members like the new weekly savings, which accepts voluntary in addition to compulsory deposits and allows almost unlimited withdrawals on demand. But pride of place goes to “Grameen Pension Savings”, a contractual savings scheme with monthly deposits and a five-year or ten-year term.

Grameen’s pension scheme requires all borrowers with loans greater than US$130 to contribute US$0.80 monthly. For a ten-year term Grameen pays interest at 12 percent a year so that deposits almost double by the end of the term. At the end of the term savers will be able to take the accumulated deposits and interest as a lump sum or as monthly income. The savings scheme is so attractive that many borrowers save multiples of the required minimum monthly or open more than one account. They are also popular among members with a loan of less than US$130. Indeed, some clients see payments into the scheme as a better use of available resources than paying down Grameen loans, and many remark: “Grameen should have done this years ago.” In the first thirty-two months, Grameen mobilized pension deposits totalling US$37.2 million.

These products are even more popular for women. In Bangladesh, wives are customarily younger than their husbands, and women tend to live longer than men. Women must anticipate a long widowhood, a cause of much anxiety. They hope that their children (especially their sons) will care for them, but are often not confident in such an outcome. If they could save up some money for old age, even sums as low as US$300, or accumulate assets such as land, their widowhood could be more dignified.

Wisdom Consult PLC
Over the last few decades, behavioral economists have used insights from psychology and economics to understand what prevents people from saving, and have found that psychological obstacles prevent us from making choices that will benefit us in the long run (Beshears, et al, 2016). In other words, contrary to conventional economic thought, our choices are not always reasoned-out. One problem is that we tend to prioritize our current desires over our long-term goals. Another problem is that we get caught up in our busy lives and fail to take action on issues that do not require immediate attention, such as preparing for a retirement many years in the future. Small hassles -- like filling out a form -- can prevent us from doing important things, like signing up for an investment account. One way is to take advantage of people’s tendency towards inaction by making saving “automatic.” Research has shown, for example, that automatically enrolling employees in retirement plans and setting the default contribution rate above zero -- typically at 2-6% -- increases people’s retirement savings.

**EXERCISE**

Discussion (All Participants)

(1 hour 30 minute)

*What are the new saving products introduced by your MFI (advantages to the poor)?*

*What are the potential benefits of the following modalities:*

- Daily collectors Schemes
- Muday Bank (~ Piggy Bank)
- Commitment saving
- Pension savings
  etc

## III – MARKETING, COMMUNICATING

### The Need for Marketing

Most of the MFIs have developed variety of products, perhaps simply adopted from other institutions in other countries or from within the country, but nonetheless well intentioned to reach and benefit the target client. Yet, such products are often poorly communicated to staff, leave alone to potential clients. In some cases, products designed at Head Office are not even known at branch level. Only few, if any, are communicated to potential clients, but not in a way that can create real demand, or they are communicated to the ‘wrong’ clients. Not surprisingly, many of the partner institutions are known by potential clients for their loan services, and not as a licensed deposit taking financial institutions, or at least they are not trusted for such services. The recent study by Wolday and Tekie (2014, p. 102) revealed that senior managers of larger microfinance institutions indicated that their clients and potential clients prefer to save larger cash savings in commercial banks, even if the bank’s branch is relatively far from their homestead or village. They were puzzled why some households prefer to take loans from MFIs and save in banks.

Most staff at operation have, for long, been dealing (only) with micro-credit clients, who normally face shortage of liquidity to run their business (and actually most of the promotion for ‘voluntary’ saving have been conducted to these same people who, fortunately to the staff, regularly -- weekly or monthly -- come to MFI office to do transactions on loan!!)xxvi (See also Zegeye, et al, 2012, p. 118). Not surprising that such staff tend to believe that the target poor only have demand for small loan. In reality, however, such *entrepreneurs* (who, unfortunately, constitute only a very small
portion of the population in many communities\textsuperscript{xxvii}) are quite a different category of people (in term of their desire to doing business with the MFI or bank) from potential clients who can demand (voluntary) saving services (\textit{net savers}). The latter do not have immediate demand for additional liquidity or debt\textsuperscript{xxviii}, but rather they want someone to take care of their hard earned money. These category of people, who are said to constitute the large majority (perhaps 90-95\%) in many communities demand different level of promotion and persuasion (as well as suitable products) for them to be able to build trust toward the institution, and staff who can appreciate and understand their local reality, culture, and easily communicate with them.

Institutions with the right kind of products, services and staff are really lacking. The WEDP team asked frontline staff to demonstrate their Voluntary Savings promotion through \textit{role plays}. During these role-plays, the team observed a number of issues. For the most part (≥ 80\% of the time), staff promotion focused on “\textit{teaching} the benefits of saving, interest rates, eventual access to loans, etc. Indeed, even stronger emphasis seem to be placed during such marketing efforts on the \textit{interest rate} on saving which, as increasing research outcomes demonstrated, makes little sense especially to low income households compared to other valuable qualities of the services (see also FinMark Trust, 2013, p. 56). As the recent study of the Global Banking Alliance for Women (GBAW, 2016) revealed especially for women, although the interest rate seems like the most important factor when it comes to choosing banks, it’s actually \textit{communication with bankers} that impacts the whole process. It was the sense of trust and sincerity provided by relationship managers that affected how they made their decisions on choosing banks.

It was clear from WEDP qualitative research that microfinance institutions’ \textit{clients are aware} of how important and useful savings can be. Clients repeatedly explained why they wanted to save, why having savings (both informal and formal) is important, and what they would use savings for in the future – manipulating small and irregular or unreliable incomes to ensure that cash is available when needed, so that there is \textit{food on the table} every day, small but unpredictable \textit{just-in-time needs} like a visit to the doctor are met, and low-value but recurrent outlays, say for school fees or books, can be provided for (see also Rutherford, 1999, Fiorillo, et al, 2014, Mas, 2015). Only that \textit{they cannot save as much as they would like}, or build-up \textit{asset for long term security}, for lack of appropriate options. Poor families thus often have to “stretch” small budgets to cover basic necessities and unexpected emergencies. Several initiatives, however, have targeted increasing ‘knowledge’ of and improving ‘attitudes’ towards savings\textsuperscript{xxix}. These efforts may be important among communities to help them attain higher level household targets, and especially for broader and long term development objectives\textsuperscript{xxx}. However, when working with populations that already have a general understanding and acceptance of the importance of savings (at least to meet basic household needs and emergencies), it is important to emphasize on availing suitable products and services, and closing the \textit{intention-action gap} by helping clients take specific actions towards savings goals.

Indeed, winning the ‘trust’ of poor clients, convincing them to put their hard-earned money into the custody of (formal) institutions is a sensitive issue (see also Reed, 2015, p 48). In most of the role plays conducted by WEDP (see Starrow, et al, 2014), front-line staff struggled to communicate clear, simple and compelling \textit{articulated message} to potential clients to build such institutional trust, and whatever message that was communicated, there were significant inconsistencies from staff to staff, or from branch to branch, including inability to adequately respond to potential client questions in the field, sometimes creating confusions on target groups. As microfinance experience from the past couple of decades demonstrated, when clients, especially rural clients, are offered savings services, they first save small amounts and soon withdraw almost all of it. What were the clients doing? Testing the system! \textit{Does it work? Eeehh, Is it true?} People like to go to the banks to verify that their money is in the account. A recent
MicroSave study highlighted that people like money-back features because they prove that the scheme is working (Pigott, et al, 2013). If they see it works, then confidence in the institution’s stability grows, and they start saving little by little into their accounts. Service providers need, above all, to demonstrate or prove that they can provide this service.

Often ignored by microfinance practitioners was the issue of convincing potential clients why they should save with the MFI, demonstrating their competitive advantage in relation to other informal and formal savings mechanisms, offering clients a more attractive value proposition. Since the MFIs are operating under increasing competition, for them to be able to do this, they not only need to meet the dynamic needs of the clients, especially the poor, but also they need to excel their competitors. Competitors can be other microfinance institutions, but also conventional banks, saving and credit cooperatives, as well as other informal service providers. It was realised that most of the participant staff didn’t actually bother to know how their peers are operating. In some cases staff believe that conventional banks generally are better in every aspect than microfinance institutions. In many FGDs, however, existing as well as potential savers have emphasised some great values specific to microfinance institutions, including that they do not feel intimidated coming to microfinance institution offices (even with small saving instalments) as compared to going to conventional bank branches. In one of the FGDs the WEDP Team conducted, one participant, a high school graduate who is running a small electronics shop, shared why he prefers the MFI to banks (which are also nearby):

“If I want to save just Birr 100 from my daily sale, I don’t want to go line up at banks with other high level business people who may be transacting with Birr 100,000 or even more. I will be ashamed to see the teller with my small amount. This is not a problem at the MFI.”

Indeed, microfinance institutions’ staff attitudes and behaviour towards the poor and marginalized should be one of the key competitive advantages, especially compared to conventional banks. In FGDs, clients mentioned this repeatedly. The perception of the value proposition of banks as a more safe place to store money notwithstanding, clients, especially the poor, are less intimidated entering microfinance offices and said they can easily relate to staff who do not dress luxuriously (MicroSave, 2010) (see also the Morocco Case Study). Perhaps another competitive advantage of MFIs that can be compelling to members of the community and local groups is their valuable social objective -- local money saved with MFIs tend to be lent out in the local community, which specifically target poor people including women, and this is often not the case with saving at commercial banks. This key objective can help particularly to attract better off people, who share this valuable objective.

The WEDP research team (see Storrow, et al 2014) learned that most rural clients not only save at individual/household level, but also join local community groups as informal insurance mechanism, especially for funeral. Iddir appears to have an important place as informal insurance for clients. Indeed, many clients participate in multiple Iddirs (e.g. the husband joins three or
more *Iddirs* at the same time, contributing about Br. 10 - 30 a month, and the wife joins another four or more (*Women*) *Iddirs*, maximizing collection at difficult moments, especially death) (see also James, 2015). Perhaps women are more active at building such **horizontal networks** (Zollmann and Sanford, 2016). At one focus group discussion, the WEDP study team learned that a family was a member to 12 different *Iddirs*. Such lump-sum money is managed by the *Iddir* leadership -- either saved at home or in commercial banks (especially Commercial Bank of Ethiopia). The microfinance institutions can benefit for their liquidity through linkages with existing informal insurance mechanisms. Many are also member to other self help groups such as VSLAs, RoSCAs, etc.

Global industry experience strongly suggest that financial service providers with a social mission and a patient investment outlook will find linking savings groups to be a win-win for savings group members and the financial service providers. MICROLEAD (2017) highlighting the research by CARE indicated that today, the potential amount of annual savings generated by the two billion people who are still unbanked is estimated to be USD 116 billion. For financial service providers, savings groups are an opportunity to reach a vast untapped market. As savings group members are familiar with savings and credits products, they may also be more likely to use their savings accounts on a regular basis. Leveraging existing savings groups to deliver formal financial services is also an attractive customer acquisition strategy, where the financial service provider can sign up a large group of customers in a single visit.

However, most microfinance institutions have no real strategy for linking with informal groups like *Iddir*, other Self Help Groups, etc. Often resources at such groups remain idle, unutilized by members, and thus earning no interest income. There is no serious effort to convince group members to bank their savings with institutions. Often the groups believe withdrawal from microfinance institutions would be more complicated than from the long-established commercial banks. Most importantly, the *Iddir* leadership is often unwilling to bring *Iddir* money to microfinance institutions because, it was learnt, that they often use it for informal lending (at high interest rates, equivalent to individual lenders', rate) for their own individual benefit. In fact, some participants in the focus group discussion also mentioned that these local leaders are not happy to see people coming to microfinance institutions for loans and saving, because they view the latter as potential competitors in the local loan market. This principal-agent problem is commonly manifested in many self-help groups especially where members are less well educated (Johnson et al, 2005).

Indeed, if microfinance institutions are to link up and access liquidity at these community groups, frontline staff need to help clients to effectively negotiate with the leadership and maintain control of their savings in these informal mechanisms. That is, in addition to ‘persuasion of such groups about the legality of the institution, suitability of saving products’ features, etc., it require to work on strategies on issues of ‘elite capture’ which such groups (especially those in rural areas) suffer from. The best way to achieve this is to ask for a promotional meeting with the entire *Iddir* membership, including the leaders. However, if microfinance institutions decide to promote to *Iddirs*, they must also be flexible on their office opening hours and product features in order to create true access for *Iddir* money. Branch managers at some MFIs have been so innovative in their operational modalities, to accommodate local needs; specifically, they make their office opening hours flexible enough, agreeing with local *Iddir* leadership to offer withdrawal services whenever needed, including on Saturdays and Sundays -- they just need a phone call!

The starting point of the linkage strategy should, of course, be mapping of potential saving sources, including community groups (e.g. *Iddirs*) available in each area which mobilize resources aimed at catering for household emergencies. Indeed, during the WEDP field assessment it was
really hard to get exact, or even approximate figures about these groups in many localities, their whereabouts and where members meet, etc. It was apparent from several discussions with many branches staffs of the MFIs that mapping potential resources has not constituted an important part of their operational planning and local level intervention strategies and, as a result, a big part of such resources remain invisible to financial service providers. Other potential marketing forums where local community gathers include churches, mosques, schools (which are fairly better known), as well as forums occasionally created by government, non-government organizations for disseminating information about different issues (including new agricultural information, health, women rights, etc.) which have not been approached especially by NGO-based and private microfinance institutions, mainly because they are (wrongly) assumed to be forums allowed only to state-owned microfinance institutions (A List of Potential Marketing Forums is given on ANNEX V).

Promotion Tools

Financial institutions believe that because they have been in a market for years, their brands are recognised and well positioned. However, often rural people associate particular microfinance institutions solely with loans. Indeed, significant level of marketing is needed on saving. The Ethiopian National Financial Inclusion Strategy (NBE, 2017) acknowledged that lack or inadequacy of information about the different types of financial products available and the benefits of using regulated financial institutions is a cause for financial exclusion in Ethiopia.

An MFI has five tools with which it can promote itself and its products: personal sales, advertising, words of mouth, sales promotions, and public relations. These tools reinforce one another, particularly when their messages are well coordinated. Together with the MFI’s target-market objectives and messages, the tools form the basis of the MFI’s promotional plan.

1) Personal Sales

Personal sales means a personal communication of information to persuade somebody to buy something. Personal sales tends to work best when it informs potential customers of the product at the same time it gives them an immediate opportunity to open an account. Because personal sales usually takes place face to face, it can be one of the most effective ways to promote a product and to build a customer relationship. Personal sales can be undertaken in a variety of ways:

- **When staff interact with potential clients for other reasons:** Staff can promote products and open accounts when they conduct field research about where to locate new branch, open the branch, or interact with borrowers about loans.
- **Through door-to-door canvassing:** Particularly in new markets where saving in cash is unusual, field agents may initially need to solicit clients during informal visits to their homes or work places. Staff might engage in a “sales walk,” soliciting new customers along the way.
- **By going where groups already are:** Many MFIs recruit large numbers of clients at a time by introducing them to products in places where they congregate. For example, the Burkinable MFI Sonapost holds an annual sales campaign during which its staff members visit water plants schools, health clinics, flour mills, agricultural cooperatives, and government agencies. During the campaign staff open accounts on the spot. MFIs also promote services at army barracks, police stations, temples, markets, and community gatherings.
• **By bringing groups together during promotional campaigns:** MFIs may call a community gathering specifically to promote their services. To promote its new contractual product, BURO, Tangali conducted a weeklong Saving for Future campaign. It organised large meetings, small meetings, and rallies with songs, clapping, and speeches in which new members declared that they had signed up. It expected to recruit eight thousand new clients; fourteen thousand signed up.

• **By approaching better-off individuals and institutions:** To bring in large depositors, MFI staff often identify better-off individuals and institutions, particularly those who employ large number of potential customers to approach on an individual bases. BRI's training teaches staff to identify promising potential clients (see Box -- ).

• **When others interact with clients:** Some MFIs use government bureaucrats or community leaders with great success to promote new products during anything from community meetings to census surveys. Because potential clients may perceive these people as **disinterested third parties**, potential clients may thrust them more than the MFI’s sales force. In some places, however, promotion by someone associated with the government might taint the product in the eyes of potential customers. This method has two disadvantages: accounts cannot be opened on the spot, and the MFI cannot control how the product is described.

• **When clients interact with potential clients:** For many MFIs, **words of mouth** may be the more far-reaching, inexpensive, and effective form of promotion. As with the previous method, however, accounts cannot be opened on the spot, and promotion leaves the MFI with even less control over how the product is described.

Face-to-face communication can do more harm than good if the potential client leaves with negative impression. Most MFIs rely on their existing field staff to be their sales force. If staff members are unclear, unfriendly, or simply off-putting, personal sales can turn potential customers away as quickly as positive interaction can attract them. … Comprehensive, articulated **marketing materials** need to be designed, with **clear, simple and compelling messages** (can be a 1-pager) so staff can confidently adapt their marketing message. These can include a list of **Frequently Asked Questions (FAQs)** so staff can answer typical questions raised by potential clients in the field. In fact, such marketing materials can be tailored to **different market segments**: rural/urban, adults/youth, men/women, Christian/Muslims, illiterate/literate, etc. Similarly, promotional staff can differ per market segment. (A sample marketing material is given on ANNEX VI).

The marketing material can be further complemented by use of **Case Studies** of successful clients (sometimes such clients can also demonstrate as ‘role models’) to convince locals of the advantages of institutional saving…. However, developing a strong **product description** is not enough. MFIs must ensure that their field agents actually describe products in clear, simple, and compelling terms and appear inviting and friendly. Indeed, to help accomplish this, MFIs may **train and test staff** (e.g in a **Role Play**) on their product knowledge. Effective personal sales hinges on:

- Recruiting the right staff,
- Ensuring that they internalize the MFI’s vision and objectives,
- Training them adequately, and
- Providing appropriate incentives, supervision, and performance evaluation
Managers must also remember that every contact with actual and potential customers is important – as is every staff member who contacts them. When customers enter a branch, they do no immediately distinguish between tellers and loan officers; they expect all staff to be able to answer simple questions. In fact, a customer often encounters the security guard before any other staff person. In customer-focused banks, the security guard is able to direct customers to the appropriate officer and answer frequently asked questions.

Box 7
A Systematic Approach to Mobilizing Deposits: Personal Sales at BRI

To expand and deepen its outreach, the BRI unit system developed a book of case studies to use in training its staff – examples of mobilizing savings from a wide range of individuals, groups, private institutions, and government offices. They demonstrated different types of household savings to help staff understand how households save and how to explain the savings instruments in a way that would attract these clients. The cases also demonstrated how staff might locate depositors.

Each case highlighted specific lessons about mobilizing deposits. For example:

* Staff should listen carefully to what clients want instead of assuming that they already know. It is easy to assume the opposite of what a saver actually wants.

* Staff can pursue specific high-potential clients. For example, rural land sales can be the source of large deposits, and remittances can be captured as savings.

* Word-of-mouth advertising from satisfied clients is the best form of promotion.

* Deposits can be mobilized from a wide range of public and private institutions. Staff should identify institutions in their service areas, meet with their heads, and explain how the unit’s saving services could benefit them.

To ensure that the units applied the lessons of the cases methodically, BRI developed the Systematic Approach to Saving Mobilization. Staff were taught a system for identifying the hundred largest depositors in their service areas. First, staff were to visit government and village officials, head of local institutions and government offices, better-off residents, and other local leaders and contacts. From talking to these people, staff compiled lists of potential large savers. After the unit noted their locations on a large map, each staff member was assigned names and dates for visiting these potential clients. Staff were taught how to talk to these people, including how to explain the uses and advantages of each saving products. They were also taught how to record the visits and the next steps needed for each potential client. Through talking to potential clients, managers and staff learned about their market in general as well as about individuals.


2) Advertising

Advertising is impersonal mass communication designed and paid for by an MFI. It includes short spots on radio, placement in newspapers, billboards, leaflets and other brochures, posters distributed to clients or exhibited in the MFIs offices, banners displayed at branches, public events, sales campaigns, and announcements and songs broadcast in public places by loudspeakers. Advertising can be used to:

- Support personal sales,
- Inform customers about new products, product line, or brand names;
• Expand the use of products to new market; and
• Prevent substitution, motivating existing customers to stay with the MFI.

Vital to a market-led MFI, posters and brochures are the cheapest form of mass communication. They support personal interactions between the MFI and its clients, to communicate key product features and benefits, and to close sales. For example, every branch of Teba Bank displays a full range of product posters that are framed to highlight their significance and that meet strict colour and logo guidelines. They effectively communicate bank’s full range of products to customers and staff alike and thereby promote additional sales to existing customers.

Brochures and posters should be simple. Because posters have much greater longevity than brochures, they should be of higher quality. If all posters and brochures have the same theme, corporate colour, and logo, they help to communicate the institution’s brand. A good example of this is Western Union, whose black and yellow publicity materials are instantly recognizable worldwide.

Where services are delivered through branches, the branch is probably the most important venue for advertising to existing clients. Given its strategic importance, managers pay remarkable little attention to maximising its communication potential. A simple example is name tags. Requiring staff to wear name tags convey that the institution is transparent and accountable and encourages staff to provide excellent service. If staff do not have them – which is surprisingly common – customers will identify poor service as an institutional failing rather than an individual one.

Advertisements should be designed in the context of an advertising campaign, a coordinated advertisement programme intended to accomplish specific target goals for a product or brand. As with an overall promotional strategy, the first step in an advertising campaign is to define target markets, objectives, budgets, and themes clearly. The MFI then translates the themes into an advertising message and selects the media to convey it.

Advertisements are sales messages; their ultimate purpose is to sell something. An advertising message should do two things:

• **Attract and hold the attention of intended audience.** Techniques to gain attention include surprise, shock, amusement, and arousing curiosity.
• **Influence that audience in the desired way.** First, the message should express how the individual will benefit from the product (or other subject of the message). This is called **appeal** of the message, and it can be demonstrated in various ways such as data, the endorsement of a respected person, or the testimony of satisfied users. Second, these benefits need to be conveniently tied to features of the product; that is, the advertisement must persuade the audience that it will receive these benefits by using the product. This is called the **execution** of the message.

The message and media through which it is transmitted should be selected at the same time. When choosing a medium, the MFI should consider:

• **Advertising objectives:** The media should match the purpose of the advertisement. For example, if the objective is to increase general awareness, a radio spot might be the best choice. In contrast, if the objective is to create immediate awareness in rural town about
the arrival of a mobile savings unit, loudspeakers on top of the mobile unit vehicle may be the best medium.

- **Target market:** The market reached by the medium should match the geographic distribution of the product and socioeconomic profile of the target clientele. Moreover, the medium should reach the market with minimum of wasted coverage. This is the case if the number of people who are not targeted customers is limited. For example, for many less educated markets, the most effective advertising medium is the radio, rather than a newspaper. Many countries have an annual survey that details which media reach which socioeconomic group.

- **Message:** The medium should depend on the message. For example, if an MFI has a very brief message, perhaps six words, a billboard may be the best medium.

- **Time and location:** The medium should reach prospective customers when and where they are about to make their buying decision. For example, advertising for a saving plan targeting farmers should reach them before harvest time. Posters or brochures placed in the waiting areas of branches are an excellent medium for advertising available products to existing customers.

**How much is the right amount of advertising?** There is no uniform answer. Decision on advertising must be based on the market and the MFI’s position within it. While some MFIs spend considerable sums to advertise, others fear that too much advertising will give the impression that their institution is unstable or in dire need of new deposits. Some institutions advertise on a very limited budget. For example, BURO, Tngali, which operates in an extremely competitive market, keeps advertising costs low by limiting its advertising activities to passing out brochures, using public address systems in marketplaces, and erecting billboards at strategic locations. Still others promote themselves very successfully without advertising. Instead, they rely solely on word of mouth.

3) **Word of Mouth**

In the mass market, word of mouth – informal communication among clients and potential clients – is the single most significant drivers of sales in financial services. Potential clients often trust their neighbours and friends more than any other sources of information. In a large survey by the industry leader MicroSave in Uganda of 5000 people, words of mouth promotion was the determining factor in 58% of choosing a particular financial institution (Cracknell, 2012). Some institutions have used this tool creatively. For example, the Bangladeshi NGO ASA has grown massively without advertising. Instead, it relies in personal sales by its field staff, the quality of its services, and word of mouth. Similarly, Equity Bank of Kenya has experienced phenomenal growth based almost solely on being responsive to clients and the resulting word of mouth.

However, Institutions need to carefully identify such respected and recognised people among the community, considering their commitment to the achievement of MFI overall objectives, and get their collaboration. However, working with such people can only complement – not substitute – the staff effort. Indeed, if staff themselves are not able to articulate the message that need to be communicated to the potential clients, same would be delivered by those who are working with the institutions. Worse still, unless carefully selected, and very well oriented (and followed-up) they can also send wrong messages, and miss-inform the community.
MicroSave (2014) blog have highlighted an interesting story (on old-age Direct Benefit Transfer in India, under a Government to People, G2P scheme) on how poor, not-proper, and sometimes contradictory communication by the “last mile transaction points” (typically the cash in/out agents) led to mass confusion and apprehension amongst beneficiaries. Most of the beneficiaries have no idea of the actual date when they are supposed to receive the pension payment, often do not raise objections, queries or complaints, and simply accept the way they are treated, and believe this is the way it is supposed to be, for fear of losing what benefits they receive. The programme has opened an option for beneficiaries to open a bank account, and save their receipts partially or entirely. But, absence of proper communication has led to a lot of apprehension and myths in the minds of beneficiaries. Some beneficiaries used to withdraw all money from their account -- the logic given was that the government might take the money back on the basis that if they could leave money in their accounts, they are not poor enough to warrant benefits. On the other hand, others had to leave “some funds” in their accounts because these beneficiaries had been informed that if they did not keep funds, it would become inactive and thus they would no longer receive benefits. Indeed, a top down approach of communication adopted, with assumption that once the implementation was in progress, information would automatically reach beneficiaries, resulted in dissemination of contradictory messages to beneficiaries of the government transfer. (See MicroSave blog (2014): Communication – The Achilles Heel of Direct Benefit Transfers – Part I & II,

Word of mouth grows from being responsive to customers and is maintained by continuing to deliver services that customer value:

*Design and communication of services:* The best way to influence word of mouth is to deliver easy-to-understand services that clients want in the manner they want them and to communicate these services carefully. If these services are also backed up by Frequently asked Questions – prepared in responses to customers’ common questions – staff will be able to explain them easily to potential customers. Marketing team also must ensure that each staff member fully understands the benefits to customers of each financial services. To help accomplish this, they may train and test staff on their product knowledge.

*Service delivery:* Excellent service is critical to developing strong word of mouth. A customer-focused banking environment is carefully planned to provide a pleasant, effective, and efficient banking experience. A customer-focused branch often has significant front-line staff presence, including specialised customer service staff and sales staff.

*Completing the feedback loop:* Implementing a complete feedback loop – understanding customer needs, responding to these needs, and informing customers of positive change – is essential. Successful marketing teams use various tools to monitor continually the quality of their service delivery: management reviews of branches, branch statistics, mystery shopping, customer satisfaction surveys, focus groups, and suggestion boxes. An example of completing the loop is Equity Bank’s use of letters to customers advising them that Equity had listened to their concerns, how it was responding, and why some suggestions were not taken up.

*Corporate branding:* Branding is key to developing potential customers’ expectations that the MFI will provide high-quality, reliable, and professional services.

*Public relations:* Stimulating others to champion the institution creates powerful and trusted endorsements. For example, FINCA Tanzania employed a journalist as a marketing manager to help it gain positive publicity.
**Living up to promises:** Institutions should think very carefully about what they promise their customers. Consistently under-promising and over-delivering is far better than continually disappointing customers. For example, institutions should be careful about promising access to new technologies such as ATMs, which frequently take longer to introduce than anticipated. Failing to deliver on brand promises creates strong negative word of mouth.

4) **Sales Promotion**

From coupons to lotteries sales promotions may be used to:
- Create awareness about a new or improved product,
- Attract new customers,
- Encourage greater use of product by existing customers, or
- Combat a competitor’s promotional activities.

Some MFIs use sales promotion as an ongoing means to promote their products. In many environments regularly scheduled **lotteries with prizes** have proven highly successful at attracting new savers, motivating existing clients to increase the sizes of their accounts, and drawing clients closer to the institution. Typically, any saver with a minimum balance is eligible for a ticket and, for each multiple of this balance, receives additional ticket. Prizes can be awarded at a public event at which information on products and services is available. This tool is now popular among Ethiopian commercial banks.

5) **Public Relations**

Public-relations activities aim to build or maintain a favourable image of an organization and a favourable relationships with its customers, prospective customers, owners, employees, the local community, and the government. Good public relations can be achieved by **supporting charitable projects**, supplying volunteer labour or other sources, participating in community service events, sponsoring sport teams, funding events, producing an employee or customer newsletter, and disseminating information through exhibits and displays. Unlike most advertising and personal sales, public relations does not include a specific sales message. Nevertheless, positive exposure through the media or as a result of community involvement can produce a high return on the investment of time and resources. Two types of public relations deserve particular attention: publicity and sponsorship.

**Publicity** is relatively inexpensive and powerful form of public relations. Publicity is any communication about an organization, its products, or its policies through the media that is not paid for by the organization. It usually takes the form of a news story appearing in a mass medium. What distinguishes publicity from advertising is that a third party reports the information. This gives positive publicity much more credibility than advertising, in which the MFI reports positively about itself. Since publicity appears as objective editorial material or news, prospective customers are more likely to pay attention to it than they are to advertising, which they may ignore. Because a third party pays most of the costs, publicity costs the MFI less than advertising and may contain more detailed information. Another advantage is that preparing a news release is quick.

**Sponsorship** is a mixture of advertising and publicity. An MFI might sponsor a sporting event, concert, parade, or scholarship programme. The MFI should choose an event or programme that affects its target market and that transmits the image it seeks to project.

**The Marketing Message**
Whatever an MFI’s promotional tools and themes, its message should be clear, simple, and compelling. For example, products should have memorable and catchy names that nearly explain themselves, such as:

- **Multiple Fortune account.** BAAC’s passbook account that both yields interest and gives the depositor the chance to win attractive lottery prizes
- **Patriot Deposit.** FECECAM in Benin enables urban clients who want to contribute to the development of their region of origin to deposit funds that are then transferred and lent out in their region of choice.

This same criteria – clear, simple, and compelling – apply to how the terms of the product are described to the public and how the institution itself is promoted. For example, returns might be marketed as “double your money” in some number of years rather than citing an annual interest rate. A key step in defining a compelling message is to identify and apply a unique selling proposition or “difference that makes the difference.” In other words, what about the product or institution will sway potential customers to choose it over its competitors?

An institutional slogan or tag line can help the MFI convey its market niche, distinguish itself from its competitors, and reinforce the image it wants to project. For example, Centenary Rural Development Bank in Uganda bases all its advertising on the slogan, The Bank for All Ugandans. Researching the market before developing a message and organizing focus groups to test reaction to the proposed message – including photos and graphics – is critical to assure that the message is completely understood by potential customers and gets results expected.

The effectiveness of messages can be reinforced by visual images, in particular logos for the institution or its individual products. Giving each product a symbol that is always used in its advertising can help depositors remember and feel familiar with the product. An MFI will want to ensure that all of its images convey a consistent institutional image that is compelling to its markets. An institutional logo or slogan can help provide this consistency.

The message will also be conveyed – or undermined – by the look and feel of each branch – its layout, upkeep, and appearance, the attitude of its staff, and all of its customer information. Whether explicit and intentional or not, customer information sends a message to the customers. This is true of every single communication, not only brochures and posters but also price lists, signs, and notice boards. All information should be written in clear, concise language that clients can understand. Where the market is semi-literate, words should be complemented by graphics and photographs.

### Branchless Banking

Donors are now strongly encouraging branchless banking, which uses correspondents or agents (such as post offices, small shops and petrol stations) as an alternative and much cheaper distribution channel to a full bank branch network. Since expensive branch infrastructure is not required, financial service institutions and mobile phone operators can deliver services at a lower cost, bringing formal financial services within reach of those previously excluded (DFID, 2013).

Both NBS Bank in Malawi and UGAFODE in Uganda use mobile branches, based in traveling vans, to increase their outreach into remote areas, and to promote their savings products. Mobile
branches allow them to extend services to clients in areas that have neither branches nor agents, and at the same time, they often serve to develop markets for new branches. However, the cost of mobile branches is by no means low. UGAFODE’s “banks on wheels” play an important role in product promotion, but the channel involves large investments and high operational costs. This makes mobile branches difficult to develop as a profitable channel (MICROLEAD, 2017).

Mobile money, where money is sent using a mobile phone, is another form of branchless banking, although it is increasingly mobile phone companies (like M-PESA in Kenya) and not banks that are promoting the service. Following its launch in 2007, M-PESA, the mobile phone based money transfer service, has grown at astonishing rates. By July 2012, it had gained 12 million registered users in Kenya alone, corresponding to well over half the country’s adult population and three times the number of people with a bank account (DFID, 2013). M-PESA is not just about person-to-person payments. Safaricom also signed agreements with two supermarket chains whereby M-PESA can be used to pay for supermarket purchases. Indeed, most recent reports highlight that the increased preference to use mobile-based banking service has substantially reduced the need to use ATMs.

In the last decade, mobile money or “m-money,” has seen tremendous growth, especially in developing countries. Now available in 93 countries, mobile money providers—be they mobile network operators (MNOs), financial institutions, or other licensed institutions—process an average of 33 million transactions per day, including cash-in and cash-out through agents as well as entirely digital transactions. In 2015, the number of mobile money accounts grew by 31% from the prior year, to reach a total of 411 million registered accounts worldwide, of which 133 million were active accounts—with at least one transaction in the previous 90 days. In contexts where access to financial services is low, mobile money has often been customers’ first experience with an account of any kind. In Sub-Saharan Africa, for example, mobile money accounts drove the growth in overall bank and non-bank account penetration from 24 percent in 2011 to 34 percent in 2014. In East Africa, where mobile money accounts are most common, they increased account penetration by 9 percentage points to 35 percent, while the share of adults with a bank account at a financial institution remained flat at 26 percent (MICROLEAD, 2017, p. 29).

It is, however, tending to be used as an additive rather than transformational service and is therefore not yet having a significant impact on increasing financial inclusion (FinMark Trust, 2013). Even though automating the process of microfinance services through digital linkages has great potential for reducing transaction costs, it can also negatively affects a financial intermediary’s relationship with the client -- which traditionally has been based on human interaction. Recent research in rural Thailand (Kumar and Hamp, 2016, p. 13) revealed that modern technology channels such as mobile/internet banking were not very well recognized especially by rural poor people because of unfamiliarity to these channels and cultural preference for direct personal contact. This is especially pertinent for women, as women are less likely than men to be able to fulfil KYC requirements given they often lack formal documentation (DFID, 2013, IFPRI, 2010). Older people may require additional training on new technologies. Indeed, not all customers are ready to use mobile for their financial transactions. Human-centered design is essential to ensure that mobile based tools are easy to understand, useful, trustworthy, and help customers build larger savings balances and use their account. Well-researched design is especially important for populations that may have only used their mobile phone for over-the-counter mobile money transactions, but not to store value. ... So the challenge is to ensure that the entire customer experience, or “the human touch,” isn’t diminished with these tools. To do this, costly investments and recurring expenses for marketing, agent training, agent network management, and customer care are required (MICROLEAD, 2017, p. 47).
They also present limitations when it comes to offering a broader range of financial services. Since mobile money has essentially been built around payments, it has often not been associated with the notions of storing value and budgeting for future payments. Most of the time, mobile wallets do not earn interest, and many customers perceive them primarily as a vehicle for payments, rather than savings. Mobilizing savings through mobile money agent networks is not easy, and requires a customer-centric approach, where services are tailored to clients’ needs to onboard them to the experience of saving money through a mobile phone (MICROLEAD, 2017, p. 29).

In Ethiopia, though digital financial/banking services are emerging, paper-based payment instruments: cash, check and payment orders continue to be widely used even for large value payments by government and the private sector (NBE, 2017). According to FINDEX 2014, less than 1% of adults reported using “mobile money”. However, mobile-financial services are expected to pick up through partnership between banks and microfinance institutions and technology service providers, and present a large portion of the population for relatively low cost.

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<th>Box 8</th>
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<td>Building an Agency Banking Network</td>
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<td>In order to reach people who live far from traditional banking outlets, expanding “brick and mortar” bank branches is typically too costly for financial service providers. In the last decade, financial institutions have developed innovative delivery models such as agency banking in the hopes of reducing the costs of physical expansion and serving populations previously left out of the market.</td>
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<td>Agency banking or “branchless banking” can be defined as the delivery of financial services outside conventional bank branches, often using retail shops and other locations equipped with technology to transmit transaction details. Although successful initiatives have demonstrated the potential of these channels, many projects worldwide have not been able to achieve financial sustainability. One of the key success factors of agency banking is having a robust channel strategy that improves, rather than weakens, customer engagement. Agents play an essential role at many stages of the customer journey; they may need to acquire new customers, verify customers’ identities, keep adequate stocks of cash to enable transactions, explain products and services, receive customer complaints, and keep clients satisfied. In recent years, there have been efforts to embed basic financial education into agents’ contacts with customers. As a result, agents become not so different from brick-and-mortar bank personnel, except for the cost of the brick and mortar.</td>
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<td>Agents incur important costs, such as the upfront capital needed to start operating as an agent and transportation costs related to client servicing and liquidity management. They also must spend time engaging with customers about financial products and conducting transactions, which means time spent away from tending to other customers and tasks. Moreover, they face risks of fraud and theft, and their activity can be affected by system interruptions. To remain an attractive proposition against other opportunities agents may have, financial service providers need to compensate and train agents accordingly. Due to the importance and complexity of agent network management, many financial service providers outsource some or all of this management function. This involves additional costs for the financial institution, as it needs to remunerate multiple players.</td>
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<td>Fidelity Bank in Ghana and NBS Bank in Malawi implemented agency banking strategies to expand their outreach and reduce their costs. In their models, a b road network of agents carries out cash transactions. The approach requires significant upfront investment, and there are large operating costs associated with agent network management. The model relies heavily on transaction fees to compensate agents for their work. Although these fees are an important potential source of revenue to compensate agents, they are often not sufficient to compensate the multiple players in the supply chain. As such, financial service providers often invest in efforts that aim to reduce costs and generate more revenue, such as intensifying the use of the agency banking delivery channel, launching new products through the channel to boost cross-selling, encouraging new usage such as automatic deposits, or charging merchant fees.</td>
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<td>An important success factor is sometimes the ability to scale and generate a large volume of transaction revenue, which can support every actor. However, in trying to achieve scale, financial service providers often face a “chicken and egg trap”: agents will be interested in offering services only if there are enough customers, while customers will be willing to use agent-based services only if there are enough locations they can use. As a result, timing is a critical issue when building an agent network. Safaricom’s M-Pesa mobile money success in Kenya is a good lesson for financial service</td>
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providers considering building an agent network; its success was partly due to the decision to grow the agent network at the same pace as the customer base, maintaining a steady number of transactions per agent. This kept the service convenient and easily accessible for clients, while ensuring that agents would have enough business to cover the costs of managing their e-cash and cash liquidity.

(Source: MICROLEAD, 2017)

EXERCISE

Role Play  
(1 hour 30 minute)

* Ask for a Volunteer who can act as a Frontline staff, promoting saving  
* Divide trainees into 2 groups  
* Group 1 should act like typical farmers and other rural dwellers, to whom saving is promoted. After they listen to the promotion, they will ask the front line officer questions that may come from real clients in the field.  
* Group 2 will observe, and after the question and answer between the saving promoter and the farmers, they will forward their comments.  
* Finally, invite general discussion on the process, strength and weakness, what can be done better, etc

EXERCISE

Sample Promotion Material for Field Staff  
(1 hour)

* Distribute Sample Promotion Material  
* Allow Participants to go through the material, and discuss it with their friends (20 minutes)  
* Invite a general discussion – strength, weakness, what can be done more

IV – STAFF, GOVERNANCE, INSTITUTIONAL CULTURE

In order to achieve self-funding, there needs to be institutional cultural change, where all players of the institution, including the board, are sensitized as to the importance of self-funding through predominantly voluntary savings mobilization and as a result ‘buy into’ savings expansion. Sensitization and board level support will facilitate the systemic culture change for the microfinance institutions as a whole. Senior Managers must create an institutional culture of voluntary saving by helping their employees understand why savings mobilization is as important to their job and to their institution as credit. In addition, training, incentives and evaluation systems must be designed to ensure that especially field staff – that make or break the saving mobilization effort -- are both capable of explaining the benefits of flexible savings and motivated to prioritize savings. Innovative incentive schemes can be considered. While most institutions base staff benefits on basic salary, successful players in the industry, like BRI, also made their staff shareholders of the institution, which greatly enhanced their sense of ownership and belongingness (Kumar and Hamp, 2016, p. 8; Zegeye, et al, 2012, p. 29, p. 40).

Saving products are indeed harder to “sell” given the local context. The microfinance institutions’ leadership should be careful not to underestimate the scale of this challenge and to look for ways to prioritise not only savings, but also the values that support it. Unfortunately, at this point, only a few of the institutions have specialized staff dedicated to the growth of the saving portfolio. As such, the low savings to loan ratio justifies the need for a full time head office based Savings Manager to drive, manage and sustain the growth of the voluntary savings portfolio.
It is important to have an exclusive area, a **unit or department**, led by a senior manager, in charge of managing savings products. Usually, for loans, MFIs have strong exclusive commercial structures with defined processes, goals, and monitoring. Contrastingly, there are many cases where savings management is under the responsibility of other areas like finance or operations while commercial areas are focused on loan performance. In these cases, the motivation to promote savings is a lower priority. Sales staff have no goals or incentives, and they don’t see any benefit in promoting savings. Management information systems provide in-depth analysis regarding the performance of loans, but savings statistics are less detailed. A way to counter this situation is to give importance to savings in the commercial structure. It is imperative to have sales monitoring over savings. The key is not only to generate indicators, financial institutions also need to track savings.

Most microfinance institutions have a ‘savings manual’ that contains policies and operational modalities. However, some savings products and features continue to be **communicated through circulars** and other informal methods. This limits the level of detail and consistency about savings products and services, details which are required by front line staff who are expected to market them to potential clients. Saving targets are often set in the traditional **top-down** fashion, sometimes not endorsed by branch and front line staff. Moreover, while field officers – from their day to day interaction with clients -- tend to have the best information regarding the types of products demanded, often they have limited control and say over the type of product design and pricing. This diminishes staff morale and sense of belongingness, with a potential negative effect on **institutional culture** at the frontline. (Institutional lessons from Latin America is presented on ANNEX VII).

An interesting story has been reported in Indian Bank branches who were required by top officials to reduce “zero balances” (dormant accounts). The managers -- instead of persuading clients to keep such accounts live by continuing periodical deposits -- developed an “innovative approach” of putting 1 Rupee from different sources (including from their own pockets). The Economist magazine (Sep 17th, 2016) has also written an elaborate article (see Box below).

**Box 9**

**Misbehaving bankers: Accounts payable**

*At Indian banks, staff found dodgy ways to meet targets set by higher-ups*

(The Economist, Sep 17th, 2016)

People respond to **incentives**. But as economists have long recognized, often not in the way they were supposed to. Take an odd Indian phenomenon: bank branch managers have personally been donating tiny amounts of money to their own customers. Their aim was to please their political masters by boosting the usage rates of a government scheme to bring banking to the poor.

“The One-Rupee Trick”, as it was dubbed by the *Indian Express* newspaper, which uncovered it this week, is a harebrained attempt by bankers to spare politicians’ blushes. In 2014 a bold financial-inclusion plan known as *Jan Dhan* (whose full name translates as “Prime Minister’s People’s Wealth Scheme”) was launched by the newly elected Prime Minister, Narendra Modi. It promised basic bank accounts for all Indians. Hundreds of millions of accounts were opened. But as with past schemes, many remained unused.

Then the scheme seemed to take off. The proportion of such “zero-balance” accounts began to fall, from roughly half a year ago to under a quarter at the end of August. The apparent success was trumpeted widely, including by Mr. Modi. But it is now clear a large part of the decline was fictitious. A cheap way to massage the figures was to deposit as little as one rupee (1.5 cents) into each account. Many bank managers used their own money.
So far, over 10m one-rupee accounts have been found at 34 banks, out of 240m accounts opened since 2014. One, Punjab National Bank, had boasted that only 9% of its 13.6m Jan Dhan accounts were zero-balance. It was forced to admit that a whopping 29% had only one rupee, and a further 5% no more than ten rupees.

The vast majority of the fiddling was at state-owned banks. Many are struggling and have either been rescued by a government bail-out or may need one soon—not the ideal time for a bank boss to admit he has failed to keep a flagship government promise. Some bank bosses were reported as having complained about “pressure” from above.

The revelation lends credence to claims that big poverty-reduction schemes are often mainly public-relations exercises. That is a shame: Jan Dhan is part of a sensible attempt to move away from inefficient subsidies of staples such as rice and kerosene to deposits made directly into poor people’s bank accounts. For now, all many poor Indians have to show for it is a single rupee.


And The Indian EXPRESS has reported that some of the Banks have actually admitted of committing such anomalies after the Government sought clarification:


Culture can be one of the greatest assets in microfinance institutions’ operations, but it can also be a subversive factor that undermines performance. An institutional culture is a set of values, attitudes and behaviors shared consistently throughout an organization. Anyone who visits different microfinance institutions will likely be struck by the different atmospheres, levels of energy and personalities of each. One value that deserves particular attention is trust. Microfinance is built on trust. Loan officers have to trust that clients will repay their loans; clients have to trust that the microfinance institution will safeguard their savings and return it when they want it. The trust relationship between management and staff and between the head and field offices are just as important. Managers must trust that their ‘self-managed’ employees are really doing what they are supposed to. Employees must trust that the board and senior management are making decisions in the best interests of the microfinance institution and its staff members. If these internal bonds of trust are broken, the institutions will find it difficult to operate (Churchill and Frankiewicz, 2006).

Build staff capacity on public saving mobilization strategy, policy, product development or refinement, promotion, marketing, etc. Especially front-line staff capacity is crucial on marketing to clients. MFIs can establish an internal learning approaches to marketing savings. One such innovative way can be asking front line officers demonstrate their marketing and awareness-creation capacity in a role play. They do a presentation for the other S/Branch staff, who act like farmers and other rural dwellers, asking the front line officer questions that may come from real clients in the field. This training strategy enables front-line officers to deliver a message that clients can understand. This can also help to examine field officers’ over-all approach, attitudes and behaviour to the poor, men and women, young and old. This raises the confidence and effectiveness of front-line staff. It also increases their interest in conducting real savings promotion – perhaps more effectively than the monetary incentive packages promoted by institutions.

Staff Incentives need to give adequate wait to saving. Indeed, saving products are harder to “sell” given the local context. It is not an easy task, it takes effort and dedication, and results are only achieved in the medium to long term. The microfinance institutions’ leadership should be careful not to underestimate the scale of this challenge and to look for ways to prioritise not only savings, but also the values that support it.
Should credit staff be used to promote savings? The cost of using credit staff is negligible. In comparison, using staff specifically dedicated to promoting savings is very costly – and not financially feasible to most MFIs. But can credit staff handle another function? Credit staff are likely to promote savings effectively only if they are motivated to do so. Will providing them with incentives to promote saving products divert them from their other important priorities? These are questions management must consider. (The ten principles that institutions need to consider before engaging on saving mobilization are presented on ANNEX VIII).

Business Case for Mobilizing Small Balance Deposits?

Many service providers are not sure about the business case of mobilizing small deposit. The “business case” refers to the ability of financial service providers to generate profits from small-balance deposit mobilization. … As explained elsewhere, this represent a huge number of people in many countries … Mobilizing small savings often brings indirect benefits to financial service providers, and a business case for small deposit mobilization requires a broader analysis. Impacts such as brand value, reduced costs of funding, and cross-selling opportunities are also key in the service providers’ decisions to engage in small balance saving mobilization or not. Indeed, it may require important upfront costs, and time horizon matters to assess the overall profitability of mobilizing small-balance savings. In the decision-making process, a customer lifetime value approach is crucial.

To make a viable business case for small balance deposit mobilization, institutions should consider revenue earned, not only on savings deposits, but also in terms of customer lifetime value. The benefits of acquiring new previously excluded customers who may grow with the financial service provider and demand more financial services may cover the initial investment. In other words, over a customer’s lifetime with an institution, the financial service provider can earn revenue from other sources, such as through cross-selling or bundling of products including loans, payment services, insurance and others. These additional revenue streams can help cover the initial investment required to bring a new savings client to an institution. A CGAP study (2010) examining two MFIs with large microsavings portfolios found that small savers were a profitable segment if the overall profitability of savings and loans were evaluated together. Lending to the same clientele from which deposits are mobilized is a definitive path to absorbing some of the large operating costs involved in small balance deposit mobilization. In cases where small balance deposit clients are also borrowers, it makes more sense to analyze the overall profitability of the client segment itself, because here savings are seen as an integral part of the lending business.

For the financial service provider, access to patient capital and grant funding may also tip the balance in favor of small balance deposits mobilization (Microlead, 2017). But, for banks that downscaled into the low-income market for the first time with small-balance deposit mobilization, and don’t have products, processes, physical presence or institutional mission to offer appropriate products for this segment, cross-selling loans to low-income clients may be an entirely new and perhaps more challenging proposition.

<table>
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<th>Box 10</th>
<th>Pulling Levers to Make Small Balance Deposit Mobilization Viable at Sinapi Aba</th>
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<td>When Sinapi Aba, a savings and loans institution in Ghana, launched a doorstep deposit collection service as part of its effort to mobilize savings, it hired a team of “Mobile Bankers” armed with POS devices and developed a Susu Savings Account for the channel. So far, the Susu Savings Account portfolio has not broken even, in part due to the expense of the Mobile Banker salaries. The average account has a balance of USD 28 and generates just USD 0.67 in revenue per month. If Sinapi Aba adds up the cost of the Mobile Banker salaries, transport, and connectivity for their point-of-sale (POS) devices, an average account loses USD 3.70 per month.</td>
<td></td>
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Sinapi Aba realized that if a portion of the Mobile Bankers’ salaries could be amortized over time as the cost of customer acquisition, the business case would be stronger. However, much of the Mobile Bankers’ salaries was related to account servicing and facilitating cash in/cash out transactions, not one-time acquisition. Instead, Sinapi Aba would need to explore other ways to increase revenue.

There are three Viability Levers that can help make an average Susu Savings Account break even. A key Viability Lever the MFI could pull would be to double average account balances to USD 60 by incentivizing existing customers to increase their account balances while also targeting higher-income customers with larger savings capacity. If it could do this while also doubling the productivity of its current Mobile Banker team (by serving double the number of customers in the same time), the combination of two Viability Levers would bring the account close to profitability.

Sinapi Aba also introduced a new loan product, called the Susu Loan, through its Mobile Banker channel. By cross-selling a USD 35 Susu Loan to some savings account holders, in combination with the other two Viability Levers, these customers would generate enough income from interest on their loan to tip their savings account into profitability.

Source: MICROLEAD, 2017

EXERCISE

General Discussion
(2 hours)

Invite all participants to general discussion on the training, and the way forward.
* What have they learned
* What they can do in their institution after the training
* Any of their suggestion about organizing future training

Note:
AEMFI Saving Mobilization -- Training Programme -- ANNEX I X
Final Mail to participants -- ANNEX X
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ANNEX I

A Note on -- Financial Intermediation

National and international economies cannot function without financial systems. Financial systems are crucial to the allocation of resources in a modern economy. They channel household savings to the corporate sector and allocate investment funds among firms; they allow smoothing of consumption by households and expenditures by firms; and they enable households and firms to share risks.

Research from the 1960s and 1970s by Raymond Goldsmith, John Gurley, Edward Shaw, Ronald McKinnon and others demonstrated that the financial sectors in developed economies were generally proportionately larger relative to the total economy than the financial sectors in developing economies. In the latter countries deposits were not efficiently intermediated for investment outside the financial sector and money could not play its full economic role because holding it was not a sufficiently attractive alternative, and the evaluation and sharing of risks was suboptimal from a welfare perspective. The financial system in many developing countries was considered to be repressed by low interest rate ceilings, lack of competition in banking, high required reserves and directed credit programs and credit quotas. As a response to these research findings, the financial systems approach to development finance gained popularity from the 1970s onwards. This approach consists of liberalization or selective deregulation of financial markets, creating a more or less free market for financial services and transactions. It replaced earlier emphasis on targeting credit use, creating specialized government-owned lenders, and keeping interest rates low. In so doing modern microfinance which depends on relatively high interest rates could develop.

…. Essentially, financial markets operate according to the same principles and mechanisms as every other market. The determinants are supply and demand for a certain good as well as the price that strikes a balance between the two. The product traded on a financial market is money. The price for the product ‘money’ is called interest. …. 

The suppliers of monetary capital on the one side are primarily private households that do not consume all their income at a certain point in time and instead save a certain portion for future, frequently unforeseen expenditure. This is why they are called savers or financial surplus units. Those demanding money on the other side are companies facing a basic problem: the investment required for production and the outlay of funds entailed precede the influx of funds from the sale of their products. By the nature of their activity, they require capital and are termed financial deficit units or investors.

If there were no banks, supply and demand for funds would reach equilibrium in direct contact between financial surplus and deficit units. This equilibrium does not, however, come about in reality, because fund providers (savers) and those demanding funds (investors) usually cannot meet each other in person – imagine a businessman who needs a loan of 1 million Rupees, he would have to search hundreds of small savers. Direct contact between savers and borrowers would cause enormous efforts and high costs for both parties involved. The likelihood of finding just the right person is very small.

Moreover, the capital provider is exposed to a high degree of uncertainty as to the willingness and ability of the borrower to repay. Fund providers generally look for investments with lower risk than those usually proffered by investors/borrowers seeking capital. Due to fundamental information and confidence problems, direct financial relationships are very rare.
All savers can do, therefore, is simply keep their savings themselves or invest them themselves. In general, though, it is safe to assume that savers or surplus units do not necessarily want to invest or cannot invest efficiently. Savers prefer high liquidity and have an interest in safe ways of depositing their money and at least retaining its value. From the economic vantage point, the resultant investment behaviour, i.e. saving in the form of cash and physical assets with comparatively low profitability, means a very inefficient allocation of resources. Savers are thus unable to play a role as prospective capital providers.

Without suppliers of capital, i.e. savers, investors in turn are left to their own resources, i.e. self-finance. The problem here is that not every prospective investor has the funds required at his disposal. Investment opportunities are thus restricted by the investor’s own capital resources. As a result, full use is not made of investment opportunities, investments are only made after a certain saving-up phase or they are not made at all.

Due to basic information and confidence problems, direct financial relationships between savers and investors are only found within social groups, e.g. in village communities or amongst families and friends, where the individual members know each other personally and a large degree of mutual confidence exists.

Direct financial relationships afford decisive advantages for both parties. A prospective investor can make investments that exceed his personal resources; capital formation becomes more flexible and thus efficient. As a rule, for the savers it is more convenient to assign their savings temporarily to an investor than look for investment opportunities themselves. This affords them a type of investment that combines liquidity and yield as they require, since they can negotiate maturity and interest rates with the borrower.

Even if the information and confidence problems are mitigated or remedied there are structural obstacles to direct financial relationships stemming from differing preferences of savers and investors regarding the mode of finance. A financial relationship therefore presupposes broad agreement on amount, term, risk and expected return between the borrower and the lender. However, these points give rise to considerable conflicts of interest:

- **Amounts differ**: private households and individuals save up in small, sometimes tiny amounts, while investments as a rule require large sums. An investor must therefore seek several capital providers to finance a larger-scale investment project.
- **Due to their high liquidity preference**, savers generally favour short maturities, whereas borrowers tend to need medium-term to long-term periods to finance an investment.
- Savers are **averse to risk** and demand maximum security for their financial investment. Investors, in contrast, cannot as a rule guarantee the funds invested without the risk of loss entailed in any business venture.
- Savers are looking for a **maximum return on investment**, while investors seek to minimize finance costs.

Due to these contrary interests, direct financial relationships between surplus and deficit units are difficult. Even when capital providers and borrowers meet, the odds in favour of completing a contract are low due to differing preferences. Direct exchange between savers and investors is confined to small sums, is laborious and time-consuming and only possible where both parties are prepared to make concessions and compromises. Also, the prolonged mutual search for
capital market players hampers the implementation of larger investment projects. Therefore, specialized financial intermediation makes perfect economic sense.

The role of financial institutions within the financial system is primarily to intermediate between those that provide funds and those that need funds, and typically involves transforming and managing risk. Particularly for a deposit-taker (bank), this risk arises from its role in maturity transformation, where liabilities are typically short term, while loans have a longer maturity.

Financial institutions play a key role as financial intermediaries. They provide a market where savers and borrowers can 'meet' without meeting in person. Savers and borrowers enter into a mutually independent relationship with the financial institution. So – unlike direct financial relationships - the capital provider and borrower do not need to know each other personally; instead the transaction is largely anonymous. This considerably reduces search and information costs for both parties.

The relationship between savers, borrowers / investors and the financial intermediary reminds us of a heart and two lungs -- the financial institution (intermediary) takes up savings and channels these deposits to the borrowers / investors. … The interest rate paid by the financial institution to the savers depends on the supply of funds and the demand for funds; similarly, the interest rate charged by the financial institution from the borrowers depends on the demand for loans and the supply of funds. The difference between both interest rates is the margin earned by the intermediary.

In an advanced financial system, financial intermediaries perform the following tasks and functions:

- Mediating between those who supply and those who demand funds
- Transforming mostly small deposits into larger loans
- Appraising, selecting and monitoring borrowers
- Handling and managing payments transactions and securities trading
- Creating money, e.g. by creating bank deposit money

Financial intermediaries provide three important transformation services: size, term, risk.

Through transformation of size, financial intermediaries perform a quantitative transformation with a view to the various quantities of monetary capital available and in demand. Unit transformation involves pooling small savings deposits and transforming them into larger loans. A large number of deposits stemming mostly from private households are set off against a comparatively low number of loans, primarily to enterprises. The average deposit amount is well below the average loan amount. Thus banks relieve the single borrower from the task of seeking fund providers with sufficient investment capital and enable small savers to provide their money indirectly to large borrowers.

Through transformation of term, financial intermediaries can match a large part of the various term requirements of capital providers and borrowers. It is done by taking largely short-term savings deposits and transforming these funds into medium-term and long-term loans. This is possible because some of the depositors, e.g. with savings deposits with legally-binding periods of notice, formally reserve the right to withdraw at any time but in fact rarely make use of that option. The effective deposit period of part of the savings averages some years. This deposit base can therefore be lent out as medium-term to long term credit. When transforming maturities, however, the financial intermediary incurs liquidity and interest rate risks.
Transformation of risk is one of the most important processing functions in financial intermediation. It strikes a balance between the various anticipated risks of capital providers and borrowers. As distinct from the situation in direct financial relationships, the capital provider no longer needs to bear the direct risk of a borrower’s investment. The dual task of credit institutions is to safeguard deposits while bearing the inevitable risk of loan loss in lending. Thanks to professional risk management the financial institutions are able to limit the various risks entailed in lending.

[Source: Frankfurt School of Finance, “Certificate on Microfinance” training material]
"Bank saving is useless." Such is the claim of the men and women we have met over the past few months in various locations across rural Tamil Nadu (South India). This is despite the Indian government’s strenuous efforts to inculcate a “culture of saving” into the rural poor through a series of financial inclusion schemes.

Are we to conclude that South Indian villagers are unwilling to save, incapable of planning for the future and attracted to wastefulness and extravagance, as various early 20th century British colonial reports pondered? In rural Tamil Nadu today, most rural households have their own bank accounts, and various mechanisms have been set up to facilitate saving deposits, including business correspondents to provide doorstep services and digital finance. But bank deposit accounts remain desperately empty, while spending on social and religious ceremonies continues to rise. It seems that even with the demonetization, bank deposits remain low for the rural poor.

Although it might be tempting to jump to the same conclusions as the British colonisers and missionaries, this would miss the point. In-depth analysis of ceremonial transactions shows a different picture, and it suggests that ceremonial transactions should be considered as a specific form of saving: *relational saving*. By this we mean saving transactions that are both shaped by and constitutive of social relations.

Savings are usually conceived of as money or wealth that is put aside to be used in the event of an emergency (including health crises, job losses, theft or floods) or to prepare for the future. But in Tamil villages, money and more broadly wealth are considered as something that must circulate. The two main purposes are material assistance - formal social protection is still the privilege of the few - and social status. People do save, sometimes even considerable amounts, but the very value of savings lies in constant circulation. If people find themselves with a cash surplus, it makes more sense to them to buy gold, as we have shown elsewhere, or even to inject that cash into their social network, for instance in the form of loans, or gifts that must be reciprocated later, most notably in the case of ceremonial gifts.

Ceremony organizers keep precise accounts of gifts (see the picture below).
Counter-gifts are not strict equivalents, but are based in complicated logic that blends redistributive rules (the better-off or socially higher-up are expected to give more generously), reciprocity (among peers), and feelings and affection (notwithstanding rank, people often give more to persons in their close circle and those with whom they want to continue a relationship).

Ceremonies and their notebooks play a key role in family calculations, long-term planning and saving strategies for various reasons. As events, ceremonies are concrete opportunities to display and give visibility to family status (mariyatai). Insofar as ceremonies involve individuals’ and their families’ whole relationship sets, and are largely funded by this same set of relations, they are both an expression of mariyatai and a means of building it. A ceremony’s clout is measured in terms of guest number and ‘quality’, the food served, and gifts received: this all aims to maintain, or possibly upgrade or at least not downgrade the mariyatai of the organisers (and their kin).

Ceremony costs can often seem puzzling, especially in comparison to incomes, but they are closely tied to the gifts expected (from invitees). This in turn depends on what gifts the organiser has previously given. This makes the broad set of debts and obligations contracted through ceremonies crucial to households’ financial positions. Households’ life-cycle positions, social networks and particular circumstances determine them to be net debtors or net creditors. Some households “save up” (gradually accumulating through regular gifts before organising their own event, see fig. 1 below), while others “save down” (organising an event and then slowly paying back), while others “save through” (a mix of the two).

Fig. 1 below shows a household that regularly saved since marriage in 2005 through regular gift-giving in its social circle, getting this partly back for the daughter’s puberty wedding.
Parents with unmarried daughters most often "save down". Sivakumar is a typical example. He first organises the puberty ceremony of his daughter. This allows him to acquire 13 sovereigns of gold to be set aside for her future wedding. He will regularly have to pledge them to cover various needs and hope he won't lose them. He will “pay back” (this is the term used) in around ten years, roughly when his daughter gets married, which will put him back into debt for many years.

We are not looking to idealise these practices. They both reflect and strengthen pre-existing inequalities on various lines. This is particularly true for gender inequalities, since the dowry counts as a significant share of wedding expenses and obviously contributes to women’s lower standing. This is also true for caste and caste inequalities, insofar as the style of upper castes and upper classes' ceremonies tends to be the norm. Our point is that these dynamics and forms of logic cannot be ignored if we truly wish to design appropriate, fair financial services. For the moment, in the context of our study, the rural poor don’t use bank saving accounts because it goes against a vision of wealth as something that constantly circulates socially. Mobile money transfers, while still underdeveloped in rural South India, may have a more promising future.

The key question is whether the technology of digital finance could be used to fight specific forms of inequalities. Whether we like it or not, digital finance is most probably going to pervade our daily lives, even in the remotest of areas. Further research is needed to ensure that, rather than being outstripped by such developments, we can think about a variety of ways of using them to support democracy and equality.

[Source - IMTFI – INSTITUTE FOR MONEY TECHNOLOGY & FINANCIAL INCLUSION]

http://blog.imtfi.uci.edu/2017/01/ceremonial-expenses-as-relational.html
Psychological obstacles prevent us from making the right choices.

By now, you’ve probably heard the news that nearly half of Americans can’t come up with just $400 to cover an emergency expense without selling something or borrowing money. This fact is even more alarming when combined with data on long-term savings—nearly half of people age 55 and older have no retirement savings at all, other than Social Security.

The short- and long-term savings crisis isn’t only an issue facing low-income Americans—it is also a reality for many middle class households. Needless to say, too many of us are living on the edge.

So what is the problem? Why don’t we save?

It’s not, as you might guess, just because many Americans are too poor to set money aside. Certainly, a lack of resources makes it hard (and in some cases, impossible) to save, but research shows that for many of us, the problem lies elsewhere.

Over the last few decades, behavioral economists like ourselves have used insights from psychology and economics to understand what prevents people from saving, and we have designed and tested ways to help people save more. What we’ve found is that psychological obstacles prevent us from making choices that will benefit us in the long run.

In other words, contrary to conventional economic thought, our choices are not always reasoned-out.

One problem is that we tend to prioritize our current desires over our long-term goals. This type of “present bias” often leads us to give into the temptation to blow our paycheck on exciting purchases that provide instant gratification (e.g., a fabulous new device or outfit, a boozy dinner out) rather than setting funds aside for a rainy day.

Another problem is that we get caught up in our busy lives and fail to take action on issues that do not require immediate attention, such as preparing for a retirement many years in the future. Small hassles—like filling out a form—can prevent us from doing important things, like signing up for an investment account.

When budgeting, we are actually fairly good at estimating what we’ll spend on ordinary items like our mortgage and groceries, but research shows we also tend to underestimate the frequency of “special occasions.” So when a wedding anniversary comes up, or we’re presented with an exciting but expensive opportunity, we splurge, thinking of it as a rare occurrence. But these “rare occurrences” aren’t as rare as we think. When we fail to factor all these exceptions into our budgets, we overspend, also making it harder to save.
Fortunately, there are ways to use our understanding of the psychology of (imperfect) decision making to our advantage. One way is to take advantage of people’s tendency towards inaction by making saving “automatic.”

Research has shown, for example, that automatically enrolling employees in retirement plans and setting the default contribution rate above zero—typically at 2-6%—increases people’s retirement savings. (Many people once thought that a higher default contribution rate would reduce participation in savings plans, but we know now that it doesn’t.)

We have also learned that more people participate in auto-escalation savings programs—where contributions gradually increase over time—when auto-escalation is the default.

If defaulting people into automatic (“opt-out”) savings programs can help them set money aside for retirement, how can we apply these lessons to address the crisis of too little savings for emergencies?

For answers, we might look to a country where formal savings rates are among the lowest in the world—Afghanistan. Researchers tested a program there in which a large employer informed workers that, unless they chose to opt out, 5% of their pay check would be automatically deposited into a mobile savings account.

Employees in this program were 40% more likely to accumulate short-term savings than employees who had to opt in—an effect equivalent to providing matching savings contributions from the employer equal to 50% of worker contributions. Even after all incentives were removed and the study had ended, 45% of employees continued to contribute to their accounts.

Given the severity of the short-term savings crisis, why aren’t employers offering their workers short-term savings accounts with opt-out, automatic contributions each pay period?

For one, employers may be concerned that regulatory barriers prevent them from implementing such a program. Similar concerns discouraged employers from adopting automatic enrollment into retirement savings programs until the Department of Labor and Department of the Treasury came out in support of the idea in 1998. Labor and Treasury could issue a similar set of guidelines today encouraging automatic enrollment in emergency savings plans.

Still, even if that happens, not everyone struggling with a lack of short- and long-term savings can rely on their employer to help them save, particularly not in the age of the “gig economy.” Therefore, we need banks and other financial service providers to innovate by using insights from behavioral research to design products that facilitate saving.

Here are a few suggestions:

- Banks could default their clients’ direct deposits into emergency savings. For clients who have paychecks directly deposited into their checking accounts, banks could automatically divert some income into an emergency savings account, unless clients opt out. (This would, of course, require some protections against overdraft on checking, to protect people from negative consequences of setting aside savings.)
- Banks could label these default savings accounts “emergency savings.” Evidence suggests labeling can facilitate a process in which people place money into different mental categories and are loathe to use it for purposes besides the labeled one.
• For clients who decline to enroll in a labeled emergency savings account immediately upon opening a checking account, banks could offer the opportunity to have emergency savings contributions from a checking account automatically kick in at a future date. People are more willing to agree to a difficult but virtuous behavior if the start date is in the future.

• Banks could take advantage of the “fresh start effect”. At the start of new cycles, like the beginning of a new week, month, or year, we feel our past failings can be swept under the rug (“That was the old me, and this is the new me”). At these moments, we’re extra motivated to tackle tough goals. Our research shows that the “fresh start effect” can spur new patterns of productive behavior and that birthdays in particular are an ideal time to encourage increased savings. Financial institutions could focus on marketing savings accounts to clients at fresh starts.

• Banks could convert debt repayment behavior into savings behavior: For example, borrowers at some Montana credit unions set up automatic withdrawals for their loan payments. Once the loan was paid off, the credit unions offered those borrowers the option to have the same payment amount automatically deposited into a savings account according to the same payment schedule. This is one promising possibility, among others, that has been tested by Innovations for Poverty Action, but more research is needed—particularly with larger financial institutions—on how to harness the power of defaults to help people save.

Many of the thorniest problems we face today—how we eat, spend our time, make tradeoffs between giving into temptation and preparing ourselves for tomorrow—are guided by psychological quirks rather than perfect, optimized decision making — and savings is no exception.

Understanding the psychology of imperfect savings decisions is valuable because it suggests solutions to the current short- and long-term savings crisis. Psychologically-informed financial products and programs can help us make the right decisions for our future selves.

Whether the strategies we’ve outlined here help us handle an unexpected bill next week or support ourselves in retirement 30 years from today, it’s a win-win-win to deploy them: good for us, good for banks, and good for our economy as a whole.

*John Beshears* is Assistant Professor of Business Administration at Harvard Business School; *Katherine Milkman* is Associate Professor of Operations, Information and Decisions at The Wharton School of Business; *Laura Burke* is Manager of Policy Communications at Innovations for Poverty Action; and *Alison Fahey* is Policy Manager at J-PAL.

Source:

### ANNEX IV

**Clients’ Specific (Commitment) Saving Goals**  
*(Philippines Experiment, with SEED Commitment Saving Product)*

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<td>Christmas/birthday/celebration/graduation</td>
<td>95</td>
<td>47.0%</td>
</tr>
<tr>
<td>Education</td>
<td>41</td>
<td>20.3%</td>
</tr>
<tr>
<td>House lot construction and purchase</td>
<td>20</td>
<td>9.9%</td>
</tr>
<tr>
<td>Capital for business</td>
<td>20</td>
<td>9.9%</td>
</tr>
<tr>
<td>Purchase or maintenance of machine/automobile/appliance</td>
<td>8</td>
<td>4.0%</td>
</tr>
<tr>
<td>Did not report reason for saving</td>
<td>6</td>
<td>3.0%</td>
</tr>
<tr>
<td>Agricultural financing/investing/maintenance</td>
<td>4</td>
<td>2.0%</td>
</tr>
<tr>
<td>Vacation/travel</td>
<td>4</td>
<td>2.0%</td>
</tr>
<tr>
<td>Personal needs/future expense</td>
<td>3</td>
<td>1.5%</td>
</tr>
<tr>
<td>Medical</td>
<td>1</td>
<td>0.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>202</td>
<td>100.0%</td>
</tr>
<tr>
<td><strong>Date-based goals</strong></td>
<td>140</td>
<td>63.3%</td>
</tr>
<tr>
<td><strong>Amount-based goals</strong></td>
<td>62</td>
<td>30.7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>202</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

ANNEX V

Mapping - Potential Marketing Forums

- Churches
  - ‘Mahber’, ‘Senbetie’, ‘Tsiwa’ … etc
- Mosques
- *Wakefeta*
- *Walda*
- Iddir meetings
- Iqqub meetings
- Market areas
- Schools
- Clinics
- Local government-organized meetings
- Local NGOs organized meetings
- Sectoral Meetings (Agric, health, food security, … etc)
- Farmers Training Centers (FTCs) meetings
- Civil Society meetings (Teachers Associations, Women/Youth affairs, … etc)
- VSLA/SHG … meetings
- Prisons (Jails)
- Individuals
- Community Leaders (Networks, Words of Mouth, etc)
- Etc
ANNEX VI
MARKETING MESSAGE (Sample)
XXXX MFI VOLUNTARY SAVINGS PROMOTION MATERIAL

Introduction
My name is _______________. I am a customer service officer from XXXX MFI __________ Branch/HO. And the name of my colleague is ____________ and he is also from XXXX MFI __________ branch/HO.

XXXX MFI History
XXXX MFI received its business license in the year ---- from National Bank of Ethiopia (NBE) to operate in the ---- and ---- Regional State. Its mother NGO is ----, and shareholders include ------. Its key local and international partners include ----

Mission of XXXX MFI:
XXXX MFI aspires to see a society free from poverty. XXXX Microfinance is different from commercial banks because it exists to provide financial access to the poor. This means that XXXX MFI provides loans and savings services to the poor. The more money that people deposit with XXXX MFI in savings, the more loans can be made available in the local area.

Outreach
Currently XXXX MFI operates in _________ Zones and in Woredas, covering ---- Kebeles. As of end of _______ month, ______ year, it has _________ Regional Offices, _______ Branches and _______ Sub Branches. In these Branches/Sub-branches, it had ______ active clients with outstanding balance of ________ Million Birr, and mobilized ______ Million Birr savings (of which ---- is voluntary saving). XXXX MFI has its own head office in Addis Ababa. .... ______________ Branch is one of XXXX MFI’s branches that started its operation in the year ___________. As of end of _______ Month, it has ______ active loan clients with the outstanding loan balance of ______ Million Birr, and total savings clients of ______ with ______ Million Birr (of which ______ is voluntary saving). The office is located at ______ near _______. For further information you can call to Tel: ____________________

Saving Services
Saving is one of the key services provided by XXXX MFI. Unlike the credit service, saving service is open to all types of clients, poor/non-poor, male/female, rural/urban, educated/educated, etc. We provide voluntary saving services, unrelated to the credit service. Some of the key features of our saving services are the following:

**SAFETY AND SECURITY of XXXX:**
Since XXXX MFI is licensed by the National Bank of Ethiopia, all of its voluntary savings deposits are insured—just like any commercial bank. This means that saving at XXXX MFI is secure because the money is protected from theft, spoilage, fire, etc. At XXXX MFI, money is kept in a large protected safe, where it cannot be stolen, lost or destroyed like it can be if it is kept at home or with individuals.

For example (share a Case Study you know that embezzlement or misappropriation happened by individuals) ______________________________.

**ACCESSIBILITY of money saved with XXXX MFI:**
All passbook savings at XXXX MFI is accessible to clients when they need it. Clients only have to come to the branch to ask for the money during the branch opening hours and it can be easily withdrawn. Branch opening hours are Monday to Saturday --- AM to --- PM. Clients can expect to wait no more than 20 minutes to withdraw their savings.

**PRODUCTS**
Since its inception, XXXX MFI has been providing different Savings products to its customers. XXXX MFI provides passbook voluntary savings product at --- % interest. Other products include ---, ---, ---. It is for individuals and groups offering unlimited and accessible deposit and withdrawal facility. .... If you would like to know further about the loan and saving products, we can discuss further here or coming to our office at __________ near __________. In addition, you can use phone number: ___________________________.

**ANY QUESTION?** ---------------------------------------------------------------

\\THANK YOU\\
ANNEX VII

Five Lessons for Building Savings in Latin American Microfinance

January 5, 2015

(Posted by Ana Ruth Medina, Lead Specialist, Accion)

It is not a secret that, in Latin America, we are behind in terms of savings culture. Too few microfinance institutions offer savings. Among the savings accounts that do exist, dormancy is widespread. Compared to other regions, the average deposit in Latin America is quite large¹, illustrating that the institutions that do offer savings aren’t necessarily serving the underserved client segment. For the last four years, Accion partnered with financial institutions in Latin America, in a project funded by the Bill & Melinda Gates Foundation, in order to mobilize savings at the base of the pyramid (BoP). The objective of this project, beyond impacting the lives of thousands of clients, of course, was to strengthen the institutional capacity within Accion’s partner organizations to expand beyond their focus on lending. How successful were we?

Some overarching results of the project included: four new savings products (one received the 2013 Accenture Prize for Innovation); implementation of institution-wide communication, education and brand models; and creation of distribution channels for deposits (including ATM’s, non-banking correspondents, and branches specialized in savings). Best of all: enrollment of more than 700,000 new and active savings clients.

Recently Accion hosted the closing event of the project in Cartagena, Colombia to share main challenges and lessons learned, and to open a discussion with practitioners on how to build savings capacity within the industry. These are the top five lessons.

1. **Microfinance institutions perceive savings as a long-term objective which comes after they have reached financial stability and a significant client base.** Savings is often postponed in favor of giving priority to short-term financial objectives that provide faster return and greater stability. Microfinance institutions consider offering savings services primarily as an “add-on” means to improve their funding structure rather than as a service for clients. To encourage MFI managers to embrace savings, the following strategies were helpful: reinforcing awareness within the institution regarding the benefits of savings for clients and for the institution; having clear institutional objectives for savings services aligned with market needs and business opportunities; and employing improved commercial strategies (product development, branding, promotion, client education, etc.) for savings initiatives, which differ from those used to sell credit products.

2. **Institutions have a widespread belief that offering savings alone is not profitable.** Many institutions need clarity on all the variables involved in microfinance’s profitability model – for example, cross-selling, client loyalty, a decrease in funding cost, and the effect of alternative transaction channels, among others. The business case for savings should be approached cohesively, understanding that is an investment that helps maintain clients and diminish risks.

3. **Institutions must make organization-wide adjustments if they are to mobilize savings successfully.** In our work, we have found that MFIs’ staff and customer incentives schemes often take into account credit but not savings; training within the organization for offering savings is scarce; monitoring and measurement processes often overlook savings; and structurally there are usually organizational areas exclusive for credit but not for savings.
On the service side, institutions tend to have limited efforts in terms of promotion, savings branding, learning about the client, client education, and product development.

4. Technology is indeed helpful, but its use needs to be framed by the institution’s unique business reality. It isn’t enough to simply implement technology that might be trending. IT projects shouldn’t set the path of the business, but the other way around. Client needs should be studied before, during, and after IT implementations, and IT investments should have this knowledge in mind. Among other considerations, technology should address client proximity and trust and be tailored to the institution’s channels and market, and inactivity and adoption should be an ongoing effort.

5. In the region, basic savings accounts through branchless banking (and the underpinning regulation) have paved the way to improved savings offerings for the BoP. During the last three years the countries in Latin America have been flooded with e-wallet solutions that leverage IT solutions and legal environments. However, problems facing these services persist, such as high numbers of inactive users, limited service portfolios, and insufficient funding sources. The main challenges we encounter with mobile money are effective roll-out, scalability, and interoperability.

We hope the accomplishments over the past few years will persist among our partner organizations, and that others too will benefit from our learning and expand their capacity to offer savings. Perhaps the biggest takeaway from the project is that there are big opportunities to help change the lives of customers through savings and generate strong business options for financial institutions.

Source:

https://cfi-blog.org/2015/01/05/five-lessons-for-building-savings-in-latin-american-microfinance/
ANNEX VIII

Managing Micro Savings and Micro Insurance

The Ten Principles before MFI engage in saving mobilization

The following ten principles of setting up deposit services in an MFI should be considered before embarking on the journey of transformation:

1. Poor people in developing countries save. The job of an MFI is not to teach them to save, but to learn their needs and design and deliver products and services that meet their demand. Generally, the clients look for security, convenience, liquidity, confidentiality, products adjusted to their needs, returns and potential access to loans.

2. For credit, the MFI must trust the client. But for savings, it is the client who must trust the MFI. Savers will in general not accept high transaction costs for deposits – and the MFI must give a reliable and trust-worthy impression.

3. Certain basic preconditions are needed for mobilizing voluntary savings from the public. The MFI must act in a relatively stable environment with supervision and regulatory environment existing. Additionally, the MFI needs to have a strong performance record and a certain outreach of its existing operations.

4. Owner, board members and managers of regulated MFIs must meet legal and regulatory requirements for accountability and qualifications. Management of the MFI has to be done in a professional way with sufficient skills to handle the new product and related organizational changes.

5. Regulated commercial MFIs must mobilize savings from the public, and not the poor alone. It is necessary to raise the average savings account balance by accessing larger deposits, and to reduce the daily withdrawal volume in order to ensure a stable capital base from deposits.

6. The number of borrowers can be controlled by the number of loans approved, but voluntary savers cannot be turned away without widespread and long-term negative effects. This fundamental difference can result in rapid, and largely uncontrollable, growth in the client base when a newly regulated MFI opens appropriately designed and effectively delivered deposit facilities to the public – and is quickly swamped with savers. The MFI must be ready for quick growth and needs to have the systems, MIS and staff in place to manage this.

7. Savings is not only a service and a source of funds, but also a liability. An MFI must be careful in protecting savers’ funds from fraud, theft – and also from impact of loan defaults if deposits are used to finance the loan portfolio.

8. New kinds of products and services, a wider range of clients, and larger-scale operations require a major effort to develop new training and incentive programs for management and staff. The staff will have to handle partly new types of clients, with new products and new procedures – both training and incentive schemes need to be adjusted accordingly.

9. MFIs starting to collect savings from the public should offer a few well-designed savings products and, if they do not already have one, a general purpose individual loan product. The increasingly common view – that a wide choice of products is important – should be
avoided. It is important for an MFI to also get delivery channels and procedures in place as well. Develop the product portfolio over time.

10. Mobilizing savings from the public takes considerable time and proper sequencing. It should not be rushed to finance expanding portfolio requirements or for other reasons. Make sure that there is good preparation and that the MFI and its staff are well prepared!
ANNEX IX

AEMFI
SAVING MOBILIZATION -- TRAINING PROGRAMME
Feb 26-28, 2018

DAY 1

I BACKGROUND

Tea Break

What are the Potential Sources of Financial Services? The Poor Often Utilize Traditional Means of Savings. What does the formal option offer that the informal does not?

Lunch Break

Facilitating Local Saving Mobilization to Finance Development. Is there a market for formal saving services? Recent developments on financial services to clients

Group Exercise: Key advantages and dis-advantages to the poor of traditional saving mechanisms

Common Saving Products of MFIs

DAY 2

II – PRODUCT DEVELOPMENT, REDESIGN

Why develop new product? What is product development? Process of product development (the 8 P’s)

Tea Break


Lunch Break

Discussion – All Participants: *What are the new saving products introduced by your MFI (advantages to the poor)? *What are the potential benefits of the following modalities: Daily collectors Schemes, Muday Bank (~ Piggy Bank), Commitment saving, Pension savings, etc

Tea Break

III – MARKETING, COMMUNICATING

The Need for Marketing. What is a Competitive Advantage? Current Practice in product Marketing (some research findings from WEDP programme). Mapping potential sources. BRIs Systematic Approach to Mobilizing Deposits

DAY 3


Tea Break

Group Exercise: Role Play. Sample Promotional Tool. Branchless Banking

Lunch Break

IV – STAFF, GOVERNANCE, ISTITUTIONAL CULTURE

Some Current Practice. Reflection from participants on current Practice. Institutional Culture. Staff Capacity, Incentives. Some Good Practices. Indian Case - Misbehaving Bankers. Do we need separate saving staff?

Tea Break

Business Case for Mobilizing Small Balance Deposits
General Discussion
ANNEX X

Final Mail to participants

March 13, 2018

Dear all,

Following T/Mariam's mail, I would like to thank you all for the very active and live discussions we have had at the training ... Indeed, it was a mutual learning opportunity for us all. ... Sorry for being late in communicating on this!

I would like to take this opportunity to re-emphasize some of the very key practical issues:

1) I believe you have some briefing with your MFI staff and leadership on the training and possible way forward ... Clearly this could be a gradual process, and would take some time to mainstream.

2) You need to take some time to develop an articulated Sales Message, based on the sample that has been provided (also re-attached here) (It may need to be translated into different languages). This is a key document that every field officer should have for effective communication with potential clients. Different materials need to be developed, if the MFI has more than one (voluntary) saving products.

In addition to developing such materials, we suggested that at least at branch level, you can schedule a Role Play sessions, whereby field officers can exercise marketing in office ... Based on our previous experience on saving training, this could be very helpful.

3) You also need to take time to MAP potential marketing forums. We have distributed a sample during the training (also re-attached here) ..Such forums can differ depending on the locality .... But one issue that need to be re-emphasized is the different forums organized by NGOs, Government offices (e.g office of agriculture, health, etc) ... These are important forums to market saving products. But from our previous training to other MFIs staff, such forums were NEVER USED by most of the participants. ... Such forums need to be pro-actively identified, and effectively utilized.

4) I have attached one more key document (THE BIG QUESTIONS ON SAVING). Please read this carefully, as it elaborates on key principles ...

We believe that this and the materials that we delivered would help you in your efforts in the field ...

If you have further questions on the area, may be we can communicate either by e-mail or by phone.

Thank you and we wish you all the best!!

Getaneh
End Note


ii The research has been undertaken by the Women Entrepreneurship Development Programme (WEDP), under the Private Enterprise Programme Ethiopia (PEPE) (Now Enterprise Partners) was a programme supported by DfID and World Bank, and implemented by DAI and First Consult, aiming at expanding financial services to women entrepreneurs, primarily in five big cities (Addis Ababa, Adama, Mekele, Bahir Dar, Hawasa) now including other towns as well, partnering with 12 MFIs, namely: ACSI, AdCSI, Agar, DECSI, Harbu, Mekilt, Metemamen, OCSSCo, Omo, SFPI, Vision Fund and Wasasa. Most of the suggestions in this report also benefited from this extensive research, which involves field visit to 30 MFI branches, conducting over 60 focus group discussions (FGDs) as well as individual interviews with existing and potential clients, with MFI staff, and stakeholders. Further details are available by request (Mail: getanehg2002@yahoo.com).

iii Rural Finance Intermediation Programme (RUFIP) II Assessment of loan amount: If a MFI satisfies the minimum eligibility criteria, the annual quantum of loan eligibility would be arrived at based on: (a) annual incremental lending and net liquidity gap; (b) a small MFI (loan portfolio of up to Birr 40 million), medium (loan portfolio over Birr 40 million and up to Birr 100 million), and large MFI (loan portfolio of over Birr 100 million), will not finance more than 50 percent, 40 percent and 35 percent respectively of its loan portfolio from borrowings; and (c) in respect of large institutions, an additional criteria will be that allocated loan amount should not exceed incremental net savings in the previous fiscal year (IFAD, 2011, p. 15).

iv At several branch staff trainings with WEDP partner MFIs, interesting debates were facilitated regarding even among the poor, between those with irregular income (farmers, craftsmen, etc.) and regular income (salaried persons, pensioners, remittance receivers, etc.) who has more appetite to set aside some resources for some future time. It was clear that typically salaried people have less tendency to save, enjoy whatever salary received immediately because they are sure that next month would certainly get that same flow of income – regardless of how small it might be. Indeed, often such people are likely to take advances – unable to resist temptations to spend before the salary date!

v Of course money is fungible. Parents organizing their child’s wedding may search for funds from a variety of sources: a pawn loan, a loan that was given to plant rice, loans from neighbors, their savings, contributions from family and friends, remittances from sons and daughters working in the city. When the parents pay for the wedding dinner, the caterer doesn’t ask where the money came from, just as the clerk at the farm supply store doesn’t care how they pay for the few bags of seed they buy every year (Christen and Anderson, 2013, p. 5).

vi By keeping the money in an account where it might not be immediately accessible, people can better resist impulse spending or demands on their income from family and friends (Demirguc-Kunt, et al, 2017, p. 12).

vii Although characterized as informal, Community Based Organizations like Iddir (in Ethiopia) have some level of organization and leadership. Who organizes and leads CBOs? CBOs tend to be “conservative” and “elitist” organizations, with leadership dominated by men and “respected” local authority figures (IFAD, 2001).

viii An interesting case has been shared to the WEDP research team in Iteya area of Central Oromia (Ethiopia) (July 2015) where the treasurer of an Iddir (burial society) used to lend out the pooled money to non-members (at individual money lenders’ – very high – rate) to his own advantage. By the time members, in really difficult situation, came seeking for some small loans, he unfortunately has already exhausted all the resource and could not afford any. Unable to face the loss of face – as he has made a serious betrayal of members who entrusted with him their key assets – he saw no other alternative but hanged and killed himself.

ix In cultures where ‘joint family structure’ is the norm, a secret accumulation of personal savings can be considered a selfish act (See Piggot, et al 2013). Indeed, as we will see later, this can often be a source of mistrust and conflict among family members. … Also a key outstanding question is what these individual savings products would do to existing social structures such as informal insurance networks. Dupas and Robinson (2011) find evidence that getting access to a safe box reduced ROSCA participation over time. Potentially, access to such a technology could cause people to exit insurance networks entirely.

x Women want savings accounts more than men do. Of more than 20 million savings accounts from all banks in Chile in 2015, women held 139 savings account for every 100 held by men; Of 6.6 million individual borrowers in Chile, there were 92 women for every 100 men in 2015; In a meta-analysis of 13 savings experiments across various contexts, if a savings account with low or no transaction costs were offered to adults, 63% of women are predicted to accept, against 26% of men. This is a large difference (Buvinic and Jaluka, 2018).

xi See interesting blog at Centre for Financial Inclusion (CFI) on research findings of Freedom From Hunger (FFH) on health emergencies and the role of health insurance at https://cfi-blog.org/2016/07/06/cash-or-credit-every-mothers-emergency-room-nightmare/
Agricultural production is concentrated in staple crops (e.g., cereals, roots and tubers, pulses) and could include small livestock (e.g., hens, goats, pigs). Access to land, technology, education, markets, and information about weather or production methods is very limited. Very few purchased inputs and little mechanization are used (if any), and the household is highly vulnerable to income and other shocks. Outputs are relatively low and consumed largely by the household. They are generally buyers of food (supplementing their own production) and sellers of labor, which limits their ability to produce. And they may endure periods of food deficits throughout the year. Any irregular, small amounts of surplus would be sold in an informal, local market. Noncommercial smallholder households are not connected to a structured value chain of any kind. They are largely limited to informal financial mechanisms and simple tools, such as local savings and loan groups, to meet their relatively basic financial service needs (Christen and Anderson, 2013. P. 9

Wolday and Tekie, 2014


An interesting discussion has been posted at time.com by John Beshears, Katherine Milkman, Laura Burke Alison Fahy July 26, 2016 under a title: The Science Behind Why You Don’t Save (And What To Do About It) – Psychological obstacles prevent us from making the right choices http://time.com/money/4417515/science-saving-emergency-expenses-behavior-economics/.

Zollmann (2014) estimated that the median household in Kenya keeps about 10% of their assets in a liquid form (Zollmann, 2014).

A related concept is ‘hyperbolic discounting’ – which implies people’s tendency to value “immediate gains” more than “future gains”. On the other hand, “loss aversion” represents the principle that people prefer “avoiding losses” to “acquiring gains”. This is a sort of pathological conservatism where people forgo even feasible things with potentially large benefits for fear of losing the little they already possess (The Economist (2012).


They have different names in different regions in Nigeria. The customized governance structure provided helped them to operate well and sustain. http://www.premiumtimesng.com/opinion/165014-esusu-adaseh-ajo-lessons-for-corporate-nigeria.html

Indeed, such frequent physical visit by MFI field officers serves a “reminder effect” (or nudging effect) to clients about their savings. The fact that staff pay physical visit meant that clients feel compelled to save some amount (see Buusa Gonafo, 2016). Where digital money become quite common, text messages play big role as reminders on personal savings. Also self-help group meetings can increase saving rates through a reminder effect (Dupas and Robinson, 2011).

Some argue that saving facilities for the poor serve very important social objective. They argue that children in developing countries are produced partly to provide informal social security. In situations with overcrowding and in cases in which parents do not take into account the negative externalities imposed by their children (through congestion, and environmental degradation, for instance), social welfare may be enhanced by shifting to alternative social security programmes. For example, establishing secure, convenient savings programmes may allow households to reduce the number of children they have without undermining their ability to cope with less income in old age and can provide a second round of benefits to the community through reductions in negative population-related externalities (Morduch, 1999).

Details are on the following link: http://www.pfip.org/newsroom/press-releases/2017-2/nfp-pilots-new-retirement-savings-scheme/

Pensions have become much more widespread around the world in recent decades, including both traditional contributory pensions (public and private) and noncontributory social pensions (government pensions provided to people who did not pay in). However, coverage is unequal across regions. While nearly 90 percent of older people above statutory retirement age in developed economies receive some sort of pension, in Latin America and the Caribbean the figure is 56 percent, for Asia and the Pacific it is 47 percent, and in Africa it is 21 percent. Population coverage is only part of the story however. Pension adequacy matters, too. For all but the wealthy, pension income is generally insufficient to meet all expenditure needs in older age. One of the greatest challenges for micropensions is to generate trust that the financial institution will still be there when the contributor is older and that her account will retain its value. Since micropensions rely on contributions collected over years, users must be confident that they will see their funds in later life. Therefore, they require stable, well-trusted providers and regulatory oversight (Center for Financial Inclusion (CFI) and HelpAge International (2015). p. 7-13).

Similar programmes are being piloted in other countries. In Mexico CONSAR is piloting a convenient ‘pension scheme’ that can reach the majority. The pension regulator teamed up with 7/11 ‘retail stores’ and ‘Telecomm’ to create
channels for people to contribute to pensions, whether they receive an income within the formal labour market or not. CONSAR is considering ways to analyse the behaviour of clients as they interact with their long-term savings to create better incentives, ways to diversify the channels for contributions, ways to educate people on their pensions, and ways to nudge people to contribute, like having cashiers ask customers if they would like to contribute to their pension when they pay. The funds would enjoy a 10 percent return over three years — a higher rate than savings accounts in Mexico offer — enabling them to double within 20 years. [See recent blog at the Centre for Financial Inclusion, ACCION at http://cfi-blog.org/2015/05/27/would-you-like-a-pension-with-that/#comment-126359]. In the case of Thaweesook Deposit in rural Thailand where there is no strong social security net, farmers have to continuously save (enjoying special interest rate) up to the age of 65 and later receives the regular returns to safeguard the rest of their life (Kumar and Hamp, 2016, p. 56).

xxvi Similarly, Leonardo Tibaquirá Morales, Product Manager, Accion summarized the challenges faced by MFIs in Latin America as: Institutions are structured disproportionately towards credit operations; MFI staff are overwhelmingly oriented toward “credit sales” and minimal efforts go towards providing other products. There is low motivation from management towards savings, which many consider to be unprofitable (See also Zegeye, et al, 2012, p. 39). There is a product profitability approach instead of a customer profitability approach; Staff training is often focused on and specialized in credit processes with minimal content pertaining to savings; Commercial frontline staff are not interested in promoting savings for their clients. Monitoring and incentives programs are often designed to reward sales of loans. See blog by (CFI/ACCION at https://cfi-blog.org/2016/03/28/mobilizing-savings-among-microfinance-institutions-in-latin-america/?utm_medium=email&utm_source=accion&utm_content=3+-+check+out+this+recent+blog+post&utm_campaign=20160609JFSS1&source=20160609JFSS1 (assessed March 28, 2016).

xxviii Household money management is a balancing act between resource maximization and risk minimization. It is not only about earning more income, it is also about stabilizing it (Mas, 2015) … Indeed, increasing evidence from the field demonstrated that most people want to save most of the time, while they do not want to borrow all the time. Many people may not want to borrow at all because they feel that saving before undertaking major expenditure is less risky, or for moral or religious reasons. (See Schneider 1997; p.24) … The most recent, and highly debated impact study on ‘microcredit’ conducted in six countries (Bosnia, Ethiopia, India, Morocco, Mongolia, Mexico) on about 22,000 sample, using a scientific Random Control Trials, RTC, demonstrated that the microcredit service does have meaningful transformative impact only on some 5-10% of the target clients, who tend to have a reasonable entrepreneurship ability, etc., (microcredit may expand freedom of choice, in terms of occupation, business scale, consumption, and risk management) emphasizing that the potential of other services like savings, insurance, etc. need to be further exploited (see Banerjee et al, 2014, Buvinic and O’Donnell, 2017). Similarly, Adams (2009), and Adams and Vogel (2016), strongly argue that the proportion of poor people, especially in rural areas of developing countries like Bangladesh, who have the opportunities, entrepreneurial skills, and luck to manage the loan/investment and capitalize on it are perhaps between 10-20 %, further emphasizing research outcomes conducted in low income countries during 1970-1990s that confirmed ‘mortality rates’ of 20% among micro-and small firms in their first year of operation and a rate of 50% within five years.

xxvii Several prior research outcomes noted that farmers are often reluctant to take on additional financial risk given the enormous amount of risk already present in their everyday life. While the status quo is perhaps only tolerable (at best), taking a loan could make things even worse. … People have survived, and are still surviving without the loans. At least then the downside risk is minimized. But if you take credit … and you’re not prepared … you have to be extremely careful.” (See, Dalberg Global Development Advisors (2016)).

xxix It should be noted that the motivation here is to advocate on what can be more realistically accomplished by the MFIs through better product design as well as effective communication of existing products and services with clients, promoting their trust toward institutions, so that they can bring to the MFIs the savings they already have in variety of forms at home. However small the amount may be, they set aside resources for the future, but often find it difficult to make sure that it is safe, secure, etc. There is a saying in Amharic somewhat testifying this - የሚከታከል ከምለና የሚከታከል ከምለና ይታገሰ - … Yet, there are debates on the need to “teach” the poor on savings. Those arguing in favour relate the issue of mismatch between people’s ‘needs’ and ‘wants’. Not everyone makes a wise use of money, people’s immediate ‘demand’ does not prove their benefit, people may ‘want’ cigarettes (or other ‘temptation goods’ (goods whose consumption yields utility in the present, but whose future consumption yields no utility, so that the consumption of these goods by future selves serves as a “temptation tax” on savings, see Dupas and Robinson, 2011), like alcohol, Chat, gambling, etc.), but they may not ‘need’ them (instead they may need ‘milk’). … One may also logically argue, that there should be an effort to stimulate change on aspiration level of the poor which, increasing research (among others by IFPRI, see Bernard et al, 2014, 2011, Adams and Vogel, 2016) demonstrated to be very limited in scope. Indeed, aspiration failure limits individuals effort to earn income and accumulate savings… Such aspiration failure towards the future (of the individual, the household, the community or even the nation) is said to stifle effectiveness of development intervention. In a seminal work, Aparaduri (2004) argued that “…while aspirations about the ‘good life’ exist in all societies, the capacity to aspire is unevenly distributed; the rich are more aware of the various manifestations of the good life, which they use to improve their material conditions, while for the poor, they are...
likely to be more rigid, and less strategically valuable -- not because of any cognitive deficit on the part of the poor but because the capacity to aspire, like any complex cultural capacity, thrives and survives on practice, repetition, exploration, conjecture, and refutation…”. In a detailed study, CHF (2007) similarly reported a much more convincing findings of ‘aspiration failure’ among the very poor from a detailed qualitative and quantitative survey conducted in the five biggest regions of Ethiopia. The study strongly argues that due to ‘satisfaction’ (or ‘happiness’) with one’s circumstances, and absence of ‘role models’ in the localities, there is a widespread occurrence of aspiration failure – individuals being unwilling to make pro-active investments to better their own lives (see also Kumar and Hamp, 2016, p. 39).…

Some authors (see Dalton, Ghosal and Mani, 2013) strongly argue that external constraints imposed by the lack of opportunity or access to information alone do not fully explain the stubborn persistent of poverty; and failure to address the internal psycho-social determinants of human behaviour is often the weakest link in social policy initiatives. Simply providing ready access to resources does not mean that people will take advantage of them … One strategy to stimulate on aspiration designed during the socialist Derg regime in Ethiopia was expanding accessibility of industrial consumption goods (e.g. Radio, TV, modern clothing, household utensils, etc.) through rural cooperative shops which, by exposing residents to different (better) life-styles, were hoped to inspire them for acquiring income needed to buy them, and thus for hard working (see various Five Year Development Plans of the Derg regime). … Innovations for Poverty Actions (IPA) reported that more recent, tailored, pro-active approaches like “Graduating the Ultra Poor” (an approach first developed by Bangladeshi NGO BRAC in 2002) increased basic entrepreneurial activities. Such a programme, in addition to conventional approaches of productive asset transfer, consumption support, and technical skills training, also involve weekly home visits by programme staff to provide accountability, coaching, and encouragement. IPA reports that in Ethiopia one year after the 2-year Graduation program ended (May 2012), treatment group households reported spending 43 minutes per day on productive activities in addition to the average four hours among comparison group households. http://www.poverty-action.org/printpdf/6201 … Evidence also suggest that such intervention could be even more effective if targeted for people in their youth age (see blog at CGAP about Women World Banking programme with PEACE/Eth, supported by YouthStart/UNCDF and Master Card Foundation … http://www.cgap.org/blog/what-does-future-hold-youth-savings-ethiopia; and Kumar and Hamp, 2016, p. 45).

For example, the government of Ethiopia has introduced initiatives that can galvanize resource mobilization through stimulating particularly long term saving among communities, related to asset building (a ‘planned time deposit’ leading to eventual access to condominium house) at household level, as well as contributing for large scale dams (including the Great Abay Dam), and participating on various community projects to prevent land degradation and promote re-forestation and environmental protection at national level, linked with the large scale Productive Safety Net Programme, (PSNP) . The motive here is to build more security for the future of the household members, as well as future generations. Such concerted efforts are said to have significantly increased the national saving rate (see also Zegeye, et al, 2012, p. 102-3).


One of the Saving Team members at WEDP also shared a related interesting experience in Nigeria. An Alhaji, a resident of Northern Nigeria frequently come to the local bank branch to withdraw all his money, count it on the counter, and save it back into his account. Asked why he was doing this – which didn’t make sense to the bank officers – he replied – “I just want to make sure that all my money is still in the bank”.

The microfinance sector in many developing countries have gone through several challenges. “Not everyone has been pleased with the prospect of better financial services for the poor. Islamic fundamentalists have bombed branches of Grameen in Bangladesh and attacked loan officers of other institutions in India. Maoists have looted microfinance offices in Nepal. The head of a microfinance effort in Afghanistan was murdered, possibly by drug traders. To drug lords in Afghanistan, the availability of credit is unwelcome because it gives a choice to farmers who were previously forced to grow poppies for want of other ways to finance their crops. For the elites in closed markets running inefficient monopolies, credit raises the prospect of future challenges from entrepreneurs. For radical Muslims, it means that women (who in many countries make up the bulk of microfinance borrowers) are able to run viable businesses and become independent. And for everyone in poor countries, credit can mean social upheaval as merit and enterprise replace inheritance, family ties and position. (The Economist, Nov. 3rd, 2005).

In essence, community financial institutions are owner operated business entities whereby each members of the community organization plays three roles at the same time viz. the owner, client and manager. Because of the same reason the institution gains greater amount of member controls in its operations as well as management. All the stakeholders participate in the organizational development process. Consequently, they develop suitable rules and regulations including working principles and standard procedures through an agreement with other stakeholders for learning and participation (Kumar and Hamp, 2016, p. X). However, the advantages of being self-managed, flexibility and the elements of “negotiability” in self-help groups often also gives room to powerful individuals to manipulate the systems to their own advantage. This arises from a more general set of “principal-agent” problems where the shareholders (who are the principals), have to elect agents (board members) to represent their interests (fiduciary
responsibility). But when it becomes harder for the members to monitor the performance of the board, especially where people are less well educated, the board may in turn tend to protect its own interests and those of the management rather than those of the shareholders and the organization as a whole (Johnson, et al, 2005).

This requires a serious effort on the part of service provider institutions and staff. Indeed, members in informal groups are often powerless, and the relationship between the members and their leaders is often not a one-way. The leaders are often dominant also in other spheres, including religious forums, local trade, value chain system, informal credit market (especially supplier credit, money guards), etc. Complex and ramified network of credit balances bind larger and smaller traders together. It is this network, which often persisted for generations, which provides the primary integrative factors in local contexts, for it leads to a hierarchical ranking of traders in which larger traders give credit to smaller ones and smaller ones have debts to larger ones. These credit balances are only half-understood if they are seen only as ways in which capital is made available, for they set up and stabilize more or less persisting commercial relationship. This is why, for example, traders often prefer expensive private credit to cheap government credit. It gives them more than simple access to capital; it secures a higher position in the flow of trade (Dichter, 2007).

There is much debate globally about the merits of requiring mobile money transfer services to be bank-led, with a number of regulators and analysts arguing that such restrictions may tend to limit innovation and hamper the development/outreach of mobile financial services (including savings services). Kenya’s experience suggests that there is much to be gained by allowing mobile phone operators to take the lead, provided that close contact with the regulator is maintained (FinMark Trust, p. xi).

See the report ATMs on Fast Decline as Kenyans Embrace Mobile Banking at http://news.xinhuanet.com/english/2016-08/12/c_135590940.htm

"Transformational" banking provides services in such a way that unbanked people are targeted. “Additive” initiatives simply supply another channel for the banked (FinMark Trust, 2013, p. 13)

The staff at frontline constitute a very important link between the institutions’ financial products and clients. Given the local contexts where majority are illiterate, the effective relationship that these staff can create with clients determines the market for both savings and credit. Several Focus Group Discussions demonstrate that the support, regular encouragement, trust and treatment from staff is what they most value. … The words of Uruguay’s former president Jose Alberto Mujica at the 2010 Foromic opening ceremony illustrates: “… Deep down, (micro)credit is a fight against loneliness… it is a struggle to get help.” See also SEEP Network blog by Fermin Vivanco on May 20, 2015: http://www.seepnetwork.org/blog/visits-microentrepreneur

Adoption of digital financial services are growing year on year, across most developing country markets. GSMA, in its 2014 State of the Industry Report, states that mobile money is now present in 89 out of 135 markets, and in 16 countries the number of mobile money accounts exceeds the number of bank accounts. However, the GSMA reports that only a third of mobile money accounts are active. Most service providers accept that a vast proportion of accounts have zero or negligible balances. India’s ambitious PMJDY programme, for instance, reports that approx. 40 per cent of the accounts opened under the programme have zero balances (see MicroSave blog at http://blog.microsave.net/making-digital-money-more-relevant-more-often-part-1/)

Increasing research findings, particularly in India and other countries, on agent-banking highlights on the potential negative impact of lack of bottom-up planning and feed-back system on effectiveness of microfinance operations … see CFI blog at https://cfi-blog.org/2016/08/11/exploring-responsible-agent-management-in-india/#more-21740 … as well as the report by Smart Campaign (2016): Protecting Clients & Building Trust Exploring responsible agent management in India