

Blogs

Changing clients' savings behaviours helps MFIs in Ethiopia to become financially healthy

Microfinance institutions (MFIs) in Ethiopia generally lack the financial resources to develop more loan products for their clients. By introducing savings, MFIs can increase their liquidity and provide more loans to farmers. To help MFIs develop more savings products, the KCCO Cooperation's STARS program, together with MFIs, trialled three different methods that influence savings behaviours.



The role of MFIs in stimulating savings behaviour

MFIs in Ethiopia are mainly established to serve poor rural households, since most banks lack the infrastructure to reach them. But the ability of most MFIs to mobilise their capital and mobilise external funding resources is limited. To lead low-income clients, MFIs could use capital generated through savings. But most clients prefer to save (the little they can afford to save) in commercial banks. To make matters more complicated, MFIs in Ethiopia are mostly credit-driven, meaning that their clients use them for their loans, but not for savings.

The intervention: STARS Savings Trials

To support MFIs to develop more savings products, STARS, together with the [Busara Center](#), started three savings trials with MFIs. The trials gave some interesting insights into savings behaviour and how to influence it. The interventions are piloted in three well-performing MFIs (Motensameen, Wasasa and Bessa Gooofa Microfinance). The interventions that are tested are client referrals, commitment savings and rental accounts.

1. The client referrals trial

works as follows: A

current client

will convince

friends or

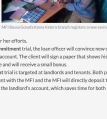
family to open

a savings

account and

will receive an

incentive for his or her efforts.



MFIs Wasasa Gooofa's Bessa Gooofa branch registers new savings client.

2. In the savings-commitment trial, the loan officer will convince new clients to open a savings account. The client will sign a paper that shows his/her agreement to save and will receive a small bonus.

3. The rental account trial is targeted at landlords and tenants. Both parties will lease an account with the MFI and the MFI will directly deposit the monthly rent into the landlord's account, which saves time for both parties.

Results

Shortly after introducing the pilot, the MFIs started to see a change in the number of clients and they noticed an increment in their saving balance. Although most MFIs offered savings accounts before, MFI did not offer a savings account for specific purposes, such as for paying rent for example.

In total, three MFIs ran the pilots in 23 branches. (13 from Wasasa, 4 from Bessa Gooofa and 4 from Motensameen). Wasasa MFI branches mobilized around USD 400 for 36 new clients. Bessa Gooofa branches mobilized USD 8157 for 92 clients and Motensameen branches mobilized USD 7855 for 42 new clients.



"I will not be stressed when the time to pay rent approaches, because I know that I now have a savings account for this purpose. It is also very easy to deposit money into my account, because the loan officer comes to my shop 2 days per week to collect my savings. It might not be this easy if I planned to save in banks for this purpose because my savings amounts are very low: USD 3-6. The bank officer would not come to my shop," Rahel, client at Wasasa MFI says.

Lessons Learned

The most important lessons STARS learned during this pilot:

1. Clients are indeed willing and able to save, but they need a clear savings goal.
2. Clients need to be incentivized to get started and keep going.
3. STARS learned that loan officers need to be incentivized too, since their workload is heavy and focused on providing loans.
4. Loan officers need to be trained properly on the benefits of savings products. If they do not understand the benefit of the product, they will not be able to market it to their clients effectively. Motivated loan officers made all the difference in this pilot.
5. By offering easy ways to save, such as frequently visiting clients in their homes or offices, MFIs can make saving as convenient as possible.
6. By providing clients the option to save small amounts as low as USD 1-6 per week, and setting monthly targets that are easy to reach, clients find it less hard to save and are less embarrassed by the small amounts they can set aside.

"Thanks to the pilot, it became clear that people engaged in a small business with a frequent cash inflow are potential clients for savings products. Therefore, designing a product that considers the behaviour of its clients while using appropriate key marketing messages supported with MFI staff training is a great way to mobilize more deposits from them, which allows MFIs to become financially healthy and provide more loans to clients in the long run," Frew Meskha, STARS Financial Advisor explains.

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