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## Designing, pilot testing and scaling up a youth product

*This paper presents the main achievements and challenges PEACE, a YouthStart partner, had in the process of developing youth offerings and implementing a pilot test before scaling up. It highlights key lessons learned for the benefit of other financial service providers and organizations interested in targeting youth.*

### BACKGROUND

Poverty Eradication and Community Empowerment (PEACE) is a microfinance institution founded in 1999 in the Federal Democratic Republic of Ethiopia, whose mission is to serve the entrepreneurial poor by providing sustainable and quality services for employment and income generation, with the ultimate objective of enhancing household food security in rural and urban Ethiopia. PEACE currently offers loans, savings accounts and other products and services to more than 17,000 borrowers and 21,000 savers. PEACE sees empowering youth, especially girls, through savings and related services as an important new means to accomplish its mission.

Through a request for applications by the UNCDF-YouthStart programme in August 2010, PEACE was one of 18 financial service providers selected to conduct market research aimed at understanding youth needs.<sup>1</sup> Based on the market-research results, PEACE submitted a business plan to design, pilot test and scale up youth financial services offered in tandem with non-financial services over a period of three years. In August 2011, the UNCDF-YouthStart programme awarded PEACE a grant of US\$720,657 to fulfil this purpose. PEACE also formed a partnership with Women's World Banking to receive valuable technical support during the pilot test.

### FIRST STEPS: MARKET RESEARCH AND PRODUCT DESIGN

As a result of the market research, PEACE identified three target youth cohorts, each of them sharing similar characteristics, that could be targeted through specifically designed strategies: semi-rural in-school youth, semi-rural out-of-school youth and rural out-of-school girls. PEACE felt the financial service could be the same for the three cohorts, but the marketing strategies and non-financial services needed to be adapted to reach each cohort and address their needs.

On this premise, PEACE designed a savings account called *Leneye* (the future), targeting young girls and boys between 12 and 24 years of age, both in and out of school. The main features of the savings account are shown in Table 1.

PEACE set more flexible conditions for the *Leneye* account than for its accounts for adults, as the market research revealed that youth income is typically small and irregular and therefore fees could be a major obstacle to interesting youth in the account.

**Table 1 - Features of the *Leneye* account**

|                         |   |
|-------------------------|---|
| Minimum amount to open  | Br.5 (US\$0.30)   |
| Minimum ongoing balance | Br.5 (US\$0.30)   |
| Interest rate           | 6%  |
| Account management fees | None  |
| Deposit restrictions    | None  |
| Withdrawal restrictions | For minors, presence of guardian required for withdrawing amounts over Br.30 (US\$1.70) |

<sup>1</sup> A description of the UNCDF-YouthStart programme is provided at the end of this paper.

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## PEACE CASE STUDY



### Passbooks for the Lenege Account



PEACE also worked to ease account-opening requirements for youth. PEACE must comply with Ethiopian regulation and therefore required a photograph and a valid identification card, mainly a *Kebele* or tax identification card, to open an account.<sup>2</sup> But, to facilitate youth uptake, PEACE also chose to accept a letter from the *Kebele* in place of an identification card. Minors have to be accompanied by a guardian to open an account. However, when minors over 14 are working or married, they can legally open the account by themselves.

To further ensure the product appealed to youth, PEACE formed focus groups to test youth reactions to different designs, colours and interests for marketing materials and passbooks (the documents where youth register their transactions and balance). This youth-friendly communication strategy resulted in the designs shown to the left.

## THE LAUNCH: PILOT TEST

In December 2011, PEACE launched a 4-month pilot test in one semi-rural branch.<sup>3</sup> The reason for limiting the pilot test to one branch was the need to closely monitor its progress and to identify necessary adjustments before scaling up. At launch, the selected branch had approximately 1,800 clients.

The goals set for the pilot test included opening 295 youth savings accounts and reaching 720 youth with non-financial services.

The business model PEACE followed for delivering both financial and non-financial services to youth addressed staff and structure, marketing strategy and integration of non-financial services.

### Staff and structure

PEACE decided to use existing staff to promote and manage the Lenege account. They named a 'Youth champion' who was responsible for coordinating the pilot test while, at the branch level, credit officers were responsible for promoting and operating the accounts. PEACE also planned to recruit specific staff as the client portfolio grew (both youth and general clientele), according to previously defined productivity thresholds.

The Youth champion facilitated a 3-day initial training with branch staff in order to create buy-in and ensure staff understood the product features and procedures. Additionally, PEACE set clear outreach targets for all staff members so they were fully aware of their responsibilities.

Though staff members promoted the youth savings account in different settings, all operations were conducted at the branch level—from opening accounts to making deposits or withdrawals. However, youth could request a savings box that PEACE provided for free, so that they could easily accumulate savings at home before going to the branch.

### Marketing strategy

For in-school youth, PEACE placed posters on school bulletin boards and used mini-media (loudspeakers and school radio) to promote the Lenege account. These activities proved successful, as 23 percent of youth clients claimed to have heard about the product through a school announcement.

<sup>2</sup> Kebele is the smallest administrative unit in Ethiopia.

<sup>3</sup> PEACE currently has 18 branches.

# YouthStart

## PEACE CASE STUDY



For out-of-school youth, PEACE held ‘Leneg days,’ which took place on Saturdays during weekly village markets. Leneg days consisted of all branch staff members going to the market, where they set up a tent and promoted the account through loudspeakers and by word-of-mouth to all youth passersby.

PEACE also used incentives to motivate youth to open and use the account. Account-opening incentives included pencils, bags and t-shirts. And, in line with the emphasis of the UNCDF-YouthStart programme on encouraging account use, PEACE also implemented monthly awards to reward the best savers with a small present, such as a dictionary.

### Integration of non-financial services

Like all YouthStart partners, PEACE integrated non-financial services with the youth financial service. This integration is considered by YouthStart and PEACE to be one of the basic pillars to improving youth financial capabilities, allowing youth to better benefit from financial services.<sup>4</sup>

PEACE chose the unified model for integration of services, investing in training its own staff to deliver financial education to youth.<sup>5</sup> This choice was based on a long-term commitment to continue offering these services.

For non-financial services, PEACE targeted youth in primary and secondary schools as well as those enrolled in vocational training centres. The financial-education sessions were held at schools or at the branch twice a week.

Given the close relationship PEACE needed to ensure the successful delivery of the financial-education sessions at schools, it was extremely important for PEACE to reach agreements with school principals and boards. To do so, PEACE held sensitization meetings with key officials. It is also worth noting that financial education is a part of the official national curriculum in Ethiopia, which contributed to school authorities’ understanding and approval.

## TIME TO ANALYSE: PILOT-TEST RESULTS

The results of the 4-month pilot test are summarized in Table 2.

**Table 2 - Pilot-test results**

| Indicator   | Result  | Goal |
|---|---|------|
| Number of youth accounts opened                     | 355   | 295  |
| Volume of savings achieved                          | Br.90,308 (US\$5,085)   | -    |
| Average savings per account                         | Br.254 (US\$14)   | -    |
| Average number of transactions per account          | 2   | -    |
| Percentage of account holders who were girls        | 45%   | 68%  |
| Time to open account and to conduct transactions    | 20 minutes to open, 10 minutes for transactions   | -    |
| Number of youth who received non-financial services | 599   | 720  |
| Percentage of client satisfaction                   | No survey conducted yet although positive perceptions revealed in focus-group discussions | -    |
| Cross-sales <sup>6</sup>                            | 82  | -    |
| Client protection:                                  |   | -    |
| - Transparency                                      | Clear marketing materials   | -    |
| - Fair pricing                                      | No fees, no opening balance   | -    |

<sup>4</sup> Financial capabilities are the combination of knowledge, skills, attitudes and behaviours necessary for wise financial management and often imply the ability to apply knowledge and put it into practice.

<sup>5</sup> Under the unified model, the same staff members offer both financial and non-financial services (Christopher Dunford, “Building Better Lives: Sustainable Integration of Microfinance with Education,” Chap. 2 in *Pathways Out of Poverty: Innovations in Microfinance for the Poorest Families* [Bloomfield, CT: Kumarian Press, 2002]).

<sup>6</sup> Cross-sales refer to relatives of youth who also become clients.

It is interesting to note that the goal for the number of youth accounts opened was exceeded. In fact, youth clients now represent 16 percent of the total clients of the pilot test branch.

### Factors for success

The pilot test was a success in many aspects. The factors for success that PEACE identified will be used in scaling up their youth services and can be used by other financial service providers interested in a similar initiative. Some of the biggest success factors include the following:

- Youth responded well to product features (based on the number of accounts opened) and used their accounts regularly (an average of 2.4 times in four months). This response is the consequence of a successful design process, based on market research and direct participation of youth through focus groups.
- Segmentation of youth led to a targeted marketing strategy and well-adapted financial education.
- Incentives and free savings boxes supported account usage. These efforts were based on a vision for a long-term relationship between PEACE and youth and were thought to increase youth loyalty and true financial inclusion.
- Head office commitment, buy-in, and intensive support and oversight, as well as the role of the Youth champion, were key to coordinating efforts and closely monitoring progress.

### Identified challenges and proposed solutions

A pilot test is not about achieving perfection but rather about learning lessons. One of the most important goals of a pilot test, then, is to identify those areas that need adjustment before scaling up. Some of the identified challenges and proposed solutions include the following:

- **Percentage of girls reached.** PEACE did not reach its goal for percentage of account holders who were girls. The gap may have been due to the fact that PEACE opened youth accounts on an on-demand basis and in rural areas where girls tend to be shyer for cultural reasons and which may prevent them from coming to the branch.

To increase the participation of girls, PEACE began to pilot test offering the savings account to groups of rural married or divorced girls who previously worked with the non-governmental organization Population Council.

- **Staff workload and eventual shortage of personnel.** For small financial service providers like PEACE, hiring new officers at all branches offering youth services would result in significant personnel costs and affect general returns and efficiency.<sup>7</sup> PEACE took a reasonable approach to this problem by using its own staff. However, achieving youth outreach goals with this staffing approach may become challenging, particularly during harvest time when the workload of PEACE staff is mainly devoted to granting new agricultural loans.<sup>8</sup> Moreover, as the youth portfolio grows, PEACE may see a staff shortage.

As a solution, PEACE defined different goals and approaches in regards to its youth offerings during different periods of the year. During harvesting, when credit officers need to focus on loan disbursement, PEACE decided to moderate youth targets and foster cross-selling to existing customers. At the beginning of the school year, in contrast, they chose to put more effort into youth offerings. Additionally, they plan to recruit new officers as the client portfolio grows in order to ensure youth outreach targets are met. These measures will allow PEACE to reconcile youth financial services with their general business model, ensuring the sustainability of the services.

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<sup>7</sup> PEACE currently has 21,900 clients, 146 employees, 18 branches (each with an average of seven staff, including three security guards) and an outstanding portfolio of US\$2.6 million.

<sup>8</sup> Ninety percent of the PEACE portfolio is based on agricultural loans.

- **Financial-education scheduling.** PEACE faced some problems in scheduling financial education. The reasons were twofold: conflict with schools' schedules during exams and staff shortages to deliver the financial education, mainly during harvest time. As a result, the number of sessions delivered was slightly lower than expected.

To overcome this problem, PEACE decided to adapt the financial-education sessions to the staff's and the schools' timelines. Considering the seasonal shortage of staff due to the agricultural focus, PEACE could also consider partnering with a youth serving organization to provide support in delivering financial education.

- **Marketing costs.** Massive marketing activities and incentives offered to all youth opening and using an account proved very expensive for PEACE. In general, PEACE does not offer incentives to the rest of their clientele and bases their marketing strategy mainly on customer proximity and low prices rather than on spending a lot on promotion.

In this regard, PEACE looked for ways to optimize its marketing strategy to gain efficiency without hampering outreach. They decided to limit the number of Lenege days to two per branch (Lenege days had the greatest impact in terms of accounts opened), and they are also refining the incentives to include peer-to-peer strategies, among others.

- **Management information system limitations.** Due to a weak management information system, PEACE could not obtain timely reports. Their system required manual data reporting and constant oversight.

To address this issue, PEACE is analyzing different alternatives for upgrading their management information system. Apart from this long-term possibility, they are streamlining data-collection practices to minimize the time staff members need to spend on developing reports.

## THE WAY FORWARD: SCALE-UP

After completing the pilot test and evaluating its results, PEACE is rolling out its youth services to seven additional branches, with the goal of opening 3,385 youth accounts and delivering financial education to 6,770 youth by the end of 2012. By the end of 2014, PEACE is committed to reaching 26,407 youth through financial services and 32,600 youth through financial education (with at least 80 percent of all youth reached through financial and non-financial services being girls).

The responsible approach PEACE is taking towards consolidating strengths and tackling identified weaknesses will certainly contribute to achieving these goals and making PEACE a leader in youth finance.

# YouthStart

## PEACE CASE STUDY



### ABOUT YOUTHSTART

YouthStart, a UNCDF programme in partnership with The MasterCard Foundation, aims to reach 200,000 youth in sub-Saharan Africa with demand-driven financial services and non-financial services, in particular savings and financial education, by 2014. As of July 2012, US\$7.8 million has been awarded to 11 financial service providers. Of that amount, US\$2.3 million has so far been disbursed to design, deliver and scale up demand-driven youth financial services and youth-centric programmes in partnership with youth serving organizations. For more information, visit <http://www.uncdf.org/YouthStart/>.

### ABOUT UNCDF



UNCDF is the UN's capital investment agency for the world's 48 least developed countries. It creates new opportunities for poor people and their communities by increasing access to microfinance and investment capital. UNCDF focuses on Africa and the poorest countries of Asia, with a special commitment to countries emerging from conflict or crisis. It provides seed capital – grants and loans – and technical support to help microfinance institutions reach more poor households and small businesses, and local governments finance the capital investments – water systems, feeder roads, schools, irrigation schemes – that will improve poor peoples' lives. UNCDF programmes help to empower women, and are designed to catalyze larger capital flows from the private sector, national governments and development partners, for maximum impact toward the Millennium Development Goals. For more information, visit <http://www.uncdf.org/>.

### ABOUT PEACE



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### ABOUT THE MASTERCARD FOUNDATION



The MasterCard Foundation advances microfinance and youth learning to promote financial inclusion and prosperity. Through collaboration with committed partners in 48 countries, The MasterCard Foundation is helping people living in poverty to access opportunities to learn and prosper. An independent, private foundation based in Toronto, Canada, it was established through the generosity of MasterCard Worldwide at the time of the company's initial public offering in 2006. For more information, visit [www.mastercardfdn.org](http://www.mastercardfdn.org).

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