Rural Deposit Mobilization

DEFINITION

The accumulation of savings, often small scale savings, in a community with an expectation that these deposits can become more available for lending to rural and agricultural enterprises that can use funds productively.

ACHIEVES / OVERCOMES

The benefits of rural deposit mobilization to both financial institutions and RAF clients are many:

- Most important, they can provide a sustainable source of funding for financial institutions and offer clients a safe and liquid means in which to save.
- Savings increases the supply of internally-generated funds for financial institutions that can be invested in RAF loans. International evidence has shown that savings services are highly valued in rural areas and that financial institutions offering both savings and loan products on commercial terms consistently reach far more poor clients through savings than through credit
- The provision of savings services in rural areas allows people to save for life events. Poor people especially need savings services because of emergencies, unexpected opportunities, and major life events such as marriage or death and to smooth payments of their consumption needs. Savings provide an important safety net for poorer households. It also plays a critical role in financing productive activities and can foster farm and non-farm rural enterprises. Unfortunately, due to a dearth in the availability of formal financial services, many people in rural area are forced to resort to the informal sector in order to save.
- Formal savings mobilization programs offer many advantages to the rural population. Saving in a financial institution can provide three important factors crucial in the decision to select a particular institution: security, liquidity and return. Rural poor want to invest in a secure location and seek confidence to know that their funds will be protected. Also, these clients are interested in having convenient access to their funds, should the need arise. Lastly, many financial institutions offer higher rates of return on savings than clients would gain through the informal sector.
- For financial institutions, offering savings products and services is an important step away from dependence on donor funds toward becoming a true financial intermediary. Studies have shown that deposit mobilization represents a major source of funds for most self-sustaining financial institutions. Additional products such as savings also allow financial institutions to broaden and deepen its outreach, thereby expanding its client base.

Note: this summary is written mostly from the point of view of assisting an MFI to expand into deposit-taking services, although much of the information applies to any financial institution that is expanding to take deposits in rural areas. It is important to recognize that from a financial institution's point of view, deposits are fungible, and an FI will use deposits to fund profitable loans, not necessarily loans in the same geographic area as the source of the deposits. As a donor intervention it is important to

determine the desired benefit of the intervention – simply providing access to depository and money-handling services may be the target (e.g., if linked to remittances) – financial intermediation may or may not be important.

MECHANICS

Savings mobilization is a demand-driven activity. A deposit-taking institution asks savers to place their funds within its caretaking. This relationship reverses the traditional power relationship between client and financial intermediary in which borrowers approach banks, credit unions or other microfinance institutions to ask for loans. The savings institution must market and sell itself to clients; it must convince savers that their savings will be safe and well managed. Any deposit-taking institution, whether bank, credit union or other financial intermediary, should offer savings products that meet the demands of both prospective and existing clients. Institutions should carefully consider the steps outlined below when developing deposit products.

Identify the Market In order to reach a more diverse clientele and attract net savers, deposit-taking institutions must first identify who the savers are in a community.

Develop Products Deposit services are built in three ways. Products are:

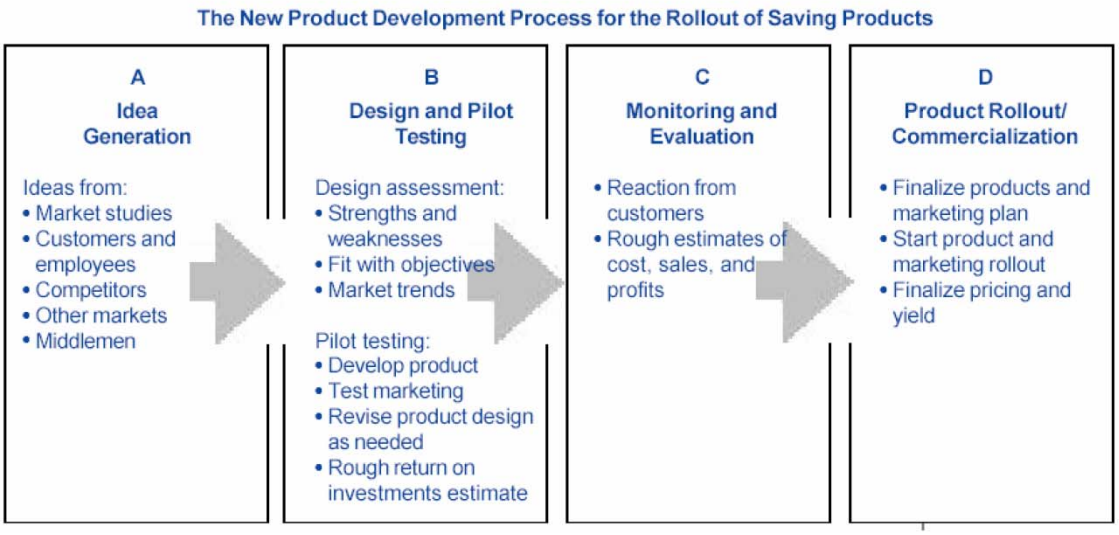
- Designed to balance the trade-off between convenience (liquidity) and return (interest rate).
- Tailored to respond to the demands of particular market niches; e.g., farmers who save in large blocks after a harvest and withdraw savings gradually through the year, or children and students who save in small amounts due to limited incomes.
- Adapted to the purposes for which clients save; e.g., to pay education fees for children or to purchase large expense items such as appliances or home improvements.

As products are built to meet client demand, the defining characteristics of deposit products are liquidity or access, term, minimum balance, rate of return and transaction costs. Examples of deposit products include:

- Passbook savings
- Fixed term Certificates of Deposits
- Youth Savings
- Programmed Savings
- Institutional Accounts
- Retirement Accounts

Deposit policies establish and formalize the products offered and outline the procedures by which their liquidity, pricing and transactions are managed.

Determine the Right Mix Deposit products exist along a continuum of trade-offs between liquidity (access and convenience) and return (compensation). It is essential to determine which products fulfill the needs of the target client base.



Note: *The new product development process is based on the manuals and papers that the USAID-funded Microfinance Best Practices Project and UNDP MicroSave–Africa have published as presented in Bass and Henderson (2000).*

PREREQUISITES

Before embarking on deposit mobilization, some preconditions should be met concerning the socio-economic environment. These include: overall security in the area; a low and steady inflation rate (to avoid the risk of negative real interest rates being offered on deposits); and a reasonable level of monetization in the economy, thereby permitting savings in monetary instruments. In terms of an enabling environment, legal authority and supervision repeatedly stand out as prerequisite environmental factors for mobilizing voluntary savings from the general public.

Once the socio-economic preconditions are met, other preconditions need to be considered. These concern the financial institution itself and its capacity to mobilize deposits safely, including:

- **Strong governance and professional management.** These factors are even more important when a financial institution mobilizes deposits, since higher levels of technical skill are required (liquidity management) and the fiduciary responsibilities are greater.
- **Strength and reliability, with solid internal control and financial systems**. The provision of accurate, timely information is absolutely critical when financial institutions mobilize deposits. Managing deposits implies a higher volume of less predictable transactions. It also requires close and accurate monitoring of individual accounts – a key to maintaining client trust.
- **Ensuring that a financial institution never uses deposits and savings to cover operating expenses**. For a financial institution that mobilizes deposits while not having reached operational self-sufficiency, it is imperative to ascertain the availability of grant funding from donor sources to cover the excess of operating expenses over income.
- **A history of strong loan portfolio quality management**. As deposits will be used in large part to fund the loan portfolio, it is extremely important that loan portfolio losses are minimal.

Finally, the need for effective supervision from regulatory authorities needs to be assessed.

- In countries where an appropriate legal and regulatory framework exists, a financial institution might have to be licensed and supervised by a central bank before it is allowed to mobilize deposits (except for small and very decentralized systems that only mobilize members' deposits).

- Although supervision is necessary for ensuring the security of deposits, central banks frequently lack the capacity and the instruments for effective supervision. In addition, some financial institutions may have difficulty in bearing the cost of meeting the information requirements related to supervision. In this context, the challenge is to help the government develop a combination of strategies that can best protect depositors, while adapting to the specific constraints of RAF. One principle should be that while the reporting requirements of the financial institution may vary according to activity, size, legal structure, etc., the level of accountability must be consistent across the entire sector.

Unless the above conditions are met, it is recommended that financial institution should be discouraged from mobilizing local savings from their clients or from the public.

EXPERTISE NEEDED

It is important to note that financial institutions considering a deposit mobilization program need to develop a different skill set than currently exists at most credit-focused financial institutions. Skills needed include:

- Deposit-taking skills - staff will need training in skills related to deposit services. Employees should be trained in cash and account management, as well as customer service. Professionally trained staff will facilitate trusting relationships with clients and build confidence in the financial institution.
- MIS and software - to provide sophisticated financial management capabilities that focus on liquidity and risk management capabilities
- Marketing - for both internal and external clients. Internally, people should be educated on the deposit products so that they are familiar with its advantages and can speak knowledgeably about it. External marketing to clients is crucial for successful deposit mobilization. Marketing objectives should be to identify and expand the local deposit market, improve and raise awareness of deposit services and enhance the public image of the financial institution.

PITFALLS

- Systems for deposit-taking are different from extending credit. Care should be taken to put these different systems in place before implementing a deposit mobilization program.

- Local capacity—particularly the ability to analyze the needs and appropriateness of MIS and other information technologies, customize and adapt them to the growth needs of the financial institution—can be built or strengthened through donor interventions, such as training and study tours, but there must be a solid educational base from which to build.

RESOURCES

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EXAMPLE A: "PIGGY BANKS" IN THE PHILIPPINES HELP INCREASE RURAL SAVINGS MOBILIZATION

Challenge: Developing Demand-Driven Deposit Services. Low-income and rural clients have different needs than those served by typical urban banks. In rural areas, deposit transactions often involve smaller amounts and the deposit patterns can be irregular due to the seasonal and erratic nature of small scale income generating activities, such as crop production or cottage industries. Institutions mobilizing rural deposits need to innovate and adapt to make their products and services relevant.

Innovation: Building off of a History of "Piggy Banking" in the Philippines. In the Philippines, "piggy banks" are as common a practice as they are in American homes. In the past, rural banks commonly collected savings daily, based on the belief that poor and rural clients could not save of their own accord. In an effort to reduce staff time spent processing these multiple small transactions, the Rural Bank of Talisayan designed a savings product around the widely recognized piggy bank concept. The Bank issued clients a small locked box, called a Ganansiva Box, at or below cost after opening the savings account with a minimum deposit. Keys to the boxes are kept at the bank, but the clients keep the boxes at home and bring them to the bank as needed to deposit their savings. This allows clients to save small amounts on a daily basis while reducing staff time spent on collections. Use of the boxes has allowed the Rural Bank of Talisayan to achieve and sustain a deposit-to-loan ratio in excess of 100%. Other banks have also attracted significant savings deposits by adopting the concept.

> "What was surprising, and continues to be, is how microcredit clients can repay on a weekly basis and save too," said Bangko Kabayan manager Ellen Metica about the volume of savings deposits the rural bank attracted with the Ganansiva boxes. "I believe that about 70% of the bank's entire portfolio is financed by microsavers. That is a remarkable thing we have noticed."

EXAMPLE B: INTRODUCTION OF REAL-TIME FUND TRANSFERS IN MADAGASCAR

Challenge: Investing in Worthwhile Technologies. Technological and MIS solutions are frequently necessary to overcome rural infrastructure challenges and achieve profitability; however the costs of each solution should be evaluated by its impact on the banks' efficiency, quality of service, bottom line and outreach potential. Additionally, local capacity to service new technologies should be pre-existing or

developed, or new MIS systems may soon detract from the bank's efficiency rather than augment it. Systems requiring overseas experts to reprogram them if they crash, if they require updating, or return of hardware overseas should be evaluated with caution.

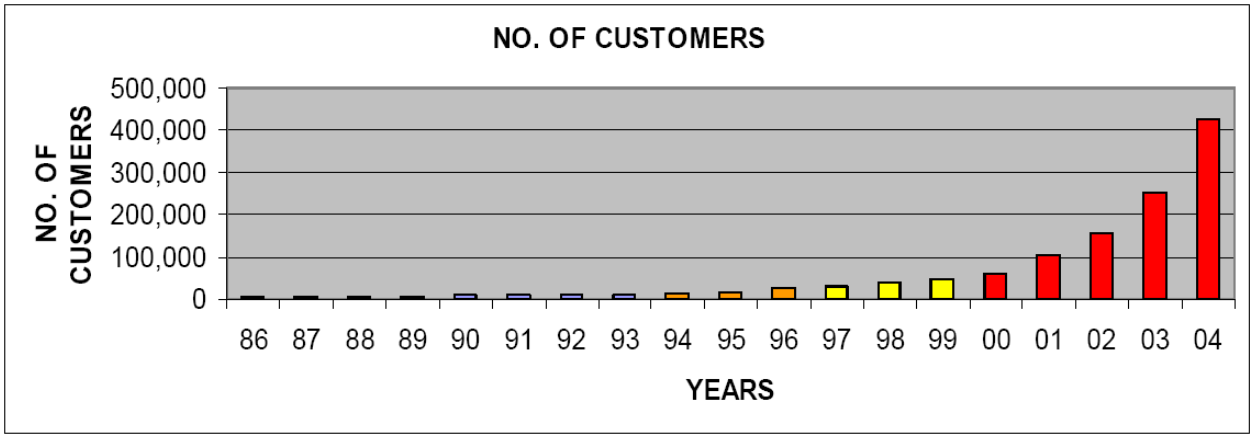
Innovation: Developing Real-time Fund Transfers. CEM clients commonly complained about the 15-day delay between requests and completion of money transfers between its 18 branches, causing clients multiple trips to the banking center to complete a simple transaction. Clients were also unable to initiate or complete transactions at bank branches other than the one where they originally established an account. By adopting an electronic fund transfer system, the CEM became the first bank in Madagascar able to conduct branch-to-branch transfers in real time. This innovation helped the CEM to eliminate the delay in transactions and to dramatically improve its service quality and reputation.

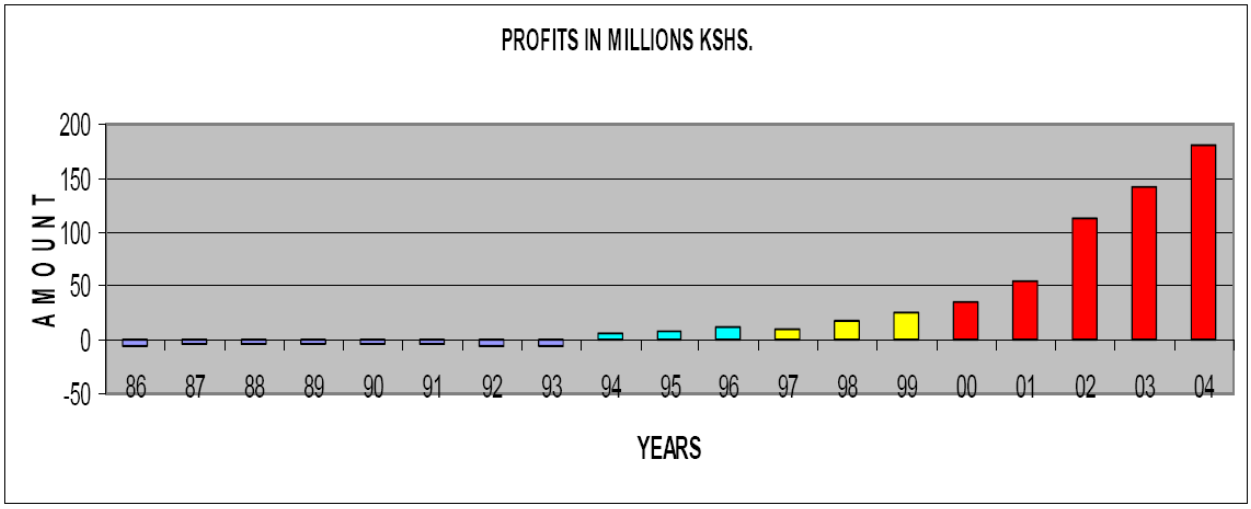
EXAMPLE C: USE OF MOBILE BANKING BY THE EQUITY BUILDING SOCIETY IN KENYA

The Equity Building Society (EBS) began rural and micro finance operations in Kenya in 1983. Equity offers a broad range of services, including savings and loans. Faced with near bankruptcy in 1992, EBS had to innovate and fundamentally change the way it did business or face closure. In response, EBS implemented several innovations, including a few directed at increasing rural deposit mobilization.

Although EBS has been in existence for over 20 years, it can only claim to have been market oriented for only the last four years. EBS has evolved through four phases: product-led (1984-1993); sales-led (1994-1997); social marketing (1997-1999) and market-led (2001 to date).

In the last phase and current phase, being market led has meant that EBS focuses on the clients needs and demands and provides financial products and services that address the specific needs of their target market, distributing and promoting them in a manner that suit customer's situation. As shown in the following two graphs, adoption of market-oriented principles has led to great results in customer growth and profits.





As of September 2004, EBS had over 378,000 savings accounts (valued at Kshs. 4.8 billion, approx. US$ 6 million), 75,818 loan accounts (valued at Kshs. 2.8 billion, approx. US$ 3.5 million). EBS also expected to have 50% annual growth in their deposit portfolio and to increase their client base by 40%.

EBS is focused on providing access to banking services to poor customers and serves customers who live and work in remote rural areas. One of the innovations EBS instituted to support their rural deposit mobilization was to implement a system of mobile banks to serve remote areas.
The mobile bank innovation had two objectives:

- Improve rural client access to services; and
- Market in areas dominated by competing savings and credit cooperatives (SACCOs), many of which were poorly performing.

Over time, EBS has revised its initial pilot mobile banking activity to incorporate the current attributes:

- Mobile banking offered in 30-40 km. radius of current branches
- Each branch serves 5-6 mobile centers
- Toyota Landcruisers designed as complete banking units
- Bullet-proof panels
- Car tracking devices
- Solar power/car battery for laptop
- Windows for deposits, withdrawals and other transactions
- VHF/GSM communications facility
- Cash safe
- Staff and armed security personnel
- Branch database loaded onto laptop in the morning
- Vehicle visits mobile banking centres 1-2 times a week and offers full range of banking services deposits, withdrawals, statements, financial advice)
- Linked by real-time, two-way VHS/GSM communications - Motorola radios and GSM/GPRS 1800/900 modems
- At day-end vehicle returns to branch and immediately uploads transactions to central database
- Clients expressed desire for privacy so most units now rent simple structure for processing client transactions

Implications for Clients?

- Higher frequency of contact with EBS
- More savings
- Kenya Tea Development Authority payments made by mobile units
- Minimum balance Kshs. 400 (US$ 5)
- Charge for service: Kshs. 50/month (US$ .63)
- If mobile unit not linked by real-time then account blocked for the day at branch office

Implications for Equity?

Performance as of September 2004:

- 34 mobile centers
- Serving 23,055 clients
- Total deposits approx. US$ 1.1 million
- Contributing approx. US$ 116,250
- Average transaction time = 3 minutes
- Project jointly funded for GBP 450,150
- Equity contributed GBP 172,000

Implications for other financial institutions?

- Security risks - this cannot be underestimated - most agricultural financial institutions in Malawi discontinued due to deterioration of security and poor law enforcement
- Higher potential for fraud by officers
- Costs of operations may be too high
- Equity has managed costs to keep mobile unit affordable, not always the case
- Estimates profits of Kshs. 9.3 million of its 190 million will come from mobile banking

Note: Example from MicroSave, Shelter Afrique Building, Mamlaka Road, P.O. Box 76436, Nairobi, Kenya; Tel: 254 (0)20 2724801/2724806/2726397; Fax: 254 (0)20 2720133; Email: info@MicroSave.org; Website: http://www.MicroSave.org