USAID | UGANDA
FROM THE AMERICAN PEOPLE

RURAL SAVINGS MOBILIZATION: PRIORITIES FOR TECHNICAL SUPPORT

FINAL REPORT

September, 2005

This publication was produced for review by the United States Agency for International Development. It was prepared by Madeline Hirschland for Chemonics International Inc.

Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

RURAL SAVINGS MOBILIZATION: PRIORITIES FOR TECHNICAL SUPPORT

FINAL REPORT

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

Rural SPEED
A USAID funded project
Contract No. PCE-I-00-99-00003-00, TO 826

This report submitted by Chemonics International Inc. /September, 2005

Table of Contents

Executive Summary ..... **i**
1. Background **1**
2. Activity Summary **2**
3. Conclusions and Recommendations **3**
3.1 Ugandan MDIs: Moving Forward With Large-Scale Savings Mobilization 3
4. SACCOs in the West: Solidifying the Base before Expanding Outreach **10**
4.1 Rural SPEED's Niche 12
4.2 Scope Of Work 14
Appendix A. List of Individuals Met during Consultancy 15
Appendix B. Reading Materials in Preparation for the Consultancy 16
Appendix C: Findings from Interviews with Managers of SACCOs and MDIs 17

Executive Summary

Madeline Hirschland spent nine workdays with Rural SPEED with two aims: 1) to develop ownership in the MFI sector of the findings of Rural SPEED's study, "Savings Habits, Priorities and Needs in Rural Uganda" through two workshops and 2) to clarify for Rural SPEED the challenges and technical needs of its MDI and SACCO partners in order to lay the ground work for appropriate savings mobilization.

Although the challenges of mobilizing deposits are not so different for SACCOs than for MDIs, the base management level of SACCOs is quite different. The SACCOs also receive significantly less sustained and intensive technical support than the MDIs. Therefore, this reports considers the two sectors separately.

The MDIs

As Uganda's new MDIs prepare to broadly mobilize deposits from the public, they perceive numerous challenges in the areas of product development, delivery channels, promotion, and pricing. These challenges all derive from what they perceive to be one central challenge: how to mobilize a large volume of deposits while recovering costs.

A second vital challenge posed by savings mobilization is barely heard in the discussions among senior managers: how to assure that the institution and its savings mobilization is not undermined by the risks of fraud, theft, lack of liquidity, or mismanagement. The MDIs have already had to develop many risk management capacities in order to become licensed and several of them already had been mobilizing voluntary savings from the public before they transformed. Nevertheless, it is not clear whether all the MDIs are aware of and prepared for the magnitude of the management demands and growth that can accompany large-scale savings mobilization in underserved markets.

A great deal of technical assistance has or is already being delivered to the MDIs. However, Rural SPEED can add great value in addressing specific topics within the following areas: advanced marketing support, savings-specific human resource management (incentives systems and training), advanced financial modeling and treasury management, and advocacy for and development of delivery channels for rural outreach.

Although there is a wealth of technical support already available to the Ugandan MDIs, the report describes five specific initiatives that would provide unique and valued contributions to MDIs. They would do this by capitalizing on Rural SPEED's ability to bring in sophisticated and unconventional technical advisors and to work with groups of institutions as well as with individual MDIs. Bringing together a small number of key players in Uganda with someone with highly valued technical expertise could be both very useful – producing sophisticated dialogue, synergy and direction – and high profile, even if the event is quite small.

The SACCOs

Unlike with the MDIs - where Rural SPEED must identify a few discrete technical niches, with its SACCO partners, Rural SPEED can take the lead in providing technical support.

The SACCOs identify product development and promotion as the key challenges that they face. However, helping them significantly expand their deposit mobilization at this point would be irresponsible and, likely, not possible. Before they undertake to attract significantly

more deposits, the SACCOs generally need to improve their governance, financial management, loan recovery, internal controls, and treasury management capacity. Only when their governance and management is solid does it make sense for them to take on the market-related challenges necessary to mobilize significantly more savings. The consultant recommends a target-driven process of group-based technical support as a prerequisite for focusing on increased savings mobilization. This is precisely what Rural SPEED has planned to do.

Once the SACCOs have achieved the governance and management standards needed, the priorities for strengthening their savings mobilization should be the development of products, delivery systems, knowledge of how to price and cost products, promotion, and improved capacity to manage liquidity and balance assets and liabilities. This report recommends that Rural SPEED organize and facilitate a series of five workshops over the course of fifteen months. It also recommends that progress reports be built into the structure of the workshops and that Rural SPEED capitalize on both the collegiality and informal competition between the SACCO managers to support this technical support initiative.

The SACCOs appear to have a much lower cost structure than the MDIs and significant underutilized capacity. Once their governance and management is in order, the SACCOs have tremendous potential to provide savings services more broadly and to attract a significantly larger volume of deposits.

Scope of Work

By request of Rural SPEED, this report includes the scope of work for a marketing consultant for one of the workshops suggested in the MDI section of the report.

1. BACKGROUND

Madeline Hirschland spent from September 20th to September 29th in Uganda as a consultant to the Rural SPEED Project. The stated purpose of the consultancy was to "highlight the challenges of collecting and intermediating voluntary savings from the public thereby laying the ground for appropriate savings product development by MFIs."

This consultancy report draws on but also complements the Mbarara and Kampala workshop reports submitted by the consultant under separate cover. Those reports include important additional primary and secondary source material for this report including:

- Participants' recommendations regarding linkages, promotion, access, security, savings product offerings, and cost recovery vis a vis savings mobilization;
- A brief summary of guidelines regarding savings product mix drawn from international experience;
- Excerpts from the Rural SPEED-funded "Voluntary Savings Mobilization from the Public: Basic Principles and Best Practices" that are applicable to Ugandan MDIs at this point in time;
- Summaries of the key findings from Rural SPEED's savings study summarized for the Western region in the Mbarara workshop report and for all four regions (West, East, Central and North) in the Kampala workshop report.

The deliverables for the consultancy were met as follows:

1. A short report of key lessons learned from Rural SPEED's savings survey report. A report for the Western region and a report for the entire country were presented during the workshops discussed below and are included in the workshop reports.

2. Two one-day workshops, one in Mbarara for Savings and Credit Cooperatives (SACCOs) and one in Kampala for MFI / MDI candidates. The consultant facilitated these workshops that she planned together with the Rural SPEED staff. The key conclusions of participants in the workshops are included in the workshop reports.

3. A report on the proceedings of the discussion highlighting key challenges. This document includes the discussion of key challenges. The discussion draws not only on the workshop proceedings but also on interviews with SACCO and MDI managers, Rural SPEED staff and the consultant's own experience and knowledge. Findings from the interviews with the MDI and SACCO managers are included in this report as Appendix C.

4. Follow on Scope of Work. This can be found in the Recommendations section of this report.

5. Recommendations to address highlighted challenges. These can be found in the recommendations section of this report.

Rural SPEED Senior Technical Advisor Rich Pelrine asked the consultant to consider how Rural SPEED might play a leading role in moving rural savings mobilization forward in Uganda. This request is a backdrop to the recommendations discussed in this report.

2. ACTIVITY SUMMARY

ITINERARY

September 20 – 21: Met Rural SPEED staff, reviewed Rural SPEED's savings survey, and received a briefing on the objectives for the consultancy. Worked with Rural SPEED savings technical advisor Olive Kabatalya to develop an agenda and plan for the Mbarara workshop, met with FINCA Uganda Director Fabian Kasi to plan FINCA Uganda presentation for Kampala workshop, and prepared PowerPoint presentations on results of Rural SPEED's savings survey and international experience vis a vis savings products. These activities were undertaken to prepare for two workshop and interviews with SACCO and MDI managers.

September 22: Traveled to Mbarara and interviewed Manager and Board members of Kyahumunga SACCO about challenges in savings mobilization. Briefed by technical advisor Rich Pelrine on expectations and background to workshop and consultancy. These activities were undertaken to begin to understand challenges to savings mobilization faced by SACCOs and MDIs.

September 23: Facilitated workshop in Mbarara. Documented workshop findings in order to cement ownership and lessons learned by SACCO managers who participated.

September 24: Traveled to Shuuku SACCO and interviewed manager about challenges in savings mobilization, attempted to meet with manager of another SACCO who was not available, and traveled back to Kampala.

September 25: Developed presentation on study results and revised group work for Kampala workshop. Prepared report on Mbarara workshop.

September 26: Facilitated Kampala workshop and developed workshop report.

September 27: Completed two workshop reports, interviewed Executive Director and Chief Executive Officer of Uganda Microfinance Limited and Deputy Director of Uganda Microfinance Trust to determine technical challenges faced by these institutions in regard to their savings mobilization efforts and gaps in technical support.

September 28 – 29: Prepared this final consultancy report and discussed it with Rural Speed staff

3. CONCLUSIONS AND RECOMMENDATIONS

The challenges and technical support environment facing MDIs are quite different from those facing SACCOs. This section of the consultancy report is divided into three sections. The first looks at MDIs, the challenges they face, the technical assistance they already receive, and the role that Rural SPEED might play to help them meet these challenges. The second section looks at the same issues vis a vis the SACCOs. The final section outlines scopes of work for future technical assistance.

3.1 UGANDAN MDIS: MOVING FORWARD WITH LARGE-SCALE SAVINGS MOBILIZATION

3.3.1. The Challenges

As Uganda's new MDIs prepare to broadly mobilize deposits from the public, they recognize numerous challenges all derived from what they perceive to be key;: how to mobilize a large volume of deposits while recovering costs. With this in mind, the MDIs' senior managers would like to be able to answer the following questions:

> **Promotion:** How to effectively promote services so as to overcome doubts about the security of funds deposited, successfully compete with banks, and attract a large volume of deposits from small and large depositors?
>
> **Products:** What products to offer to attract a large volume of deposits from small and large individual depositors, groups, and large institutional depositors?
>
> **Pricing:** How to structure these products' pricing – in particular, minimum balances, fees and interest rates - so that the products will be both attractive to potential clients and financially viable?
>
> **Delivery channels:** Through what cost-effective delivery channels should these products be effected so as to tap into large rural markets that have limited access to formal financial services? How to develop these delivery channels and garner Bank of Uganda approval for these channels?

A second vital challenge posed by savings mobilization is barely heard in the discussions among senior managers: how to assure that the institution and its savings mobilization is not undermined by the risks of fraud, theft, lack of liquidity, or mismanagement. Any of these risks can result in the loss of customers' deposits that can seriously impede or end an MDI's savings mobilization (or entire operations). And, of course, poor risk management threatens the hard-earned savings of the poor.

At the same time, managing savings and credit together is also much more complex and demanding than managing credit alone. Demand deposit accounts require more rigorous **internal controls** and **information systems** that can handle a much higher volume of transactions and less predictable transactions as well as more products. Adding savings operations to credit operations makes **liquidity management** much tougher and, for many institutions, also introduces the need to more methodically undertake **asset liability management**. The change in the volume of transactions, the nature of products, and the need for promotion and customer service have major implications for **human resource**

management. Having the capacity to train a large number of staff in the requirements of savings mobilization is crucial. Savings mobilization requires a quite different orientation – one of customer service and flexibility – than credit management. Excellent governance is essential to oversee strong management.

For several reasons, these management hurdles are not as formidable for Ugandan MDIs as they might be. First, the Bank of Uganda has already required MFIs to develop many of these capacities in order to transform into an MDI. Second, several of the MFIs (such as Uganda Microfinance Union and Uganda Finance Trust) already had been mobilizing voluntary savings from the public before they transformed.

Nevertheless, it is not clear the degree to which all the MDIs are aware of and prepared for the magnitude of the management demands and growth that can accompany large-scale savings mobilization in underserved markets. When savings product development and promotion are successful, the number of transactions handled by the institution can grow very rapidly with savings accounts often outnumbering loan accounts by a ratio of five to one.

3.3.2 Technical Assistance Gaps

A great deal of technical assistance has or is already being delivered to the MDIs. The table on the following page maps out the technical challenges discussed above, how they have been or are being addressed, and gaps where technical support is needed.

Interviews with senior managers from Uganda Microfinance Limited (UML) and Uganda Finance Trust (UFT) indicated these specific areas in which they still need technical support:

Advanced Marketing Support

- Training of senior management and marketing staff in how to sell savings to large customers. What is needed to develop the confidence of large and small depositors? (UML).

- Very specific and sophisticated technical assistance to answer questions such as: Precisely where the best places to place signs. What are specific strategies used to convey security and attract the customers of commercial banks? (UML)

- (Less sophisticated support): Training of training staff in how to promote savings services and customer care. (UML) Training of credit managers to explain savings and support savings mobilization. (UFT)

Savings-Specific Human Resource Management

- Developing a staff incentive savings system. (UFT)

Challenges and Gaps in Technical Support for MDIs

Challenge	How It's Being Addressed	Gaps
Marketing		
Development of Products	MDIs have product ideas not always grounded in a basic understanding of savings products. Many are receiving good technical support from *MicroSave* to research, develop and test products.	Could use basic understanding of product types, characteristics, and value to depositors and financial institutions, and product features that motivate increased deposits.
Development of Delivery Channels	MDIs are interested and are seeking help with considering options and overcoming branching regulations.	Could use full support in exploring options and securing approval of Bank of Uganda.
Promotion	Most seem to have an exposure to basic promotional concepts. *MicroSave* is providing support to several on customer care and strategic promotion such as branding.	Need sophisticated specific promotional support (where to put signs; how to address security issue.)
Pricing (and Costing)	Understand concepts of costing and pricing. Are receiving or received support from *MicroSave* to look at branch-level costs to develop pricing.	Could use sophisticated financial analysis and institution-level modeling to project impact of pricing decisions on volume and costs.
Management		
Governance	Addressed during licensing process.	
Internal Controls	Addressed during licensing process.	
Physical Security	Addressed during licensing process.	
Treasury Management	Addressed somewhat during licensing process.	May need sophisticated training in treasury management.
Human Resources	*MicroSave* works on issue of customer care and change in institutional culture.	Need training of staff and senior management in how to promote savings and changes required. Need staff incentive schemes for savings mobilization.
Information Systems	Will be an ongoing issue.	Some will need highly technical customized support.

Advanced Financial Analysis and Management

- Sophisticated training and technical support in financial analysis and modeling. Specifically support with scenario analysis at the institutional level to explore how lowering or eliminating fees might affect the volume of savings and revenues over the short-, medium-, and long-term. Assistance in designing product features to motivate higher levels of savings such as interest rate structure and incentives for maintaining various levels of account balances. (UML)

- Sophisticated training in treasury management. (UML and UFT) Assistance with risk management including training and tools. (UFT)

Advocacy for and Development of Delivery Channels for Rural Outreach

- Work on developing delivery channels that provide deeper outreach into rural areas including cost-benefit analysis and development of these systems. (UFT)

- High-level advocacy with the Bank of Uganda regarding branching regulations that affect whether the MDIs can develop delivery channels to enable the institution reach deeper into rural areas[1]. (UML and UFT)

  Delivery channels are especially crucial and specific to rural finance and, to date, have been little explored although the topic is drawing increasing attention. Some delivery channels require work with the Bank of Uganda to find ways to make them acceptable. How to balance low-cost delivery channels with branching regulations is another cutting-edge issue that has not received much attention. In short, there is considerable room for innovation, documentation of innovations already in place, and technological support.

It should be emphasized that this list derives from just two interviews. Rural SPEED stands to benefit from similar discussions with the other MDIs about their technical assistance needs before it moves forward with its technical assistance plans.

3.3.3 Rural SPEED's Niche

This analysis of challenges and gaps in technical support suggest a niche for Rural SPEED's technical support. The Ugandan landscape is well endowed with technical assistance for microfinance institutions, from AMFIU and MicroSave to ACCION, Women's World Banking, and a host of others. Within this landscape, Rural SPEED seems to have two competitive advantages.

First, Rural SPEED has the ability to bring in short-term consultants – including professionals who are not necessarily microfinance specialists quickly at short notice – with very specific areas of high-level expertise. Unlike some of these other institutions, Rural SPEED can bring in an expert on sophisticated treasury management or financial modeling or marketing. These people can be carefully chosen for the highly specific technical gap that Rural SPEED seeks to fill.

- [1] Interestingly, FINCA Uganda has received permission to move into e-technologies.

Second, unlike some of the international organizations, Rural SPEED has the mandate to work with groups of institutions together as well as individually. Bringing together a small number of key players in Uganda with someone with highly valued technical expertise could be both very useful – producing sophisticated dialogue, synergy and direction – and high profile, even if the event is quite small.

Along these lines, some possible technical assistance projects are described below. It should be emphasized that Rural SPEED should interview its other MDI partners before running with any of these options.

3.3.4 Strategy Recommendations

a) Delivery Channels - Options:

Rural SPEED could take the lead in supporting the MDIs to develop new delivery mechanisms and in documenting how these are implemented, the challenges and the results. During the Kampala workshop, participants generated an impressive list of possible delivery channels that they suggested should be explored. These included: low cost collection centres / mechanisms, piggy banks, mobile banking using RTS, sharing of Bankom ATMs, and serving groups.

In advance of any workshop or exchange visit, the leaders of the MDIs could be provided with some one-page cases on how a particular delivery option is being used by a particular institution and then could be asked to take note on those that are of greatest interest to them. Depending on Rural Speed's budget, SPEED could plan a workshop that covered these mechanisms and bring in practitioners from institutions using the more technical and relevant of these options to discuss how the options work, the process of implementing them, and the results.

Alternatively, teams of two from each institution could be given the opportunity to visit African institutions using these innovations. For example, Equity Bank in Kenya uses mobile units, numerous banks in Ghana employ mobile collectors, Opportunity International Bank of Malawi has container satellite offices, numerous SACCOs here and banks in Ghana and elsewhere serve informal groups, and several practitioners here in Uganda may have first-hand familiarity with the lockbox systems used in the Philippines or Nepal. However, many options such as restrictions on appropriate branch infrastructure and restrictions on traditional MFIs, for expanding rural outreach run counter to Bank of Uganda microfinance regulations.

b) Delivery Channels - Regulations:

How branching regulations can curtail rural outreach – and finding ways to balance security and outreach - is a global issue. Rural SPEED could host a roundtable that brought together a handful of senior people from around the world and Uganda to try to sort out the issues. What are the trade-offs between security and outreach posed by different rural delivery channels? How might they be addressed in terms of risk management? How might they be addressed in terms of regulations?

Participants might include:

- someone from the central bank of Ghana that oversees commercial banks that deploy individual deposit collectors,
- someone from the central Bank of Malawi that oversees institutions that use container satellite offices,

- someone like Rich Rosenberg from CGAP who is seen as an expert in regulation and yet might be willing to grapple with these issues,
- one or two senior outside experts in rural finance such as Geetha Najarajan and in savings mobilization who know that such delivery channels are crucial,
- someone senior in e-banking (such as David Cracknell) who understands the technical issues,
- senior people from the Bank of Uganda and from the Ministry of Finance (or the senior Minister involved in rural development),
- senior people from Rural SPEED and USAID, and
- An excellent senior facilitator who knows the issues.

Convening a group of perhaps fifteen senior people with a consultative approach might be a way to generate some positive movement in Uganda and could make headway for rural finance internationally.

c) Marketing:

Another possibility would be to bring in for a week a senior marketing person who understands the local environment and would be committed to working with MDIs. This person could spend one to two days observing the current practices, run a one-day workshop for two invited participants from each MDI (the Executive Director and a senior marketing person) and then spend a half-day consulting individually with each of these institutions.

An ideal person for such an assignment would be the senior marketing person from Equity Bank in Kenya, the person from the marketing firm that has worked with Equity. Another ideal candidate could be the senior manager or consultant responsible for marketing in the microfinance division of one of the commercial banks in Africa (but not in Uganda) that has large-scale microfinance operations – such as Standard Bank in South Africa.

This would provide critical and much-valued strategic support to the MDIs in Uganda. Furthermore, if the round table and specific actions that come out of the mini-consultations were well documented, this work could provide value to the international microfinance community.

Particularly with marketing, a picture can be worth a thousand words. Budget permitting, an alternative to such a marketing workshop would be an exchange visit to Equity Bank by two members of each MDI. This would be facilitated by someone who could run a mini-workshop beforehand to frame what the participants see and a session with Equity's senior marketing person and marketing technical assistance person to answer participants' questions.

d) Financial Modelling:

For this topic, a suitable format might be a one-week workshop with someone experienced in sophisticated financial modeling. Workshop invitees would be the Chief Financial Officer and two other senior financial staff from each MDI and each team would bring a laptop with which to do the modeling. The workshop would start with a presentation on the process of modeling, followed by intermittent presentations on the steps followed by time for the financial teams to actually do the work. The consultant would provide technical support as the teams develop their scenarios. The results of the workshop would guide operational decisions within each MDI. The MDIs would finally present to each other the outline of their work and findings

without giving away the details. The workshop could be followed by a half-day consultation with the workshop leader and each institution.

With any such workshop, the MDIs should be expected to do a certain amount of preparation in order to attend. In advance of the financial modeling workshop, the Executive Director and Chief Financial Officer of each MDI might be expected to submit a clear statement of the issue they wish to explore and the available types of data from their institution that they think might be relevant. The financial modeling consultant would then review this initial information from each institution, provide feedback and direction as to what data must be gathered in advance of the workshop, and would structure the workshop in response to these needs.

In the case of the marketing workshop, they could be required to do some thinking in advance on messages, target markets etc. This advance work would be defined by the consultant and would help the consultant tailor the workshop precisely to the MDIs' needs. It would add considerable value to the consultancy by focusing senior managers on the issue ahead of time, and thereby helping to ensure that the joint efforts were relevant and integrated into the institution's on-going work.

e) Treasury Management:

A workshop on treasury management might again bring in someone – this time a senior financial manager - from a commercial bank operating in Africa but not in Uganda that has a successful microfinance unit. This two- to three-day workshop would also be practical, providing a spreadsheet tool and cases that participants would work on together during the workshop. The MDI teams would include the Chief Financial Officer and two other senior members of the Finance Department. Participants could be asked to submit ahead of time to the consultant the most pressing treasury management challenge that they face and a hard copy of their treasury management tools. The consultant would be expected to use these challenges as case examples during the workshop. The consultant might also provide each institution with a two- or three-hour consult after the workshop to assist them in integrating what they learned into their systems and to help them answer their most pressing treasury management challenges.

Although there is a wealth of technical support already available to the Ugandan MDIs, each of these initiatives would provide unique and valued contribution. They would do this by capitalizing on Rural SPEED's ability to bring in sophisticated and unconventional technical advisors and to work with groups of institutions as well as with individual MDIs. In so doing, they would provide much-needed support in expanding rural savings services that are secure and financially sustainable.

4 SACCOS IN THE WEST: SOLIDIFYING THE BASE BEFORE EXPANDING OUTREACH

The Challenges

The challenges of mobilizing deposits are not so different for SACCOs than for MDIs. However, the base management level of SACCOs is quite different. The SACCOs have received significantly less sustained and intensive technical support than the MDIs. Furthermore, they have not been scrutinized by the Bank of Uganda and have not needed to upgrade their operations in order to be licensed. Their governance and management is often quite weak.

The SACCOs identify product development and promotion as the key challenges that they face. However, helping them develop much larger deposit mobilization at this point would be irresponsible and, likely, not possible. Before they undertake to attract significantly more deposits, the SACCOs generally need to improve their governance, financial management, loan recovery, internal controls, and treasury management capacity. Only when their governance and management is solid does it make sense for them to take on the market-related challenges necessary to mobilize significantly more savings.

Once the SACCOs have achieved the governance and management standards needed, the priorities for strengthening their savings mobilization should be the development of products, delivery systems, knowledge of how to price and cost products, promotion, and improved capacity to manage liquidity and balance assets and liabilities. Specifically:

Savings Products:
The leadership of the stronger SACCOs seem to be very aware of the local demand for products of their members. They have not been exposed to the basics of savings products and product mix. They also may not fully grasp the proportion of local residents who are not members and what prevents them from becoming members.

Delivery systems:
Some of the SACCOs are already delivering services in innovative ways to serve more rural depositors. All of them deserve to learn more about what might work. This is particularly critical because the MDIs are currently limited by the Microfinance Law from developing many of these delivery channels. Therefore, it may well be up to the SACCOs to extend services to more rural and lower-income savers.

Promotion:
Many of the SACCO managers are actively trying to figure out how to develop the trust and interest of savers but are minimally involved in promotion. At least some of them have already been exposed to many of the basic ideas of promotion but seem not to have put these ideas into action in a comprehensive systematic way.

Pricing and costing:
The SACCOs managers do not seem to be considering costs as they determine their interest rates. Instead, they seem to be considering competitors' rates and the rate of interest that their members demand. Although the Rural SPEED savings study highlighted the fact that high fees dissuade savers, it was not clear that the SACCO managers took this to heart in terms of their own services. For example, to open an

account at Shuuku SACCO requires 31,500 UGX due to the share requirements and fees even though the minimum balance is much lower, 10,000 UGX.

Liquidity and asset liability management: The SACCOs seem to managing their liquidity adequately for now. However, growth and, in particular, attracting larger numbers of larger depositors will bring with it more complexity to balancing savings and loan terms, maturities and volumes.

Technical Assistance Gaps

From discussions with SACCO managers, it is clear that they have received snatches of technical support related to a variety of governance, management and marketing topics. They have absorbed and put into practices pieces of these trainings and many seem highly receptive to information that deepens their understanding. However, the technical support does not seem to have been cohesive or tied to action plans that move each SACCO forward as a whole.

At this point, there does not seem to be any other technical assistance providing sustained and comprehensive technical support to the SACCOs. The wild card, of course, is the government's recently-announced SACCO initiative.

4.1 RURAL SPEED'S NICHE

Unlike with the MDIs - where Rural SPEED must identify a few discrete technical niches, with its SACCO partners, Rural SPEED may have the opportunity to take the lead in providing technical support.

An appropriate next step to support SACCOs' savings mobilization would be to implement an on-going technical support strategy focusing on key areas of governance and management. The technical support should be based on an assessment of existing strengths and weaknesses and should set targets for improvement. Doing this jointly with a small number of the strongest SACCOs would develop a cohort of well-managed SACCOs. The power of their example in modeling good management would likely inspire other SACCOs to follow suit. For the core groups of SACCOs, one incentive to achieve these standards of governance and management would be the promise of Rural SPEED's future technical support to expand savings mobilization. Having a cohort of SACCOs learn together and compete to improve their governance and management could be quite helpful in moving them all forward. Apparently, this is precisely the strategy Rural SPEED intends to undertake.

Rural SPEED seems already to have developed a tool to assess the governance and management strength of its SACCO partners. (If not, developing one would be very helpful.) Once the SACCOs reach an acceptable strength in terms of governance and management, Rural SPEED may want to consider providing five quarterly trainings to these partners. The SACCOs should each send a team of at least two – the manager and a board member – to the trainings so that managers have support to implement what they learn when they go back to their institutions. As described below, Rural SPEED will want to build into the trainings mechanisms for accountability and support between the SACCOs.

It is suggested that the five trainings cover the following topics in this order.

Product development: A three-day workshop in market research and product development could be quite valuable. Participants could be a manager and one to two board members from each SACCO partner. The training could consist of:

- a brief basic training in types of savings products, their value for savers and financial institutions, and how to determine an appropriate product mix. A few hours with some participatory exercises to tie demands to product types should be quite adequate for this.
- A simple training in quick and dirty market research, i.e. participatory rapid appraisal. One afternoon and the following morning should be sufficient.
- A joint two-day market research exercise whereby the first afternoon the group identifies some basic questions, the second day teams go out and research the market, and the third morning the group collates and interprets the results. The aim would be to better understand why non-members do not save with the SACCO, why members don't save more, and the basic preferences of members, non-member and exited members.
- A final afternoon integrating the lessons learned about products and participatory rapid appraisal into plans for their SACCOs. It might be useful to set up a system of accountability between the SACCOs whereby they partner up and draw up a plan for reporting to each other on their progress. Based on the training, each SACCO should undertake to train their staff and board about products, product mix and market research; perform a participatory rapid appraisal in their service area; and adjust their product offerings accordingly. In order for SACCO

managers to do this, Rural SPEED will have to provide excellent simple documentation of the workshop and PRA tools.

Pricing and costing: A two- or three-day workshop on pricing and costing would enable SACCOs to get their prices right before moving into large-scale savings mobilization. Before delving into these subjects, providing time for the managers to report back and discuss together their activities and results with product development would be a good way to cement that learning. The workshop could briefly present the theory of pricing and provide participants with some cases to solve. Then, cost allocation could be presented and participants could be provided with data and work through a cost allocation case. Finally, participants could be asked to come up with a plan for taking this back to their SACCOs, again with a plan for accountability to a partner SACCO.

Development of delivery systems: A one and a half-day workshop should be sufficient. First, participants should report back on progress with products, costing and pricing. A menu of delivery options should then be described. SACCO managers that are using any of them should be helped beforehand to succinctly present this delivery system. Others can be illustrated with cases. The participants can then break into groups to consider challenges, strategies, and steps to develop the delivery system that seems most appropriate to them. They can then develop an action plan and, again, commit to reporting back to a partner on progress.

Liquidity and Asset Liability Management: The SACCOs need simple tools (such as those found in Savings Services for the Poor: An Operational Guide.) Expecting SACCO managers to understand and track large numbers of liquidity and ALM indicators is neither necessary nor realistic. A two-workshop with plenty of example and cases should be sufficient training. This should be followed by individual consultations to see that the SACCO has been able to effectively integrate these tools into its operations.

Promotion: Once all the basics are in place, Rural SPEED will want to provide its SACCO partners with the tools by which to attract significantly more deposits. The training should begin with reports on progress vis a vis the topics previously covered. Then, training in promotion should address customer care and responsiveness, physical appearance, perceived security and transparency, and the importance of word of mouth. It should also discuss promotional tools - personal sales, advertising, sales promotions, and public relations – and which are appropriate for different market segments. These concepts are already familiar to the SACCO managers. The added value will be in providing concrete examples from their own ranks and outside, and developing action plans that methodically take these ideas and put them into practice.

The SACCOs appear to have a much lower cost structure than the MDIs and significant underutilized capacity. (The managers are very market-conscious; the SACCOs themselves look “sleepy.”) Once their governance and management is in order, the SACCOs have tremendous potential to provide savings services more broadly and to attract a significantly larger volume of deposits.

4.2 SCOPE OF WORK

Rich Pelrine and Olive Kabatalya of the Rural SPEED team asked that a scope of work be drafted for a consultant to carry out the MDI marketing initiative described above. The key to the success of this consultancy will be getting the right person. If this cannot be done, then a better strategy would be to arrange for an exchange visit for marketing directors of MDIs to meet with the Marketing Director of Equity Bank or commercial financial institution with a large and highly successful Microfinance Division.

Objective: To provide Rural SPEED's MDI partners with advanced and highly specific technical support that will enable them to attract significantly larger volumes of deposits, particularly from large and institutional depositors who are currently depositing their savings in commercial banks.

Tasks:
Advance communication with Rural SPEED Savings Advisor Olive Kabatalya to determine what meetings and site visits to arrange for three-day survey of financial and microfinance market

Plan in advance and engage in three-day survey of the Ugandan market for financial and microfinance services.

Two-day practical hands-on workshop in advanced marketing to answer specific questions and advise on market-specific steps MDIs might take to develop a significantly larger savings market. In particular, provide specific advice on how to convince mid-size and large customers of the security of an MDI.

Provide half-day consultation with each MDI that participated in the workshop to address their specific marketing questions.

Deliverables:

Prepare consultancy report including:

- results of three-day survey regarding what MDIs should know about marketing their services to attract different market segments
- workshop: guidance provided and observations about MDIs
- questions and results of each consultation
- general advice and recommendations to Rural SPEED for providing technical support for MDI marketing

Qualifications:

Professional training in private sector marketing

Senior-level experience in private financial sector marketing in African country with similar economic profile to Uganda

Preferred: Senior manager of marketing operations or marketing consultant to senior manager of marketing operations for the microfinance unit of a commercial financial institution that is an industry leader in a competitive market – either in a large region or in the entire country

APPENDIX A. LIST OF INDIVIDUALS MET DURING CONSULTANCY

Olive Kabatalya, Rural SPEED Savings Specialist

Terri Kristalsky, Rural SPEED Chief of Party

Fabian Kasi, FINCA Uganda

Board Members and Manager Harriet K. Muhebwa of Kyamuhunga SACCO

Richard Pelrine, Rural SPEED Senior Technical Advisor

Miriam Tukamushaba, Manager Shuuku SACCO

Judith Aguga, Rural SPEED Rural Finance Specialist

Rodney Schuster (Executive Director) and Charles Nalyaali, Chief Executive Officer and Executive Director, Uganda Microfinance Limited

Harriet Mulyanti, Deputy Director, Uganda Finance Trust

Participants in the Savings Roundtable Discussions

APPENDIX B. READING MATERIALS IN PREPARATION FOR THE CONSULTANCY

"Savings Habits, Needs and Priorities in Rural Uganda", Olive Kabatalya and Richard Pelrine

"Mobilizing Savings from the Public: Basic Principles and Practices", Marguerite Robinson

"Uganda MicroFinance Union (UMU): A Case Study", Gloria Almeyda

"Gender Targeting of Rural Financail Sertvices: Is This Appropriate? Case Study of FINCA Uganda", Fabian Kasi

"Member-owned Financial Institutions: Lessons from Uganda and Tanzania, 1997 – 2004", Ahmad Jazayeri

"Microfinance in Post-Conflict Countries: The Case Study of Uganda", John Beijuka

APPENDIX C: FINDINGS FROM INTERVIEWS WITH MANAGERS OF SACCOS AND MDIS

1) Interview with Fabian Kasi, Executive Director of FINCA Uganda

This meeting was to brief Fabian Kasi on what we hoped he would present at the Kampala Savings Workshop. He explained that the following have been the biggest challenges that FINCA Uganda has faced in developing savings operations:

Staff attitudes: Training has been essential to get staff to understand and explain the products and to understand the processes involved in savings mobilization.

Information technology: FINCA has chosen to expand their existing information technology system, in part because this is the technology used by FINCA International's affiliates throughout the world. Using the existing software has advantages – it is known – and disadvantages – it must be modified extensively to be used for savings.

Funding for changes in physical infrastructure: Meeting the security requirements of the Bank of Uganda requires very big changes in physical infrastructure that are costly. FINCA has needed to secure funding to make these changes.

Meeting physical infrastructure requirements: The Bank of Uganda examines each proposed branch after FINCA has invested in and upgraded the physical structure and then tells FINCA whether it is adequate or not. Since the branches are rented, each is different so the process has been protracted and unpredictable. This makes planning difficult.

Documentation: As changes are made, must ensure that staff comply. This requires classroom training, developing readable documents that summarize the changes, supervising and monitoring compliance, and incentives to encourage compliance.

Client education: Clients themselves don't change quickly. They must be taught and come to understand that they need not check to see that their loan has actually been disbursed into their savings account. They need to learn to fill out the deposit and withdrawal documentation properly. And, they must learn that they need not come to the branch with their entire lending group. These behaviors are costly to FINCA in terms of teller time and stationary.

Presentation by Robert Ongodia of FINCA Uganda at Kampala savings roundtable

Products: open access account for business, limited access account with charge for more than one withdrawal per week and no fees except for accounts with balances lower than a set amount, fixed deposit account. To avoid clients having to go to bank to withdraw, clients can withdraw savings from loan repayments made during group meetings.

Delivery channels: FINCA has developed low-cost satellite offices (which the Bank of Uganda has apparently approved), has arranged to use Bankcom ATMs by hooking into their switch network, (is developing mobile banking vans?), and has extended its branch closing time from 3 PM to 4 PM.

2) Interview with Manager Harriet K. Muhebwa, President of the Board, Treasurer, Member of Finance Committee of Kyamuhunga SACCO

Background:
Kyamuhunga has a main office that is a branch and an additional branch. Its ten staff include the manager, the accountant, three loan officers, the branch manager, the accounts assistant, two cashiers and the secretary. . Its board has seven members as well as a Finance Committee, Loan Committee and Education and Sensitization Committee. It has greater loan demand than savings to meet that demand. Kyamuhunga's competitors include: Stanbic, CRDB, and the Shuuku SACCO which is 8 kilometers away. The area where Kyamuhunga is situated grows tea, bananas, pineapple, coffee and cotton. Most of the population are reportedly subsistence farmers although there are 2000 tea farmers. Nearby institutions include two factories, secondary schools, and a hospital.

Kyamuhunga's savings products include:

- Ordinary (demand deposit) accounts: The SACCO holds over 4000 accounts. The product pays no interest and has a minimum balance of 5000 UGX. About 30% of the account holders are women and over half are farmers but there are also accounts held by schools and other big organizations.

- Minors savings accounts.

- Fixed deposit accounts: The SACCO holds about 100 accounts. The minimum account size is 100,000 UGX and the accounts pay 12% interest.

Opening a savings account at Kyamuhunga for the first time seems to require an initial outlay of 31,500 UGX: 10,000 to meet the minimum balance requirement, 10,000 to purchase two shares, and 11,500 in ledger and stationary fees.

Kyamuhunga also has 1200 borrowers. Thus its depositor to staff ratio is 400 to 1and its overall account to staff ratio is 520 to 1.

Perceived challenges:

- Liquidity management. In particular, savings is low during the dry season and high during the wet season because of tea production.
- People don't know the benefits of savings. There is a poor savings culture with even people who live close by keeping savings under their beds rather than in the SACCO.
- Poor utilization of loans and, therefore, poor repayment.
- Low earnings from agricultural and lack of capital to help increase profitability through agricultural loans. These loans are more risky.
- Competition.
- Insufficient capital to meet demand for loans.

Strategies suggested by board members and Director:

- Campaigns and sensitization to increase share capital and savings deposits. Bring in outsiders to instill confidence. Develop word of mouth to encourage more savings.

- Develop better variety of products. For example, the existing school fees loan product provides Kyamuhunga with a competitive advantage relative to the local commercial banks.

- Capitalize on Kyamuhunga's competitive advantages: the fact that it is member-owned, that it can provide character loans that do not require big security deposits, that it has a better variety of products, that it is closer by, and that its fees are lower and interest rate is higher.

- Rural SPEED technical support in accounting, customer service, and agricultural finance.

3) Interview with Manager Miriam Tukamushaba of Shuuku SACCO

Background:
Shuuku SACCO is 8 years old. It has 2584 members (and depositors) and 700 to 900 borrowers depending on the season. However, about 400 of its members are groups that were trained by Shuuku and include 5 members each. The membership also includes much larger informal groups so Shuuku actually serves over 3200 individuals either as groups or as individuals. Its competition includes three other SACCOs in the sub-county as well as PRIDE and Stanbic. It has 8 staff, five at the head office and branch and three at another branch. Staff include the manager, an accountant, two cashiers, two loan officers, an accounts assistant, and a ledger keeper. Each has a diploma indicating 15 years of schooling. Shuuku has a nine-member board, a three-member Audit Committee, a Loans Committee, and a Finance Committee.

Until 2004, Shuuku had received external loans. Shuuku now has excess liquidity. As it is not feasible or cost-effective for Shuuku to invest this in treasury bills or a commercial bank, it lends these to another SACCO at an interest rate of 3% per month.

Shuuku also operates an agency in another area, a sort of satellite branch on Monday, Wednesday and Friday from 8:30 to 4. Wednesday and Friday are market days. The agency serves 200 members who opened accounts there as well as other members who opened accounts in one of the branches but who find the agency more convenient. The agency is staffed by one staff person. For reasons of internal control, the agency staff person rotates. The staff person and a security guard travel to and from the agency by motorcycle. While there, the money is kept in a safe and the agency is guarded. The agency has three rooms, one for the staff person, one for customers and a strong room.

Shuuku offers the following savings products:

- Voluntary savings: an open access account.

- School fees: this is designed for parents to accumulate school fees. Shuuku will top up the savings with a loan for the remainder needed to meet school fees. After the

first time, Shuuku expects the customer to accumulate a good portion of the fees before the loan is given.

- School fees collections product for schools: Schools pay a commission to Shuuku to accept payments of school fees and keep a record of these for the school. Shuuku has collections accounts for six schools and for a dairy farmers cooperative.

- Salary accounts for teachers for which it receives commissions from the school.

The (interest and?) dividend rates are decided by membership at the end of the year. The board negotiates with the membership to decide how much funds are for capitalizing the portfolio and how much for (interest and?) dividends. Loans are awarded to individuals in an amount up to five times the share amount and to groups in an amount up to ten times the share amount. If a board member is delinquent on a loan, this is announced at the Annual Meeting and the membership is asked whether the board member should be dismissed. The Director reports that most people in the community are members. Shuuku has been making a profit since 2002. In 2004, the profit was 23 million UGX.

The manager reports that Shuuku does not face major challenges (as it did in the past when board members misused member' savings) but these are issues:

- Members could save more but do not trust the SACCO with their funds

- There is not a culture of savings.

- 10% portfolio at risk (after annual write-offs. This was not reported as a problem.) Lack of culture of repayment.

- Not systematic promotion – just using microphones in the area at the time of the annual general meeting.

- The government collects 30% of SACCO income as taxes.

4) Interviews with Rodney Schuster (Executive Director) and Charles Nalyaali (CEO) of Uganda Microfinance Limited (UML)

We entered the meeting with two questions:

- What types of technical support does UML need to support its efforts to mobilize deposits?

- What have the chief challenges been in the past that might be instructive vis a vis other Ugandan MFIs that are moving into mobilizing deposits from the public?

The answer to the second question was that UMU (the MFI's name before it was licensed as an MFI) has not faced major challenges because it had been mobilizing voluntary deposits since early on. For UML, mobilizing voluntary deposits is not a new business.

UML's Executive Director emphasized that one of UML's most pressing needs is funding for the "bricks and mortar" needed to make UML more competitive. Specifically funds are needed for:

- Signs, painting and other upgrades to branches and
- Development of the inter-branch connectivity necessary to provide ATM services through the Bankcom switch networks.

On the technical front, the CEO and ED noted three areas related to savings mobilization in which help was needed:

1) Training of UML's senior management and marketing staff in how to sell savings, in particular, to large customers. UML seeks to start attracting large as well as small customers and would like to understand what is needed to develop their confidence in UML as a deposit-taking institution.

   Senior management is seeking very specific and sophisticated technical assistance in marketing to answer questions such as: Precisely where are the best places to place signs? From an effectiveness point of view, out of what sorts of physical materials should signs be constructed? What specific strategies could be used to convey security and attract the customers of commercial banks? What specific promotional strategies and messages will be most effective at inspiring the confidence and interest of potential depositors?

   In the experience of senior management, technical assistance in marketing tends to be helpful regarding general approaches but tends to fall short in terms of nailing down the specifics. International consultants don't tend to understand the specific environment well enough. On the other hand, local advertising firms tend to be more interested in their much bigger clients; they typically assign their less skilled, junior staff to accounts like UML.

2) Training of UML's training staff in how to promote its savings services and in customer care. What language should be used to attract different types of clients? How should they be approached?

3) Assistance in designing product features to motivate higher levels of savings such as interest rate structure and gifts for maintaining various levels of account balances.

4) Sophisticated training and technical support in financial analysis and modeling.
   a. UML has support from MicroSave to look at branch-level costs and revenues. However, it could use support with scenario analysis at the institutional level. Senior management would like to explore how lowering or eliminating fees might affect its volume of savings and revenues over the short-, medium-, and long-term.
   b. UML has recently upgraded its staff's financial management capacity, bringing in a new chief financial manager. Its treasury management capacity is good. However, it would be useful to have technical assistance in sophisticated treasury management.

5) Advocacy with the Bank of Uganda regarding branch, provisioning, capital adequacy and reserve requirements. UML is quite interested in exploring delivery channels such as mobile phone banking and other options that would enable it to tap into more

rural savings markets. However, it is prevented from doing so by Bank of Uganda branching regulations. It notes that FINCA Uganda has received permission to move into e-technologies (and to override Bank of Uganda regulations regarding ownership) and attributes this to its access to high-level advocacy.

Some other technical areas that are important for effective and secure savings mobilization include: market research, product development, development of delivery channels that enable deeper market penetration (distance tends to matter more in savings than in credit), internal controls, costing, and pricing. UML's senior management does not perceive that technical support is needed in these areas.

Delivery channels: UML is already piloting a linkage product.

5) Interview with Harriet Mulyanti, Deputy Director, Uganda Finance Trust

UFT is offering an open access account called Easy Access and will develop a term deposit account. It has been offering open access savings services to borrowers and non-borrowers alike for some time. In fact, its ratio of savers to borrowers is about 5 to 1. However, UFTs average balance on its savings accounts is just 30,000 UGX. Senior management seeks to greatly increase this account size both by increasing the amount saved by its existing customers and by attracting larger customers. Harriet xxx believes that developing delivery mechanisms that enable UFT to better penetrate rural areas will result in increased savings mobilization. Of particular interest are piggybanks, hooking into the BankCom switch network (particularly if Stanbic, with its network of more rural ATMs, joins the BankCom switch network), and other e-banking – technological - delivery innovations.

UFT needs a variety of types of technical assistance. MicroSave and Women's World Banking is or will provide much of the technical assistance needed in the following areas: product development, culture change, strategic marketing such as branding, customer care, pricing and costing.

Areas in which Rural SPEED could provide added value are:

- Work on developing delivery mechanisms that provide UFT with deeper outreach into rural areas including cost-benefit analysis and development of these systems.

- High-level support to negotiate with the Bank of Uganda to permit delivery systems suitable for rural savings mobilization.

- Help developing a staff incentive system for savings. Training of credit managers to explain savings and support savings mobilization. (MicroSave is working with them on staff incentives for loans.)

- Assistance with risk management including training and tools to develop more sophisticated treasury management capacity (including liquidity and asset liability management). For example, UFT could use help with gap analysis.