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Case Study

Surveys of Delivery Systems in Rural Finance

Serving Small Rural Depositors: Proximity, Innovations and Trade-offs

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Serving Small Rural Depositors: Proximity, Innovations and Trade-offs [1]

The myth has been laid to rest. From the BRI to credit unions, institutions have proven that mobilizing small deposits while covering costs is possible. Furthermore, microfinance experts agree, a key to recovering costs is to cross-subsidize small accounts with large ones. To reach small depositors in many rural areas, however, cross-subsidization is not enough.

In rural areas, even institutions that mobilize large as well small deposits may not be able to afford to site branches close to each other. Yet, branches sited far enough apart to be sustainable simply may not reach small depositors for whom travel to the branch is relatively costly or time-consuming. Reaching these depositors requires low-cost delivery systems that bring services closer to places they frequent. As illustrated in the cases below, microfinance institutions have discovered a variety of such systems from mobile collection to serving or promoting groups, using lockboxes and integrating savings delivery into other delivery systems that clients use.

These delivery options share a common element: low-cost staffing. In savings as in credit, salaries and benefits represent the single largest administrative cost. MFIs that serve small, rural depositors close to their homes or workplaces rather than in a standard branch lower the costs of staff in numerous ways: they shift some of the management functions of mobilizing deposits to depositors, hire staff with little education, deploy a single staff rather than a team to accept and record transactions, and/or offer services and, therefore, hire staff for limited hours. Frequently, they combine at least two of these strategies.

These staffing strategies have implications for management systems and, in some cases, for services. For example, relying on staff or clients with little education necessitates management systems- particularly for liquidity and asset liability management – that are very simple. In turn, this often necessitates offering very simple services. Similarly, using a single staff person to receive and record cash transactions necessitates rigorous new internal controls.

This paper will examine how four organizations deliver convenient, financially sustainable deposit services: the Bangladeshi NGO ASA that provides 360,000 depositors with a voluntary service, the Nepali cooperative VYCCU that provides two services specifically for members who live far from its office; the CVECAs, a network of over fifty village banks in the Malian Sahel; and over 2000 Kupfuma Inshungu groups in rural Zimbabwe that provide a contractual product to about two-thirds of the women in their villages. The paper will then cull from these cases a menu of delivery options and staffing strategies that make these systems sustainable. Finally, after assessing the strengths and challenges of these delivery options, the paper will highlight the trade-offs inherent in making deposit services convenient for small rural depositors.

ASA's Hybrid Product: The Key is Efficiency [2]

ASA is a Bangladeshi NGO that covers its full costs while providing over 2 million low-income members with an individual loan and mandatory savings product. Since 1997, ASA has

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[1] This paper is adapted from Savings Services for the Poor: An Operational Guide edited by Madeline Hirschland, forthcoming in 2004.

[2] Interview with Md. Azim Hossain, Deputy General Manager ASA and Wright, Christen and Matin, "ASA's Culture, Competition and Choice: Introducing Savings Services into a MicroCredit Institution, MicroSave-Africa, 2000. www.Microsave-Africa.com

provided about 360,000 of these members with a voluntary liquid savings service. The service takes the form of a mandatory-voluntary product that is delivered during group meetings. ASA groups of about 20 members meet weekly in their neighborhood with a credit officer to make required loan and savings payments. During these meetings, members may deposit any amount equal to or higher than the mandatory deposit of $.17 to $.34. They also are free to withdraw any savings in excess of 10% of their loan amount. ASA's hybrid accounts hold an average of about $20 per account; about $8 of this is liquid.[3] ASA offers this service without the benefit of cross subsidies from larger non-member accounts.

For ASA, cross subsidization – attracting large deposits to cover the costs of smaller ones - is not an option. ASA operates in a competitive environment in which subsidized loan funds are widely available and high-yielding investment opportunities are not. Attracting large volumes of mobilized deposits would undermine ASA's profitability. Furthermore, as an NGO, ASA is unable to attract large depositors away from commercial banks, institutions that are not, however, providing savings services to ASA's low-income clients. Finally, the Bangladeshi government recently prohibited NGOs from mobilizing deposits from non-members. If ASA was to provide its clientele with voluntary savings services, it had to find a way to do so without subsidies from large deposits.

According to a study conducted in 2000 (Wright, Christen and Matin,) ASA's administrative costs of mobilizing all voluntary and mandatory deposits were a high 8.6% of the volume of these deposits.[4] At the same time, the staffing and costs of the branches that offer the mandatory-voluntary hybrid product are identical with those that offer the mandatory product alone. Nor did the branch staffing or administrative costs change since the voluntary service was offered. In other words, the marginal costs of offering a voluntary service on top of the existing mandatory service are virtually nil. ASA accomplished this feat by tightly integrating the new service into existing operations and by increasing its efficiency:

Record keeping: Rather than requiring a new passbook, the voluntary-mandatory savings transaction simply replaces the mandatory transaction. When ASA found that the shift to voluntary savings increased the record-keeping load of its credit officers (CO's), ASA revised its management information system so that COs could carry the groups' general ledgers with them to the field, thereby eliminating the need for transaction sheets.

Liquidity Management: The new voluntary savings services made the Branch Managers' task of projecting liquidity needs much more demanding. In response, ASA delegated part of the task to credit officers for whom a simple manual projection tool was developed.

Internal Controls: Variable savings payments made it easier for credit officers to commit fraud. To manage this risk, branch managers started verifying savings passbooks against field records more frequently, every two months. To minimize the time demands of this process,

[3] This figure is for ASA's hybrid account for all of its 2.1 million members. Approximately 1.7 million of these members are in groups that must make an equal deposit each week; each group decides on the amount of its weekly voluntary payment. However, these members also are free to withdraw any savings in excess of 10% of their loan amount.
[4] The cost analysis included the costs of an Associate Members product and a long-term contractual product that were in the process of being discontinued.

Branch Managers do it during the surprise visits they already routinely make to groups. All passbooks are collected and checked at one time.

This extreme attention to minimizing costs is typical of ASA, an institution whose culture of cost-effectiveness is reflected in every aspect of its operations. For example, ASA hires large batches of field staff simultaneously through a single-day process that involves no paperwork. Transport costs are minimized by providing staff with interest-free loans for bicycles rather than the bicycles themselves. Branch offices are single rented rooms that are minimally furnished. A district office is simply an additional desk in a branch office. All policies, procedures and products are simple and well documented so that managers' time is not consumed by decision-making. For example, with ASA's MIS, which is manual, a client's name needs to be recorded just once a year. This drive for efficiency enables ASA to cover its costs while employing high school graduates to serve small rural depositors near their homes.

It has been asserted that it is not possible to offer voluntary savings services to small depositors on a viable basis without also mobilizing large deposits from the public. Mobilizing deposits from the public is not an option for ASA. Yet, this institution, with an 8% effective return on assets and 146% level of financial sustainability, employs staff with a high school or college education to provide a voluntary, liquid savings service to over 2.1 million borrowing clients. It can afford to do this because it completely integrates this service with its existing credit and mandatory savings service and, more broadly, because of its constant focus on cost-effectiveness. Other institutions, that can mobilize deposits from the public, offer similarly convenient services by hiring lower-cost staff and cross-subsidizing their services. One such institution is VYCCU.

VYCCU: Low-cost Staffing, Cross-subsidized Services and Lockboxes[5]

VYCCU is a 10 year-old community-based cooperative that has always covered its costs with its revenues. Its deposit products include two field-based services designed to reach depositors who do not live close to its office: the first is VYCCU's regular voluntary-mandatory savings service but it is offered by a part-time staff person in a remote area. The other is a lockbox mobile collection service. To help recover the costs of these services, VYCCU uses cross subsidies from three sources: larger accounts; accounts that, because the depositors reside closer to the office, are less costly to serve; and other less costly products. As a cooperative, VYCCU can also manage its costs by relying on volunteer or low-cost labor. Although the tenth grade or less education of its manager and volunteers initially limited what savings products VYCCU could offer, VYCCU now offers a larger number of more complex and valued services and generates enough revenues to pay its staff. Finally, the use of lock-boxes decreases VYCCU's staff costs per unit deposited.

Remote Service: At first, VYCCU's volunteer founders offered only one easily managed savings product. In time, this mandatory Monthly Savings was turned into a hybrid mandatory-voluntary product. Members can deposit as much as they want and can apply to withdraw up to 75% of their savings under unusual circumstances. VYCCU has extended this improved service

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[5] From interviews with VYCCU staff and founder and Khem Raj Sapkota, "Building a People's Bank: Brief History and Introduction of VYCCU Savings and Credit Cooperative Society Ltd." Unpublished report.

to a remote area a two and a half hour walk from the office. VYCCU employs a local resident 10 days a month to collect savings and loan payments in this area and to walk to the VYCCU office and transact business once or twice a month. The administrative cost of this remote service is very high: approximately 17% of the deposits collected. However, these high-cost remote accounts are just 4% of all VYCCU's regular monthly accounts. The low cost of the other 96% of the Monthly Savings Accounts helps offset the high cost of the remote accounts.

Lockbox Service: VYCCU also provides Daily Savings collection to small business people and a monthly Piggy Savings collection at members' homes and businesses. For the Piggy Savings, clients receive a lockbox to which only a VYCCU staff person holds the key. With a minimum monthly deposit of only $.40, the lockbox scheme particularly attracts two groups: poorer clients who live far from VYCCU's office and Daily Savings clients who deposit spare change in the box to save for their children's future. The larger deposits of small businesspeople, who tend to be located in clusters and are already receiving a daily savings visit, help subsidize the high costs of collecting from VYCCU's smaller, remote depositors. The collectors travel by bicycle and can serve at most 125 clients a day. Despite the low client load and small size of deposits, the administrative cost ratio for the piggy scheme is just 5%. This is because the lockbox enables clients to accumulate savings without frequent visits by staff. Furthermore, both the remote and piggy accounts are cross-subsidized by other products with larger deposits and lower administrative costs.

Cross Subsidies from Other Savings Products: VYCCU offers two products designed to attract large deposits, a current account and a fixed deposit account. Although these accounts pose management and cost challenges, they greatly augment the volume of funds that VYCCU can lend out to generate revenue. Together, the current and fixed deposit products represent only 13% of VYCCU's total number of deposit accounts, yet they hold 61% of its total volume of deposits. (See Box 1) To provide these products, VYCCU had to obtain a limited banking license; increase its level of reserves; hire more staff; expand and upgrade its office; and pay higher, competitive rates of interest. Furthermore, the current account is much more volatile than VYCCU's other accounts and the fixed deposit accounts pay a somewhat higher rate of interest than smaller, shorter-term products. Despite all this, the significant volume of loanable funds that they generate enables them to cross-subsidize the small rural accounts that are costlier to serve.

Using Volunteer Labor: As VYCCU has grown, it has developed a paid staff. Initially, however, VYCCU relied exclusively on volunteer labor. Even now, its staff are members who, because they see their jobs as serving their community, expect to work long hours for low pay. Furthermore, VYCCU still operates with a significant amount of voluntary support. A volunteer committee assesses loan applications, the board develops new products, and local government

Box 1: Size and Number of VYCCU Accounts by Product (2000)

Product	Amount	% of Total Amount	# of Accounts	% of Accounts	Average Size
Monthly	$48,378	26%	2,910	71%	$17
Current	$63,501	34%	443	11%	$143
Fixed Deposit	$50,215	27%	85	2%	$591
Daily	$15,122	8%	387	9%	$39
Piggy	$6,899	4%	300	7%	$23
Total	$184,115	100%	4,125	100%	$45

officials publicize new products as a community service. Because it has become a limited banking institution, however, VYCCU now seeks to hire a certified public accountant who will be able to fulfill government reporting requirements. It also has had to expect less from its members, some of whom now see it more as a bank than a community institution.

VYCCU expanded its services and is upgrading its staff in order to generate the revenues needed to serve small rural depositors. Other organizations, like the CVECAs and the KIP Program, manage the costs of rural delivery by offering simple services using staff or volunteers with very little education.

The CVECAs of Mali: Simple and Self-Managed [6]

The Caisses Villageoises d'Epargnes et de Credit Autogerees (CVECAs) are autonomous village banks that serve a low-income sparsely populated region of Mali where the illiteracy rate is over 95%. The banks provide two convenient deposit services, a no-interest passbook service and high-interest time deposits that represent most of their accounts. Nearly one in ten of the region's adult population are active members, an average of 231 per bank, and over two thirds of the accounts hold less than $50. Although the banks receive their initial investment costs, training and supervision as a subsidy, they recover their operating and financial expenses from the outset and, over time, also cover the costs of a federation and technical support. In a region with a sparse and poor population, high travel costs and low levels of literacy, how is this accomplished?

Decentralization: As much as possible, the CVECAs rely on local labor and resources. Travel is limited to biannual refinancing and external control.

Reliance on volunteer efforts: The bank's executive organ is its volunteer management committee who meet weekly. Typically illiterate, this committee oversees bank operations, promotes services, implements policy, analyzes and approves loan requests, and recovers loans. Its 7 to 13 members receive a small year-end payment in recognition of their services.

Part-time staff and salaries based on profits: Each village bank is staffed one day a week by two people, a cashier and a controller. They generally are literate in the local language or Arabic and may have attended primary school. These staff manage financial transactions, keep all records, maintain internal controls, prepare the budget and financial statements, and monitor performance. They are paid about 33% of the bank's profits which is next to nothing at first but, within ten years, can rise to the level received by an administrator, $3 a day.

Simple operations: To enable these staff and volunteers to manage, records and systems are kept very simple while still providing sufficient controls to maintain the security of funds. For example, to simplify liquidity management and eliminate the need for a costly external liquidity pool, village banks avoid liquidity risk altogether. They do not lend out passbook deposits and simply reprocess time deposits as loans with a slightly shorter duration.

[6] Adapted from Renee Chao-Beroff, "Caisses Villageoises d'Epargne et de Credit Autogerees"

Training: Volunteers and staff with little education need extensive training. For example, three to four committee members are taught numeracy so that they can maintain a simple operating report, check the bank's records, and represent its end-of-year financial statement.

Low-cost structures for technical support: Representatives of member banks form a regional federation that monitors existing banks; creates new banks; initiates and supervises quarterly peer auditing that is a prerequisite for refinancing; and contracts with the agricultural development bank for refinancing for its members. The federation has no paid employees. Its small budget covers only building maintenance, biannual meeting expenses and support for troubled banks. Instead of developing a costly technical support capacity themselves, the banks and federations outsource their technical support by purchasing services from a private provider on a contract basis. In this way, they pay only for the actual service rendered not for an entire structure, which the network would not use in full. The provider offers auditing services, management training, and assistance in preparing refinancing dossiers.

Volunteerism, simplicity and minimal reliance on external support are keys to the sustainability of the CVECA services. These keys also underlie the success of the self-help group approach to savings delivery, as illustrated by the Kupfuma Inshungu Program.

CARE's Kupfuma Inshungu Program: Sustainability through Self-Management [7]

The Kupfumu Inshungu Programme (KIP) operates in sparsely populated, rural Zimbabwe. In just four years, KIP has enabled 2,221 groups to provide simple financial services to over 14,000 members – including an estimated two thirds or more of the women in the villages it serves. KIP has accomplished this at a cost of only $24 per member. Furthermore, despite an annual inflation rate of 123%, the KIP groups provide their members with positive real returns.

KIP's cost-effective achievement of scale has two interrelated sources. First, KIP has limited its role to training and supervision. It does not engage in financial intermediation – which also means that it does not generate operating revenues to cover its costs. Second, its operations are extremely simple. Groups of 5 to 15 members collect and lend out their own savings during monthly meetings at which all members save the same fixed amount. Rather than managing ever-growing liabilities and withdrawals, the groups disband at a predetermined time of their choosing and then reform. All members withdraw their savings with interest and then join again if they choose. With this methodology, KIP – though not itself sustainable – develops sustainable groups that manage themselves and deliver secure services that its members value.

Self-management. The KIP groups are self-selected and self-managed. They develop their own by-laws and elect officers and money counters annually. They also decide on interest rates, their monthly savings amount - typically between $.15 and $.60 per member, the order in which they will fill members' loan proposals, and the length of each operating cycle. At the end of the cycle, the group can set a new contribution level or decide to suspend its activities until incomes are higher or time to meet is more abundant.

[7] Information from End of Term Evaluation of Kupfuma Ishungu Rural Microfinance Project (RMFP), Zimbabwe, unpublished report by Allen, Rushwaya, and Koegler. 2002.

Operating cycles: demand-driven, simple and secure. Groups typically complete their cycles at times when most members may need access to large amounts of money such as shortly before a religious festival or the dry season. The end-of-cycle sharing of funds provides members with access to large sums and interest earnings, enables them to leave without penalty if the group is not suiting their needs, and simplifies the accounting and risks inherent in managing large sums.

Group sustainability. The KIP groups are largely sustainable. Forty percent graduated to receiving only two staff visits a year; 95% of these remain in operation. Groups are cohesive and highly motivated. KIP's training and supervision has yielded groups that have written regulations, well-crafted and well-maintained accounting systems, strong officers, and attentive supportive members. The groups appear to be cohesive, highly motivated, and confident. They can pay a high rate on their savings because they incur virtually no expenses.

KIP's costs. KIP generates no operating revenues with which to cover the investment cost of promoting new groups. These costs are low, however, and KIP is considering altering its methodology to reduce them further. By clustering groups for training and field officer visits, each officer can handle an average of 85 groups that include about 550 members (ratios which international norms suggest may be too high.) At least 24 groups, however, have formed spontaneously without any promotion from KIP. These groups have approached existing groups for training, a task that the existing groups' secretaries usually accept at no cost. KIP is considering formalizing this development. KIP would train existing group leaders to become community-based trainers who would be paid by the groups that they promote.

Although KIP's services and delivery system are very simple, they are extremely well adapted to the capabilities and needs of its clients. Transactions take place in the village and can be scheduled at times that are convenient for members. Members trust the group with their savings because they know each other and because the operations are transparent. Because the group's services are managed entirely by its members, transactions are rapid, services are precisely adapted to the needs of the villagers, and savings generate positive real returns. For all these reasons, members prefer to maintain their groups' autonomy rather than to create an apex structure or be linked to a formal financial institution that might provide them with additional capital. Most of the groups are able to generate the capital they need quite rapidly from their own earnings. Nor does the group exclude those who do now wish to borrow: although most group members borrow regularly, about one fifth are net savers. Thus, KIP provides convenient, useful services even to members who do not want to bear the risk of borrowing.

A Menu of Delivery Systems for Rural Areas

As the cases above illustrate, a variety of delivery systems can be used to minimize costs while serving rural areas. (See Table 2) These include:

Simple offices: One cost-effective way to bring services close to rural residents is to establish a part-time, one-room office close to people's homes, work, marketplace, or religious institution. Such an office might be a sub-office of a large MFI that wants to serve more rural areas without incurring the costs of a full-fledged branch. Alternatively, the same type of set-up might be home to an autonomous community-based financial institution. The latter are

Table 2: Summary of Examples of Delivery Systems

Institution	Savings Services	Staffing[8]	Admin. Cost Ratio
ASA, a Bangladeshi NGO with national outreach, serves densely populated urban & rural areas. [9] ▪ 2.1 m borrowers ▪ @360,000 borrowers have access to voluntary product ▪ mandatory services since '89 ▪ voluntary since '97	**Delivery:** Transactions are made during required weekly 1-hour group meetings close to members' homes. Withdrawals of more than $8.60 must be made at the branch, up to 7 km from the homes, open 2 hours a day, 6 days a week. The voluntary and mandatory deposits constitute one transaction and are made at precisely the same time as loan payments. **Products:** ***Hybrid mandatory-voluntary product:*** Can deposit any amount equal to or above the $.17 - $.34 minimum required and can withdraw any amount other than the compulsory minimum balance of 10% of the loan amount. Avg. voluntary account balance: @ $8 (2.3% of per capita GDP) (Avg. total account balance: @ $20 or 5.7% PC GDP)	**Branch Staffing:** All staff are paid & work full-time (6 days/week): *Branch manager:* 12 yrs. schooling, not from area Salary: $1655 (473% of PC GDP) *4 – 5 Credit Officers:* 12 yrs schooling, not from area Salary: $720 up to $930 (up to 266% of PC GDP) *Peon:* no schooling, local Salary: $520 (149% of PC GDP) **Productivity:** 862 accounts (448 deposit accounts) per credit officer	Full cost of all savings products: 8.6%[10] Marginal cost of hybrid product: 0%
VYCCU, a community-based Nepali cooperative serving a moderate and sparsely populated rural area.[11] ▪ 4,125 deposit accounts ▪ established in '91	**Delivery:** Although most services require clients to visit the office to make a deposit, the two described below, and another for small businesspeople, do not. The monthly lockbox and daily contractual products are offered by mobile collectors. The remote product is offered by a locally based staff person in a remote area a 2-hour walk from the office. **Products:** Avg. size $45 (19% of per capita GDP) [12] *Lockbox, monthly mobile collection:* Liquid. $.40 min. monthly deposit. Avg. size: $23 (10% of PC GDP) *Remote mandatory-voluntary passbook:* [13] $.67 min. monthly deposit. Avg. size: $17 (7% of PC GDP) Withdrawals for emergencies only. Remote accounts are just 2% of all mand-vol. passbook accounts. *Other:* Current account, fixed account, mandatory-voluntary account, contractual product (with daily collection.)	**Staffing:** [14] All staff are paid and work full-time (5.5 to 6 days per week) *Manager:* 10 yrs. schooling Salary: $600 (254% of PC GDP) *Cashier:* $790 (254% of PC GDP) *Savings Promoter:* $680 (254% of PC GDP) *4 Collectors:* $560 (254% of PC GDP) *Part-time Collector:* $410 (254% of PC GDP) *Security Guards:* 3 full-time $600 (254% of PC GDP) **Productivity:** 375 deposit accounts per employee	Lockbox product: 5% Remote product: 17%

[8] Salaries are annual and are also expressed as a percentage of per capita gross domestic product (PC GDP)
[9] Data from Md. Azim Hossain, Deputy General Manager, ASA, *ASA at a Glance* and ASA website
[10] 2000 cost analysis included the costs of an Associate Members product and a long-term contractual product that were in the process of being discontinued. Wright, Christen and Matin, 2000.
[11] Data from VYCCU's financial statements and a costing exercise conducted by the author.
[12] This figure may be misleadingly high. The figure used for per capita GDP, $236, is for all of Nepal, including hills regions that are largely non-monetized. Average income is much higher in the plains where VYCCU operates.
[13] Offered by an agent based in a remote area.

CVECAs, a Malian federation of member-owned village banks that serve sparsely populated rural areas. [15] ▪ 3419 deposit accounts ▪ since 1986	**Delivery System:** Transactions are made in an office in the village, which is open one day a week for 4 to 10 hours depending on the season. **Savings Products:** *Term deposit:* For 3 to 12 months. Pays 20% interest per year and holds 91% of total deposits. Avg. account balance: $121(49% of per capita GDP) *Liquid passbook account:* Pays no interest and holds 9% of total deposits. Avg. account balance: $37 or 15% of per capita GDP.	**Village Bank Staffing:** *Management Committee:* 1 meeting per week, 7 –13 volunteers, local, usually illiterate, receive small annual stipend *1 Cashier & 1 Controller*: One day per week, local, literate, may have primary school education, receive 33% of profits: from almost nothing up to $3 per day after 10 years (annualized 61% PCGDP) **Productivity:** @ 115 active clients per part-time (1 day/week) paid employee	Not available but operations are fully financially sustainable. Total investment per member: $140
Kupfuma Inshungu Program,[16] a CARE program that serves villages in rural Zimbabwe. ▪ 14,000 savers ▪ since 1998	**Delivery System:** Payments made during group meetings in village at time chosen by group. **Savings Product:** Simple, high-yielding contractual product with monthly payments. Deposit amount, starting date and maturity are set by group of 5 to 15 members. Access to short-term loan possible during contract period. Avg. account size: $1 - $3 (savings do not accumulate from cycle to cycle.)	**Group Staffing:** Autonomous groups have volunteer management committee and money counters **Productivity:** 550 depositors per paid employee	Admin. costs: negligible at group level. CARE's promotion of groups is not sustainable. Total investment: $24 per member
BRI Units,[17] part of state bank of Indonesia, serves clients with a mix of incomes who are located in moderate to densely populated commercial centers in urban and rural areas. ▪ 25.9 million deposit accounts ▪ focus on deposits since 1986	**Delivery System:** Transactions are made in offices up to 30 km's away, open 5 days a week, for 8 hours a day. **Savings Products:** Avg. account balance: $100 (@15% of PC GDP) This includes a *liquid passbook account*, a *term deposit account* for 3, 6, 9, 12 or 24 months, and a *current account for legally restricted institutions.*	**Typical Branch Staffing:** All staff work full-time. *Manager:* $8000 (1200% of PC GDP) *1 Teller:* $4700 (705% of PC GDP) *Admin. Assistant*: $4700 (705% of PC GDP) *1Credit Officer*: $6000 (900% of PC GDP) *1 Security Guard:* $2400 (360% of PC GDP) **Productivity:** 1300 accounts (1233 deposit accounts) per employee	All savings products: 2.2% (1996)

[14] Salary figures are approximate
[15] Renee Chao-Berrof," Caisses Villageoises d'Epargne et de Credit Autogerees (CVECAs), Mali," in Challenges of Microsavings Mobilization – Concepts and Views from the Field, Ed. Hannig and Wisniwski, 1999, GTZ Eschborn
[16] Data from "End of Term Evaluation of Kupfuma Ishungu Rural Microfinance Project (RMFP), Zimbabwe", unpublished report by Allen, Rushwaya, and Koegler. 2002.
[17] Data from Zahari Zakaria, Instructor, BRI and "Bank Rakyat Indonesia," Klaus Maurer, in Hannig & Wisniwski

particularly appropriate in remote areas where, for cost reasons, large MFIs and financial institutions do not operate. In either case, one or two staff people working a few hours daily or weekly might generate sufficient revenues to cover costs while serving as few as one or two hundred clients. This strategy is exemplified by the CVECA.

Mobile collection: Instead of incurring the costs of establishing and staffing a local office, MFIs can deploy salaried employees or commissioned agents to collect deposits at people's homes, workplaces, marketplaces or other central locations in villages. Collectors can travel from the MFI's office by foot, bicycle or vehicle and most commonly visit either daily or weekly. They might collect from depositors individually, as VYCCU does, or in groups, as does ASA.

Lockboxes: An MFI can sharply cut its own costs while providing a client with maximum convenience through the use of a lockbox, a small locked box with a slot. Clients can deposit money through the slot at any time, but funds can be "withdrawn" only by using a key that is held by the MFI. Clients incur no transaction costs as they deposit small variable amounts whenever they want at home or in their workplace. At the same time, the MFI incurs costs only when it collects or accepts the contents of the box. MFIs might employ a mobile collector to collect from lockboxes on, for example, a monthly basis, as VYCCU does, or might expect clients to take their box to the office to make a deposit.

"Piggybacking" services: Integrating the delivery of savings services with that of other services can significantly lower transaction costs for both clients and the institution. For example, many institutions collect savings at the same time and using some of the same management systems as they use for loan payments: loans constitute the "core" revenue-producing business, while voluntary savings services provide clients with additional value. Similarly, institutions that require borrowers to make mandatory savings deposits can provide these clients with a voluntary savings service at almost no cost to the MFI by converting their mandatory product into a tightly integrated mandatory-voluntary hybrid. The hybrid product gives clients the opportunity to deposit and withdraw amounts in excess of their mandatory deposits. ASA has employed this strategy very effectively for 360,000 of its borrowers.

Self-managed groups: A "self-help" or savings group approach can significantly cut overhead costs by transferring most of the management functions to depositors themselves who access services very close to their homes. The institution does not directly engage in financial intermediation. Instead, it organizes, trains, and supervises savings groups of five to twenty members that collect and manage their own savings. Groups typically require their members to save a fixed amount during weekly or monthly meetings. Although individual savings cannot be withdrawn until the group terminates, the group lends its pooled savings to members on an as-needed basis. The groups might also store their savings in a bank, lend to other savings groups or access a loan from the bank where it makes its deposits. Simple operations enables groups to become sustainable quickly with minimal or no on-going support. At the same time, this strategy does not have an inherent mechanism for covering the costs of the promoting institution. This is the delivery system employed by CARE's Kupfuma Inshungu Program.

Of course, the cases do not illustrate all the possibilities. Other promising options include:

Automated Teller Machines (ATMs): ATMs provide 24-hour access to speedy transactions. With a typical ATM, transactions are driven by language on a screen, a system that excludes savers who are not literate. PRODEM in Bolivia has overcome this obstacle by developing an interactive "intelligent automatic teller machine (ITM). " The ITM identifies clients and their native language by their fingerprint. Then, a voice in their native tongue directs the user through the options and steps of the transaction. The user responds by touching icons on the screen. ATMs can replace the need for an office or field staff, but require a sufficient volume of deposits or fees to make the investment and maintenance worthwhile. PRODEM is able to offer the service by charging customers $10 for an identification card and an annual fee of $8 (for a total of 1.8% of GDP.)

Serving groups as individuals. An MFI can provide services that are convenient for most clients while lowering its own transaction costs by allowing individuals to make deposits on behalf of groups of clients. For example, the BISCOL Cooperative in Nepal allows groups of at least ten members to join the cooperative as if they were individual members. The group collects an equal amount of monthly savings from each of its members at a meeting near their homes. A representative of the group deposits their savings with a BISCOL collector at a meeting that could be up to 6 kilometers from their home. This strategy keeps BISCOL's costs low: staff need not visit each group nor must they train the groups in record keeping. At the same time, only one group member need travel a significant distant in order for all the members to deposit their funds.

In remote areas, this strategy may be the only way to provide convenient services to populations that might otherwise be too costly to serve. This delivery system shifts some of the costs of field-based collection from the MFI to a member of the group. Typically, the product is so simple - payments are mandatory and uniform for an entire group of clients - that those who collect and deposit others' savings require very little training.

Offering services using existing institutions: Deposit services can actually be offered through independent institutions, such as post offices, that already serve rural people in other ways. Offering deposit services through an existing institution has two advantages: First, it enables the MFI to provide convenience to clients without the cost of taking services to their doorstep, workplace or village. Second, it reduces fixed costs by using an existing infrastructure – in particular, an existing building, management systems and staff - to deliver services. Postal saving bank systems are many countries' largest deposit facility for small accounts. Of course, for many rural residents in many countries, even post offices are too distant to be a convenient deposit facility.

As summarized in Table 3, these delivery systems differ in the value they have for clients, the management issues they pose or solve for institutions and their potential for outreach. Because they offer different strengths, these delivery systems can be combined to great effect. In particular, where the political will exists, using existing financial institutions in combination with some of the other delivery mechanisms described above can enable institutions to greatly expand their outreach to small, rural depositors. For example, even banks with extensive branch networks may find it difficult to cover the costs of serving small, rural depositors on an individual basis or may find that their branches are not sited close enough to reach many small rural depositors. This challenge might be overcome by serving groups or by employing mobile collectors. For example, facilitated by the National Bank for Agriculture and Rural

Development, NGOs and banks in India support 400,000 self-help groups that serve 7.8 million low-income women at a total investment cost of approximately $10.50 per client. In Ghana, a

Box 2: Assessment of Delivery Options

Delivery Systems	**Value to Client**	**Management Issues for Institution**	**Potential for Outreach**
Simple Office	+/-Quick transactions but must travel to office + Can deposit during all office hours + Terms can be customized	- If office is staffed by one person, internal controls are challenging	+ Autonomous offices are one of the only financially viable means to reach remote areas
Mobile Collection	+ Very close by - Deposits only when collector visits *Collection from Individuals:* + Quick + Terms may be customized *Collection from Groups:* -/+ Meetings may be a burden and/or may have social value - Uniform terms for entire group	- If individual collectors are used (as is typical,) internal controls are challenging.	+ May allow irregular deposits: a key to reaching poorer segments *Collection from Individuals:* - Typically too costly to serve rural markets or small depositors *Collection from Groups:* - Likely to be too costly to serve remote markets
Integrating Savings with Other Services	+ Can significantly lower transaction costs - Can make transactions only when other service is offered	- Must recruit and motivate staff to offer multiple services	+ Can serve rural depositors who are too costly to reach with a free-standing service - Only reaches users of primary service
Using Existing Institutions	+ Can significantly lower transaction costs - Can make transactions only when other service is offered	- Lack direct control over operations & quality - Must recruit and motivate staff to offer multiple services	+ Can have potential for rapid scale + Can serve those who, for reasons of distance, would be too costly to reach with a free-standing service - Only reaches users of primary service
Promoting Self-Managed Groups	+ Close by + High level of returns + Groups' intimate knowledge of operations may offset risk of mismanagement due to illiteracy + Groups can provide social value - Deposits only at meetings - Uniform terms for entire group - Can access savings only through a loan or by leaving the group	+ Does not require complex financial management skills - Typically provides no way to recover costs	+ Can rapidly achieve very large scale due to simplicity of operations + Can be feasible for remote markets because of low recurring costs for support institution - Poorer segments may not be able to make regular required deposits
Serving Groups	+ Close by & quick for all but member who delivers deposits - Uniform terms for all members - Can access savings only through a loan or by leaving the group	+ No significant management challenges	+ Can serve rural areas just beyond easy reach of the office - Poorer segments may not be able to make regular required deposits
Lock-Box	+ Allows for flexible deposits + Deposits takes no time or travel - Visible lockbox may make funds vulnerable to theft or to demands of others	+ No significant management challenges	+ By reducing institution's transaction costs, makes rural outreach more viable + Allows irregular deposits: a key to reaching poorer segments
ATMs	+ Quick and available at all hours + Customized terms + May require more travel than other options - Initial fees may be costly	+ Electronic audit trails reduce risk of fraud + Reduced record-keeping - Requires on-going technical expertise - Up front investment	**+ /-** Allows for irregular deposits but minimum deposit amount or fees may exclude poorer segments - Not cost-effective to site them in remote areas or close enough together to reach segments of small depositor market

number of large commercial banks and small rural banks employ or collaborate with mobile "susu" collectors to collect small deposits. In all these cases, a fundamental determinant of what services the institution can offer and whether it can afford to serve rural depositors is staffing.

The Key Ingredient: Staffing

The key to managing costs while providing convenient services in rural areas is to use staff who are very low-cost. The delivery systems described above minimize staff costs by using the following strategies:

Combining functions into a single position: To keep staff costs affordable while serving rural depositors in their communities, many institutions, like ASA, deploy a single staff person to both handle and record cash transactions. They then must institute rigorous internal controls such as regular passbook verification to offset the absence of traditional dual controls.

Separating functions to lower educational requirements: In some cases, functions should be handled by separate staff in order to lower the education needed for one of the staff positions. For example, assessing applications for larger loans may require twelve years of schooling while collecting deposits may require only simple addition. If both services are offered, the MFI may find it more cost-effective to have separate loan officer and collector positions. Similarly, a local field staff with minimal education might collect loan and savings payments and issue receipts, while a better-educated field staff might update the passbooks.[18]

For MFIs with branches, decentralizing operations as much as possible: Decentralizing operations is a key to minimizing the cost of managers' travel time, which can be substantial in rural areas. ASA minimizes the time senior managers spend engaged in branch operations by providing branches with a detailed guide that addresses all aspects of operations and by training staff in the guide's contents.

For single-branch institutions, using shared external resources for support services. Support services such as training, internal auditing and developing marketing materials can cost a lot. Outsourcing, networking or drawing on a central facility can spread these costs over more than one unit. Units can then be charged according to how much they use.[19] This strategy is employed by the CVECAs.

Using volunteers: Self-help groups and many small cooperatives rely heavily on volunteers. In some cooperatives, volunteer committees assess loan applications, perform internal audit functions, research the market, develop new products, monitor performance and manage the annual meeting. As a cooperative grows and becomes more professional, its revenues can enable it to gradually transfer responsibilities to paid staff. This was the case with VYCCU.

Employing clients as staff: Excellent clients or members, particularly those who are local leaders, can make strong low-cost field staff: they tend to be local, often prefer part-time work,

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[18] Virtual Conference on Saving Operations for Very Small or Remote Depositors, May 2002, Kathryn Larcombe and Gerry Lab-oyan

[19] Chao-Beroff in Hannig and Wisniwski, Challenges of Savings Mobilization, 1999. P.223

and start with a good understanding of the operations. In a variation on this strategy, SafeSave, a Bangladeshi MFI, often employs residents of the slums it serves who have run informal rotating savings and credit associations.

Limiting hours and days of operation: Small cooperatives, satellite offices, self-help groups and mobile collection units may offer services on a weekly or less frequent basis. Alternatively, small cooperatives may offer services for just an hour or two each day. All the institutions described in detail above use this strategy. None offer services full-time.

Expecting accuracy: Inexact record keeping can skyrocket staff costs because following up on errors can be very time-consuming. Furthermore, where following up on large numbers of errors distracts management, staff can more easily commit and hide fraud. Strong internal controls, simple standardized policies and procedures, a culture of intolerance for errors and staff incentives that promote mistake-free work are important means to control staff costs.

Keeping operations simple: If an MFI is to use volunteers or staff with very little education, every aspect of its product and systems should be simple and standardized so that they are easy to understand and manage. Whether computerized or manual, a simple, streamlined MIS is crucial to employing less educated staff and using their time well. In fact, most self-help groups and many small young cooperatives have little capacity to manage the liquidity of liquid savings products that are loaned out. For this reason, organizations like the KIP groups offer only a compulsory savings product with regular equal deposits and access only in the form of a loan. Over time, however, some quite simple cooperatives, such as VYCCU, grow into offering more managerially demanding services, including a liquid passbook product.

Investing in training and supervision: Relying on volunteers or staff with little education imposes some costs. If operations are staffed in this way, comprehensive training and ongoing supervision are imperative. Depending on the products offered, staff and volunteers must be trained in how to update records, calculate interest, manage liquidity and implement internal controls.

By lowering costs, these staffing strategies enable institutions to extend services closer to depositors, the key to reaching small rural depositors.

Conclusion: Proximity, Trade-offs and Trends

Distance matters. Rural savers who do not own transport may be willing to go some distance to deposit or withdraw large sums. But for accumulating small amounts, a service that requires hours of travel is no service at all. Bank branches, alone, do not seem to be the answer to reaching small rural depositors. Nevertheless, alternative delivery systems merit but do not currently receive significant attention within the microfinance field.

Vis a vis branch-based delivery, the BRI unit desas have long set a standard for efficiency and market penetration. With rented one-room offices and client loads of 1300 accounts per employee, the unit desa system probably cannot achieve great leaps forward in efficiency that would enable it to cover its costs with units that are significantly closer together than its current units. Yet, according to the BRI's International Visitors Program, depositors must travel up to 30 kilometers to transact business at the nearest unit.

Small depositors require services that are delivered close to the places that they frequent. Delivery options that do this typically also pose trade-offs between the qualities that depositors care about most: security, liquidity, and convenience.[20] For example:

> **Security:** Only a rare institution can afford to deploy teams of mobile collectors. Most deploy individuals who both collect cash and record transactions. By not separating these responsibilities between two people, this type of mobile collection opens the door for fraud and mismanagement. Yet, institutions that deploy individuals to collect deposits have developed numerous rigorous controls to manage this risk: regular rigorous verification of passbooks, bonding of staff, and stamp systems are just a few.
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> **Liquidity:** Self-help groups and small local cooperatives often rely on staff or volunteers with little education who do not have the skills to manage liquidity. Therefore, they typically offer illiquid savings services such as compulsory savings, contractual savings, or fixed deposits. These organizations typically compensate for the lack of liquidity, however, by offering "access" to savings in the form of loans or emergency access to savings.
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> **Convenience:** Most institutions that bring savings services close to rural clients do so for quite limited hours, during a group meeting, monthly or weekly individual collection, or limited weekly office hours. Again, organizations often compensate for these limited hours by allowing depositors who are confronted by an emergency to withdraw savings or obtain an emergency loan by visiting the office or requesting assistance from their group's leaders.

Thus, although alternative delivery options pose tradeoffs, these tradeoffs are frequently mitigated through innovations, ranging from internal controls to flexible services. Many of these delivery options adroitly balance convenience, security and liquidity to the benefit of small rural depositors. Why don't they command more attention?

Inflexible services, inaccessible savings, a lack of "proper" internal controls, group-based service delivery, combining "forced" savings – or are they simply compensating balances? – with voluntary – all of these practices are unfashionable microfinance. Whether by design or not, trends in the microfinance field tend to favor liquidity and security – flexible services and models that look commercial rather than informal - over proximity. Overlooking the importance of proximity may be reinforced by the fact that distance is less important to larger depositors who are likely to live closer to bank branches and who have more access to transport.

If the field is serious about promoting savings in rural areas, perhaps it is time to recognize that access means proximity, and that, in rural areas, proximity requires tradeoffs with the security and liquidity offered by more formal sector models. To large segments of rural depositors, bank branches do not and probably cannot provide sufficient proximity to make small deposits attractive. It is time to take a harder look at how banks can develop alternative delivery systems to the benefit of small rural depositors.

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[20] ATMs may hold potential for overcoming these trade-offs. They provide reliable audit trails, electronic record keeping, access to central liquidity management services, and 24-hour access. In short, ATMs offer greater security, flexibility and convenience. The open questions are, however, how close can they actually bring services to clients and how prohibitive are their cost recovery mechanisms, from minimum balances to fees, for small depositors.