



The Business Case for Small-Balance Deposit Mobilization:

Case Study on UGAFODE in Uganda

November 2017 - Pulling Levers Toward Sustainability, A Framework for Small Balance Deposit Mobilization Case Study Series



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Introduction

UGAFODE's decision to mobilize small-balance deposits: an opportunity during a challenging transformation process

This paper is one of a four-part series of case studies which demonstrate the use of the Decision Framework for Small Balance Deposit Mobilization (SBDM) (see Figure i). This Framework is further elaborated in the foundational paper “Pulling Levers Toward Sustainability”. All documents were produced based on the experiences of the financial service providers (FSPs) assisted under UNCDF's MicroLead Expansion programme. MicroLead is a multi-year (2011-2017) initiative in partnership with Mastercard Foundation which focuses on meeting rural customers' demands for easily accessible, cost-effective savings products which are provided on a sustainable and scalable basis by regulated FSPs.

Figure i
Pulling Levers Toward Sustainability

A DECISION FRAMEWORK FOR SMALL BALANCE DEPOSIT MOBILIZATION

Environmental Factors



Market Level

Competition
Policy & Regulation
Cost of Funds
Access to Grants &
Patient Capital
Socio-Economic Conditions



Institutional Level

Mass Market vs.
Low-Income
Institutional "Muscle"
Brand & CSR
Time Horizon
Opportunity Costs



Segment Level

Rural / Urban
Male / Female
Salaried / Self-Employed
New / Old Customers

Viability Levers

- Reduce dormancy
- Increase account usage



Funding



- Pay lower interest rates
- Grow average savings balances

- Streamline account opening process
- Reduce cost of delivering other products to savings customers



Acquisition



- Partner with savings groups
- Cross-sell or bundle other products to savings customers

- Charge maintenance fees to all cost centers applicable to savings clients



Maintenance



- Increase net interest income (transfer price)

- Use alternative delivery channels (ADCs)



Servicing



- Charge transaction fees

“

UGAFODE Microfinance Limited in Uganda began its activity in 1994 as an NGO.

”

UGAFODE



AS OF AUGUST 2013,
160 OPEN ACCOUNTS



TOTAL BALANCE
AMONG TWO PRODUCTS
IS A LITTLE MORE THAN
USD 13,000

In 2010, after more than 15 years of focusing principally on credit for the poor, UGAFODE began a process of transformation to convert into a microfinance deposit-taking institution. At that time, UGAFODE made significant efforts to develop savings products to expand its small deposit balances and reach low-income customers. It developed a Target Savings Account, focused on low-income segments, with behavioral features aimed at stimulating savings. It also developed a Junior Savings Account for youth, and three products that sought to attract higher-income customers: an Institutional Savings Account, School Collection Fees and Fixed Deposits accounts.

By August 2013, it became clear that growth in savings through these accounts was slower than had been anticipated. Among the products that were clearly focused on mobilizing savings among low-income segments, the Target Savings Account and Junior Savings Account, UGAFODE had only 160 open accounts, with a total balance from these two products of USD13,000 (see Table i). Moreover, across its entire savings portfolio, 70% of deposits were concentrated within 10 accounts (eight fixed deposit accounts and two ordinary savings accounts), which presented the risk of instability if any one of these accountholders were to make a large withdrawal.

Table i
UGAFODE Savings Products (Number of Accounts and Total Deposit Balance), as of August 2013

Product Name	#	UGX	USD
Fixed Deposit	46	3,506,225,951	1,345,960
Ordinary Savings	34,320	1,218,605,087	467,795
School Collections	20	81,801,758	31,402
Institutional Saving	133	66,709,759	25,608
Staff Account	220	52,272,361	20,066
Target Savings	54	21,155,050	8,121
Junior Savings	106	12,603,740	4,838
Total	34,899	4,959,373,705	1,903,790

UGAFODE also had what it called its Ordinary Savings Account product. This product had been primarily used for disbursing loans rather than mobilizing savings, and over 23,000 of these accounts held USD 5 or less. But, UGAFODE knew this product had the foundational features to mobilize more deposits. Its monthly maintenance fee of USD 0.30 was in line with the competition (see Ordinary Savings Account product features in Table ii). And, unlike most products offered by UGAFODE's competitors, it had no minimum opening balance. Now, UGAFODE hoped to leverage it to develop new small balance savings products and grow its SBDM programme. Could an entity like UGAFODE, with its history as an NGO and mission *"to transform the lives and livelihoods of our people economically and socially by availing to them inclusive financial services that meet their expectations"* successfully convert to a regulated financial institution and sustainably capture small balance deposits in the process?

Table ii
Features of UGAFODE's Ordinary Savings Account product

Features:	Description:
Product name	Ordinary Savings Account (OSA)
Target market	Regular low economically active income earners who wish to make real time transactions i.e. savings and loan repayments
Tag line	"A Secure and unlimited access to your money"
Initial Deposit	UGX 10,000
Minimum Balance	UGX 10,000
Monthly Fee	UGX 1,100
Interest rate & Calculation	3.5% Credited on the minimum balance during the month
Transaction Fees	N/A
Statement	1 free per month
Funds Transfer	EFT, Mobile Money, AirSave
Requirements for account opening	1. One Passport photo 2. Photocopy of Valid ID (National ID, Passport, Driving License [either/or])

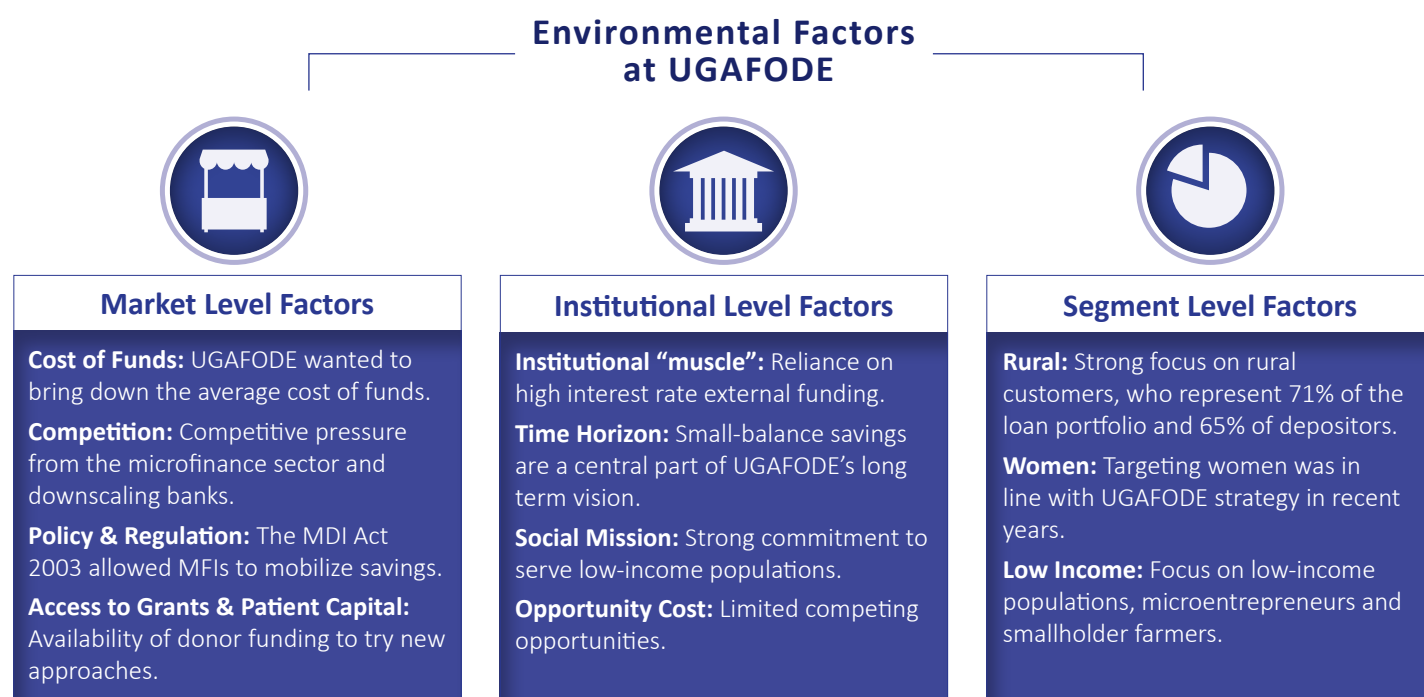
UGAFODE's decision to provide small-balance savings service: market and institutional-level factors

Although UGAFODE had 35,000 savings accounts and some 5 billion UGX (USD 1.9 million) in deposits (see Table i), the institution had not managed to replace dependence on other sources of funding with savings mobilization. Additionally, with changing regulation of deposit-taking institutions in Uganda, UGAFODE's cost of deposit-taking had increased, due to the need for significant investments and efforts to restructure operations, formalize processes and upgrade systems. Furthermore, funding costs were not reduced given that the institution's strategy was to take costly term deposits. The average interest rate paid for Fixed Deposits (15%) was similar to the financing costs paid for the commercial loans used, up to that time, to finance the portfolio (16.1%). Its median loan size was UGX 1,500,000 (USD 575) and 70% of its 9,800 borrowers were microentrepreneurs and smallholder farmers. UGAFODE quickly discovered that savings account usage was not straightforward. A focus on savings and on the design of new products would be essential.

Since its inception, UGAFODE was a leader in the provision of financial services for low-income populations in Uganda. Nevertheless, it was challenged in its efforts to mobilize savings and to capture savings from the client segment that had otherwise been successfully served through credit products. As Nathan Barigye at UGAFODE commented: *"Our clients came to us to obtain loans, but they were taking their savings to other institutions."* UGAFODE's leaders were aware from their competitors' experiences that taking deposits would require a new mindset. Yet building the products, processes and outreach needed to build client trust and attract new depositors would compete with the pressures of regulation.

The influence of environmental factors in UGAFODE's decision to mobilize small-balance deposits:

Figure ii
Decision Framework for Environmental Factors





UGAFODE's decision to ramp up its small balance deposit mobilization (SBDM) was motivated by several market level factors. UGAFODE relied heavily on high interest rate external funding, as well as costlier term deposits. Thus, increasing deposit mobilization was expected to be a cheaper source of funding to finance the institution's loan portfolio. Additionally, competition was fierce in the microfinance sector in Uganda, and the institution was looking for a way to differentiate itself. When the opportunity arose for a regulatory change, UGAFODE was ready for the challenge. In 2011 UGAFODE obtained the license from the Bank of Uganda to operate a Microfinance Deposit Taking Institution (MDI) and became one of four microfinance entities authorized to mobilize savings. Grant capital was useful to expand into SBDM. In 2012, UGAFODE received the support of the UNCDF under its MicroLead Expansion Programme, which seeks to increase access to financial services, particularly savings, for low-income rural populations. With MicroLead's support and the technical assistance of the Mennonite Economic Development Association (MEDA), UGAFODE worked to improve its savings mobilization strategy.

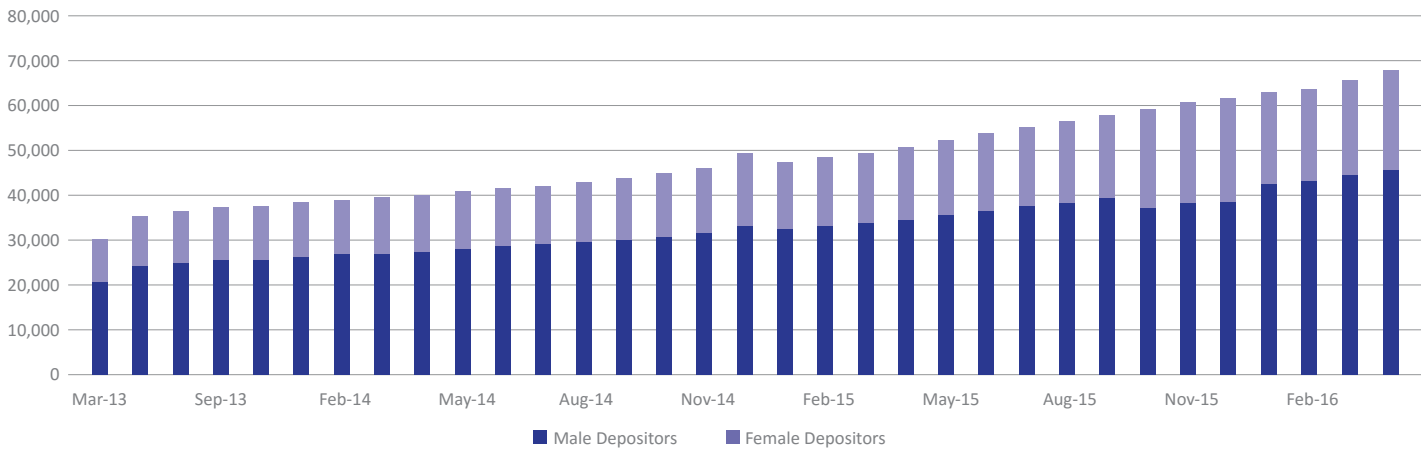


Since its creation, UGAFODE had been a dedicated low-income provider with a strong commitment to its social mission, which motivated UGAFODE's managers to provide savings products for its customers. The institution learned through insights from front-line staff and market research that their traditional client segments – small business owners and farmers – needed savings products. This swayed the institution into taking on the challenge of promoting small balance deposits despite the hurdles they knew they would face. UGAFODE also had the advantage of being able to build on its Ordinary Savings Account product, which already had many of the features of a SBDM product that would be accessible to low-income populations (see Table ii above).



One of UGAFODE's main objectives was to serve its current customers and provide them with a wider range of financial products and services. UGAFODE traditionally had a strong presence in rural areas, as rural customers represented 71% of the institutions' loan portfolio. Moreover, in recent years UGAFODE had worked on increasing access to financial services for women. Between March 2013 and March 2016, the number of female depositors grew from 9,417 to 21,758. In proportion to the total portfolio, however, the growth has been less dramatic: the proportion of female depositors only increased from 31% in 2013 to 33% in 2016 (see Figure iii). Targeting more rural women would be challenging, however. Marketing to women required a new approach for UGAFODE, and associated investment in learning (see below). Acknowledging this difficulty, UGAFODE made a commitment to also reach higher income clients with its savings products. These higher income customers would provide the opportunity to increase average balances and quickly grow the deposit pool.

Figure iii
Male vs Female deposit accountholders at UGAFODE



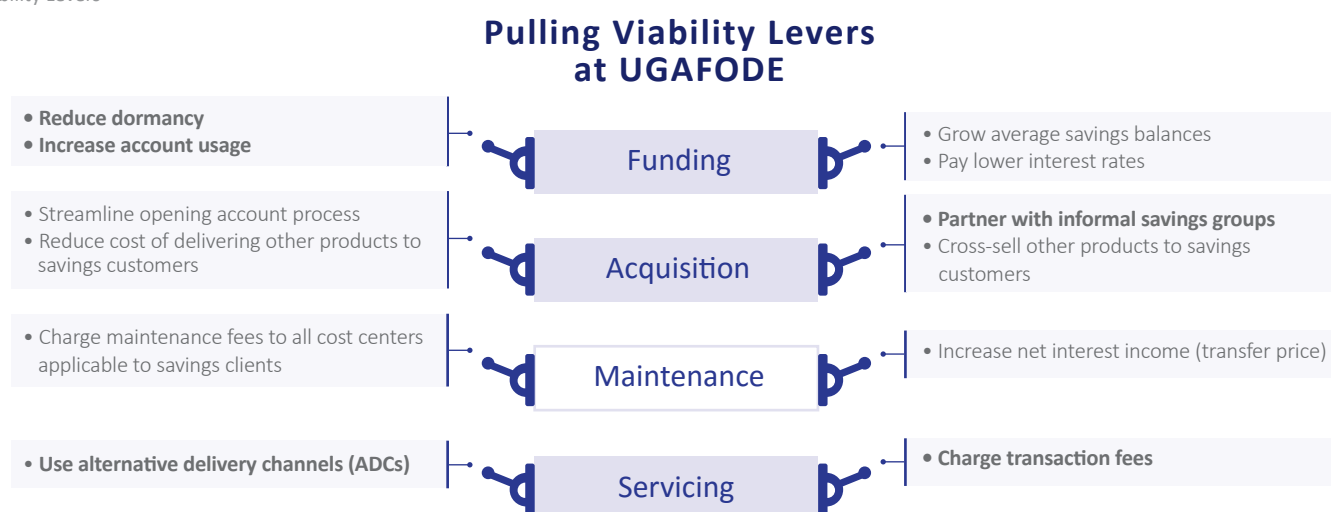
Business meeting

Pulling “Viability Levers” to enhance UGAFODE’s customer value proposition

UGAFODE’s SBDM efforts have relied on the institution pulling several “viability levers” from the Decision Framework for SBDM (see Figure i) to strengthen the business case. Many of these levers required venturing into new business models and approaches, for which the MicroLead Programme was a critical partner.

Devising a plan to pull "Viability Levers" that make SBDM among low-income populations an attractive proposition.

Figure iv
Viability Levers



Cost Cutting Viability Lever: Partner with informal savings groups to access low-income customers.



Within the framework of the MicroLead project and with the support of MEDA, UGAFODE carried out an institutional strengthening plan, and developed a new strategy for savings mobilization with an emphasis on the design of new products and new marketing strategies. Through the project, UGAFODE collaborated with IDEO.org, using its human-centered design approach, to conduct market research and develop a new product. This new savings product, GroupSave, offered existing informal savings groups an opportunity to deposit their group's 'surplus' money into a safe, formal savings account with UGAFODE. GroupSave was developed as a savings product for already-established savings groups that had excess liquidity and viewed savings in a financial institution as an opportunity to mitigate the risks of managing this extra cash. With MEDA's support, UGAFODE then developed a partnership with international NGO Catholic Relief Services (CRS) to build linkages between the 150,000 members of CRS savings groups and UGAFODE.

UGAFODE launched the GroupSave pilot in June 2014 through four rural branches. Initially uptake was slow, but by February 2015 UGAFODE had opened 189 accounts (assuming 20 members per group, this equates to 3,780 people) with a total balance of UGX 36 million (approximately USD 12,000) and an average balance of 190,000 UGX per account (USD 65). By April 2016, UGAFODE had 367 GroupSave accounts (representing 7,340 people). Now, its challenge is to scale up to more customers, and grow the account balances of existing customers.

Cost Cutting Viability Lever: Reduce dormancy rates and increase account usage.

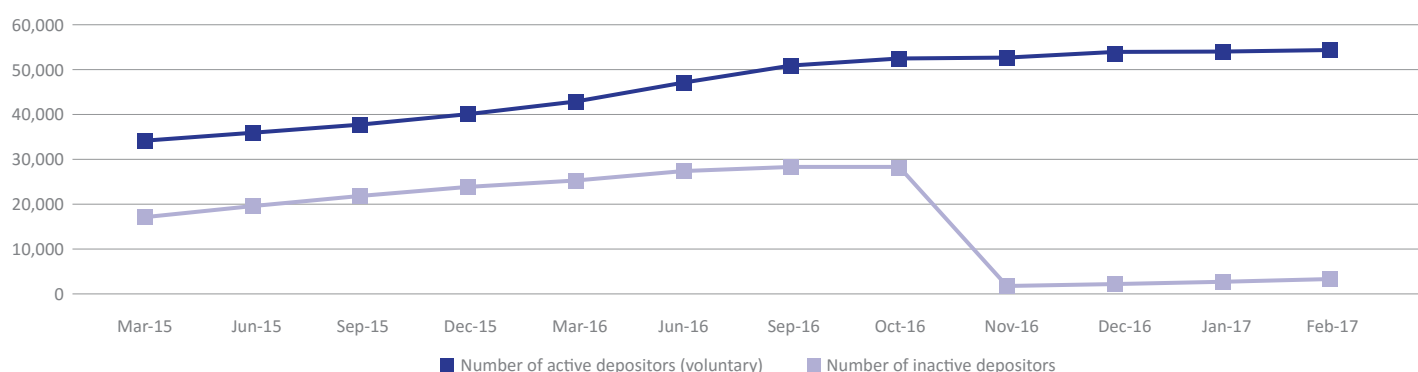
UGAFODE's first step to encourage usage was to use human-centered design research to create a product tailored to the needs of its target customer segments. In order to elevate its image and marketing capacity, UGAFODE sought the support of the social marketing firm 17Triggers, which helped them communicate and market GroupSave. After the pilot phase, consultants from Enclude identified a number of challenges, including high dormancy rates. In response, UGAFODE created a new customer engagement strategy, defined new target customer segments and refined its customer value proposition. The new target customer segments were both savings groups and UGAFODE loan clients. In addition, UGAFODE rolled out an account activation campaign to increase product awareness among savings groups and considered introducing incentives for staff linked to their clients' account usage. The activation campaign was also used to collect feedback from customers and refine the value proposition.

The account activation campaign was successful in some aspects, and allowed UGAFODE to maintain growth in active deposit accounts that followed the growth of total deposit accounts (See Figure v). With a dormancy rate of 38% in April 2016, however, opening accounts that went unused remained a critical issue for UGAFODE.

The reactivation efforts only activated 5,000 accounts, while the rest of the inactive accounts were closed per regulatory requirements (in November 2016). However, it is important to recognize the qualitative impacts of the design process and the launch of a product that has allowed UGAFODE to strengthen its institutional capacity to mobilize savings. At the same time, the GroupSave product has facilitated UGAFODE's reach into rural populations and the expansion of its female client base. As Wilson Twamuhabwa, (former) CEO of UGAFODE noted, *"the empowerment of a woman through financial access is very important in all development activities. Our new GroupSave account enables women's groups as well as individual clients to access affordable, secure, and convenient savings services."*²



Figure v
UGAFODE's Growth in Depositors Since Savings Mobilization Plan



² Interview on New Vision, March 8, 2016. http://www.newvision.co.ug/digital_assets/c6c8f28e-1a7f-42a1-939e-af1349d0e0f2/46-UGAFODE-Women-DAY.pdf



Cost Cutting Viability Lever: Find low-cost ways to deepen customer engagement when using Alternative Delivery Channels (ADCs).

In addition to reevaluating their savings mobilization strategy, introducing new products, and amplifying their marketing activities, UGAFODE recognized the need for innovation in how it serviced accounts. UGAFODE decided to launch a mobile banking platform that would improve convenience for clients, and potentially increase savings by allowing customers to make small, frequent transactions. The platform would also help maintain a competitive edge in the rapidly developing financial services market of Uganda. UGAFODE initially sought a partnership with mobile money operators similar to those developed by other microfinance deposit-taking institutions and banks, like Centenary Bank, which target similar client segments. However, these partnerships were difficult to negotiate and instead UGAFODE developed a proprietary mobile banking platform, called AirSave (See Box 1: AirSave Fee Structure). The goal of AirSave was to help clients reduce the significant amount of time and money they spent on transportation to and from UGAFODE branches any time they needed to make a transaction, which disproportionately affected women and rural populations. However, AirSave would only be an effective measure if it increased customer engagement, leading to larger savings balances and increased usage rates.

Revenue Enhancing Viability Lever: Charge transaction fees.

Usually, transaction fees are proposed as a key strategy for an FSPs to make up revenue when deploying an alternative delivery channel. UGAFODE's clients pay commissions and transaction fees when they utilize AirSave (See Box 1: AirSave Fee Structure). But, these fees have not translated into much revenue for UGAFODE. Because AirSave relies on an MNO's mobile money platforms, most revenue is collected by the MNOs, not UGAFODE. So, while AirSave offers customers more convenience, which in theory may translate into increased account usage, UGAFODE isn't able to use much transaction fee revenue to offset the costs of offering AirSave.



Box 1: AirSave Fee Structure

AirSave allows individuals in remote areas to access their UGAFODE accounts via mobile phone. Clients can check their balance, pay bills, and deposit or withdraw money using their mobile money wallet held with one of two mobile network operators (MNOs): MTN or Airtel. AirSave operates mainly through an MNO's USSD platform for moving money between the client's mobile wallet and the client's UGAFODE account.

Depositing to UGAFODE account: When customers want to deposit money into their UGAFODE account using funds stored in their MNO mobile money wallet, UGAFODE does not charge customers. However, customers must pay an MNO fee for digital payments. For example, the client pays about UGX 700 for a transfer from their MNO mobile money account to their UGAFODE account when transferring

amounts ranging from UGX 5,000 to UGX 60,000 (or about USD 0.25 to move between USD 2 and USD 20). In this case, the fee is collected by the MNO, and the MNOs are not currently sharing a portion of this revenue with UGAFODE.

Withdrawing from UGAFODE account: When customers want to make a transfer in the opposite direction, to withdraw money from their UGAFODE account and transfer it to their MNO mobile money wallet, the client pays a withdrawal fee of 1,500 UGX to UGAFODE. Then, if the customer wants to use these funds to make purchases in cash, MNO mobile money withdrawal fees apply. For example, to cash out these funds at an MNO agent, clients pay a fee, which can range from 1- 3% of the amount cashed out. (The MNOs do not share these cash withdrawal fees with UGAFODE.)

The way forward: “depth” and “scale”

UGAFODE’s experience with SBDM: a successful transformation despite persistent challenges

Despite important successes, achieving financial sustainability will require ongoing efforts from UGAFODE in order to reduce its operational costs and achieve scale. Today, in addition to substantial fixed upfront costs, UGAFODE faces annual expenses on its GroupSave accounts that are higher than the institution’s GroupSave accounts’ yearly income (see Table iii).

Table iii
UGAFODE GroupSave Account Average Revenue and Costs (USD)

Revenue:	
Interest income (via internal treasury)	\$0.76
Ledger fee income	\$0.32
Fee income from withdrawals before target	\$0.10
Total Revenue per month	\$1.18
Costs:	
Interest paid to depositors	(\$0.82)
CapEx (staff training, marketing materials), amortized	(\$0.45)
Officer's field transport	(\$0.27)
Field assistance allowance	(\$0.10)
New account documentation	(\$0.08)
Staff salaries	(\$0.22)
Head Office / Manager Monitoring	(\$0.03)
Total Costs per month	(\$1.97)
Profit (Loss) per month	(\$0.79)

(Based on 364 accounts)



Community classroom

UGAFODE'S transformation, from a credit-only to deposit-taking institution, is still a work in progress. Under the MicroLead Expansion Programme and with support from MEDA, UGAFODE has made considerable progress on its savings mobilization strategy, having launched both a new product and a new delivery channel. UGAFODE's GroupSave savings product is innovative— it is one of the first savings products developed in Uganda for informal savings groups that offers use of a mobile channel for account transactions. Although the savings products have not reached the goals established by UGAFODE, the institution is convinced that it is on the right path, and that savings mobilization will allow loan portfolio growth and decrease reliance on high-interest external funding. All of this, of course, will ultimately allow the institution to continue to provide low-cost products for low-income clients.



Rural hut in a local village

ABOUT UNCDF

UNCDF makes public and private finance work for the poor in the world's 47 least developed countries. With its capital mandate and instruments, UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's financing models work through two channels: financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localized investments — through fiscal decentralization, innovative municipal finance, and structured project finance — can drive public and private funding that underpins local economic expansion and sustainable development. By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a number of different SDGs.

ABOUT MICROLEAD

MicroLead, a UNCDF global initiative which challenges financial service providers to develop, pilot and scale deposit services for low income, rural populations, particularly women, was initiated in 2008 with support from the Bill & Melinda Gates Foundation and expanded in 2011 with support from the Mastercard Foundation and LIFT Myanmar. It contributes to the UN's Sustainable Development Goals, particularly SDG 1 (end poverty), SDG 2 (end hunger, achieve food security and promote sustainable agriculture) and SDG 5 (achieve gender equality and economic empowerment of women), as well as the Addis-Abeba Financing for Development Agenda (domestic resource mobilization).

MicroLead works with a variety of FSPs and Technical Service Providers (TSPs) to reach into previously untapped rural markets with demand-driven, responsibly priced products offered via alternative delivery channels such as rural agents, mobile phones, roving agents, point of sales devices and informal group linkages. The products are offered in conjunction with financial education so that customers not only have access but actually use quality services.

With a specific emphasis on savings, women, rural markets, and technology, MicroLead is a performance-based programme that supports partnerships which build the capacity of financial institutions to pilot and roll out sustainable financial services, particularly savings. As UNCDF rolls out the next phase of MicroLead, it will continue to focus on facilitating innovative partnerships that encourage FSPs to reach into rural remote populations, build on existing digital financial infrastructure and emphasize customer-centric product design.

For more information, please visit www.uncdf.org/microlead. Follow UNCDF MicroLead on Twitter at @UNCDFMicroLead.

ABOUT MASTERCARD FOUNDATION

Mastercard Foundation works with visionary organizations to provide greater access to education, skills training and financial services for people living in poverty, primarily in Africa. As one of the largest private foundations its work is guided by its mission to advance learning and promote financial inclusion to create an inclusive and equitable world. Based in Toronto, Canada, its independence was established by Mastercard when the Foundation was created in 2006.

ABOUT EA CONSULTANTS

EA Consultants is a consulting firm dedicated to ensuring that financial inclusion is a shared value proposition for all stakeholders and, in particular, for the customer. We have over 10 years of experience working with households worldwide to ensure that their voices and their needs are incorporated into products, delivery, and policies. We combine research and practice to ensure that our work is informed by an analysis and understanding of markets and customer needs. Our goal is that our work lead to new ways of thinking and new practice that are transformative to benefit all segments of society. We draw upon the vast knowledge and expertise of a diverse team of advisors to provide innovative consulting services and research to governments, financial institutions, other privately-held firms, non-profit organizations, and international institutions. Our team of forward thinking professionals is adaptive to the market's changing needs. Our clients value our analysis and recommendations because they are pragmatic, sustainable and economically viable.

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