Chapter 1

The Keys to Striking the Balance: An Introduction to Savings Mobilization

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Voluntary savings are fundamental to sustainable economic development. They are the most frequent source of funding for microenterprise startup and expansion. Voluntary savings enable households to smooth consumption in the face of uneven income flows, to accumulate assets for the future, to invest in education, and to better prepare for emergencies. Despite the importance of savings, the large majority of microsavers continue to lack access to safe and sound institutions where they can deposit their savings.

What most distinguishes credit unions from other non-bank financial entities offering microfinance services is their ability to mobilize large numbers of small, voluntary savings accounts. Credit union savings mobilization programs throughout Latin America have demonstrated that low-income and poor people will substantially increase their savings in financial form if they are provided with safe and convenient places to deposit their funds. The World Council of Credit Unions, Inc. (WOCCU) has implemented credit union strengthening and savings mobilization programs in Bolivia, Ecuador, El Salvador, Guatemala, Honduras, Mexico, and Nicaragua. WOCCU experience demonstrates that credit unions that combine sound financial disciplines, saver-friendly product offerings, and aggressive outreach can satisfy member demands for savings services and rapidly generate high levels of liquidity. The liquidity from savings deposits supplies credit unions with the funds to meet local member credit demand and provides the institutions with a stable and long-term source of self-sustaining financing. In other words, the credit unions evolve into true financial intermediaries, raising savings deposits to fund their lending portfolios.

Table 1.1 shows the dramatic growth from 1999 to 2001 in voluntary savings volume and in the number of members and clients served by credit unions affiliated with WOCCU credit union strengthening programs in Latin America.

Table 1.1 Voluntary Savings in WOCCU Latin America Programs

Country	# of CUs	1999 Total Deposits[1]	2001 Total Deposits[1]	Percent Growth in Deposits	1999 # of Members[2]	2001 # of Members[2]	Percent Growth in Members[2]
Bolivia	15	$22.0	$32.7	48.6	45,436	60,179	32.4
Ecuador	20	$31.5	$105.3	234.3	759,741	879,596	15.8
Guatemala	28	$76.2	$132.5	73.8	305,848	406,074	32.8
Honduras	21	$28.0	$34.3	22.5	149,304	194,034	30.0
Nicaragua	17	$0.7	$1.6	157.1	11,937	17,397	58.3
Total for 5 Programs	**101**	**$158.4**	**$306.6**	**93.5**	**1,271,658**	**1,557,820**	**22.5**

[1] *Deposit amounts are rounded to nearest whole in millions of U.S. dollars as of December 1999 and 2001.*

[2] *Includes both members who own shares and non-member clients who do not own shares, but do use savings services.*

The fact that total deposits grew four times as fast as the number of members and clients suggests that the credit unions have been successful both in attracting new members and clients who are net savers and in convincing existing members and clients to increase their deposits. The dramatic increase in total deposits demonstrates that the institutions have been successful in building the trust of new and existing savers.

Trust is a common theme throughout this book. In chapter 2, Cifuentes reminds readers that savers take all of the risk in this relationship. He also discusses how an institution can establish the financial disciplines necessary to build a sound institution where savers will be able to entrust their deposits. In chapter 3, Branch details the key features savers seek, noting that the first priority is safety and security (which inspire client trust). Branch also discusses policies and procedures so that savers will be able to trust that their deposits are well managed. In Chapter 4, Linares builds on these discussions and reminds readers of how essential trust is in the marketing of savings. Linares suggests to

Organization of *Striking the Balance in Microfinance.* This book examines the process of mobilizing savings. The first five chapters provide policy, product, and guideline materials. The next three chapters present case studies from credit union savings mobilization programs in Latin America. The toolkit provides worksheets, surveys, and sample forms for readers to use in their own savings mobilization efforts.

readers how they can build trusting relationships with their clients. The authors of the case studies emphasize that trust was fundamental in the experiences of the Nicaraguan and Ecuadorian credit unons. Trust is the foundation of savings mobilization.

Objective

The purpose of this book is to capture and share the best practices and lessons learned from credit union savings mobilization programs in Latin America. The authors present the methodologies and tools that they, together with their colleagues in the region, employ to mobilize savings in credit unions. The authors provide policy, product, and guideline materials for credit unions and other microfinance institutions (MFIs) that plan to initiate, update, or expand their savings services. The term *savings institution* is used throughout the book to refer to those institutions that (1) are legally authorized to accept deposits from their members or from the public, and (2) whose primary source of funds is voluntary savings deposits.

The book takes readers through the process of mobilizing savings—from assessing the readiness of their own institutions to raise deposits responsibly, through instituting financial disciplines, establishing policies and procedures, developing products, devising marketing strategies, and determining the costs. Case studies demonstrate how credit unions in Nicaragua and Ecuador implemented successful savings programs to grow their institutions and better serve their members and clients, even during times of crisis. The toolkit provides worksheets, surveys, and sample forms for readers to use in their own savings mobilization efforts. Together, the methodologies and tools provide practitioners with a comprehensive, practical guide for mobilizing savings in their own institutions. The lessons should also provide donors and other development organizations

with models for designing successful savings mobilization programs in credit unions and other types of MFIs.

Voluntary Savings

What are voluntary savings? Voluntary savings are savings, not for access to credit, but for *the sake of saving*. Voluntary savings are characterized by convenience and return: the ability to deposit and withdraw at will and earn market-driven rates of return on funds deposited. The authors focus on voluntary, withdrawable savings.

Savings mobilization refers to creating safe and sound institutions where savers can place their deposits with the expectation that they will receive the full value of their funds, plus a real return, upon withdrawal. It means developing appropriate products to satisfy the local demand for voluntary savings services and marketing those products to savers of varying income levels. Simply put, savings mobilization is capturing voluntary savings deposits, protecting them, managing them, and using them to fund loan portfolios.

To make clear the distinction, forced savings are those contributions to a savings account required to gain access to loans. Many

What is WOCCU? The World Council of Credit Unions, Inc. (WOCCU), a member-based development and trade association, provides advocacy, a platform for innovation and knowledge exchange, and technical development assistance to its members, credit union organizations, and related user-owned financial institutions worldwide. By implementing short- and long-term credit union strengthening programs, WOCCU extends the frontier of credit union outreach and sustainability—expanding the breadth and depth of credit union services so that more and poorer people have increased access to affordable financial services. Savings mobilization is integral to the WOCCU technical assistance program. WOCCU also works to create appropriate regulatory environments for safe and sound credit union operations. WOCCU has credit union affiliates in Africa, Asia, the Caribbean, Europe, Latin America, North America, and the South Pacific. At year-end 2001, WOCCU represented more than 112 million credit union members with a combined total savings of $530 billion.

traditional credit union and non-governmental organization (NGO) practices require members or clients to accumulate savings or shares which are illiquid and from which they can leverage loans at two to five times what they had accumulated in forced savings or shares. Others require that as members or clients repay loans, a portion of the payment go into a savings or share account.

Compulsory savings are driven by the idea that institutions will (1) "teach" members or clients how to save and (2) ensure availability of funds for lending. Members and clients already know how to save; they need institutions that can provide them with the instruments to enable them to do so in financial form. In credit unions, compulsory savings do not in fact provide sufficient volume to fund loan portfolios. Credit unions must expand their outreach and offer voluntary products that are attractive to members and clients of varying income levels to generate the level of funds required to finance their loan portfolios entirely with savings.

WOCCU has consistently found voluntary savings instruments to be more popular than forced savings products among credit union members and clients in Latin America. Voluntary savings have grown much faster than forced savings in credit unions engaged in savings mobilization programs because of the ease of access and the higher interest rates paid on them. In other words, where credit unions offer appropriate products, members make use of the voluntary savings to save in financial form more often than they save for the purpose of accessing loans.

Lessons From the Credit Union Experience

Credit unions, or savings and credit cooperatives, are member-owned financial institutions that offer savings and credit services to their members in developing, transitioning, and developed countries. Credit unions serve members of all socioeconomic levels with an array of financial service products. Whether in developing, transitioning, or developed countries, the purpose of a credit union remains the same: to provide members with financial services to improve their economic and social well being through asset accumulation and income generation. Voluntary savings mobilization is a critical tool to this end, equally or more important than the provision of credit services.

Credit union members purchase a share or shares in the institution when they join. With the purchase of shares, members gain access

to the services provided by the credit union and obtain one vote to exercise at the annual general meeting and when votes are called. The boards of directors are generally made up of elected members.

Depending on a country's legal framework, credit unions may be authorized to mobilize member savings by the Superintendency of Banks, the Central Bank, the Ministry of Finance, the Ministry of Cooperatives, or by a freestanding law. In numerous countries, credit unions are legally authorized to serve non-members with deposit services; therefore, although only members are eligible to vote and borrow, members and clients both can access the savings services. Ideally, the government authority that is responsible for supervision of the formal financial sector supervises credit unions.

Why Do Credit Unions Focus on Mobilizing Savings?

Credit unions around the world provide savings services to their members and clients on a sustainable basis. By providing services to members and clients of diverse income groups, credit unions have tapped into savings deposits as a relatively stable, low-cost source of funds to finance growing loan portfolios. These funds are loaned to members to fund productive investments in agriculture, education, housing, and microenterprise in the local community.

Credit unions have long claimed that savings deposits provide them with a cheaper source of funds. The market cost of paying individual depositors tends to be lower than the non-subsidized inter-lending rate for loans in financial markets. In chapter 5, Richardson and Oliva test the validity of these claims through an empirical analysis of credit union savings costs in four countries—Bolivia, Ecuador, Guatemala, and Nicaragua. They find that compared to the borrowing costs in the local capital markets, the costs of providing real market-based returns on savings tended to be lower for the institutions. While the costs of savings deposits are not likely to be less than those of subsidized credit lines, Richardson and Oliva argue that the tailored and unique reporting requirements of donor-funded sources of funds do raise the administrative costs of those funds when compared to locally-mobilized savings.

The existence of savings deposits as an independent source of funds reduces the dependence of credit unions and other savings institutions on the boom and bust cycles of external credit sources. Mobilizing savings also reduces the risks associated with external

credit programs that may be subject to political or targeted motives. Therefore, credit unions hold to the principle that internally-generated savings provide an independent and sustainable supply of funds that can be invested in the local community.

Beyond serving as a source of funds, credit unions have found that savings mobilization serves as a primary ingredient of good governance. Drawing on an earlier work by Branch and Baker about overcoming credit union governance problems, Cifuentes reminds readers that it is the simultaneous presence of savers, who provide the funds, and borrowers, who borrow the funds, which forms the basis for a self-sufficient and balanced financial intermediary. Net savers demand high deposit rates and strong prudential disciplines to protect their savings, while net borrowers tend to demand low loan rates and easy access to credit. The conflicting objectives require the board of directors and managers in the institution to find a balance that serves both savers and borrowers.

The quality of the savings services and the loan screening and collection practices will determine the proportion of savers to borrowers in an institution. In member-owned institutions, this relation of savers to borrowers is reflected in the nature of the directorship: borrower-dominated or saver-borrower balanced. Borrower-dominated credit unions tend to put savings at risk, discourage net savers, and attract those looking for cheap loans, effectively keeping those institutions borrower-dominated. Credit unions with high-quality savings services attract net savers as well as net borrowers. The net savers exert pressure upon the board and management to adhere to prudential disciplines, keeping the institution relatively balanced.

This balance in governance is determined in part by the mix of savings and loans offerings. It is constrained and guided by the rules and bylaws which Cifuentes discusses: operational responsibility and flexibility for management, establishment of prudential standards, accountability of managers for financial performance, oversight responsibilities of directors, and controls over conflicts of interest. While these rules may be specific to credit unions, similar principles are necessary for the sound governance of any savings institution.

Savings mobilization influences the financial management of an institution. The threat of deposit withdrawal due to savers' lack of confidence in management should compel managers to operate within prudential guidelines, since widespread withdrawals would eliminate the base of

funds and threaten the sustainability of the institution. As a result, directors and managers are forced to operate according to sound principles, including adequate capital reserves, loan loss provisions, and liquidity reserves in order to protect client savings and the existence of the institution.

Increasing Outreach and Serving More Clients

Credit unions are mixed outreach institutions. This means that in order to generate the volume of liquidity needed to meet the loan demands of the many low-income members and to offset the costs of providing microsavings services, credit unions also raise savings from higher-income segments with more stable income flows and larger savings accounts. From their different perspectives, all of the authors in this book point out that mixed outreach enables savings institutions to reach more low-income and poor members than they would if they restricted services to this segment alone. As Branch and Linares both note, savings institutions should develop savings products to target different income groups so that they are able to attract the volume of savings needed to sustain independent financial intermediation. As Richardson and Oliva point out in their discussion of costing, institutions must broaden their outreach to attract more clients if they are to provide savings services in a cost-effective and sustainable manner.

Financial intermediation requires that institutions attract both net savers and net borrowers as clients. Credit unions have found that serving large numbers of small savers generates a significant volume of funds; however, self-sustainability depends on attracting large numbers of these small savings accounts together with a smaller number of large savings accounts. WOCCU surveys in Bolivia, Ecuador, and Guatemala reveal that credit unions often average four to eight savers for each single borrower. The higher the number of net savers per borrower, the better the liquidity condition of the institution. The chapters by Branch and by Richardson and Oliva illustrate that it is the combination of many small accounts, a moderate number of mid-sized accounts, and a few large accounts that together provide the volume of savings required (1) to fund the loan portfolio, and (2) to offset the costs of providing microsavings services.

The pattern demonstrated in the 15 Bolivian credit unions shown in Table 1.2 is repeated in credit unions throughout Latin America that have successful savings mobilization programs: many small accounts

serving low-income members (94.1 percent of passbook savings accounts have balances less than $500 and provide only 29.3 percent of the funds) and fewer large accounts serving higher income members and providing the large volume of funds (6 percent of accounts with balances greater than $501 provide 70.8 percent of the funds).

Table 1.2 Passbook Savings Accounts in 15 Bolivian Credit Unions[1]

Account Size in U.S. $	Number of Accounts	% of Number	Volume of Accounts[2]	% of Volume
0 – 100	64,048	53.4	1.0	5.5
101 – 500	48,895	40.7	4.3	23.8
501 – 1000	3,796	3.2	3.2	17.5
1001 +	3,306	2.8	9.6	53.3
Total	**120,045**	**100.1**	**18.0**	**100.1**

[1] *As of December 31, 2001.*

[2] *In millions of U.S. dollars, rounded.*

Environmental Requirements for Mobilizing Savings

As Cifuentes points out, three key environmental elements repeatedly stand out as critical for mobilizing savings: limited inflation, legal authority, and supervision.

The ability of any savings institution to successfully mobilize savings is contingent first upon a macroeconomic environment which allows the institution to operate at rates that are viable and sustainable while providing a real positive return to protect the value of client savings. When inflation rates are high—12 to 60 percent—savings institutions can use several strategies, including variable rates, hard currency value-pegging, and short-term lending, to protect the real value of savings. Inflation rates between 60 and 120 percent require very limited short-term operations. When inflation rates exceed 120 or 150 percent, financial intermediation breaks down. The ability of a savings institution to manage savings will depend on the level of inflation

and that institution's ability to manage its pricing and costs in order to maintain real values. Branch discusses interest rates and product pricing. The costing model presented by Richardson and Oliva should enable readers to get a clear picture of what it costs their institutions to mobilize savings.

If savers are unable to recover the real value of their savings, they have been provided with a disservice. Where returns are negative, dis-intermediation occurs as the value of savings decreases. In high-inflation economies where political instability and shallow financial markets allow for few alternatives, savers may have to accept a return that is less than the real value of their savings as the cost of saving. If inflation rates continue to exceed the return on financial savings, many people will choose to invest their savings in alternative forms or assets—real goods, such as animals or building materials—which may be illiquid but will maintain their value. The problem with saving in alternative forms arises when a saver needs to access his or her savings quickly, but may not be able to liquidate the asset.

Savings mobilization is a contract between parties: the institution receiving the savings and the individual placing savings in that institution. For that reason, savings services need to operate within an established legal framework that identifies which institutions, under which criteria are able to receive savings from members or from the public. The legal framework should also identify what recourse savers have to recover their savings from institutions in times of crisis. As Cifuentes and Branch each point out, when savers place their savings in an institution, they assume the risk. Savers are entitled to at least a minimum contractual protection, provided by an established legal framework that clearly defines their property and claim rights.

Savings institutions are able to mobilize savings responsibly and more effectively within the safety of adequate regulatory and supervisory frameworks. Institutions that mobilize voluntary deposits should be supervised by the government regulatory agency responsible for supervision of the financial sector. Effective supervision requires a sound legal system, formalized audit requirements, supervisory monitoring capacity, an established regulatory framework, and authority to enforce the law.

Significant differences in the quality of management and savings protection are found when comparing credit unions supervised by the

formal financial sector regulator with those not supervised by the regulator. The credit unions supervised by the regulator tend to institute stronger financial disciplines. At the same time, many credit unions do operate in markets where they are poorly supervised by cooperative agencies or non-financial ministries. In these situations, the savings institution is responsible for adhering to the financial disciplines necessary to manage savings safely, monitoring its own financial performance, and advocating for greater commitment to and capacity for supervision on the part of the government regulator.

Institutional Preconditions for Mobilizing Savings

Electing to mobilize savings from clients is a strategic, long-term decision. Savings mobilization is not only a matter of offering a few savings products to expand the product portfolio, but rather it requires a fundamental reorientation of the institution. Cifuentes sets out seven preconditions that an institution must meet *before* mobilizing savings. He then describes the critical elements that managers in a savings institution should implement *throughout* the process of savings mobilization. Cifuentes outlines the steps that readers can take (1) to assess whether or not their own institutions are ready to mobilize savings responsibly, and (2) to prepare their institutions to mobilize savings.

Cifuentes explains that savers must be able to trust that the savings institution will safeguard their deposits. Savings institutions must be able to assure the capacity to return the full value of savers' deposits when they need them. Cifuentes describes the business culture—market orientation, effective governance, transparent accounting, sound financial management, performance monitoring, professional capacity, convenience of service, safe and sound image, and business planning—established among Nicaraguan credit unions that undertook a rigorous institutional strengthening program that included savings mobilization as a fundamental pillar.

Before engaging in or accelerating public savings mobilization, a savings institution must establish prudential financial management disciplines as standard, well-understood practice. This establishment of disciplines means more than merely meeting basic requirements of solvency. Savings institutions must establish the core disciplines of delinquency control, loan loss provisions, liquidity reserves, control of non-earning assets, profitability, and capital reserving in order to

protect client savings. Cifuentes points out that financial disciplines are interdependent and mutually reinforcing; as such, they should be implemented as an integrated system, not in a piecemeal manner that addresses some risks but not others. A transparent accounting system with clearly defined nomenclature is necessary for an institution to be able to monitor that the disciplines are in effect.

Liquidity management and liquidity reserving are essential to savings mobilization. While an institution can control the number of borrowers it serves, it cannot limit the number of savers that come to deposit and withdraw savings. Once savings services are offered, an institution cannot turn savers away because that would cause a crisis of confidence in the institution. Before offering saving services, managers in an institution must make sure that the institution has the expertise to manage liquidity to meet withdrawal and disbursement demands and the capacity to serve the increased number of clients.

When an institution mobilizes savings, liquidity increases and those funds are redirected as loans into the community. It is critical that the savings institution has in place strong policies, methodologies, and practices for credit screening and risk analysis so that the loans financed by savings are collectible. Risk management must include strict delinquency monitoring, reserve provisioning, and collections, as well as effective risk analysis and credit screening.

A savings institution builds lines of defense to protect client savings. Loan loss provisions provide the first line of defense. Risk of loss is observable directly in the delinquency of the loan portfolio. If nonperforming loans are not recovered, then the savings that funded those loans are lost. The institution creates provisions from income in the amount that will be required to replace the savings, as a percentage of loans delinquent and depending on the age of the delinquency. Beyond loan delinquency, there are risks that are not observable: risks that may be due to unexpected losses or systemic shocks. The institution builds reserves retained from earnings or "institutional capital" as a second line of defense. These resources are owned by the institution and set aside to absorb losses before they can impair the value of savings. Credit unions create a third line of defense with the shares that members invest as risk equity in the institution. If provisions and reserves are not sufficient to absorb losses, then shares absorb the losses before impairing deposits.

Cifuentes provides an overview of the PEARLS financial performance

monitoring system, developed by WOCCU to provide management guidance for credit unions and other savings institutions. PEARLS is also a supervisory tool for boards of directors and regulators to use in monitoring financial management. PEARLS can be used to compare and rank institutions; it can provide comparisons among peer institutions in one country or across countries. The PEARLS system uses a set of financial ratios to measure key areas of credit union operations: Protection, Effective financial structure, Asset quality, Rates of return and costs, Liquidity, and Signs of growth. The PEARLS system provides performance standards for the key disciplines of prudent financial management.

Whereas some PEARLS indicators are specific to credit unions, many are relevant for other MFIs as well. Monitoring systems that are specific to other types of MFIs also exist; for example, the ACCION CAMEL framework analyzes and rates quantitative and qualitative indicators specific to NGO-based MFIs. The key indicators of CAMEL are: Capital adequacy, Asset quality, Management, Earnings, and Liquidity management. As Cifuentes notes, whether a savings institution elects to use PEARLS or another monitoring system, it is imperative that the institution establishes and adheres to a system that enables managers, directors, and supervisors to track financial performance.

Savings growth is highly correlated with the perceived soundness and professionalism of the institution mobilizing savings. Cifuentes and Miranda, later in Chapter 6, illustrate the importance of physical image by providing examples of Nicaraguan credit unions that re-launched their community images as part of their efforts to inspire public confidence and mobilize savings. The professional, secure, and attractive public image of the physical infrastructure of the institution does much to create an image of soundness and professionalism. Branch and Linares build on the importance of institutional image in their discussions of savings management and marketing.

Cifuentes introduces the concept of minimum "professional capacity." He asserts that to receive and administer savings in an efficient manner which does not impair their value requires a minimum of professional capacity; that is, a professional staff with training in how to manage savings. Cifuentes notes that managers must be qualified to manage financial intermediation. He states that one cannot assume that staff experienced in providing credit will be able to transition to

providing savings services. Different issues in client service, cash management, and marketing require that employees receive targeted training in providing savings services. Linares furthers this point when he argues that marketing efforts are wasted if staff members are not properly trained. He offers suggestions for low-cost distance training.

Readers will note that professional capacity is addressed in all of the chapters. The authors refer to *managers* making proactive decisions; for instance, whether or not to institute financial disciplines, establish policies and procedures, manage savings, devise a marketing strategy, or analyze costs. Savings mobilization may require managers to make decisions that are challenging for the institution or difficult for the staff. When managers are tasked with protecting client savings, they assume a greater responsibility that is likely to require capacity-building efforts across the organization.

Savings Products

As the critical elements for responsible savings mobilization are put in place, institutions define their product offerings and implement policies and procedures to manage those products. Branch presents savings mobilization as a demand-driven activity aimed at clients who save for the purpose of saving. He states that a savings institution must first convince savers that their savings will be safe and well managed. Then the institution designs and offers savings products that will satisfy the service demands of clients in the local market. Branch focuses on establishing the framework for savings mobilization through his analysis of key components of the process: products, pricing, account procedures, and savings management.

Branch bases his discussion on the premise that savers look for institutions that can provide them with safety, convenience, and return, in that order of priority. He discusses the tradeoff between liquidity (access) and return (compensation) and suggests that institutions must offer a range of products to satisfy the varying demands of savers. A continuum of savings products can be developed, ranging from passbook accounts, which offer complete liquidity and lower returns, to long-term accounts with restricted liquidity and high returns. Low-income and small savers have exhibited a willingness to sacrifice returns in exchange for complete access to their funds, whereas larger and wealthier savers generally prefer to sacrifice liquidity in exchange for higher returns on their savings.

Savings products are also built by tailoring them to respond to the demands of particular market niches (farmers, transportation agents, or vendors, for example), or to purposes for which clients save (education fees, large purchases, or housing). Product design must be simple and clear to be attractive to savers and to keep administrative costs low.

Branch sets out the defining characteristics of products. The core characteristics include: target market, interest rate, minimum opening deposit, minimum balance requirement, withdrawal policy, promotion, and institutional implications. The credit union experience in mobilizing voluntary savings has focused primarily on six savings products: passbook accounts, fixed-term certificates of deposit, youth savings, programmed savings, institutional accounts, and retirement accounts. The most popular savings product is the passbook account, followed by fixed-term certificates of deposit, then programmed accounts (such as Christmas, housing, or school fee programs).

Branch outlines the procedures for opening accounts, making deposits and withdrawals, and closing accounts. He emphasizes that procedures must be clear, simple, and standardized so that clients and staff fully understand how the systems work. Established procedures decrease transaction costs for both clients and the institution, and they minimize errors.

Setting Interest Rates

Interest rates determine the returns savers earn on their deposits and the price that institutions pay for the use of the funds. According to Branch, interest rates should be competitive with market rates, cost-based, and positive in real terms above inflation. He asserts that managers should have the authority to increase or decrease the rates offered on savings to respond to market trends and remain competitive.

The administrative and transaction costs amount to a higher percentage of the value of smaller accounts than of the value of larger accounts. Consequently, savings institutions offer higher interest rates on accounts with higher balances and lower interest rates on accounts with lower balances. Savings products should be designed to increase rates with higher account balances to encourage savers to increase their deposits. For fixed-term products, interest rates increase with the term to compensate clients for sacrificing liquidity for longer periods.

Pricing varies across savings products because the institution's

costs vary according to the different transaction costs, account balances, terms, withdrawal frequencies, and services associated with each product. For those products with frequent transactions and more administrative steps required for account management, lower interest rates are paid to compensate the institution.

Savings Management

Effective savings management requires consideration of liquidity reserves, cash-handling procedures, and internal controls for managing non-financial risks. Again, the issue of trust comes up, as Branch reminds readers that savings mobilization requires public confidence that clients will be able to access their savings when they want them.

Liquidity management requires a reserve to be created as a percentage calculated on all withdrawable savings. The savings institution deposits these reserves in short-term, secure investments in formal financial institutions. This reserve ensures that the savings institution will have funds available to meet withdrawal and disbursement demands. The Bolivian deposit structure that was illustrated in Table 1.2 reflects the same structure found by Branch and by Richardson and Oliva in their structural analyses: many small accounts and then a few large accounts that provide the large volume of funds for loans. Compared to large accounts, the many small accounts tend to be stable as long as savers have confidence in the safety and soundness of the institution. On the other hand, the larger accounts tend to be more rate-sensitive and may move rapidly with changes in market interest rate levels. Most liquidity risk stems not from the many small, liquid accounts, but from the fewer large accounts. An unexpected withdrawal of one or more of these accounts can leave the savings institution with insufficient liquidity. A higher liquidity reserve rate for larger accounts compensates for the higher risk of the concentrated deposits in the large accounts.

For institutions that have not offered savings services or which have only received savings via payroll deduction, the decision to accept over-the-counter cash deposits introduces a new series of risks. Cash management procedures must be introduced, including daily procedures for the retrieval of teller cash from the vault, logging a teller balancing report or operator journal to record cash inflows and outflows, filling out vault tickets to purchase additional cash, and putting cash away in teller drawers. Risk management requires internal controls that include security

measures and established rules for common transactions. Staff training is another element of managing risk.

Savings Product Development

Like the other authors, Linares notes that trustworthiness and client confidence are critical to the continuing existence of a savings institution. When several financial institutions in the local market can project images of safety and soundness—creating strong brands—clients will make their choices based on the services and products offered. They will place their deposits in the institution that best meets their saving needs. Financial institutions with a solid brand (reputation) must distinguish their models (services) and options (products) to differentiate themselves from competitors.

Linares provides instruction on how to evaluate the position of existing products in the market. He discusses a four-phase product life cycle (Launch, Growth, Maturity, Decay) that can be used to describe the evolution of products and evaluate their robustness. During the *Launch* stage, the product is developed and presented to the market. In the *Growth* stage, product sales start to grow and gain market share—attracting new market segments. During the *Maturity* stage, the product market share reaches its limit as new market niches are saturated. And finally, in the *Decay* stage, the product loses market share and becomes obsolete, serving only long-term clients and requiring that the savings institution re-package, add options, or discontinue the product.

The first step in determining if a savings institution meets client demand is to evaluate existing products and to determine in which stage of its life cycle each product falls. Various sources of information can be used to evaluate products, including client complaints, staff observations, market research, competitor activities, and national financial market behavior. The next step is to choose the appropriate marketing strategies to apply to existing products based on their respective stages in the life cycle.

Developing New Savings Products

When existing products do not meet local demand, new products must be developed to fill the void. Linares cautions that because designing and launching new products can be costly, new products should be developed only where managers have determined through careful study

and market research that existing products cannot be adapted to meet the demand.

Linares reminds readers that financial markets in general, and specifically the microfinance market, are not made up of uniform collections of people who will be satisfied with cookie-cutter financial services. Rather, the market is a collection of groups and niches with varying demands and preferences. Linares has found that first-time savers are usually motivated to start saving money by a need for security and a desire to avoid the risks inherent in saving in cash or alternative forms. Like Branch, he finds that these savers generally seek liquid products with low minimum balances. First-time savers will remain loyal to the savings institution for as long as the institution remains secure and provides convenient services.

This pattern is consistent with the observations by Branch that the many small accounts of low-income passbook savers provide a stable source of funds. Experienced savers, on the other hand, may have established accounts with significant balances in other savings institutions. Their principal concerns are also security and convenience, but individuals in this group will also consider rates of return when choosing savings products. These experienced savers are willing to sacrifice liquidity to maximize returns; they are loyal only as long as the return paid by the savings institution is the highest in the local market. This type of information about clients is essential for designing targeted products. Linares touches on how savings institutions can use client relationship management software and databases to capture this kind of information and use it to develop successful products and improve client services.

After defining the market, the next step in the product development process is to research the market to determine whether there is sufficient demand to pilot test a savings product. A product concept is designed and tested, internally and then externally. It is first pilot tested with a group of clients in a controlled market, such as in one of the financial institution's branch offices. Follow-up market research with this group identifies and fixes any design flaws. Then, the new product is launched onto the market. The launch requires aggressive marketing so that the new product gains momentum to grow in the local market. Linares also suggests that when a new product is developed, it should be related to existing products so that products and services may be bundled or packaged when offered to clients.

Marketing Savings

Savings mobilization depends on marketing. Savers can only deposit their funds if they are aware of the services available to them. Savings institutions use a combination of sales, cross-selling, media advertising, point-of-sale advertising, direct marketing, and promotions to attract savers. The primary objectives of marketing activities in a savings institution are:

- To identify and attract the net savers in the local market;
- To improve the competitiveness of services; and
- To build up the public image of the institution.

A key indicator of a successful marketing strategy is the ability of the savings institution to attract a broad mix of both savers and borrowers on a scale sufficient to generate the earnings necessary to sustain services and institutional growth. Successful savings institutions designate at least one staff member to be directly responsible for marketing activities.

The marketing effort may involve market research or feasibility studies to examine demographic and economic characteristics of the local market. As Linares points out, quantitative research provides data from secondary information sources such as census and databases. Qualitative data is gathered from primary sources, such as focus groups and client surveys. Linares provides an overview of commonly-used quantitative and qualitative market research tools.

Branch and Linares each highlight the importance of market studies. Savings institutions conduct market studies to analyze the services provided by other financial institutions in the local market. These studies profile the clients' use of financial services and compare the competitive characteristics of services: prices, terms, minimum balances, convenience, waiting periods, service variety, and sophistication of products. The studies also compare interest rates on similar products among institutions. This information can guide managers in defining strategies for new product development, service improvement, and marketing activities.

Cifuentes states that an institution should have a defined marketing plan in place, since marketing is a critical element in launching a savings mobilization program. Linares builds on this idea and discusses

the essential points of an effective marketing plan: specific objectives, goals, activities, and indicators for evaluation of impact. A marketing plan also establishes a budget for the marketing activities. In all cases, the marketing plan must be compatible with the annual business plan of the institution.

Reaching Out to Savers

Because of the nature of cash deposits, there are no real substitutes for over-the-counter transactions. Linares highlights how savings institutions can open branches to expand their outreach to new clients and new communities. He offers information on five different levels of branches. Depending on the legal framework in the country, the demand for savings services, and the developmental stage of the institution, branching can be as simple as setting up a window in a local market or as complex as establishing a full-service regional office to which other branches report.

Strategies to Penetrate the Market

Linares reviews promotional strategies based on image, quality of service, and rates of return. He contends that strategies based on image, or brand, are the least expensive and most efficient ways to mobilize increased savings. A common theme throughout the book, Linares notes that to compete in the savings market, an institution must project an image of professionalism, safety, and security. These are the elements around which an image, or brand, is built.

The branded image is reinforced with appealing names, attractive logos, standardized printed materials, and uniforms. An attractive physical infrastructure strengthens the perception of the brand. Savings institutions need physical facilities that project an image of security: secure doors, grills for windows and air conditioners, strong boxes, vaults, and security systems. Well-lit, bright, and clean teller areas and lobbies are reassuring to savers.

Uniformity of presence reinforces the image of professionalism. Branch offices should carry the same name, signage, and building façade as the main office. Colors and interior design elements should also be standardized. This uniform presence sends a clear message to clients that they can expect consistent quality of service from all points of service.

Branch points out that branding can be applied to products as

well as institutional images. Savings institutions give appealing and memorable names to savings products in order to associate them with a high-quality image. Names may be assigned based on account size—platinum, gold, or silver—or according to purpose—home improvement savings or school fee accounts. Consistency of the product image and branding is carried through on brochures, lobby signs, posters, and paper forms and applications. Later, Richardson and Oliva point out that institutions must be sure to use appropriate marketing strategies for each market niche in their efforts to manage the costs related to savings mobilization.

Linares notes that, although marketing through mass advertising can be expensive, it can also be cost-effective in reaching large numbers of low-income savers. Brochures and other direct marketing materials are important marketing tools, but they do not constitute a marketing strategy by themselves. The marketing tools that Linares sets out early in his chapter are used in combination as components in a larger marketing strategy.

Like other authors, Linares recognizes that security and convenience are the primary reasons for which savers select a savings institution. In most cases, interest rates are secondary to that selection. He concludes that savings institutions should try to attract savers by providing high-quality service and offering rates that are competitive in the market, and not by offering rates that are higher than market rates.

Linares clarifies that fixed-term deposits require a different marketing approach than passbook accounts. Users of fixed-term products are looking for the best interest rate for a given term. He notes that such clients may move their money to another savings institution for a very small difference on the rate of return. As a result, interest rates are more important in marketing strategies for fixed-term deposits than for passbook savings.

Quality of Service

Linares emphasizes that the best promotional strategy for savings mobilization is to create an association between the products and the perception of high-quality client service. He describes three components of high-quality service: speed, response, and convenience. The client wants to spend as little time as possible transacting business. Clients want access to financial products in as many ways as possible, as quickly

as possible. Long waits in lines, insufficient tellers, excessive bureaucracy, unclear procedures, or rude treatment by the staff will turn away savers. Managers can minimize these unfavorable effects by training staff and by preparing systems to provide timely and accurate responses to client inquiries.

Linares stresses the importance of client relations, particularly in the context where an institutional response is required. He states that good client relations involve establishing policies that define how an institution will deal with and respond to clients—developing a client-first attitude among all staff, sensitizing staff to client needs, and training staff to respond to clients.

After safety, convenience is the second priority that savers establish as criteria for where they place their savings. For most savers, convenience is characterized by physical proximity, hours of access, transaction requirements or costs, speed of transactions, and product access. The physical proximity of the savings institution facility determines the cost and time required for the saver to go to the deposit facility. For many vendors, time away from their business has a high opportunity cost. For many small savers, the cost of paying for transportation from their locale to a distant office may exceed the average small deposit. Savings institutions respond by locating their offices in high-traffic markets or town centers and by opening minimal infrastructure branches to serve rural communities and urban centers.

The savings institution must provide service hours that are compatible with the schedules of savers in the local market. Savings institutions should offer service on weekends, extend evening hours, or open service windows to provide minimal services when the lobby is closed. Convenient access also requires an adequate physical layout of space, sufficient human resources, and simple, streamlined procedures.

Counting the Costs of Savings Mobilization

Richardson and Oliva engage in the debate about whether or not providing savings services to the poor is feasible. The authors present a methodology that draws from existing approaches to costing to orient readers to the critical areas that should be analyzed in determining the costs of savings mobilization. To demonstrate the feasibility of savings mobilization, they present findings from their recent study in which they investigated two questions. First, is savings mobilization a viable

alternative to borrowing from external credit sources in order to fund loan portfolios? Second, is microsavings mobilization feasible?

While the financial costs of savings are easily identifiable, the non-financial costs of savings can be difficult for managers to uncover. Richardson and Oliva conducted a practical costing exercise of direct and indirect administrative costs in 15 credit unions to discover what it costs these institutions to provide savings services to their members and clients. Based on their findings, they present a costing methodology that readers can apply in their own institutions.

The authors selected 15 credit unions from Bolivia, Ecuador, Guatemala, and Nicaragua that represented a cross-section of large, medium, and small credit unions, with varying levels of experience, in both rural and urban locations. The authors reviewed three main areas of costs: financial costs, direct administrative costs, and indirect administrative costs. These costs are summarized in Table 1.3.

Table 1.3 Three Main Areas of Costs Related to Savings Mobilization

Financial Costs	Direct Administrative Costs	Indirect Administrative Costs
Interest	Human resources	Human resources
Insurance	Marketing	Administrative services
Taxes	Commissions that are directly related to savings mobilization	Depreciation
Dividends		Protection

Richardson and Oliva use a hybrid model to allocate the indirect administrative costs related to savings mobilizations among departments in an institution. They allocate costs for supplies, insurance, computer maintenance, and depreciation according to the volume of savings transactions in a year. They allocate the costs of telephone, electricity, gas, water, janitorial services, office maintenance, and depreciation according to the percentage of physical space dedicated to savings mobilization. They allocate the personnel costs of employees who are indirectly or partly involved in savings-related activities according to the time spent on these activities.

Richardson and Oliva's findings suggest economies of scale in savings volume. The exercise indicates that the percentage of direct and indirect administrative costs of savings mobilization drops significantly

when a credit union reaches the $1 million threshold of savings volume. While the administrative costs were higher in the small credit unions, the total costs of savings mobilization were still competitive with most commercial sources of credit. Even for the small Guatemalan credit union with the highest administrative costs, the financial costs of 9.1 percent plus the administrative costs of 8.4 percent (for a total cost of 17.5 percent) are competitive with and marginally lower than the commercial borrowing rate of 19 percent. For the medium and large credit unions, there is a greater economic advantage in the lower costs of mobilizing savings versus borrowing from external credit sources. For all 15 credit unions in the four countries, the costs of mobilizing savings averaged about 5 percent less than the commercial borrowing rate. There were economic advantages that favored savings mobilization, ranging from a low of 1.22 percent to a high of 9.39 percent, in all of the credit unions.

The authors advocate that the feasibility of microsavings mobilization is found in the structure of the deposit base. They present the deposit structure of four Guatemalan credit unions to show that 89 percent of the savings accounts had balances of less than $300. These small accounts provided only 8 percent of the volume of resources used to fund the loan portfolio. Eighty-two percent of the volume of funds came from savings accounts with balances greater than $1,000. The authors conclude that microsavings mobilization is feasible if balanced with larger savings accounts, because the larger accounts provide the volume to fund lending activities and spread the fixed costs of offering savings services to all income groups.

Richardson and Oliva conclude that a savings institution must diversify its client base—beyond the poor—to mobilize the volume of savings needed to fund growing loan portfolios and to spread fixed costs. Their study of credit unions in four countries suggests that the large volume of savings resources used to fund loan portfolios comes from clients who are net savers, clients who save for the sake of saving. This group of clients differs from the traditional net borrowers of most MFIs. Like the other authors, Richardson and Oliva conclude that the success of a savings mobilization program depends on the ability of an institution to reach out to different segments in the marketplace and attract clients from varying income levels.

Savings Mobilization Case Studies in Latin America

Case studies written by practitioners demonstrate how credit unions in Nicaragua and Ecuador were able to implement successful savings programs to grow their institutions and better serve their communities, even during times of crisis.

The case study of Nicaragua tells the story of how credit unions involved in WOCCU Nicaragua's Rural Credit Union Program (RCUP) were able to implement financial disciplines, strengthen their institutions, create new images, develop targeted savings products, and launch successful marketing campaigns. These measures enabled the credit unions to increase their outreach in one of Latin America's poorest countries. This example of the Nicaraguan credit unions not only illustrates the implementation of the methodologies discussed in the previous chapters, but also underscores the fact that a solid framework is key to successful savings mobilization.

Two case studies examine the experience of credit union savings mobilization in Ecuador. Izurieta tells the story of how two Ecuadorian credit unions implemented financial disciplines, attained financial stability, and marketed that stability so that when the formal financial system underwent crisis, local Ecuadorians considered credit unions to be sound institutions in which they could safely place their savings.

Cabezas presents empirical evidence to show the success that 14 credit unions in Ecuador achieved in mobilizing savings. He compares the performance of seven credit unions supervised by the Bank Superintendency with seven credit unions still supervised by the cooperative agency. Cabezas finds that the group supervised by the Bank Superintendency tended to be larger, with higher levels of savings mobilized, and lower interest rates paid on savings. He observes that all of the credit unions drew on certain fundamental elements in their savings mobilization strategies: benefits for members and clients, affordable interest rates on loans, high-quality client service, positive institutional image, trustworthy managers and directors, promotional campaigns, contributions to the development of the local market, branch opening, and strict liquidity reserves. Cabezas' member survey creates member profiles for the credit unions in Ecuador.

The Toolkit

Finally, the authors, together with additional contributors, offer several practical tools that readers can use in their own savings mobilization efforts. The toolkit provides worksheets, surveys, and forms that have been used in credit union strengthening programs. The tools provide guidance for evaluating management, calculating interest, instituting internal controls, managing liquidity, managing assets and liabilities, managing risk, setting up profit and loss simulations, developing marketing campaigns, conducting surveys, and determining the costs of savings mobilization.

In Conclusion

MFIs that seek to mobilize savings must have the vision, commitment, and disposition to attract voluntary savings. Each institution must adapt its own business strategy, culture, policies, procedures, and product offerings to provide savings services that are competitive and that meet the needs of the local market. For credit-only institutions that want to initiate savings programs, this decision will require a reorientation of the service delivery mechanisms and of the culture of the institution. Credit unions and other savings institutions that want to expand their savings mobilization efforts to increase the funds available to them, improve service provision to clients, and increase their local market share will have to examine their existing operations to see how they can better provide the key features that savers seek: safety, convenience, and returns. Although savings mobilization presents serious challenges, the institutions that choose this path will find themselves able to provide higher quality services to clients of all income levels and greater access to financial services for their low-income and poor clients.

The methodologies and tools described in this book are best practices that have grown out of the experiences of the authors and their colleagues in credit unions throughout Latin America. One cannot address all of the topics related to savings in a comprehensive manner in one volume; for example, accounting, credit analysis, and governance are just a few of the areas that have profound influences on the success of a savings mobilization program. The authors have addressed these topics as they relate specifically to savings. These key

functions of financial management are covered more fully in a variety of microfinance resources. Readers are encouraged to consult other practitioner-focused resources in these areas. PACT Publications (www.pactpublications.org) offers several publications on its website. The CGAP Microfinance Gateway (www.microfinancegateway.org) has an extensive library of resources. For further information on financial management specific to credit unions, readers are invited to visit the WOCCU website (www.woccu.org).

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