



**Consultative Group to Assist the Poorest (CGAP)
Working Group on Savings Mobilization**

**COMPARATIVE ANALYSIS OF
SAVINGS MOBILIZATION
STRATEGIES**

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ABBREVIATIONS

ATM	Automatic Teller Machine
BAAC	Bank for Agriculture and Agricultural Cooperatives
BCS	Banco Caja Social
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit (Federal German Ministry for Economic Cooperation and Development)
BRI	Bank Rakyat Indonesia
BRI-UD	Bank Rakyat Indonesia - Unit Desa System in Indonesia
CGAP	Consultative Group to Assist the Poorest
CVECA	Caisses Villageoises d'Epargne et de Crédit Autogérées (Self-reliant Village Savings and Credit Banks)
FECECAM	Fédération des Caisses d'Epargne et de Crédit Agricole Mutuel / Benin
GNP	Gross National Product
GTZ	Gesellschaft für Technische Zusammenarbeit GmbH (German Technical Cooperation)
ILO	International Labour Organization
MFI	Microfinance Institution
MIS	Management Information System
NGO	Non-governmental Organization
PARMEC	Projet d'Appui Régional aux Mutuelles d'Epargne et de Crédit (Regional Support Project for Mutual Savings and Loan Societies)
RBP	Rural Bank of Panabo
ROSCA	Rotating Savings and Credit Association
UNDP	United Nations Development Program
USAID	United States Agency for International Development

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1 INTRODUCTION

Several papers have recently underlined the importance of savings mobilization in the context of microfinance. Few analyses have been produced, however, that take an in-depth look at the savings mobilization strategies employed by various institutions and then compare the results.

The CGAP¹ (Consultative Group to Assist the Poorest) Working Group on Savings Mobilization has noted the neglect of savings in microfinance and endeavored to establish a conceptual framework for the mobilization of microsavings. To address this concern, the Working Group commissioned several case studies to gain empirical knowledge of different areas pertaining to the subject.

This paper analyzes the savings mobilization strategies of six institutions from Africa, Asia and Latin America. Through this paper, GTZ hopes to contribute to the important work of perfecting effective savings mobilization strategies that can be replicated in microfinance institutions across the globe. The paper will first outline the problem and the respective working hypotheses. It will then provide a brief overview of the institutional profiles of the selected financial institutions. In a next step, the results of the comparative analysis in the areas of governance, savings products and technologies, management capacity, external and internal regulation and supervision, and costs are summarized. Finally, we will identify remaining information gaps and present the conclusions.

1.1 The problem

A lack of savings facilities creates problems at three levels: (i) the level of the individual; (ii) the level of the financial institution; and (iii) the level of the national economy.

At the level of the individual, the lack of appropriate institutional savings facilities forces the individual to rely upon in-kind savings such as savings in the form of gold, animals or raw materials, or upon informal financial intermediaries, such as Rotating Savings and Credit Associations (ROSCAs) or money-keepers. These informal savings options, however, do not offer a combination of security of funds, ready access or liquidity, positive real return and convenience in order to meet the various needs of the particular saver.

At the institutional level, microfinance institutions (MFIs) have microproduct service windows on both sides of the balance sheet, serving micro and small savers and borrowers with an average savings balance or loan amount below the average per capita annual income in the respective countries. Yet the number of MFIs that exclusively offer credit is much larger than MFIs with both savings and credit facilities. Empirical studies have demonstrated that the performance records of credit-only MFIs in outreach and sustainability have not been widely successful (see, for example, Schmidt/Zeitinger, 1996; Christen et al. 1995, Yaron 1992).

Those MFIs lacking effective savings mobilization strategies are unable to increase their outreach to a significant number of clients on a regional or national scale. In addition, few MFIs that do not mobilize savings have attained full financial self-sufficiency, independently covering their expenses for operations, loan loss, cost of funds and inflation with their

¹ CGAP is a multilateral microfinance initiative currently supported by 26 bilateral and multilateral donors. The CGAP Working Group on Savings Mobilization was founded by France, Germany, ILO, UNDP, USAID and is chaired by Germany. Since 1996, Finland and the Inter-American Development Bank have joined the Working Group. The German Federal Ministry for Economic Cooperation and Development (BMZ) requested GTZ to represent Germany.

revenues. Throughout the world, MFIs have often experienced that exclusively offering credit services can lead to undue dependency on external sources of financing. This dependency can cause the MFIs to concentrate on the demands of the donors rather than on the demands of potential clients, especially potential savings clients.

At the level of the national economy, high levels of savings increase the amount of national resources and decrease the need to resort to foreign indebtedness in order to cover domestic investment and consumption demand. Numerous countries with low internal savings rates must borrow from abroad, which results in a debt service burden. This clearly underlines the importance of savings mobilization to sustain economic growth with national financial resources.

1.2 Working hypotheses and analytical framework

From a saver's point of view, the key motives to use deposit facilities are the safety and security of their savings, easy and immediate access, and a positive real return. It is commonly agreed that poor people have a significant capacity to save, proven by the existence of various informal savings mechanisms found throughout the world and by a few recent empirical studies. It is further understood that many people, particularly in rural households, are obliged to save during certain times of the year, such as harvest, in order to compensate for periods when their income is drastically reduced, such as the dry season. Finally, it is widely accepted that though only a certain number of people will need credit at any given time, virtually all people will need to save at any given time. We can therefore conclude that poor people will deposit their savings in a financial institution if an appropriate institutional structure and appropriate savings products exist to the depositor's mix of savings needs.

From an institutional perspective, the primary motive for mobilizing savings lies in lower cost of capital compared to other sources of funds. The individual and institutional motives for savings are the basis around which successful savings mobilizing strategy should be planned. In order to develop such a strategy, five key areas need to be considered. These key areas include:

- Institutional type, governance and organizational structure;
- Demand-oriented savings products and technologies;
- Management capabilities (with special attention to risk and liquidity management);
- Regulation and supervisory framework; and
- Cost analysis.

These key areas were considered in each of the six case studies and will also be used as a framework in this comparative analysis to evaluate the institutions studied. The key areas are based on the following working hypotheses:

The process and control mechanisms of savings mobilization differ according to institutional type. This is due to the differential treatment of various types of institutions by external regulatory and supervisory bodies as well as the differing internal regulation and business policies of each type of institution.

The governance structure of MFIs is crucial for ensuring that appropriate financial intermediation services between savers and borrowers are available. MFIs that mobilize savings are likely to have a more professional governance structure, with greater representation from the private financial sector, than those whose sole business is disbursing credit. This is in part due to the trend that many MFIs were created as channels for external

charitable funds from governments and/or donors and have not acted as, nor been required to become, financial intermediaries for microentrepreneurs.

In order to ensure that appropriate financial intermediaries for the poor do exist, appropriate external and internal incentives to mobilize and administer micro and small savings efficiently and effectively must exist. High performance standards required by regulatory authorities and effective supervision will necessarily translate into higher management capabilities, especially with regard to cost, liquidity and risk management.

As MFIs strive to meet these requirements, they will need to devote particular attention to cost accounting in order to improve their operational efficiency and ensure the long-term provision of their services on a sustainable basis.

The analytical framework used in this paper and the case studies aims to provide relevant insights into the key factors of success for mobilizing microsavings as well as the limits encountered. The document therefore focuses on specific strategies of how to successfully mobilize, manage and safeguard savings rather than on theoretical discussions.

2 INSTITUTIONAL PROFILES OF CASE STUDIES

This section presents lessons in mobilizing microsavings from the poor based on six case studies. The six financial institutions were selected based on suggestions by members of the CGAP Working Group on Savings Mobilization. Efforts were made to represent different institutional models from the private and public sectors as well as from different regions:

- Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand,
- Bank Rakyat Indonesia - Unit Desa System (BRI-UD) in Indonesia,
- Rural Bank of Panabo (RBP) in the Philippines,
- Banco Caja Social (BCS) in Colombia.
- Caisses Villageoises d'Epargne et de Crédit Autogerées (CVECA) in Mali,
- Fédération des Caisses d'Epargne et de Crédit Agricole Mutuel (FECECAM) in Benin,

These institutions were selected because the average amount deposited is far below the average GNP per capita, the number of depositors exceeds the number of borrowers, a high level of market penetration has been achieved, and deposits represent a large share of total liabilities. Table 1 provides a brief overview of the primary characteristics of the intermediaries under consideration.

Table 1: Outreach and performance indicators of selected deposit-taking institutions, 1996

Data as of 31 December 1996	BAAC	BRI-UD	RBP
General country information			
Total population	60 million	200 million	67 million; 100,000 in the Panabo Region
GNP per capita (US\$)	3,000	1,070	1,190
Information on institutional set-up			
Founded in	1966	1968	1967
Ownership	State-owned	State-owned	Private individuals
Type of institution	Development bank	Commercial bank	Rural bank
Branch network	657 branches; 850 field offices in rural areas	3,595 Unit Desas in rural areas	2 regional branches
Lending activities			
Volume of loans outstanding (US\$)	5.6 billion ²	1.7 billion	5.6 million
Number of loans outstanding	2.4 million	2.5 million	6,350
Average loan size (US\$)	2,333	680	882
Avg. loan as proportion of GNP per capita	78%	64%	74%
Volume of demand deposits outstanding (US\$)	1.9 billion	2.6 billion	2.7 million
Number of demand deposit accounts	4.2 million	16 million	10,857
Average demand deposit size (US\$)	452	163	249
Avg. demand deposit as proportion of GNP per capita	15%	15%	21%
Volume of time deposits outstanding (US\$)	1.4 billion	325 million	2.3 million
Number of time deposit accounts	248,223	108,748	529
Average time deposit size (US\$)	5,640	2,989	4,348
Avg. time deposit as proportion of GNP per capita	188%	279%	365%
Financial intermediation indicators			
Deposits to loan ratio	59%	171%	89%
Deposits to liabilities ratio	65% ³	89%	72%
Profitability indicators			
Return on assets	0.35%	5.5%	7.0%
Return on equity	2.82%	Not applicable	36.7%

² Figure represents loan portfolio for individual farmers only. Total net loans including lending to farm associations are US\$6.9 billion.

³ As of 31 Dec. 1995.

Data as of 31 December 1996	CVECA	FECECAM	BCS
General country information			
Total population	9.8 million	5.7 million	41 million
GNP per capita (US\$)	250	370	2,100
Information on institutional set-up			
Founded in	1986	1993	1911
Ownership	Members	Members	Church
Type of institution	Self-reliant village bank	Federation of credit unions	Commercial bank
Branch network	52 village banks in rural areas	7 regional unions; 64 local agricultural credit unions; 28 self-reliant village savings and credit banks	136 urban branches
Lending activities			
Volume of loans outstanding (US\$)	836,800	18.1 million	513 million
Number of loans outstanding	5,685	45,500	209,000
Average loan size (US\$)	147	398	2,455
Avg. loan as proportion of GNP per capita	59%	108%	117%
Volume of demand deposits outstanding (US\$)	30,000	26.6 million	278 million
Number of demand deposit accounts	809	205,800	1.2 million
Average demand deposit size (US\$)	37	129	232
Avg. demand deposit as proportion of GNP per capita	15%	35%	11%
Volume of time deposits outstanding (US\$)	317,025	Negligible ⁴	153 million
Number of time deposit accounts	2,610	Not available	44,914
Average time deposit size (US\$)	121	Not available	3,407
Avg. time deposit as proportion of GNP per capita	48%	Not available	162%
Financial intermediation indicators			
Deposits to loan ratio	41%	147%	84%
Deposits to liabilities ratio	33%	Not available	71%
Profitability indicators			
Return on assets	9.0%	Negative	2.5%
Return on equity	108.8%	Negative	19.0%

Four of these financial institutions have existed for more than thirty years and another two for more than ten years, demonstrating a long track record in providing financial services. The sample encompasses two state-owned banks and four private institutions. Of the latter, two are member-based organizations and one is owned by the Catholic Church. Except for the member-based organizations, they all operate as licensed financial institutions under the legal form of share companies. While BAAC exclusively served farmers and their associations until mid-1998 when it decided to address the nonagricultural sector, the clients of the other institutions are low- to middle-income household enterprises in all sectors. With the exception of RBP, all financial institutions operate a large branch network. BCS is the only bank in the sample that exclusively serves urban areas.

⁴ Time deposits represent not more than 1% of deposits.

All six institutions show impressive outreach quantity and quality. Comparing the actual number of depositors and borrowers with the size of their potential markets, these intermediaries reach between 10% (BCS) and 85% (BAAC) of households, attracting a much larger number of depositors than borrowers. In general, the average loan size is much lower than GNP per capita with average deposit balances being much smaller than average loans. These indicators demonstrate that all institutions reach the poor with financial services.

While CVECA mainly use deposits as a base for gaining access to larger funds from the National Agricultural Bank in Mali, the loan portfolios of the other six are largely financed by deposits. Their deposit base constitutes the largest single share of their total liabilities. From this perspective, the seven institutions are predominantly savings-driven and therefore true financial intermediaries transforming small deposits into larger loans.

3 COMPARATIVE ANALYSIS OF CASE STUDIES

3.1 Institutional type, governance and organizational structure

Institutional type and ownership have a strong impact on customers' perception of a financial institution. In the absence of an official deposit insurance system, public ownership makes BAAC and BRI reliable and secure partners for savers in Thailand and Indonesia. This fact has been even more highlighted during the financial crisis that struck both countries in 1997. The depositors of these two financial institutions can be confident that the government will protect them in the case of a severe liquidity or solvency crisis. In face of the financial crisis, both BAAC and BRI experienced a massive inflow of small savings.

Compared to the implicit safety advantages of the public banks, RBP and BCS rely on other mechanisms to strengthen the confidence and trust of their depositors. First, both institutions are tied to an official deposit insurance system. In addition, RBP relies on traditional ownership ties with a selected number of very well known business families in the Panabo area. This has been a key factor for maintaining stability in RBP when the Philippines were hit by the financial crisis. The trust of BCS's customers partially stems from the long-lasting, exclusive ownership of BCS by the Catholic Church. In addition, BCS is embedded in one of the largest and most well known holding companies of the country, which could be perceived as an additional safety net.

Confidence in the CVECA and FECECAM arises from the fact that they are member-based organizations. The self-reliant village banks (CVECA) in particular are based on the principles of self-administration and all operational functions are executed by voluntary staff. Consequently, the customers regard the village banks as their own organizations. A similar phenomenon can be seen in Benin, though FECECAM as the apex institution for the savings and credit cooperatives is more distant to the individual members of these cooperatives.

Public ownership, however, can also impose limitations on savings if subsidized credit programs prevail and government intervention in pricing and customer screening is a constant danger. In BAAC, the administration of over 250 subsidized and directed government credit programs absorbs a large part of the institutional capacity. In addition, permanent injections of cheap public funds discourage savings mobilization from a financial point of view. Compared to BAAC, BRI's units operate as autonomous entities and are free from political interference.

The sequencing of bank operations has an effect on the corporate identity of the financial institution which, in turn, has an effect on the relationship of the institution with their depositors. The former savings bank BCS, representing a savings-first strategy, has always demonstrated a clear focus on savings. However, this tradition currently makes their transition to a full-fledged commercial bank difficult as the corporate identity and some client segments change. RBP has always offered savings services and seen savings as an important source of funds. The same is true for CVECA and FECECAM that have always combined both services. Since the restructuring of the Unit Desas in 1984, BRI has emphasized the mobilization of savings as an integral part of financial intermediation. Compared to these institutions, BAAC began as a credit-first institution and has only recently recognized savings as an important service.

BAAC, BCS and BRI operate with extensive, decentralized organizational structures. Because RBP was originally designed as a unit bank, legal restrictions did not allow branching out until recently. The village banks in Mali by their very nature are limited to the communities of a certain geographical area. FECECAM integrates a large number of decentralized savings and credit cooperatives. Using field outlets or representing individual village-based organizations, all financial institutions under review maintain a close physical proximity to their customers. In addition to improving the outreach of their operations, this is

important to reduce transaction costs for customers. Close geographic proximity to the depositors is also an important step in establishing a permanent relationship to build confidence between potential depositors and the financial institutions. As banking is all about confidence, this is a key factor for successfully mobilizing savings.

Access to secondary structures is another key issues for all financial institutions under consideration. BRI is strongly supported in political terms by secondary structures such as the Ministry of Finance. BCS is connected to the support network of the holding company to which it belongs. Both BRI and BCS are able to delegate functions to their respective secondary structures in order to benefit from economies of scale and scope. The four-tier organizational structure of BCS, BAAC and BRI allows their field offices to depend on a wide range of internal support services from specialized divisions in their headquarters or regional offices and to access an internal liquidity pool. The CVECA build their own regional association, which provides support services and the necessary control between the village banks. FECECAM as the federation of the savings and credit cooperatives represents a large network and can be considered a secondary structure itself. In comparison, RBP's possibilities to utilize secondary structures are limited. RBP looks for a strategic alliance with a private bank, which will provide technical support in auditing, product development and human resource development.

3.2 Savings products, technologies and marketing strategies

Except for FECECAM, the sample institutions offer a range of savings products that are tailored to their particular clientele. BAAC offers the widest variety of specialized savings products among the six, including a savings program for women. The customers have a choice between immediately accessible, liquid products, or semi-liquid accounts or time deposits with accordingly higher interest rates. Customer orientation is also reflected in the fact that simple savings products are often offered alongside more complex products which allows customers to graduate as their demands change. Simple and clear design of basic savings products enables depositors to easily select the product that best suits their needs. The simple and transparent design of the savings products also enables staff to administer them with ease, reducing administrative costs.

Poorer clients are attracted by low minimum balance requirements. By excluding accounts below a certain minimum from receiving interest payments – the only exception being the CVECA – the financial institutions compensate for the higher administrative costs of small accounts. On the other hand, this provides an incentive for customers to increase their savings and to refrain from withdrawing.

With the exception of FECECAM, all institutions offer competitive, i.e., market-oriented interest rates. While RBP always pays one percentage point more than its direct competitors, an interesting finding is that depositors in state-owned banks seem to accept lower interest payments compared to private financial institutions in exchange for the supposedly higher security of an implicit government guarantee. The financial crisis in some Asian countries underlined this phenomenon as many depositors transferred their savings from private to state-owned banks despite the higher interest rates paid by private institutions. Between the end of 1996 and 1998, the number of depositors in BRI-Unit Desas increased by 25% from 16 million to almost 20 million, twice the annual deposit growth rate of previous years. A similar trend can be identified at BAAC where deposits withdrawn by government institutions have been largely replaced with small deposits from individuals.

The savings methodology that has turned out to be the most successful in terms of number of savers and volume of deposits is individual, voluntary savings. This is particularly evident in institutions that offered individual alongside compulsory savings in group accounts.

FECECAM differs insofar as savings are a prerequisite for loans: most members save to be eligible for credit.

Innovative and creative marketing strategies are crucial for the success of savings mobilization. Market studies are important for developing new savings products. Market research includes analysis of potential customers. BCS and RBP also use market research to monitor their direct competitors. Special trademarks and product labels attract customers by reflecting their motives for saving. BAAC and BCS advertise their products with catchy names such as "Save to Win" or "Grow Every Day Savings". These names and trademarks also increase recognition of products and institutions by creating a corporate image.

Confidence is a precondition for capturing savings. This may require the overcoming of social and cultural barriers, particularly for microclients. Specific marketing strategies focused on this aspect can bring the institution closer to their customers. A broad branch network, patronage of social events, linkages with authorities and community leaders, and sponsoring football matches and concerts contribute to establishing strong links between customers and deposit-taking institutions.

With the exception of the CVECA, all institutions use lotteries in which all savers holding a specified minimum balance participate. In addition to attracting savers by offering prizes, drawings are organized as community events and substantially increase social proximity to clients.

3.3 Management capabilities

Staff recruitment. Those financial institutions that are not member-based devote special attention to recruiting staff. It is interesting to note that banking experience and skills are not the only or primary criteria for staff selection. The mobilization of microsavings requires establishing a close and trusting relationship with microclients, which is easier when staff are familiar with local languages, customs and norms – as in BAAC, BRI and RBP – or show good personal and communication skills.

The member-based institutions follow a different approach. The CVECA have no professional staff, running all operations with volunteers elected by the villages. FECECAM divides tasks between bank staff who carry out banking operations, and elected members who control staff activities. In both institutions, strong involvement of community members creates confidence and proximity to clients.

Staff training. Training is essential in all institutions. On-the-job training teaches junior staff the specific details of operations, creates social ties between staff members and strengthens the institution's corporate identity. Further training requirements seem to be best fulfilled by regular and focused short-term training modules. In-house training is usually supplemented through the use of external sources. RBP, due to its limited size, has entered into a strategic alliance with a larger financial institution to have access to training facilities.

In the CVECA, training by donor-funded staff was initially very intensive, but was reduced when the donor project came to an end. Today, it is purchased from an independent consulting firm. FECECAM trains staff, elected officers and members and combines a variety of resources, such as in-house facilities, external consultants and members training their peers. The network's good reputation has led other microfinance programs to recruit staff from FECECAM.

Staff incentive systems. Sample financial institutions provide economic incentives to improve staff performance and enhance operational efficiency. BCS staff can earn a considerable share of their bonuses through savings mobilization. Other institutions reward overall

performance and profitability. In addition to paying a bonus, BCS make outstanding achievements public and celebrate the winners.

As member-based institutions, the CVECA do not pay salaries, but the members elected to carry out the operations receive one-third of the profits at the end of the accounting year. This amount may exceed the average annual salary in the areas where CVECA operate, thereby providing a strong incentive.

Risk management. As the loan portfolio constitutes the largest part of risk-weighted assets in the seven financial institutions under consideration, the quality of lending operations is decisive for the safety of deposits. Credit management has developed in diverse ways in the institutions analyzed. While the CVECA, RBP and BRI provide strong internal incentives for risk-averse lending, external regulation and supervision led to an improvement of credit evaluation and monitoring in BCS. BAAC is still forced to carry out a significant number of subsidized government programs with the predictable problems of low recovery rates. In FECECAM, the rapid growth of the network has contributed to a strong increase in loans in arrears. The elected representatives and staff have launched a campaign to improve loan recovery, including workshops, a national fortnight on loan arrears, visits to delinquent clients, and the implementation of stricter requirements for loan approval.

Measures to prevent loan loss differ considerably among the seven institutions. BCS' primary risk mitigation technique consists of the full-fledged assessment of borrowers' personal characteristics and repayment capacities by using cash flow projections. BRI is the only institution relying mainly on traditional collateral. The CVECA, in contrast, use collateral substitutes that may not have significant material value, but the loss of which will nevertheless cause considerable inconvenience to the defaulters. In addition, BAAC's lending operations largely rely on joint liability groups. FECECAM uses collateral and savings as a prerequisite for loans, and loans above a certain amount require collateral substitutes and guarantees. This network still feels that compulsory savings assist borrower screening as it provides information on the member's financial behavior.

FECECAM is in the process of computerization, and the CVECA' monitoring system is not sufficiently sophisticated to report overdue loans on a daily basis, although its social proximity to borrowers leads to the quick detection of payments in arrears. The other financial institutions use daily, mainly computer-based reporting systems, which allow them to detect overdue loans in the shortest possible time. Follow-up on overdue loans is generally strict, with only BAAC having a remarkable portion of loans that are more than one year overdue. BRI stands out with regard to early and adequate loan loss provisions, while the other institutions still show weaknesses in this respect.

All institutions analyzed make considerable efforts to diversify their credit operations by economic sector, size and term structure. The examples of BAAC, BCS and BRI show that a national network facilitates this task. BAAC, however, faced certain diversification limits as its political mandate restricted its operations to agricultural and related activities. A change of lending policy in mid-1998, which allows lending to nonagricultural activities, should improve risk management through greater diversification of the loan portfolio. FECECAM, similarly affected by being located in a region where the main cash crop is cotton, currently seeks to attract new groups of clients and strives for regional diversification.

Most of the sample institutions aim to diversify their operations through providing different credit technologies for different market segments. It is interesting to note that BRI and BCS have begun to market-test and implement credit products for a poorer clientele, indicating that they recognize these people as viable customers, not only a source of cheap funds. It also contradicts the concern that stricter risk management requirements for deposit-taking institutions might lead to a crowding out of microcredit clients.

Liquidity management: As noted earlier, the availability of different sources of funds has a profound impact on the savings mobilization activities of financial institutions. BRI and BAAC as state-owned institutions have had access to cheap fiscal funds to the detriment of institutional autonomy. When BRI, for example, could no longer rely on government funds, it turned to the mobilization of small savings. A similar trend at BAAC is the consequence of the financial crisis in Thailand, resulting in a decreasing portion of government deposits at BAAC and stimulating efforts to capture more deposits from individuals. BCS and RBP, in contrast, have long used deposits as primary sources of funds and only occasionally turn to other financing mechanisms.

In contrast to earlier fears that small savings might be highly volatile, the case studies show that small deposits provide a relatively stable core of funds, facilitating liquidity management. This also applies to FECECAM in the sense that most members save to have access to credit, and savings are blocked until the loan is repaid. In contrast, the CVECA promote time deposits having a term structure that perfectly matches its lending operations in response to its less sophisticated liquidity management capabilities compared to the other institutions.

Almost all sample institutions manage liquidity on a daily basis. As noted above, one of the exceptions is the CVECA's time deposit base which is primarily used as a guarantee to gain access to larger volumes of funds transferred semi-annually from the National Agricultural Development Bank in Mali. Special care is taken to ensure that sufficient liquidity is available to serve customers who wish to withdraw funds immediately. To avoid holding large amounts of cash as non-earning assets, access to back-up liquidity is crucial. Of all the institutions, only RBP does not have immediate access to an external liquidity pool and is consequently forced to hold high liquidity reserves, which impairs profit generation. BAAC, BCS and BRI as institutions with large networks were able to establish internal liquidity pools to balance their liquidity requirements, giving them a considerable advantage over smaller institutions. FECECAM manages the liquidity of its entire network and invests surplus liquidity in the banking system. In contrast to this network arrangement, individual CVECA have not established a joint liquidity pool, but rather use their time deposit base and funds from second-tier wholesale financial institutions on an individual basis.

Successful savings mobilization depends crucially on the structure of the internal liquidity transfer mechanism that enables branches to place funds with their head office or network. An internal liquidity transfer price above the interest rate on savings provides a strong incentive to mobilize savings instead of relying on internal sources. The internal transfer prices of BCS and BRI, for example, are close to the interbank lending rate, and BAAC has recently decided to raise its internal liquidity price to a similar level.

3.4 External and internal regulation and supervision

In the six countries in which our case studies are based, a rigid and effective regulatory framework and the respective supervisory bodies for financial institutions. Colombia is the only country where external supervision instruments are strong, with on-site and off-site inspections carried out effectively. Compared to this, the liberalization of the financial sector in Indonesia and the Philippines has led to a mushrooming of new financial institutions, which makes it difficult for the supervisory body to raise its institutional capacity at the same pace. The picture of the two financial institutions representing West Africa is slightly different. The CVECA do not fall under the new PARMEC law, and in the case of FECECAM, the transfer of responsibility to the Ministry of Finance is not yet in effect, leaving the network in a regulatory void. In this context, it should also be noted that regulators of financial institutions in many countries shy away from regulating and supervising deposit-taking MFIs because of their own limited resources of staff and knowledge, and the infant state of the MFI sector.

The lack of external supervision particularly underlines the necessity of developing efficient internal controls. In all sample financial institutions, decentralized internal control systems allow operational flexibility while ensuring adequate levels of control. In networks such as FECECAM and the CVECA, a particular emphasis on different levels of control is crucial. This is supplemented in all sample financial institutions except for BCS by narrow control spans. At BCS, the internal auditing department is controlled by an additional external auditing agency directly accountable to BCS's shareholders.

Built-in or self-control mechanisms complement internal controls and are particularly efficient if structured simply, clearly and transparently. The management information systems (MIS) of BAAC and BRI, for example, use a few key indicators that are standardized for all units. Through this, each unit can assess its own performance and compare it to other units. These data are further used to assess staff eligibility for bonuses: a coherent and transparent system exists to evaluate operations.

3.5 Costs of mobilizing and administering savings

Generally, savings are a source of funds with low financial costs i.e., interest costs, compared to other commercial funds. With regard to financial costs, most of the institutions apply a differentiated interest rate schedule, compensating for the higher administrative costs with no or low interest rates on small savings and increasing them according to the size of the deposit. BAAC and BRI are able to offer slightly lower interest payments that are acceptable to savers who perceive government ownership of the institutions as an additional safety guarantee.

It is often argued that small deposits entail high administrative costs that will turn them into an unprofitable business for MFIs (Schmidt/Zeitinger 1996). The discussion of administrative costs is rendered difficult by the fact that the institutions we analyzed do not cost their savings products on a regular basis so that no exact information is available. The case studies suggest that for savings in general, around one third of the total operating costs arise from mobilization and administration of savings, representing between 2-6% of average assets. In 1996, BAAC costed a new microsavings product and found that administrative costs were only slightly higher than for traditional savings.

There are various ways to reduce administrative costs of small savings:

- Lean structures: BRI, BAAC and the CVECA use lean field offices with a minimum of infrastructure and staffing to keep costs low. BCS uses automatic teller machines (ATMs) where setting up a branch would be too costly.
- Accountability and incentives for increasing operational efficiency: Profit-center organization in branches, as in BRI, BAAC and BCS increase transparency of costs and profits and instill responsibility for performance.
- Streamlining of operations: Computerization instead of manual administration of accounts helps to reduce costs. Simple design of savings products facilitates administrative procedures and increases operational efficiency.
- Outsourcing and networking: Access to support structures enables the institutions to benefit from economies of scale and scope and provide certain services at lower costs than the institutions could achieve on their own. BCS refers certain administrative tasks to its holding company, the CVECA use a private consulting firm and RBP negotiated an alliance with a commercial bank for access to training facilities and a liquidity pool.
- Staffing: The CVECA and FECECAM as member-based organization use volunteer staff.
- Economies of scope: Combining deposit-taking and lending operations reduces operating costs in each business area. BCS strongly promotes a sales strategy that prompts staff to offer tailored savings and credit services to each customer.

As noted above, the start-up costs of testing and implementing new savings facilities consume considerable time and money. Empirical evidence from BRI, BAAC and BCS shows that it takes between one and two years of intensive preparation before a new product is launched in the market. Small MFIs that have recently been transformed into licensed financial intermediaries will find it particularly difficult to absorb these initial costs. To produce returns that are high enough to cover these start-up costs, small MFIs are compelled to charge considerably higher interest rates. While this might be difficult in highly competitive microfinance markets such as Bolivia where financial spreads have been remarkably reduced, it may also contradict the original institutional objective of providing sustainable lending services at the lowest possible price. Many MFIs with a shorter track record and smaller size than those institutions represented in the sample must decide whether they are able and willing to maintain high interest rates to generate strong profits. Only then they will be able to absorb the high short-term investment and administrative costs of savings mobilization that can be compensated by economies of scale and scope in the future.

4 INFORMATION GAPS

The case studies and the comparative analysis represent an important first step to obtain more empirical insight into the mobilization of microsavings from a practical point of view. The results presented here concerning how different MFIs mobilize, manage and safeguard savings should make a valuable contribution to the theoretical debate about microsavings that began more than a decade ago. The study provides new finding about how savings products and technologies are designed, how management capabilities are adjusted to the requirements of savings, how administrative costs are kept low and how savings are protected through external and internal regulation.

The comparative analysis of the six case studies is an important step in obtaining empirical insight into the mobilization of small and microsavings. Yet, information gaps and open questions remain that could usefully be addressed in future research. These include:

- Sequencing of financial services: When should deposit facilities be introduced?
- Minimum standards for deposit-taking institutions compared to minimum standards in financial institutions that operate with other sources of funds;
- Cost accounting per savings product and analysis of economies of scope between savings and lending;
- Links between savings and insurance products;
- Savings behavior: What are the determinants of deposit generation and the savings portfolio mix?
- Impact of deposit facilities at the household level.

The profoundness of these information gaps clearly demonstrates much still needs to be learned about how to successfully mobilize microsavings.

5 CONCLUSIONS

The analysis undertaken so far indicates that the mobilization of small and microsavings responds to the effective demand of poor people and is a commercially viable source of funds. The financial institutions in the sample strive to offer full financial intermediation to microclients, indicating that they are interested in the poor as viable customers. Savings mobilization is also an important step towards the commercial viability of microfinance institutions, as deposit taking provides further incentives to improve governance and cost efficiency.

For microsavings to become a commercially viable business, product design must respond to the preferences of customers. Careful market research is necessary to assess those preferences and prudential testing of new products is required before they are launched in the market. As noted above, a broad range of deposit facilities, offering different levels of return and access, will be most attractive for microsavers. Clear and simple design of savings products alongside expressive trademarks and product names help customers choose a product and strengthen the corporate identity of the financial institution. Finally, marketing and service delivery strategies must help to create a close relationship between the depository and its potential depositors.

Savings mobilization as a part of full financial intermediation is much more complex than administering a credit-only program, requiring special attention to developing appropriate management capacity. In addition to special technical knowledge in liquidity and risk management, staff need to display competence in interacting with their clients to overcome social barriers and to establish confidence in the institution as a prerequisite for successful savings mobilization. The complexity of deposit taking also requires effective incentive and bonus systems to stimulate staff performance.

Due to the higher administrative costs of small savings, systems to determine and monitor costs are essential. In addition, on the organizational level, streamlining of operations and procedures has to be undertaken to reduce operating costs.

In framing policy recommendations, it is evident that successful savings mobilization requires a conducive macroeconomic environment. Where political turmoil, high inflation and uncertainty about the future prevail, savers will try to accumulate real assets rather than deposit their money in savings accounts. Subsidized credit schemes and interest ceilings turn savings mobilization into unprofitable business and cause financial institutions to refrain from providing large-scale deposit services. By the same token, policy makers must ensure an effective regulatory framework that entails adequate protection of savings and provides incentives for sound management, while permitting a diversity of institutional models, institutional development paths and financial innovation. Regulatory and supervisory bodies face the challenge of striking a balance between these two objectives. They should follow a cautious, tiered approach in regulation in response to the scale, level of efficiency and experience of deposit-taking MFIs.

As donor agencies have largely contributed to the boom in microcredit in the 1990s, they should also provide support to develop savings services. First, donors must be clear about whether the primary goal of their efforts is the creation of microcredit delivery programs for the poor, or full-fledged financial intermediation giving equal weight to savings and lending. If the latter is emphasized, donors will have to select appropriate partners to implement financial intermediation efficiently in terms of time and resources. "Picking the right horse" is critical. Donors should define minimum institutional standards for deposit-taking institutions. As mentioned above, savings-driven institutions and complete financial intermediaries such as commercial banks can develop and incorporate microsavings programs relatively easily. NGOs are primarily designed as conduits for credit delivery and would suffer from considerable institutional strains in attempting to transform themselves into full-fledged

financial intermediaries. Some proponents of the microfinance industry might feel uneasy with this conclusion. However, mobilizing small and microsavings to attain deep and broad outreach and long-term institutional sustainability is not an easy undertaking. It is costly initially, takes time and requires high institutional competence.

The major conflict within microfinance today is not between the "sustainability camp" and the "poverty camp" but rather whether donors should embark on a long-term strategy based on sustainable, full-fledged financial intermediation, or on short-term microcredit delivery. This paper clearly suggests that donors should give the same importance to the development of savings instruments and the necessary management capabilities as they accord the lending business. MFI newcomers should prepare themselves for deposit taking at the outset even if they do not intend to introduce deposit facilities immediately.

6 REFERENCES

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