Department for International Development

THE WORLD BANK

Working for a World Free of Poverty

DAI

Practical Issues in Local Saving Mobilization by Microfinance Institutions

Summary of Research (over 60 FGDs, and more individual interviews)[1]

For the poor, particularly those with low, irregular and unreliable income, saving is critical.

Ethiopia's poor do save. The poor tend to save fixed amounts of money regardless of income, varying their *consumption* according to income. I.e, poor people do not save according to the equation, Savings = Income – Fixed Consumption but according to the equation, **Consumption = Income – Fixed Savings**[2]. Their decision to save is, therefore, not an income-surplus function, but rather a reserve.

When incomes are small, tools to manage income well are vitally important. Money the poor earn too often arrives at the wrong times, can be hard to hold onto, and is difficult to build into something larger through borrowing and saving. 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: 'Portfolio of the Poor'). Supporting the poor in their efforts to manage their money well, bridging the **intention-action gap**, is a fundamental task for service providers.

With the objective of generating liquidity to satisfy lending targets as well as to meet the GTP strategic objectives, banks, MFIs, cooperatives, etc have been expanding operational branches to mobilize savings. Successes and challenges have been mixed. The focus of this report is to highlight MFI experiences.

Since the issuance of the microfinance law in 1996, 32 MFIs, with more than 1,000 branches and sub-branches, have been registered by NBE to deliver financial services (Wolday & Tekie, 2014). This has deepened financial outreach, bringing services nearer to where clients, particularly poor clients, reside. **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. Therefore, the appropriateness of financial products and services, approaches, staff attitudes and behaviors, etc. need to be tailored to the target market.

Mobilizing savings, particularly in rural areas, requires careful planning and program design. Winning the trust of poor clients, convincing them to give their hard-earned money into the custody of institutions is a sensitive issue.

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! ***Does it work? Eeehh, is it true?***[3] If they see it works, then confidence in the institution's stability grows. They start saving little by little into accounts.

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[1] The views and openions expressed here are those of the author and not necessarily reflect those of the sponsors: DAI, World Bank or DfID

[2] There are debates on the need to "teach" the poor on savings. Those arguing in favour relates 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, but they may not 'need' them (instead they may need 'milk'). So we may feel the need to teach on avoiding expenditure on this, and plan for a better future, etc. acting at the universality of the human tendency to deplete financial stocks prematurely.

[3] On-line discussion on saving mobilization (The Forgotten Half…) organized by Microlinks/USAID, 2008 https://www.microlinks.org/sites/microlinks/files/resource/files/SC25%20savings.pdf

There remain clear gaps in gaining client trust, as discovered during WEDP field research:

- **Products** are 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**. The field research clearly indicated that there are real opportunities to design demand-based products to different target groups, including those that can help households manage money on a day-to-day basis (*'Susu'* type), as well as building savings over the medium to long term (Planned Time Deposits, etc). Some MFIs occasionally conduct "customer consultative groups" meetings to gain insight about their performance in meeting client needs. This process need to be strengthened.
- **Voluntary saving** is effectively promoted only to borrowers (at monthly or weekly "Group" or "Center Meetings") and not to **net savers**. Branch staffs do know of potential marketing forums (e.g. churches, schools, Farmers' Training Centers, Government/NGOs development forums, etc.), but they do not maintain a complete list. Neither do they have a clear **marketing plan** (e.g which staff can go to which market, when, etc) nor consistently use or reference effective **marketing materials**. Without these, staff lack confidence promoting to potential clients or forums of potential net savers. Comprehensive marketing materials need to be designed, with clear, simple and compelling messages, 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. Some institutions also use **case studies** of successful clients (sometimes such clients can also demonstrate as 'role models') to convince locals of the advantages of institutional saving.
- **Repeat, Repeat, Repeat!** Telling a potential client once about the benefits of saving with an MFI is not enough. Research shows people need to hear about a new product at least three times, sometimes up to five times. The first time someone is exposed to your promotion, you attract their attention, but little is taken in. The second time, the consumer begins to engage with the relevance of the promotion and considers what it means for them. During the third exposure to the promotion, the potential client decides whether they will choose your product or forget it. Repetition is primarily about convincing target markets of the **legitimacy of MFIs** (e.g who owns the MFI). Especially in microfinance where **staff-client relationships** are key, potential clients need to have confidence in MFI frontline staff members as trustworthy institutional representatives (Hirschland, 2005)
- The WEDP team asked frontline staff to demonstrate their Voluntary Saving promotion through role plays. During these role-plays, WEDP observed a number of issues. For the most part, staff promotion focused on the benefits of saving, interest rates, eventual access to loans, etc. Often ignored was the issue of convincing them why clients should save *with the MFI*. Institutions should demonstrate their **competitive advantage** in relation to other informal and formal savings mechanisms. The MFIs also have to clarify their competitive advantage in relation to commercial banks, e.g. their valuable social objectives -- serving the poor. MFI staff attitudes and behavior towards the poor and marginalized should be one of the key competitive advantages, especially compared to conventional banks. In FGDs, clients mentioned this repeatedly. Clients are less intimidated entering MFI offices and said they can easily

Competitive Advantage

An MFI maintains competitive advantage when it possesses resources or skills that 1) enable it to deliver customer value 2) are unique, and 3) are difficult to imitate (Gary Woller, 1997). The relative risk in 'informal' saving mechanisms (at home, with Self Help Groups, etc) is well documented by MicroSave which reported that on average people lost 22% of the amount they had saved the prior year (Wright and Mutesasira, 2002). Although financial cooperatives are owned and managed by members themselves within the community, less than 1% of the respondents trust their institution, when it comes to depositing their own cash saving (Wolday & Tekie, 2014).

relate to staff who *do not dress luxuriously*.

- Some MFIs have innovative training and internal learning approaches to marketing savings. Front line officers demonstrate their marketing and awareness-creation capacity in a **role play.** They do a presentation for the other S/Branch staff pretending to be farmers, 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 clients can understand. In addition, field officers are examined in their over-all approach 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.
- Such training and capacity building for MFI frontline staff also should apply to partners and stakeholders (local community leaders, religious representatives, agents, other stakeholders in Government, NGOs, etc). involved in word-of-mouth promotion on behalf of the MFI at different community forums. Indeed, in the mass market, such **words of mouth**[4] – informal communication among clients and potential clients – is the single most important driver of sales in financial services. Potential clients often trust their neighbors and friends over other sources of promotion. These leaders should be carefully selected, considering their commitment to the achievement of the MFI's vision and mission, their networks in the local community, reputation, etc.
- Most MFIs have no real strategy for **linking with informal financial mechanisms** like *Iddir*, Self Help Groups, etc. *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 a month, and the wife joins another four or more *Iddirs*, maximizing collection at difficult moments, esp. death[5]). Such money is managed by the *Iddir* leadership -- either saved at home or in commercial banks (especially CBE). Often they believe withdrawal from an MFI would be more complicated than from the CBE. Currently, there is no serious effort by MFIs to convince *Iddir* members to bank their savings with MFIs. Participants at the FGDs repeatedly mentioned they are not the only ones to decide on where *Iddir* money is banked. Most importantly, the *Iddir* leadership[6] is often unwilling to bring *Iddir* money to MFIs because they often use it for informal lending (at high interest rates, equivalent to *Arata Abedari's* rate) for their own individual benefit. In fact, some participants also mentioned that these **local leaders are not happy** to see people coming to MFIs for loans and saving, because they view MFIs as competitors in the local loan market[7]. Frontline staff need to help clients maintain control of their savings in these informal

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[4] A key driver for sales within a financial institution are the opinions of friends and relations, this is called Word of Mouth. In the financial sector, Word of Mouth, is especially important. In a large survey in Uganda of 5,000 people, Word of Mouth was the determining factor in 58% of choosing a particular financial institution. But to be effective, MFIs must drive word of mouth rather than waiting for it to magically occur.

[5] *Iddir* is widespread in most areas. In a sample study of 15 Ethiopian Villages, it was confirmed that 80% of households were members of at least 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).

[6] Although characterized as informal, Community Based Organizations like Iddir 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).

[7] 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 business 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)

mechanisms. The best way to achieve this is to ask for a promotional meeting with the entire *Iddir* membership, including the leaders. However, if MFIs decide to promote to *Iddirs*, they must be flexible on their opening hours in order to create true access for *Iddir* money. This may mean, for example, an 'on call system', where *Iddirs* can call branch managers if they need to access their money on weekends or holidays.

- Savings products are indeed harder to "sell". Managers must help 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 field staff are both **capable** of explaining the benefits of flexible savings and **motivated** to prioritize savings. An MFI's 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.
- Most MFIs have a Saving Manual which contain policies and operational modalities. However, some savings products and features continue to be **communicated through circulars** and other non-formal 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. This diminishes staff morale and sense of belongingness, with a potential negative effect on **institutional culture**. Culture can be one of the greatest assets in MFI 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 MFIs 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 MFI 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 is 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 MFI and its staff members. If these internal bonds of trust are broken, the MFI will find it difficult to operate.



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