

EXPANDING ACCESS TO SAVINGS-LED FINANCIAL SERVICES IN ETHIOPIA

INTEGRATING PEOPLE AND TECHNOLOGY

By Kirsten Weiss



Summary

Two private Ethiopian MFIs, Wasasa and Buusaa Gonofaa, received funding and technical assistance via the UNCDF's MicroLead programme to expand savings mobilization. This case study explores the challenges and opportunities of using technology to mobilize savings in rural areas.

Introduction

General Manager Teshome Yohannes stood at a turning point. The board of the Ethiopian microfinance institution (MFI) he managed, Buusaa Gonofaa, had made a game-changing decision – to move from a credit-only MFI and begin mobilizing savings. It represented a cultural shift for the organization, requiring a new understanding of their clients, a new way of organizing their branch operations, and a new way of thinking for their staff. Technology could make the collection and recording of savings transactions easier and more efficient – technology they didn't have.

MicroLead, a UNCDF programme, was helping with the savings transition, providing consultants and funding for a handheld Point of Service (POS) system and a core banking system that could transform Buusaa Gonofaa's front and back-end ability to manage savings. But although a core banking system would support savings mobilization,



implementing the system represented a massive undertaking. Should Buusaa Gonofaa try to make the transformation to savings and to a core banking system at the same time, or keep on with the simple MIS software they were currently using?

Ethiopia at a glance*

| | |
|---|----------------|
| Capital | Addis Ababa |
| Population | 96,633,458 |
| Formal account holders incl. mobile money (% age 15+) | 20% |
| Formal savings account (% age 15+) | 14% |
| Currency | Birr (ETB) |
| Inflation rate end of 2013-14 | 8.5% |
| GNI per capita, PPP (2013) | \$1380 |
| Population below the poverty line (2011/2012) | 27.8% |
| Life expectancy | 60.75 years |
| Literacy rate | 39% |
| Human Development Index Rating | 173 out of 187 |

Amsalu Alemayehu, General Manager of the Ethiopian MFI, Wasasa, was debating the same issue. Like Buusaa Gonofaa, Wasasa had begun working with MicroLead-funded consultants on savings mobilization. Unlike Buusaa Gonofaa, Wasasa had something of a head start. They'd already begun mobilizing voluntary savings.

Amsalu realized they needed to go further. The MFI needed to expand its mobilization of voluntary savings in order to expand its capital base and outreach, and that meant achieving bigger savings numbers, most likely through technology. But their systems were all manual. Before they could implement any sort of POS technology, they'd need an MIS. And if they were going to invest in software, it might as well be a core banking system. But what would be involved?

* Sources: United Nations Development Programme and CIA World Factbook. Index 2014 (<http://datatopics.worldbank.org/financialinclusion/country/ethiopia>). Acronyms: GDP, gross domestic product; GNI, gross national income; PPP, purchasing power parity.

Background

Savings and Ethiopia's Rural Poor

Ethiopia's rural poor appear ripe candidates for savings mobilization. They have a strong savings culture, saving first and altering their consumption accordingly. Generally, Ethiopian rural poor “do not save according to the equation **Savings = Income minus Fixed Consumption** but rather according to the equation **Consumption = Income minus Fixed Savings**¹.” To save, they use multiple informal mechanisms such as Iqubs, where participants contribute a fixed savings amount on a regular basis (much like ROSCAs). Every week or month, a different Iqub member gets her “turn” to withdraw the entire fund². Iqubs are designed to allow members to save for large cash outlays. There are other informal savings systems used as well, including local savings collectors who keep savings out of their clients' pockets (and temptation's reach) and in the collector's pocket instead.

Why such savings discipline? Because the task of living on \$2 a day – a commonly stated statistic for the world's poor – is not an easy one. Money flows unevenly to the rural poor – one may earn \$10 over five days, or two dollars in one day. Savings, therefore, becomes a critical component of consumption smoothing.

The MFI Perspective

What Ethiopia's rural poor do not do on a wide scale is place their savings within formal financial institutions, such as MFIs. Under Ethiopian law, MFIs may mobilize savings. But until a few years ago, many MFIs had little incentive to do so. Demand for MFI credit services was high, relatively inexpensive funds were available from commercial banks and servicing borrowers was relatively simple. Why bother with adding savings, which required new and more complex operational activities?

However, within the last five years MFI experience and outside studies revealed that the demand for credit far outstripped the ability of MFIs to supply it. Only 15% of Ethiopia's rural households had access to savings and credit services³. Smaller MFIs with fewer resources to grow were particularly hamstrung. Commercial credit lines had grown scarce, and they simply didn't have the capital to expand credit operations. Savings was no longer just a potentially useful service for their poor, rural clients. It could also be a critical source of funds for onlending. In 2000, when an expected source of major funding to MFIs, the Rural Financial Inclusion Project (RUFIP II), linked funds for credit to the provision of savings services⁴, the pressure was on.

However, savings mobilization required a significant investment in infrastructure improvements, including new technology, restructuring branch operations, and shifting

the customer service culture from credit to embrace savings. Facing a liquidity shortage, small MFIs needed to mobilize savings for onlending and growth, but to mobilize savings, they needed liquidity to invest in savings infrastructure. It was a maddening situation, and not a uniquely Ethiopian problem. In a global, post-financial crisis survey of MFIs by CGAP in 2009, 52% of respondents reported facing an upcoming liquidity crunch within the next six months. Smaller MFIs were more affected, with 64% of respondents reporting liquidity constraints⁵.

This is where MicroLead entered the picture. UNCDF's first and largest global initiative, MicroLead, supports the expansion of financial service providers (FSPs) like Wasasa and Buusaa Gonofaa to integrate a savings-led approach. In Ethiopia, MicroLead's objective was to expand access to financial services – and particularly savings – to Ethiopia's unbanked by strengthening the internal capacity of local MFIs. Its goal was to increase the number of voluntary savings customers at Wasasa and Buusaa Gonofaa from 56,000 to 184,000 over a four year period ending June 2015. Would it succeed?

Onsite support for this program began in August 2011. With the aid of MicroLead consultants, BASIX and PAMIGA, these two MFIs pursued a holistic, technology-supported approach to mobilizing savings and expanded their outreach.

1 Storrow, Anthony, Anne Figge, and Getaneh Gobeze. “Overview of Practical Challenges in Local Savings Mobilization by Ethiopian Microfinance Institutions.” PEPE/DAI. Addis Ababa, Ethiopia. February, 2015: 2.

2 In Ethiopia, Iqub members can sell their turn to the highest bidder if someone needs the lump sum before their own turn comes.

3 East and Southern Africa Division Programme Management Department, IFAD. “RURAL FINANCIAL INTERMEDIATION PROGRAMME II (RUFIP II) DRAFT PROGRAMME DESIGN REPORT VOLUME 1 – MAIN REPORT.” 2012: vii.

4 IFAD. “President's report Proposed loan and grant to the Federal Democratic Republic of Ethiopia for the Rural Financial Intermediation Programme II.” Rome. 14-15 Sept., 2011: 9.

5 Xavier Reille, Christoph Kneiding, and Meritxell Martinez. “The Impact of the Financial Crisis on Microfinance Institutions and Their Clients, Results from CGAP's 2009 Opinion Survey.” CGAP. May, 2009: 3-4.

A Transformative Partnership

Buusaa Gonofaa

Founded in 1999 as a private, non-bank financial institution, Buusaa Gonofaa started its life as a credit-focused MFI. By June 2011, the MFI had 30 branches in Ethiopia's Oromia region, as well as 45,960 active borrowers. Its clients were (and are still) largely the rural poor.

Prior to the inception of the MicroLead project, Buusaa Gonofaa was not actively pursuing savings clients. However, its General Manager, Teshome Yohannes, recognized the demand for savings, as well as its potential benefits to the MFI. *"Clients need the service,"* said Teshome. *"It's important, especially for the kind of people we serve. Most of them don't have access to formal financial services... For us [savings is] also an important source of financing."* Savings was critical for both clients – who needed it for income smoothing – and for the MFI.

Wasasa

Like Buusaa Gonofaa, Wasasa was founded as a private, non-bank financial institution, also in the Oromia region. Also like Buusaa Gonofaa, it targeted the rural poor. The MFI was established in September 2000. By June 2011, Wasasa had 24 branches and reported a portfolio of 53,981 borrowers and 56,085 savers. However, the bulk of these savings deposits were compulsory – linked to loans – with borrowers required to deposit at least 15% of their loan amount.

This compulsory savings was unavailable for withdrawal until the loan was fully repaid. Borrowers were also encouraged to open a voluntary savings account, with a minimum 10 ETB deposit, the equivalent of USD 0.50, available to be withdrawn at any time. But the same passbook was used for voluntary and compulsory savings, and in practice voluntary savings were treated the same as a mandatory savings account.

However, Wasasa's General Manager, Amsalu Alemayehu, had come to recognize the value of voluntary savings mobilization. The MicroLead program looked to be a path to do just that. *"Wasasa had to grow,"* said Amsalu, *"to expand its outreach. We were informed about the [MicroLead] program through our partners. We were interested, because MicroLead's purpose was to assist MFIs to fund their growth and outreach, to increase customers. So MicroLead's mission coincided with our own."*

BASIX

Bhartiya Samruddhi Investment and Consulting Services Limited group (BASIX) was one of the earliest consulting organizations to respond to the MicroLead offering. Established in India in 1996, the organization provided a blend of microfinance and livelihood services to over 1.6 million poor across India. In 2000, it expanded to providing technical assistance to other microfinance institutions.

For the Ethiopia project, BASIX embedded permanent consultants with Wasasa and Buusaa Gonofaa. Though short-term experts worked on the project as well, the embedded technical assistance (TA) contributed to a systems approach which would prove to be crucial to the project's success. BASIX worked with the MFIs on governance, human resources, risk management, and other less obvious internal systems that support the savings process. Such a systems approach was critical, because introducing savings to a credit institution represented a cultural sea change. This coaching approach also ensured that the lessons learned were sustainable.

Because the MicroLead project was BASIX's first project in Africa, it also tapped some outside support: PAMIGA.

PAMIGA

The Participatory Microfinance Group for Africa (PAMIGA) is an initiative of the Centre International de Développement et de Recherche (CIDR) and leaders in African microfinance. General Manager, Renée Chao-Beroff, emphasizes: *"PAMIGA is a network working in rural Africa. We're concentrated on helping rural MFIs reach areas where clients are really under-served."* Technology is, therefore, of high interest to network members.

PAMIGA has 16 member MFIs across Africa – including Buusaa Gonofaa and Wasasa – reaching over one million clients. The network's membership is growing, with new applications from Ethiopia. Its strong member network proved crucial to disseminating lessons learned from this MicroLead project to other African MFIs in Ethiopia and beyond.

People, Technology and Savings

Successfully introducing savings to an MFI can bring about a shift in both operations and culture. Operationally, the MFI must have the procedures and processes for managing savings – e.g. back-end systems, like core banking software, and front-end architecture, such as POS devices and branches designed for savings. These systems can be expensive to implement – particularly on the technology side – and must be designed for cost-effectiveness when managing tiny deposit amounts.

However, the cultural shift for MFIs is even more profound. As a lender, the MFI evaluates its clients, determining if they're a good risk. When an MFI takes savings, the situation is reversed. The clients must judge if the MFI is worthy of holding their money. This requires a more intensive customer service and marketing approach, where the MFI staff are no longer authority figures to be obeyed but service providers to be scrutinized.

MFIs must also consider branding. Are they perceived as trustworthy by potential clients? Do target markets think of the MFI as a potential savings service provider? *"Word of mouth,"* a stand-by of microcredit marketing, is often not enough to build a savings brand.

Because the scope of these changes seemed daunting, Buusaa Gonofaa decided to start its transformation to savings by first gaining a thorough understanding of clients for the purposes of product design, then working on internal systemic change. Finally it would test an electronic, hand-held POS system to collect and record payments – the first such system to be tested by an Ethiopian MFI. Only towards the end of the project did the MFI begin considering core banking software.

Wasasa, which was further along in the savings mobilization process but well behind in technology, relying on manual recordkeeping, prioritized savings product re-designs and implementing core banking software – a necessary first step before any front-end technology experimentation.

The Buusaa Gonofaa Experience

Buusaa Gonofaa's general manager, Teshome, was determined to make savings a cornerstone of the MFI's financial services. The MFI was already using simple loan software, and here it had the advantage over Wasasa. A core banking system would be a big improvement over their current software, but it would also be a challenge, demanding financial and human resources. Could they install the new system *and* introduce savings to the MFI?

Teshome was doubtful. Instead, he decided to focus resources on understanding the market and product design. BASIX led staff and consultants in a mini-market survey to understand Buusaa Gonofaa's customer needs, the

competition, and staff preparedness to expand voluntary savings. The MFI began testing new products. In 2012, Buusaa Gonofaa coupled this pilot test with a pilot of a POS system, testing it first in two branches – one near Buusaa Gonofaa's headquarters in order to tightly manage the process, and the second chosen based on a subjective evaluation of the branch's willingness to experiment. The systems worked smoothly, integrating with the MFI's software and working properly in the field, and branch staff embraced the technology, so the MFI expanded the pilot test to eight additional branches.

Used for both lending and savings collection, the POS devices had the potential to dramatically increase efficiencies. In the past, loan officers had manually entered transactions, and then the data eventually got transferred to the computer system. With the POS devices, a loan officer went into the field, logged the transaction, and provided the client with a receipt generated by the device. Back at the branch, the data was uploaded directly to the computer system, reducing the possibilities of human error and saving time, e.g. by simplifying the cashier's job. Now, all the cashier had to do was check the tendered amount received against the expected amount.

The POS worked as promised. Not only did Buusaa Gonofaa increase efficiencies, but clients reported feeling greater security with the system. The electronically-generated receipts seemed more professional and trustworthy, separating Buusaa Gonofaa loan and savings officers from the informal savings collectors. *"With a machine,"* said Teshome, *"you can't lose the receipt. Clients have less confidence in the paper vouchers than a receipt coming from a POS machine, even though they don't understand the technology."* The POS system also freed the MFI to conduct another experiment – doorstep savings collection.

"As we rolled out the POS to the test branches," said Teshome, *"we were also pushing the staff to increase savings deposit mobilization, so some of the branches started offering doorstep collection. They just did it. It was risky, yes, but we were pressuring them to increase deposit volumes, so they went to the doorsteps. The POS has really changed the whole game and the whole business model."*

"I went to each branch several times just to understand what this branch was doing. But the staff had advanced quite well, so we had to come back to the drawing table and quickly follow them, asking how can we learn from what they're doing, do it more systematically, and strategically introduce doorstep savings as an option?"

Although Buusaa Gonofaa did not reach all of its targets, it made dramatic strides in savings mobilization (see Table 1), going from zero to over 56,000 voluntary depositors in under

four years. It increased its voluntary deposit to loan ratio from 0% to 17%, while its total deposit to loan ratio increased from 16% to 35%, demonstrating all the deposit growth is from voluntary deposits.

Buusaa Gonofaa is sold on doorstep banking and the POS devices. *“Doorstep banking is the way we’re going,”* said Teshome. *“And I’m persuaded by the technology. This has created a new model for doing business with the poor.”*

Teshome isn’t the only one committed to this technology. Wasasa has plans to implement a POS system, learning from Buusaa Gonofaa’s experience. Other donor programmes, such as U.K. Department for International Development’s Private Enterprise Programme Ethiopia (PEPE), are tapping into the knowledge and lessons learnt to further best savings practices with other Ethiopian MFIs⁶.

Table 1
Buusaa Gonofaa performance-based agreement targets versus actual performance

| | Baseline: June - 2011 | June-2012 | | June-2013 | | June-2014 | | June- 2015 | March-2015 |
|--|-----------------------------|-----------|-----------|-----------|-----------|-----------|------------|---------------|------------|
| | | Target | Actual | Target | Actual | Target | Actual | Target | Actual |
| Number of Active Voluntary Depositors | 0 | 5,000 | 2,369 | 15,000 | 13,905 | 32,500 | 41,793 | 55,500 | 56,197 |
| % of Female Depositors | 0 | 70% | 70% | 70% | 72% | 70% | 62% | 70% | 64% |
| Voluntary Deposits (USD) | 0 | N/A | N/A | N/A | 392,032 | N/A | 1,137,578 | N/A | 1,805,775 |
| Number of Active Borrowers | 45,960 | 57,450 | 55,424 | 70,000 | 67,787 | 78,532 | 80,189 | 94,801 | 68,713 |
| % of Female Borrowers | 70% | 70% | 71% | 70% | 75% | 70% | 66% | 70% | 69% |
| Gross Loan Portfolio (USD) | 4,526,483 | N/A | 6,165,525 | N/A | 8,599,421 | N/A | 11,504,999 | N/A | 10,432,809 |
| Operational Self Sufficiency | 159% | 179% | 143% | 185% | 187% | 190% | 142% | 196% | 198% |
| Portfolio at Risk >30 Days | 0.4 | 1.5% | 0.60% | 2.0% | 0.69% | 1.5% | 0.57% | 1.0% | 1.0% |
| % of Rural Clients | 60% | 60% | 65% | 63% | 67.5% | 66% | 64% | 70% | 70% |
| Average Loan Balance per Borrower/ GNI per Capita | 32% | <50% | 28% | <50% | 32% | <50% | 37% | <50% | 28% |
| Average Saving Balance per Depositor/ GNI per Capita | 0% | <15% | 5% | <15% | 6% | <15% | 8% | <15% | 9% |

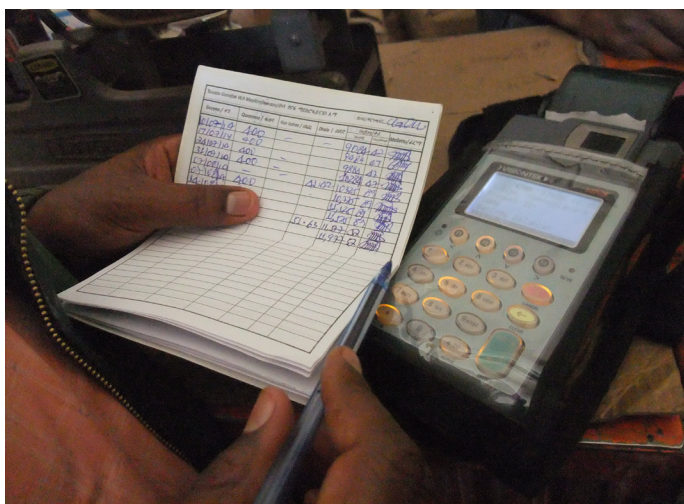
The Wasasa Process

With the commencement of technical assistance, BASIX conducted another market survey, this time for Wasasa. Based on the survey and brainstorming sessions with MFI staff and board members, the consultant recommended pilot testing new voluntary saving products and systems in select branches, one in each of the four regions where Wasasa operated.

At the same time, consultants reviewed Wasasa’s current IT infrastructure and MIS capabilities, assessing the MFI’s needs and studying the feasibility of branchless banking solutions. Wasasa had a long road ahead of it. When consultants initially visited the branches in 2011, they found no computers. The branches were completely manual. Any sort of POS-system would need a back-end MIS with which to communicate. Nothing could be done on the technology side without some sort of MIS software. Consultants prepared an RFP for a core banking system, because at the time, there was no IT department to write the RFP. The department would have to be created.

Gradually, Wasasa recruited an IT manager and team. With help from BASIX, Amsalu and the IT and Finance departments visited India to visit potential MIS vendors to assist with making a purchase decision. A year into the project, they selected a core banking software provider.

⁶ Storrow, Anthony, Anne Figge, and Getaneh Gobezie. “Overview of Practical Challenges in Local Savings Mobilization by Ethiopian Microfinance Institutions.” PEPE/DAI. Addis Ababa, Ethiopia. February, 2015: 11.



Implementation of the core banking system took longer than expected, blunting Wasasa's savings growth. The MFI did not hit its targets, and is unlikely to by the end of the project in 2015 (see Table 2, below). As of this writing the transition to the core banking system had just been completed.

The MicroLead team is confident Wasasa is moving in the right direction, and the MFI has plans to implement a POS-system once their core banking installation is ready. If Buusaa Gonofaa's success is any guide, Wasasa should be well positioned to make tremendous strides in rural savings mobilization. "When we started MicroLead for Buusaa Gonofaa," said Renée Chao-Beroff from PAMIGA, "it was obvious they could build the POS on their existing system."

But for Wasasa, it wasn't possible, because they were doing everything manually. So the big step for Wasasa was to at least implement the core banking system. It's not complete yet, but I think they're on the right track... Wasasa is a member of PAMIGA network, and they are now requesting that PAMIGA assist them to move to the next step of digital finance. We will help them – even after MicroLead ends – to go to the next step. This is the technology story of Wasasa."

Meanwhile, Wasasa made strides in expanding its savings client base. The MFI played to its strengths in product research and development – tasks requiring a high degree of human touch and where Wasasa had experienced staff. Based on the market research, the MFI tested three new products:

- Passbook Savings, which utilized a passbook separate from that used for the microloan and mandatory savings and which had no restrictions on the number of deposits and withdrawals. Passbook Savings provided a higher interest rate for depositors than Wasasa's mandatory savings-product.
- Time Deposits, a one-time deposit of a lump sum amount to be held for a period ranging from six months to three years. The goal of the time deposits was to encourage clients to save for future needs, as well as to help the MFI with liquidity management.
- Planned Time Deposits were designed to enable clients to save periodic, small amounts, e.g. weekly or bi-weekly, depending on the customer's cash flow. Planned time deposits ranged from a period of six months to five years.

The new products were successfully tested in the four selected branches and rolled out. Savings increased, though not to the predicted levels, hampered by a lack of funds for branch infrastructure, increasing competition, and the diversion of management resources and attention to the MIS implementation. Additionally, clients were less interested in term deposits than hoped for – partly due to Ethiopia's inflation rate which erodes long-term savings and for a preference for "in-kind" savings (i.e. investing in livestock). In spite of this, the MFI continued to provide term deposits in order to cater to farmers, who need a safe place to store the large amounts of cash they receive at harvest time.

Although Wasasa expanded its savings outreach, making the leap from manual bookkeeping systems to the complexity of a core banking system took longer than expected. IT managers came and went – two departed over the course of the project – and there were delivery and installation delays, as well as funding constraints on deploying the solution.



Table 2
Wasasa performance-based agreement targets versus actual performance

| | Baseline: Jun-11 | Jun-12 | | Jun-13 | | Jun-14 | | Jun-15 | March-15 |
|--|---------------------|--------|-----------|--------|------------|---------|------------|---------|------------|
| | | Target | Actual | Target | Actual | Target | Actual | Target | Actual |
| Number of Active Voluntary Depositors | 56,085 | 62,284 | 63,633 | 84,450 | 75,901 | 100,250 | 78,965 | 129,000 | 85,356 |
| % of Female Depositors | 45% | 45% | 40% | 45% | 40% | 48% | 42% | 50% | 42% |
| Voluntary Deposits (USD) | 883,486 | N/A | N/A | N/A | 1,718,801 | N/A | 2,253,331 | N/A | 2,363,461 |
| Number of Active Borrowers | 53,981 | 62,284 | 58,911 | 75,000 | 65,768 | 85,000 | 68,827 | 108,000 | 58,357 |
| % of Female Borrowers | 45% | 45% | 41% | 45% | 41% | 48% | 46% | 50% | 45% |
| Gross Loan Portfolio (USD) | 6,608,426 | N/A | 8,488,714 | N/A | 10,638,640 | N/A | 12,817,745 | N/A | 10,360,948 |
| Operational Self Sufficiency | 144% | 139% | 159% | 146% | 133% | 145% | 123% | 150% | 134% |
| Portfolio at Risk >30 Days | 2.0% | 2.75% | 1.0% | 2.5% | 0.5% | 2.25% | 0.73% | 2.0% | 1.0% |
| % of Rural Clients | 60% | 62% | 91% | 63% | 88% | 66% | 82% | 70% | N/A |
| Average Loan Balance per Borrower/ GNI per Capita | 41% | <50% | 37% | <50% | 41% | <50% | 48% | <50% | 38% |
| Average Saving Balance per Depositor/ GNI per Capita | 8% | <15% | 10% | <15% | 11% | <15% | 13% | <15% | 7% |

Outcomes

The two MFIs started from very different positions – Wasasa already collecting savings and Buusaa Gonofaa starting from scratch, Buusaa Gonofaa with a simple MIS system in place, Wasasa still relying on manual accounts. Buusaa Gonofaa made dramatic strides towards expanding its savings outreach. Wasasa moved forward at a slow and steady pace.

Although both MFIs are moving forward, based on their March 2015 numbers, it is unlikely Wasasa will meet its June 2015 project targets. **As of March 2015, the two MFIs had added 85,468 voluntary depositors over the course of the project.**

Figure 1
Growth number of active voluntary savers

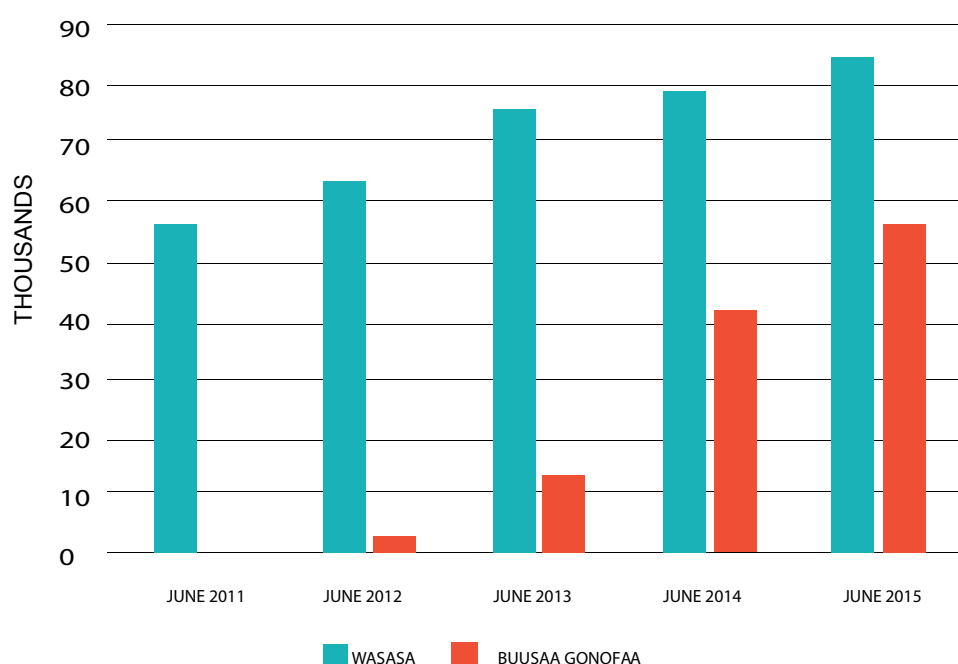


Table 3
Net Increase for Key Performance Indicators at Buusaa Gonofaa and Wasasa
 (March 2015 Vs Baseline)

| | June-2011 (Baseline) | | | March-2015 | | | Mar-15 minus June-11 |
|-----------------------------------|----------------------|-----------|------------|----------------|------------|------------|----------------------|
| | Buusaa Gonofaa | Wasasa | Total | Buusaa Gonofaa | Wasasa | Total | Net |
| Number of Active Depositors | n/a | n/a | n/a | 81,497 | 85,356 | 166,853 | |
| Total Savings Mobilized (USD) | 710,211 | 1,856,397 | 2,566,608 | 3,618,929 | 4,824,328 | 8,443,258 | 5,876,650 |
| Number of Voluntary Depositors | - | 56,085 | 56,085 | 56,197 | 85,356 | 141,553 | 85,468 |
| Voluntary Savings Mobilized (USD) | - | 883,486 | 883,486 | 1,805,775 | 2,363,461 | 4,169,236 | 3,285,750 |
| Gross Loan Portfolio (USD) | 4,526,483 | 6,608,426 | 11,134,909 | 10,432,809 | 10,360,948 | 20,793,758 | 9,658,849 |
| Total deposit / GLP | 16% | 28% | 23% | 35% | 47% | 41% | |
| Voluntary deposits/GLP | 0% | 13% | 8% | 17% | 23% | 20% | |

Project Challenges

While Buusaa exceeded its June 2015 savings targets by March of that year, not all of the project targets were achieved, most notably in Wasasa's savings outreach.

Reporting

A challenge identified later in the project had to do with early project reporting. Wasasa had reported 56,805 voluntary savers – and also 53,981 active borrowers – in June 2011. BASIX reported that the bulk of these “voluntary” savers had savings as a requirement of their loans. As a result, the project targets for Wasasa may have been skewed, indicating they were starting from a much stronger voluntary savings position than they really were. While some of Wasasa's 53,981 active borrowers no doubt did contribute voluntary savings, because Wasasa was not differentiating true voluntary versus loan-linked savings in its own reporting, it is impossible today to know what the true voluntary savings numbers were. The lesson? During project start-up, it's important to define the key performance indicators as specifically as possible, to avoid this sort of confusion.

The Internal and External Savings Culture

Though there was clear recognition at the MFIs' top and middle management levels about the importance of savings to the clients, to the MFIs and to the alleviation of poverty, the culture within many branches remained credit-centric. Even after periodic trainings, many believed that their target markets either were unable to save or did not want to save, preferring in-kind savings.

There was some truth to the latter claim, especially in the rural areas where the MFIs worked. The inflation rate in Ethiopia was higher than interest paid on most savings, making “in-kind” savings (or investment) in livestock, for example, more attractive. However, there were risks to investing in livestock – the animal could become sick or ill, and the owner had to know how to care for it. Branch offices in rural areas are often challenging for customers to get to, providing another disincentive to saving with an MFI – a problem potentially solved by cost-efficient doorstep banking. Through the financial education component of the program, BASIX and the MFIs worked to educate customers about the benefits of diversifying their savings into formal financial institutions like MFIs.

Within the MFIs, savings promotion was often viewed as an expenditure rather than an investment. Short of funds for such investments, it was difficult for the MFIs to dedicate the funds necessary for branch upgrades, staff training, and marketing.

Competition

Over the course of the project, Ethiopia's banks began aggressively expanding into the rural areas – good news for the rural poor, a challenge for the MFIs. The MFIs struggled to differentiate themselves from the banks, with Buusaa finally settling on a doorstep banking model. However, BASIX's B.V. Raghuram, VP of International Consulting, reported, “customers still see these two institutions as lending institutions. For savings, they approach the commercial banks. So there's a marketing/branding issue for the two MFIs.”

Infrastructure

Infrastructure was a challenge for the MFIs on several levels. First, most of the branches were in poor shape for deposit taking. In remote locations, far from the main roads and markets, the buildings were frequently low quality and lacked facilities for savings customers. Branches were also plagued with frequent power outages, communications problems, and weak surrounding transportation structures. Buusaa worked to get around this problem with its doorstep banking model, determining that most customers didn't want to go to the branches to make deposits anyway.

Staff

A bigger issue was limited staff skills. As mentioned above, most staff were credit oriented, without sufficient skills to convince customers from different market segments to trust their savings with the MFIs. When it came to implementing technology, skilled staff became an even more critical variable. The lack of skilled MIS operators resulted in delays and roadblocks in Wasasa's implementation of its core banking system. In turn, this delayed any move to a POS-based doorstep model.

Lessons Learned

For both Buusaa Gonofaa and Wasasa, people – both customers and staff— were critical to successfully mobilizing savings via technology.

Back-end Technology: the Core Banking System

The installation of the core banking system at Wasasa dragged, delaying the leap to a POS system that could transform their savings mobilization. What happened? While the product testing and development continued apace, Wasasa lost its new IT manager. His departure delayed internal capacity building on SQL, networking, and other IT systems, as well as the implementation of the new core banking system. A new IT manager was eventually hired, yet he departed as well. Strong IT managers are thin on the ground in Ethiopia – particularly outside the capital, Addis Ababa – and the best ones are looking for salaries higher than a small MFI can afford.

One year after the core banking system was selected, it still awaited installation due to a vendor delay and lack of manpower. But sourcing hardware was also a challenge. It needed to be imported, a process entailing requests for proposals, shipping delays, and import fees. Finally, the system was set up, complete with a state-of-the-art server and data center. However, the migration of old records to the new core banking system continued into the spring of 2015, a process which involves first entering the manual data into Excel, and then migrating the Excel data to the core banking system. Additionally, the current core banking system requires internet connectivity, which in rural Ethiopia is sporadic at best. Wasasa is addressing this through the purchase of off-line licenses.

"If you're considering installing a new MIS system," said Balaji Annam of BASIX, "three things must happen. First, software needs to be identified and approved by all the department heads. The software decision must be based on their needs. Second, prepare an RFP. Finally, be sure to get a demonstration of the software. Visit a bank or MFI that's already using the software to see how it's functioning." It takes people to select, install and implement technology. Without adequate human resources in place first, software and hardware implementation can be challenging.

Front-end Technology: POS

The POS installation at Buusaa Gonofaa was also not without its challenges. An RFP had to be developed and the proposal process worked through. It took eight months to import the POS devices, and they were expensive, particularly when one took into account the import taxes. Integrating it with Buusaa Gonofaa's existing software took six months and outside expertise. However, because it could be integrated to Buusaa Gonofaa's existing loan software and was not reliant on the Internet, it worked and reduced the time needed to process loan and savings collections.

Finances permitting, Teshome would like to expand the POS technology to more branches. However, he's convinced the most important ingredient in savings mobilization is people. "With POS," Teshome said, "the biggest issue wasn't technology, it was the system we needed to develop for doorstep banking..."

Understanding the best delivery channel to fit customer needs was paramount. The doorstep banking channel best suited the MFI's rural target market, and the POS devices made the collection of small amounts economically feasible. "Delivering doorstep deposit collection takes into account human nature and the petty interferences that disrupt schedules," said Teshome. "If my staff collects consistently at the client's business, they can collect the savings in moments. The point is the channel – what the clients want and need. Few of these clients will go to a bank. We must look at how or if the technology is going to make a difference with the channel, if it's helping our clients fulfill their commitments and realize their dreams."

Branding

Successfully marketing savings requires developing a brand as a savings institution. Commercial banks currently hold first place in people's mind for formal savings. To compete, MFIs may need to step outside their comfort zone and begin paid branding and advertising.

Creating a Savings Culture

Finally, savings represents a big cultural shift within the MFI. "Financial services is still a people business," says Pamela Eser, Manager of MicroLead at UNCDF, "not only in terms of the customer but also the people at the FSP. If they don't

understand why they're doing this, it's hard to move forward. They're used to making loans. Credit is easy, they all do it, why do they need to go down this other path when it's so difficult to mobilize savings?"

"I never thought that technology can increase trust. For me, technology is useful because it reduces costs, because it secures the data, and all those kinds of things. But this is the first time that really confronted with clients, I've heard that technology can increase trust, even when there is no brick and mortar branches..."

Renée Chao-Beroff, PAMIGA

Convincing MFI staff to make the effort to mobilize savings requires a combination of financial incentives, proof through demonstration, and strong advocates at every management level. Moving to savings mobilization is a long-term process – especially when new MIS is involved – requiring commitment at the senior management and board level. Technology can make savings mobilization more efficient and effective, but savings won't move forward without committed people.

"Soft skills have to come first," said Hermann Messan of MicroLead. "At the end of the day, you need people to run the system and your system can only replicate your institution's internal procedures, but it is people that make the difference."

To motivate staff, B.V. Raghuram at BASIX advises MFIs to "look at the incremental productivity, not just the end targets. Have a reasonable target to start with in order to create a savings mobilization culture." Buusaa Gonofaa, for example, formed a committee to develop a 100-day plan to raise a specific amount of savings. At the end of the one hundred days, they held a two-day management meeting to review the results against the targets, evaluate the lessons learned, and refine the plan going forward. These short-term goals were used in combination with long-term, strategic goals.

Know Your Clients

Teshome estimated that 90% of Buusaa Gonofaa's doorstep savings customers had no desire to set foot in a branch office. Understanding this market segment's needs was an important first step on the path to mobilizing savings. Similarly, Wasasa's most successful efforts were focused on understanding their customers at a more detailed level than they had before – their cash flow patterns, their needs, and what savings product features mattered to them.

"MFIs have to identify their niche market and have appropriate products to fit their needs," said Wasasa's Amsalu. MFIs really

need to know their customers much better – their cash flows, their cash needs, how they're going to finance their cash needs, what kinds of programs MFIs can design to tap that."

Knowing a microfinance client from a credit perspective is not the same as knowing their savings wants and needs. MFIs should not fall into the trap of assuming that they already know their clients well enough. Savings is a new product and requires intensive customer research to succeed.

What Do Savers Want?

Teshome learned that one savings customer was outraged by Buusaa Gonofaa's service, so he spoke with him. The client's loan officer had been in the hospital for the last month, and the client's regular savings collection service had been disrupted. The client was infuriated. Teshome discovered that clients wanted savings collections as rigid as loan collections. And they didn't want to come to the office.

On another memorable occasion, Teshome visited a savings client who ran a pool hall. As they spoke, two of her clients walked out without paying. Exasperated, she told Teshome, "See what happens when I turn my back for two minutes? Don't worry, I know them, I'll get their money. But what would happen if I went to your office and lost an hour?"

The Long-term Approach

Introducing rural savings mobilization, particularly when technology is involved, is a long-term project. Long-term relationships, such as those between the MFIs and the PAMIGA network, can ensure the project is completed. Because both Wasasa and Buusaa Gonofaa are network members, they will continue to receive technical assistance from PAMIGA once the MicroLead project ends, ensuring no project pieces will be left unfinished. Wasasa is looking to implement a hand-held POS system. Buusaa Gonofaa will eventually need a core banking system to replace its existing MIS. Continuing support from PAMIGA may ensure that these critical components to savings mobilization go forward.

Systems Approach

BASIX not only installed a permanent consultant to work with both MFIs throughout the project, but it also took a systems approach, coaching staff and ensuring that the MFIs had the tools and systems to support savings in the long-term. It also expanded this systems approach throughout the Ethiopian

microfinance industry, providing trainings on everything from savings to human resources management through AEMFI, the Ethiopian microfinance association.

Buusaa Gonofaa's Teshome is a fan of this capacity building approach. "I've been working with microfinance over the last 15 years," he said. "A real capacity building lesson I have seen is with the modality of operations with BASIX and MicroLead. For example, with BASIX, it was not only about generating a certain number of savings accounts, but about the systems that support or sustain savings, e.g. performance evaluation and reporting systems. So we're learning how to create these kinds of accompanying systems and processes, and that continues even after the project ends... Even if the savings had failed, BASIX has transformed the way we do business, and no one can take that away."

What's Next

Expanding savings mobilization to rural areas will become increasingly important for Ethiopian microfinance institutions and their clients. "MFIs need to mobilize more savings to be sustainable in the long run," said Ram Mohan Rao, the lead on-site TA provider from BASIX, "as access to donor support and bank loans becomes increasingly difficult."

Adopting modern technology, staff training, and improving infrastructure are the keys to promoting financial inclusion as well as mobilizing savings."

The use of the POS for doorstep banking is a particularly exciting development for the Ethiopian microfinance sector. BASIX and UNCDF MicroLead are working to disseminate the lessons learned throughout the sector, using a workshop in June 2015 through AEMFI, the Ethiopian microfinance association, as well as papers such as this one. AEMFI is also utilizing the materials developed under MicroLead to provide trainings to other Ethiopian MFIs, and MicroLead is developing webinars for MFIs.

PAMIGA has also been instrumental in spreading the lessons learned from this technology experiment. Every year the network hosts a CEO Meeting for its members, and last year this took place in Ethiopia. Buusaa Gonofaa organized a field visit for participants with the theme of savings mobilization and technology. Wasasa organized a visit around product development, environment and microfinance. Partly due to requests from partner CEOs at this meeting, PAMIGA's business plan for the coming year includes prioritizing digital finance for eight of their members.

Ethiopian demand for microcredit continues to outstrip the supply. MFIs can onlend savings, increasing their outreach and profitability – all they need is an effective model. The MicroLead experience provides a potential roadmap.

About MicroLead

MicroLead is a UNCDF-managed global initiative supporting the development and roll-out of deposit services by regulated FSPs, seeking to respond to the rural vacuum of services. With the generous support of the Bill & Melinda Gates Foundation, The MasterCard Foundation and the LIFT Fund in Myanmar, MicroLead works with a variety of FSPs and technical service providers to reach rural markets with demand-driven, responsibly priced products offered via alternative delivery channels. This is combined with financial education, so customers not only have access but can effectively use quality services.

The program enables its partners to strengthen their deposit offerings and reach into previously untapped rural markets. With an emphasis on savings, women, rural markets, and technology, MicroLead is a performance-based program that builds the capacity of financial institutions to pilot and roll out sustainable financial services, particularly savings. Over two million additional small-balance depositors, a majority of whom are women and rural dwellers, will be reached by 2016.

MicroLead results

- MicroLead has awarded funding worth USD 43.5 million in 21 countries for 29 projects and working with 39 FSPs.
- By the end of 2014, MicroLead's first phase (with 17 of the 39 partner FSPs) reached over one million depositors, a doubling of its target.
- MicroLead Expansion (phase two) targets reaching over one million rural depositors in Sub-Saharan Africa by 2016 and over 140,000 rural depositors in Myanmar by 2017.

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