

Savings by the Poor for Sustainable Microfinance: A Win-Win Strategy?

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Finance for the poor

- The good news – financial access is expanding in the developing world
 - Total of postal and non-postal savings accounts in developing world is in excess of 1.4 billion accounts (Peachey and Roe, 2006)
 - Microfinance institutions (MFIs) reached 155 million clients by Dec. 31, 2007 of which 106.6 million were among the poorest affecting 533 million people (Microcredit Summit Campaign Report 2009)

Finance for the poor

- But the bad news is that lack of access to finance continues to be a major problem.
 - In most developing countries, less than half the population has an account with a financial institution. In many countries, the ratio is less than 20%. Less than 20% of small firms use external finance, about half the rate of large firms (Finance for All? World Bank, 2008).
 - The poorest segments of societies have the most difficult access, even in savings institutions that aim to serve the poor (WSBI, 2008).
 - Many of the most aggressive efforts to reach the poor have been credit rather than savings-led.

The current financial crisis poses a threat to microfinance

- *Refinancing risk* has increased due to the decline in the availability of commercially oriented public and private sector funding for MFIs. Will likely lead to a slowing of MFI portfolio growth (Fitch, January 2009).
- *Slowing of MFI portfolio growth and higher borrowing costs* will further erode MFI margins, ultimately hurting their profitability and sustainability (USAID, March 2009)
- *Liquidity and credit risks* will rise for MFIs when client purchasing power goes down and cash needs go up, causing savings to be withdrawn, straining repayments and reducing MFI liquidity (CGAP, February 2009).
- Savings-led institutions may be relatively sheltered.

A possible win-win strategy?

- Expand MFI savings services for the poor.
- Develop more stable and abundant resources for MFIs.

Key empirical question

Can and will the poor save enough in a financial form to self-finance sustainable MFIs that successfully target the poor?

Growth of savings in MFIs reporting to MIX (Gonzalez and Meyer, 2009)

- Data for 1,072 MFIs from 90 countries in 2007. 67 million borrowers and 63 million savers. Gross loan portfolio of \$36 billion and voluntary savings of \$26 billion (72%).
- Depth of outreach: Average loan per borrower was 130% of GNI per capita for the 435 deposit mobilizers, while the average savings per saver was 72%. Average savings were smaller than average loans in 31 out of the 38 countries.

Amount of savings mobilized

- Is a Robin Hood strategy needed to mobilize sufficient savings to fuel the growth of MFIs that serve the poor?
- Consider the example of a mid-sized bank in East Africa where Robin Hood is at work. Savings from richer market segments are required to cover the shortfall in funds needed to lend to poorer segments

BANK X: Deposit Structure

(USD June 2008)

Segment	USD	NUMBER of ACCOUNTS			BALANCES in ACCOUNTS			
		Accounts	% of Total		Bal. USD	% of Total		
Micro Business & Consumer	Up to \$6	220,000	38%	73%	\$751 k	< 1%	2.8%	38.8 %
	\$6.01 to \$60	200,725	35%		\$3.63 m	2.5%		
	\$60 to \$3,000	148,000	25.6%	98.6 %	\$61.2 m	36.0%		
Small Business	\$3,000 to \$9,000	6,800	1.2%	<0.5%	\$32.8 m	19.0%	42.2 %	
SME / Comm	\$9,001 to \$60,000	2,300	< 0.4%		\$42.0 m	25.0%		
Corp	Over \$60,000	186	< 001%		\$29.2 m	17.2%		
	TOTAL	578,000			\$169.6 m	Avg Bal = \$293		

BANK X: Loan Structure (USD June 2008)

		NUMBER of LOANS			LOAN BALANCES		
USD		# Accounts	% of Total		Bal. USD	% of Total	
Micro Bus	\$60 to \$3,000	42,500	50.0%	92.3%	\$16.7 m	13.7%	41.4%
Salary, HIL, Staff, MP Salary		35,960	42.3%		\$33.8 m	27.7%	
Small Bus.	\$3,001 to \$9,000	4,825	5.7%	7.7%	\$30.9 m	25.3%	33.3%
Comm. / SME	\$9,001 to \$60,000	1,625	1.9%		\$30.4 m	24.8%	
Corp	Over \$60,000	90	< .1%		\$10.4 m	8.5%	
TOTAL		85,000			\$122.2 m	Avg Bal = \$1,438	

BANK X: Loan Portfolio Funding Dilemma (USD June 2008)

Classification of Accounts	DEPOSITS			LOANS	Funding (Shortfall) / Excess
	Deposit Balances	Funding use (at 72 % loan-to-deposit ratio)		Portfolio Balances	
		Liquidity	Available for Loans		
Micro Business & Consumer Deposits up to \$600 Loans up to \$3,000	\$28.7 m	\$8.0 m	\$20.7 m	\$50.5 m	(\$29.8 m)
Small Business Deposits \$601 to \$3,000 Loans \$3,001 to \$9,000	\$36.9 m	\$10.3 m	\$26.6 m	\$30.9 m	(\$4.3 m)
Commercial (SME) Deposits \$3,001 to \$9,000 Loans = \$9,001 to \$60,000	\$32.8 m	\$9.2 m	\$23.6 m	\$30.4 m	(\$6.8 m)
Corporate Deposits over \$9,001 Loans over \$60,000	\$71.2 m	\$19.9 m	\$51.3 m	\$10.4 m	\$40.9 m
TOTAL Portfolio	\$169.6 m	\$47.4 m	\$122.2 m	\$122.2 m	0

Savings and loans in four MFIs

Amounts	BAAC Thailand	BCS Colombia	BRI Indonesia	BRP Philippines
Vol. loans out.	US\$5,590 m.	US\$513 m.	US\$1.7 m.	US\$5.6 m.
No. loans out.	2.4 m.	0.2 m.	2.5 m.	6,350
Ave. loan size	2,329	2,455	685	882
Vol. deposits out.	1,875 m.	279 m.	2.6 m.	2.7 m.
No. deposit acc.	4.2 m.	1.1 m.	16 m.	10,850
Ave. deposit size	447	254	163	249

(Bank for Ag and Ag Coops; Banca Caja Social; Bank Rakyat; Rural Bank of Panabo, CGAP, 1998)

Distribution of savings accounts in credit unions

- 89.0% of the members with small accounts in four Guatemalan credit unions provide only 8% of the total savings while only 0.3% of member accounts supply a quarter of the total savings.
- No information provided on loans

Savings accounts in four Guatemalan credit unions

(US dollars, Dec. 2001)

Deposit amount	No. of accounts	Percent	Volume of accounts	Percent
Less than \$300	103,112	89.0	\$2,966,672	8
301-1,000	6,285	5.4	3,567,178	10
1,001 -6,250	5,430	4.7	13,601,235	38
6,251 -12,500	750	0.6	6,766,009	19
12,501 – 37,500	296	0.3	5,790.712	16
Greater than 37,501	45	0.0	2,927,819	8
Total	115,919	100.0	\$35,619,675	100

Source: Richardson and Oliva in Branch and Klaehn, 2002

Savings in the pro-poor SafeSave Cooperative Society Ltd. in Bangladesh

- SafeSave was started in 1997 as a research experiment to mobilize savings from slum dwellers in Dhaka, Bangladesh. By 2008 it had 6 branches with 64 savings collectors offering door-to-door services to over 13,000 clients with 8,000 active loans. The savings and loan products are highly flexible with respect to amounts and timing.
- In 2008 it reported total loans of 32.9 million taka (approx. 70 = USD\$1) compared to total member savings of 23.6 million (72%). Balance from grants and long-term loans.
(<http://www.safesave.org/>)

Dramatic member and non-member savings growth in Grameen II

- Grameen Bank in Bangladesh undertook major reforms in 2001/02 including aggressive savings mobilization of public deposits. New branches were required to mobilize the funds used for lending. A pension savings product with a term of 5 to 10 years was also created and became one of the fastest growing products for members. (Rutherford, February 2006)
- In 1999 the ratio of savings to loans was 57 percent. By 2009, it reported \$682.3 million in loans outstanding compared to \$948.1 million in total savings, a ratio of **139 percent**.
(www.grameen-info.org/)
- Approximately **45%** of the savings were supplied by non-members including richer households and institutional savers.

Savings mobilization in Latin American MFIs

(Maisch, Soria and Westley, 2006)

- In 2003, 61 regulated MFIs in nine countries held \$ 1.24 b. in total deposits, equal to about **75%** of loans outstanding.
- Peru and Bolivia captured 78% of the total.
- Of the total deposits, 6.7% were negotiable certificates of deposit, **67.3 %** other time deposits, 25.8 percent in savings accounts, and only 0.1 % in checking accounts.

Savings mobilization in five Bolivian MFIs

(December 31, 2003)

Account size	No. of accts.	%	Balance (US\$ 000)	%	Ave. deposit
Less than \$500	158,657	85.8	6,823	3.1	43
501-1,000	8,294	4.5	5,903	2.7	712
5,001 – 10,000	2,602	1.4	19,019	8.7	7,309
10,001-30,000	1,507	0.8	26,296	12.0	17,449
50,001-100,000	388	0.2	34,494	15.7	88,902
Over 100,000	283	0.2	76.640	34.9	270.813
Total	185,017	100.0	\$219,372	100.0	1,186

Importance of institutional investors in five Bolivian MFIs in 2004

- 6% of accounts representing 80% of total savings were in **time deposits**.
- In two MFIs (Bancosol and Caja Los Andes), 50 and 30 percent of time deposits, respectively, were held by **institutional depositors** (mutual funds, pension funds, insurance companies, banks, credit unions, nongovernmental organizations and social programs).

Importance of client segmentation (two branches of CMAC Trujillo, Peru)

- Women provided 41 percent and 43 percent of total deposits compared to 28 and 29 percent provided by men.
- Registered companies held 31 and 28 percent of total.
- Individuals over age 50 held 50 percent of total time deposits and 37 percent of total savings deposits

Mexican credit union members: Robin Hood in reverse (Paxton and Young, 2009)

- 865 member households in 32 credit unions

Income quintile	Ave. income	Ave. no. savings acc.	Ave. total formal savings	Ave. no. total out. loans	Ave. total amount out. loans	Ave. savings/ loans	Ave. savings/ ave. total income
1	\$691	1.18	\$233	0.33	\$115	202%	34%
2	1,886	1.14	233	0.29	134	174	12%
3	3,391	1.26	508	0.35	204	249	15%
4	6,227	1.42	511	0.45	329	155	8%
5	16,407	1.65	1,089	0.43	823	132	7%

Conclusions

- Much remains to be done to improve financial access.
- The poor, especially in rural areas, lack access.
- Savings are becoming a more important source of resources for lending by MFIs, and may be more reliable than external funds in an economic downturn.
- The bulk of MFI savings come from wealthier individuals and institutional savings in term deposits.
- Pension savings may be an attractive product for poor savers

Implications for developing a savings mobilization strategy

MFIs serving the poor that seek to fund loan portfolios through savings mobilization will likely need to:

- Adopt a Robin Hood approach to attract large amounts of savings which runs the risk of contributing to mission drift
- Focus on time deposits for reasons of larger account size, reduced operating costs, and less savings volatility.
- Attract some institutional investors
- Product design matters - match savings products to preferences of specific market segments (e.g. women, older clients)
- Recognize competing institutional advantages and disadvantages (e.g. image, regulations)
- Partner with savings mobilizers

Frontiers for research

- Analyze savings behavior and preferences by market segments (income, gender, age, occupation, rural/urban)
- Identify net savers and net borrowers
- Technologies and systems to reduce costs
- Protection of savers (regulatory frameworks, consumer education)
- Impact of savings on savers

THANK YOU VERY MUCH

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