WHERE ARE THEY NOW?
FOLLOWING THE PROGRESS OF
SEVEN MICROFINANCE DEPOSIT-TAKING INSTITUTIONS
FROM 1996 - 2003

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Introduction

What happened to the seven leading small-balance savings institutions GTZ studied in 1996 as part of the CGAP Working Group on Savings Mobilization? [1] The institutions studied back then – BAAC (Thailand), BRI- Microbanking Division (formerly known as the Unit Desa System, Indonesia), BCS (Colombia), Centenary (Uganda), CVECA (Mali), FECECAM (Benin), RPB (now One Network Bank (ONB) in the Philippines) – represented a regionally and institutionally diverse set of financial intermediaries with a mission to serve low-income and/or rural clients.[2] They include three African institutions, in Benin, Mali and Uganda; three Asian institutions, in Indonesia, the Philippines and Thailand; and one Latin American institution, in Colombia. They are also structurally diverse: two privately-owned commercial banks; one commercial bank owned by a foundation; two government-owned banks; one rural financial cooperative; and one national financial cooperative network. As shown in Table 1, in terms of savings volume, they range in size from $27 million to $6.7 billion as of December 2003 (and March 2004 for BAAC). [3] All continue to be leading institutions in their countries with a mission to serve low income or rural clients.

Table 1. Six savings institutions categorized by region and institutional structure

Region	Country	Institution	Legal Status	Number of Savings Accounts 1996	Number of Savings Accounts 2003	Volume of Savings Deposits (US$) 1996	Volume of Savings Deposits (US$) 2003
Asia	Thailand	BAAC	Government-owned bank	5,605,370	10,966,915	3,155,000,000	6,568,000,000
	Indonesia	BRI	Government-owned bank	15,979,848	29,869,197	2,599,685,690	3,244,874,360
	Philippines	ONB	Privately-owned commercial bank	10,848	241,179	2,675,563	26,910,001
Africa	Uganda	Centenary	Privately-owned commercial bank	60,125	376,036	11,200,000	59,402,308
	Benin	FECECAM	National financial cooperative network	250,000	501,698	24,800,000	54,395,151
Latin America	BCS	Colombia	Commercial bank owned by a foundation	1,181,999	1,193,864	277,598,153	418,820,000

Sources: Self-reported data on BAAC, ONB and BCS. Data on BRI, Centenary, and FECECAM from The Microfinance Information eXchange (The MIX) http://www.themix.org [4]

[1] The original research is summarized in Hannig, Alfred and Wisniwski, Sylvia "The Challenges of Savings Mobilization" GTZ, Eschborn. 1999. It is recommended companion material for this note.
[2] Bank for Agriculture and Agricultural Cooperatives, Bank Rakyat Indonesia's Unit Desa System became the Microbanking Division, Banco Caja Social, Centenary Rural Development Bank, Caisses Villageoises d' Epargne et de Crédit Autogérées, Federation des Caisses d' Epargne et de Crédit Agricole Mutuel, Rural Bank of Panabo.
[3] Centre de Développement et de Recherche (CIDR) recommended CVECA Mali not be included in the statistical analysis because its exclusive focus on the very poor separates it from the broad-based financial intermediaries. As of December 2003, CVECA Mali had $370, 322 in savings volume from 2,000 clients.
[4] Special thanks to the following who checked the numbers: BAAC – Nipath Kuasakul, BCS – Elsa Manrique, BRI – Agus Adhiyat, ONB – Romulo Guerrero, Centenary –Vincent Tumusiime, FECECAM –CGAP consultant

The original analysis provided empirical evidence that the key to significant growth in poor people's saving is access to deposit services designed for them.[5] This Focus Note follows up on the same institutions seven years later to examine their progress from 1996 to 2003 on standard measures of financial and social performance. It then analyzes the drivers for this performance. The focus is on trends and issues common across the institutions over the seven years to ensure that the lessons apply as broadly as possible.

The greatest challenge faced by this follow-up study was the inconsistency in the definitions and categories of data used within institutions over time and by different institutions (e.g., different definitions and calculation of efficiency indicators) and the use of highly imprecise indicators (e.g. average savings deposit). More could have been said about the performance of these institutions if the data had been more robust.

Trends by the Numbers

This section presents an overview of the performance of six of the seven institutions in terms of savings growth, both in absolute terms and in relationship to loans, average deposit size and financial performance.

1. **Massive Growth.** The seven institutions have experienced significant increases in the both the number of individual saving accounts and the volume of individual savings.[6]

The six institutions together have added over 20 million savings accounts and over $4.3 billion in savings between December 1996 and 2003. The largest increases in individual accounts and savings volume occurred in national banks with extensive branch networks. In the seven years 1996–2003, BRI-MD added 14 million of the collective total of 20 million new savings accounts, and BAAC added US$3.4 billion of the US$4.3 billion collective increase in savings volume (see Annex tables and figures for additional growth and performance data).[7]

The smaller institutions tended to show faster percentage growth in both number of accounts and volume, as shown in Figure 1. This was because they started from a smaller base (so growth appears more impressive as a percentage of the smaller denominator) and also as a result of mergers and new product design. Centenary took over several branches of a larger bank in Uganda that went bankrupt, expanding its number of savings accounts by 525 percent. In contrast, the rural financial network in Benin, FECECAM, expanded more slowly by opening new branches around the country and roughly doubled the number of accounts in seven years.[8]

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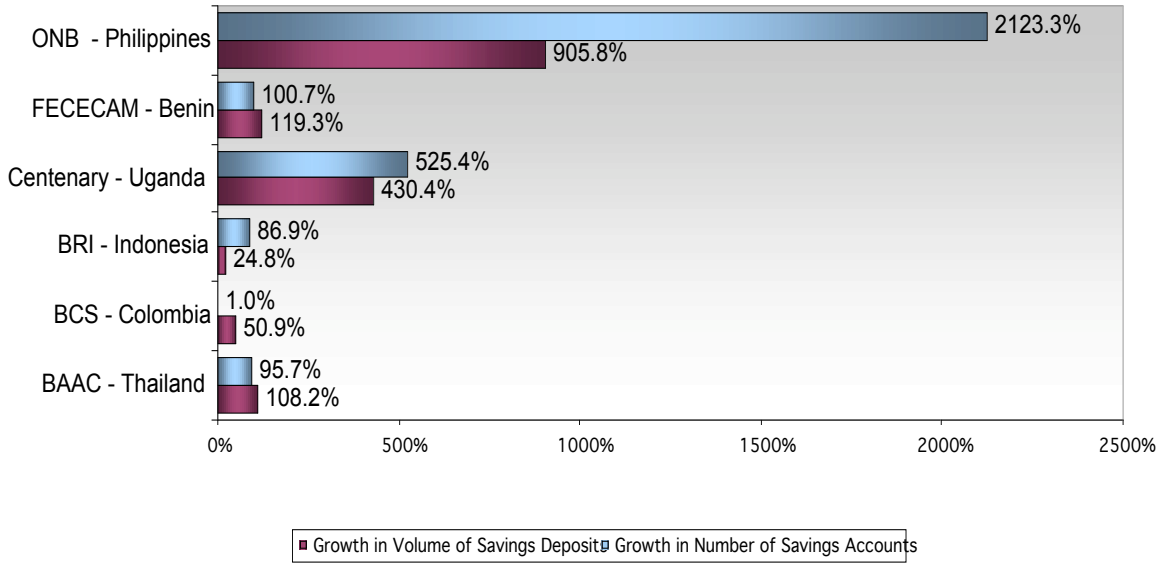
[5] CGAP summarized the lessons on savings mobilization strategies from four of these institutions in Mukherjee, Joyita and Silvia Wisniwski 1998.

[6] To try to keep numbers comparable and exclude large institutional depositors, institutions were asked for *individual* voluntary savings accounts and deposits, not *institutional* savers, mandatory savings accounts or large term deposits, but the author was unable to verify this information. It would have been interesting to track the number of small balance savers and the number of active accounts (since these numbers include dormant accounts which can be as high as 60% of all savings accounts (Cracknell, 2005), but this data was not available. BCS is an exception, it tracks numbers of savers not number of accounts, even so, it is included to complete the data set.

[7] Volume figures use exchange rates at the time they are not in constant dollars.

[8] It could have grown faster without its financial troubles in 1997 and 2001 because Lafourcade et al (2005) found that the number of *savers* in regulated MFIs in Africa 2001 to 2003 grew 66% annually.

Figure 1. Percentage Growth in Number of Savings Accounts and Volume of Savings from 1996 to 2003



Source: The respective institutions or The Microfinance Information eXchange (The MIX)

When RPB completed its consolidation process with two other private banks in the Philippines to become One Network Bank, the result was over 2,000 percent growth in the number of savings accounts for RPB. This growth is not just from the consolidation process, but also from large numbers of new rural clients attracted by new savings products delivered only through automatic teller machines (ATMs). BCS also expanded its volume of savings as a result of improved product design. For example, BCS's bundled product for shopkeepers includes a savings account, a debit card, access to credit and business insurance, and has proved to be popular.

2. **Faster growth in deposits than lending.** Even though some institutions have also increased the volume of lending, the deposit-to-loan ratio has generally increased. Overall, there are now more than six saving accounts for every loan among the six institutions.[9]

GTZ originally identified these financial intermediaries as savings-led institutions and they increasingly live up to this characterization. Figure 2 shows that with one exception, all institutions increased their deposit-to-loan ratios.[10] BAAC has the lowest ratio as a result of its government funding, but the huge savings growth has allowed it to internally finance its portfolio for the first time.[11] The ratio of savings accounts to number of loans for the six institutions has correspondingly increased from 4:1 (as originally estimated by GTZ) to 6:1.[12]

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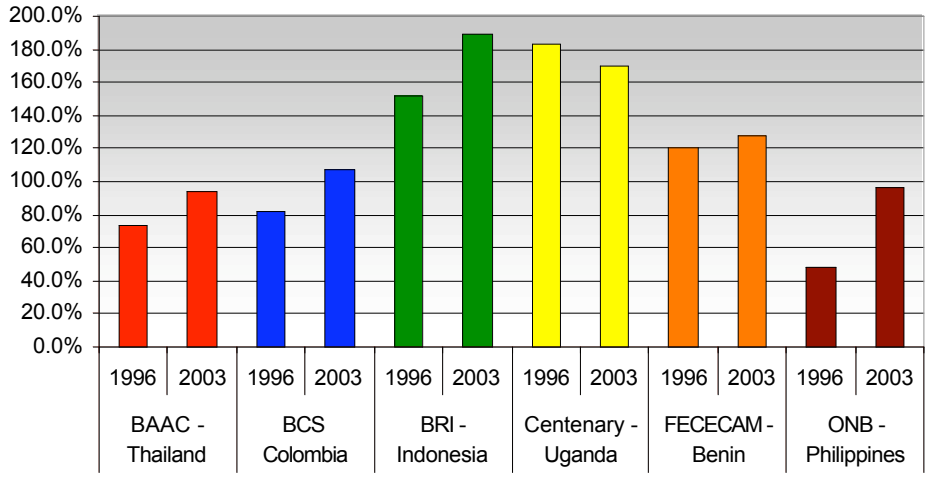
[9] This growth has been in individual savings accounts, not exclusively in small balance savings accounts. It would have been interesting to track the relative growth in different savings product, especially products designed for low income savers, but this information was not available.
[10] Since this ratio is typically used to look at financing structure, it includes all deposits and all loans.
[11] Haberberger, 2005
[12] Annex Table 2 shows how this ratio was calculated.

Centenary saw a relative increase in the number of its loans to try to reduce its 'excess' liquidity, but continued to have a deposit-to-loan ratio over 150 percent. The Bank of Uganda allows banks to lend up to 75% of their savings and Centenary has been trying to do that but its deposits are growing at a higher rate than its capacity to lend. BRI – MD does not have this problem because it transfers its excess liquidity to the BRI Head quarters where it is used for financing small, medium and corporate enterprises. But Robinson notes that the microfinance units can, and should, expand their lending because there is much unmet demand for loans.[13]

Figure 2. Deposit-to-Loan Ratio



Sources: The respective institutions or The Microfinance Information eXchange (MIX)

3. **Consistently small average deposit size .** With the exception of Centenary, all six institutions have maintained an average deposit size that is between 10 and 27 percent of GNI per capita.[14]

Probably the most surprising – yet also an encouraging finding is that the low average individual savings balance as a percentage of GNI per capita was consistent across the six institutions—notwithstanding the strong growth. This is particularly remarkable because for an average ratio, large numbers of small accounts can be masked by just a few large accounts. In Figure 3, ONB stands out as the institution that has reduced its average savings balance per depositor as a percentage of GNI the most. Its average savings balance is now $112 which is only 10.3 percent if GNI – the result of an explicit ONB policy to work towards reaching low income rural clients. BCS may have increased its average deposit size to US$363 (20 percent of GNI), but 75 percent of its savers continued to have a balance of less than US$80 (less than 5 percent of GNI) in 2003.

[13] Robinson, 2004

[14] The original study used GDP (not GNI) per capita. A low average savings balance was a proxy for reaching low income clients. The size distribution of active account balances (by product) would have been a more useful indicator of the extent to which these institutions were reaching low income clients, but this data was not available. Hence the original study used the only indicator that was readily available.

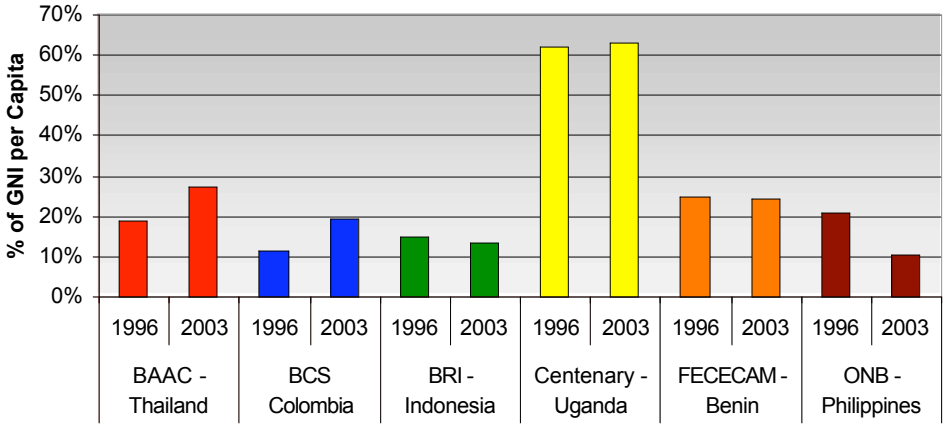


Figure 3. Average Savings Deposit as a Percentage of GNI per Capita
Sources: The respective institutions or The MIX

Different rates of national economic performance naturally imply a wide range in the dollar value of average savings balances that have the same percentage of GNI. For example, both FECECAM (Benin) and BAAC (Thailand) have average savings balances around 25 percent of GNI per capita. However, the average savings balance is US$108 in Benin and US$600 in Thailand. Centenary (Uganda) had the highest average savings balance as a percent of GNI at 63%, but this result is entirely consistent in its risk management strategy to diversify its customer base. To keep this in perspective, this relatively high proportion equals only US$158, and approximately 50 percent of its accounts are held by what Centenary considers 'micro' clients who typically hold only $50 in a savings account (that is 20 percent of GNI per capita).[15] The bank's mission remains to serve the rural poor and contribute to the overall development of the country.

4. **Strong financial performance.** The six institutions have demonstrated consistent profitability and efficiency.[16] BAAC, BRI and BCS in particular have managed both their return on assets (ROA) and operating expense ratio to maintain a steady performance. Each of the six is performing significantly better than its respective *Microbanking Bulletin* (MBB) regional peer group.[17]

Profitability. Consistency is the theme for the institutions' ROA. As Figure 4 shows, BRI-MD and ONB have the highest ROAs in 2003 at 5.7 and 5.0 percent, respectively. BCS and Centenary have also kept consistently positive ROAs in line with management objectives. FECECAM has had risk management problems, so although its ROA is one of the lowest, it is improving and is better than its regional peer group (indicated by the diamond shape in Figure 4). BAAC manages its ROA to meet a low, government-established target, which is why it appears lower than the regional benchmark ROA.[18]

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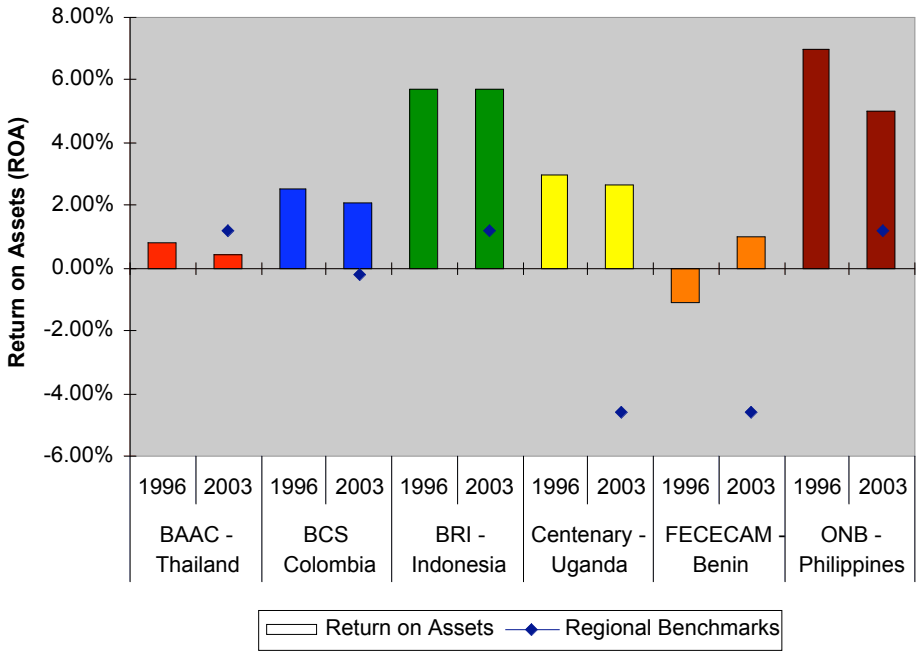
[15] A complete set of average savings balances and GNI per capita can be found in Annex Table 3.
[16] This institutional level data does not tell us about the profitability and efficiency of the small balance savings operations. However, commercial institutions are unlikely to maintain products that are unprofitable over seven years.
[17] That is all the MFIs reporting to the Microbanking Bulletin (MBB), an international benchmarking publication, in the institutions' respective regions.
[18] In 2001, the Thai government initiated a three-year debt forgiveness program for all BAAC borrowers with outstanding loans of less than 100,000 baht (US$ 2,300), despite protests by BAAC management. 50

Figure 4. ROA with 2003 regional benchmarks (MIX 2003 Benchmarks)



Sources: The respective institutions or The MIX

Efficiency. Table 2 shows the changes in the operating expense ratio between 1996 and 2003. It is important to note that these are institutional ratios and no direct conclusions can be made about the costs of the institutions' small balance savings operations because those expenses are not separated out.[19] When compared with their peer groups, which are typically predominantly credit institutions, all of these institutions are more efficient. Only two institutions' efficiency worsened and these declines were caused by factors outside of their savings performance. FECECAM's decline was due to its portfolio quality problems and ONB's was due to the new cost structure of the consolidated bank. Centenary, the institution most heavily focused on savings, made significant efficiency gains. It is difficult to make generalizations about the diverse cost structures of these institutions without in-depth analysis but their consistency implies careful management.

Table 2. Operating Expense Ratios 1996 and 2003 and 2003 MBB Regional Benchmarks[20]

Institution	Region	Operating Expense Ratio – 1996	Operating Expense Ratio – 2003	Operating Expense Ratio - 2003 - Regional Averages
BAAC – Thailand	Asia	2.80%	2.82%	15.90%

percent of farmers took up the offer and so BAAC negotiated for the government to compensate BAAC for the lost interest income. Thus BAAC was able to maintain its consistent ROA.

[19] Rhyne (2003) notes that the lack of cost allocation between credit and savings is a problem for tracking savings performance

[20] The MBB includes Personnel and Administrative Expenses in Operating Expenses, not Loan Loss Provision or Financial Expenses. The ratio is Operating Expenses / Average Annual Assets

BRI – Indonesia	Asia	5.80%	5.96%	15.90%
ONB – Philippines	Asia	5.6%	9.19%	15.90%
BCS – Colombia	Latin America	14.90%	13.64%	18.90%
Centenary – Uganda	Africa	23.5%	16.16%	20.70%
FECECAM – Benin	Africa	7.6%	12.95%	20.70%

Sources: The respective institutions, The MIX and MBB Regional Benchmarks 2003 for Peer Group data.

The original GTZ study outlined two contrasting opinions on the cost of saving services. The 'savings are expensive' opinion argues that savings are difficult and costly for MFIs to provide and that donor funds may be necessary to compensate for the high operational costs of deposit-taking.[21] The 'savings as a lower cost strategy' opinion posits that the cost of savings mobilization can be lowered by innovative financial technologies.[22] These savings-led institutions show that operating expense ratios can be lower and ROAs can be higher than regional peers with predominantly credit services. Thus, there appears to be little support in this study for the opinion that small balance savings needs a subsidy, but a profitability analysis of small balance savings products would be needed to provide robust conclusions.

Behind the Numbers: Drivers of Institutional Performance

The performance analysis reveals that the six savings institutions have skillfully managed their growth to produce strong financial results while retaining a focus on low-income clients. But how have they maintained this difficult balance? Deeper analysis indicates that high-quality products and delivery systems, improved risk management, and competition are the main drivers of this performance.

1. **Improved products and delivery systems.** Savings products and delivery systems that meet the needs of low-income savers drove growth in both number of savings accounts and volume of savings deposits. Technology-based service delivery has been a major factor in providing more points of service for clients.

All seven financial intermediaries carefully designed savings products to meet customer requirements. For some, technology was central to the product design, for others it simply enhanced accessibility of their products. As the original GTZ study found, appropriately designed products and locations to reduce transaction costs for clients were key to success. Features of selected products offered by the institutions studied are summarized in Table 3, and Table 4 presents their numbers of service points.

One Network Bank used technology most aggressively to simplify product design and reach rural clients. In March 2003, One Network Bank announced that it would install an ATM network in conjunction with a major ATM operator to fulfill its mission of rural banking in Mindanao. The new network is now using wireless ATM technology, so that machines can operate even in areas where telephone landlines are not available. It simultaneously designed an ATM-only savings account with a minimum opening balance of just 100 peso ($1.80) so rural clients could easily open accounts[23]. In 2003 clients of One Network Bank could go to any of 46 points of service, a

[21] Schmidt and Zeitinger (1996) cited in Hannig, Alfred and Wisniwski, Sylvia (1999) study p.19
[22] Robinson (1994) and Burkett and Vogel (1986) cited in Hannig, Alfred and Wisniwski, Sylvia (1999) study p10.
[23] Telephone interviews with CEO Alex Buenaventura and Romy Guerero, One Network Bank, August 2005.

number that has increased with the new ATMs. The CGAP Philippines Country Savings Assessment found that this has fueled continued rapid growth with 23,150 new clients in the first three months of 2005.[24]

BAAC has found that the combination of specially designed products and improved accessibility resulted in rapid savings growth. In 1996, after extensive market research, two years of planning, and support from GTZ, it launched the "Save and Get a Chance" product (Om Sap Thawi Choke) accompanied by substantial marketing efforts. Its low minimum opening balance of $2.00 was important, but what savers found particularly attractive was the chance to win prizes and join in parties to celebrate saving (see Table 3 for terms).[25] Rural residents of Thailand perceive BAAC to be a safe place to save because it is a government bank and in 1996, BAAC already had an extensive network of over 500 branches. At the same time that it launched "*Save and Get a Chance*" BAAC also expanded its points of services so by 2003 there were almost 600 branches 13 mobile branches and 907 field unit facilities for cash transactions (see Table 4). This improved access led to a lower level of dormant accounts and greater frequency of saving since most rural Thais were "within 20 km of a BAAC point of service".[26] When BAAC launched *"Save and Get a Chance"* there were few poor, rural savers but now they are the main driver of the massive growth in savings accounts and volume at BAAC.[27]

Centenary is also improving access to its simple and attractive products by rapidly upgrading its technology. All Centenary branches are now online and use a high-speed Internet connection that allows customers to access accounts from 157 field offices. In 2004 the bank was planning to open two new branches, two new agencies, 15 more ATMs and 50 more point of sales terminals as part of a continuing strategy to improve customer service. Centenary is also piloting mobile banks similar to those of Equity Bank in Kenya.[28] Table 3 below outlines its simple savings and time deposit accounts. Important to note is its leadership in introducing a low $5.00 minimum opening balance for a savings account and a minimum maintenance balance of $1.50. As a result of its success, many other banks have now followed suit.[29]

BCS's special products and services tailored to the microfinance market have driven the growth in savings volume. For example, BCS now offers small shop owners a bundled product called "Tienda Empresario" that consists of a savings account, a checking account, credit for working capital, and business microinsurance, with preferential prices, and no need for a credit history.[30] Holders of BCS's debit and credit cards are also able to use the full banking infrastructure in Colombia to deposit and withdraw cash from 142 ATMs throughout the country. But BCS has found that, despite considerable promotion of and incentives for its electronic banking services, its poorer clients continue to be reluctant to trust electronic banking services and that 60 percent of their transactions still occur in their 122 branches.

BRI-MD continues to offer carefully designed savings accounts. Liquid and non-liquid savings products are offered at various levels of return, based on the deposit amount. These accounts are

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[24] Gardiol, Isabel Dauner, Brigit Helms and Rani Deshpande. *Philippines Country Savings Assessment.* CGAP July 2005

[25] Goodwin-Groen, Ruth P. Success in Rural Savings: *How GTZ and BAAC Expanded Savings Services in Thailand.* CGAP Donor Good Practice Case Study No. 1 April 2003

[26] Reported by Mr. Nipath Kuakasul, BAAC August and September 2005

[27] According to Marie Luise Haberberger - GTZ advisor to BAAC from 1994 to 2004.

[28] Interview with Mr Willibrord.Okecho, Centenary Bank, February 2005

[29] Goodwin-Groen, Ruth P., Till Bruett and Alexia Latortue. *Uganda Microfinacne Sector Effectiveness Review.* CGAP October 2004

[30] Information from Elsa Patricia Manrique, Gerente de Planeación y Entorno, BCS, August 2005

easy for clients to use and sufficiently flexible so that they can be customized by clients to meet the needs of their households and businesses. To improve its customer service, BRI-MD has also started to implement an online centralized banking network that can be accessed in real time. BRI-MD hopes that the network will increase internal efficiencies and thus reduce costs. By 2004, 450 (or 11 percent) of its 4,095 units were online.[31] Table 4 shows the details of its more than 4,500 total points of service.

By way of contrast, CVECA Mali which operates in the very poor, remote villages on the edge of the Sahara, has had to design products with no access to technology. It has two simple and practical products for the locally managed village level "banks": a current account with no minimum opening or maintaining balance, which can be accessed any time but earns no interest; and a term deposit account that does earn interest but which cannot be accessed for the period of time the client decides - from three to twelve months (see Table 3).[32] It is CVECA's experience that clients will use the interest bearing account if at all possible, so approximately two thirds of the savings volume is held in term deposits.

Table 3. Key Terms of Sample Products from Three Institutions[33]

Product Terms	***Centenary Uganda Savings Account***	***Centenary Uganda Deposit Account***	***BAAC Thailand "Save and Get a Chance" product***	***CVECA Mali Current Account***	***CVECA Mali Time Deposit Account***
Minimum opening balance	US$5.00	US$500.00	US$2	None	None
Minimum balance to maintain	US$1.50		US$2	None	None
Accessibility	anytime	3–12 months	anytime	Anytime	3–12 mos.
Annual interest rate	2%	6–8%	0.75%	None	10%
Fees	None	None	None	None	None
Special features			Lottery for prizes Lottery parties		

Source: Centenary, BAAC, CIDR

Table 4. Points of Service for the Savings Institutions Studied

Institution	Year	Total Points of Service	Types of Points of Service
BAAC – Thailand	1996	1410	535 Branches, 875 field offices
	2003	**1576**	**74 provincial offices, 595 branches, 907 field units**
BCS – Colombia	1996	136	136 branches
	2003	**184**	**122 offices in 44 cities and 142 ATMs**
BRI – Indonesia	1996	3915	320 branches, 3,595 units
	2003	**4530**	**1 special branch, 324 branches, 148 sub-branches, 8 sharia branches, 4,049 BRI units**

[31] Robinson, 2004
[32] Interview with Renée Chao-Béroff, CIDR, August 2005
[33] Many more savings product examples can be found at http://www.microfinancegateway.org/resource_centers/savings?PHPSESSID=f18c4b34e0e38a06fbb1e58e1f94544f and related links

Centenary – Uganda	1996	9	9 branches
	2003	**157**	**157 field offices**
FECECAM – Benin	1996	71	71 branches
	2003	**109**	**109 branches**
ONB - Philippines	1996	2	2 branches
	2003	**46**	**46 points of sale**

Source: Self reported by the institutions

2. **Improved risk management.** Liquidity risk management in particular has contributed to reduced costs, improved efficiency, and financial stability.

An emphasis on proactive risk management has been driven by the need to reduce costs (particularly costs incurred due to liquidity and credit risks), improve efficiencies (from managing liquidity and operational risks), and comply with regulatory requirements (managing compliance risks and governance). These financial intermediaries have concentrated on improving their management information systems, tightening procedures and controls, and developing staff technical skills to improve their risk management.

BAAC introduced a comprehensive risk evaluation system over the study period that considers credit risk, strategic risk, liquidity risk and operational risk. The system uses a global approach to risk management, integrating all risks into the evaluation and monitoring system because many are interdependent. For example, to reduce its dependency on interest income, and thus mitigate the risk of interest rate movements, BAAC is introducing more fee-based products, such as insurance, inter-branch money transfers, and bill payments. BAAC's increasing number of small deposits also reduces its currency risk by reducing its external debt and liquidity risk by diversifying its source of funds. To support this risk evaluation system BAAC introduced a nationwide branch management information system. This new information system also facilitated BAAC's restructuring to improved efficiency, in which branches were converted to profit centers, and processes and reporting were simplified.[34][35]

Centenary also took an integrated approach to risk management. In 2003 it introduced a joint management and Board Assets and Liabilities Committee (ALCO). The committee is responsible for managing the bank's liquidity and market risk, including interest rate and foreign exchange risk. The committee also ensures that the bank is complying with regulatory requirements for capital adequacy and liquidity. At the same time a new position, Chief Manager-Risk Management, was established with responsibility for monitoring risk in all the operational areas of the bank and reporting to the ALCO. In 2003 the bank also finished installing its nationwide information system (using Equinox banking software) so the ALCO was able to undertake maturity gap analysis, liquidity gap analysis, balance sheet trends, and capital ratios, as well as to

[34] Haberberger and Wajanawat, 2003

[35] BAAC's status as a government-owned institution poses unique problems related to risk management (many of these are shared by BRI). In 2001, the government initiated a three-year debt forgiveness program for all BAAC borrowers with outstanding loans of less than 100,000 baht (US$ 2,300), despite protests by BAAC management. Even though 50 percent of farmers took up the offer, the government compensated BAAC for missed interest income. This type of risk cannot be managed with an improved information system; only changes in ownership or in the role of the owners, as BRI is now doing, can reduce it.

examine interest rate margins and yields. In another strategy to manage risk, Centenary decided to diversify its assets and opened a branch in Kampala specifically to serve high net-worth clients.[36]

At the village level, CVECA Mali has shown that it is possible to design a very simple and effective liquidity risk management system for local volunteers to manage. The rule: demand deposits are not lent out at all and time deposits are lent out only for terms less than the deposit term.[37]

RPB had found it necessary to hold relatively high levels of liquid assets at its two branches, which increased costs because it had no other liquidity pool. But in 2003, post-merger ONB was able to move cash among 46 branches, thus reducing the liquidity risk, the level of idle cash and costs.[38]

In 1996, the GTZ study hypothesized that regional or national umbrella organizations could reduce risk by contributing to portfolio diversification and assistance in managerial, auditing and training tasks.[39] FECECAM attempted to do just that, but it was unable to adequately manage portfolio risk. FECECAM underwent two major financial crises, in 1997 and 2001, which threatened its survival (see Box 1).

Box 1. Why risk management failed at FECECAM[40]

There were three major reasons for poor risk management at FECECAM: governance, poor accounting and financial systems, and the low level of staff skills. FECECAM's organizational structure is made up of three independent tiers and an independent international technical service provider (Développement International Desjardins).

- *The first tier comprises the local cooperatives* which are profit centers, responsible for collecting savings and making loans. In theory, the General Assembly of members possesses decision making authority for the local coop, but in practice power is often held by a small group of Management Committee members who tend to be better educated and act in their own interests. Many of these local coops contract the external technical service provider to help with supervision and monitoring.
- *Regional unions are the second tier* and they receive contributions from the local coops, provide services to these banks and extend larger loans to individuals or groups than the local banks are permitted to extend.
- *The top tier, the federation,* is responsible for supervising the local coops and regional unions. It sets management policies and standards, coordinates training for the other tiers, is responsible for ensuring adequate controls, conducting internal auditing, and other services. It is also authorized to make loans of more than 10 million CFA (approx $19,000 in December 2003) to groups and associations. Its revenue is derived from a mixture of investment income, contributions from local coops, fees and revenues from the loans and services it provides, plus some grant funding.

According to the PARMEC law that governs FECECAM, the federation is officially accountable for compliance with legal and regulatory requirements at all levels, but it has no authority to enforce

[36] Centenary 2003 Annual Report.
[37] Interview with Renée Chao-Béroff, Centre International De Développement et de Recherche. August 2005.
[38] Interview with Alex Buenaventura, February 2005.
[39] Hannig, Alfred and Wisniwski, Sylvia (1999) p.16.
[40] Sources for this Box include: Ouattara (2004), Adechoubou (2004) and interviews with Guy Vaillancourt of Desjardins and Jennifer Isern of CGAP.

compliance.[41] The real power base of the network is at the local level and it often ignores, or even defies, the strategic direction and standards proposed by the federation.

Specifically, local coops failed to follow credit policy guidelines established by the federation – i.e., failed to manage their credit risk – which resulted in a sharp deterioration of their loan portfolios over time. This, in turn, led to financial crises in 1997 and 2001. At its worst, in June 2001, the arrears rate for the whole federation was 57 percent, yet the headquarters was unable to impose penalties or sanctions for poor management at lower levels and the technical service provider was also unable enforce good practices. The local coops were not managing operational and financial expenses, in part because they were bailed out of an earlier crisis in 1997 with grants. Donor funds channeled through the system, fraud and high staff turnover further destabilized individual loan portfolios. These problems were exacerbated by an expansion in urban coops, which had a different risk profile and required different controls than the traditional rural coops. Although it introduced a reform plan in 2001and is improving, there is still a long way to go before FECECAM attains financial stability.

3. **Competition.** Tough competition prompted a focus on better customer service and improved marketing to maintain profitability.

Four of the institutions have faced (or will likely face) increasing competition in the microfinance market since 1996, which has spurred them to improve customer service and maintain their leadership positions.

In 1997 the Philippines government decided that there were too many (832) poorly performing rural banks across the country. To enable the banking sector to compete effectively in a global industry, it encouraged the consolidation of these banks. As of 2003, 720 rural banks remained. In this increasingly competitive market, One Network Bank carefully differentiated itself as a large, well-managed and stable bank with the best point of service network on the island of Mindanao. Its marketing messages focus on its size and stability in Mindanao.[42]

By 2003, Centenary Bank felt it was in a competitive microfinance market, with many of Uganda's 17 commercial banks venturing more aggressively into retail microfinance, particularly on the deposit side, even though there was not yet evidence of real price competition. A new tier of "Micro Deposit-Taking Institutions" was approved, allowing previously credit-only MFIs to register as deposit-taking intermediaries, creating the specter of further competition. In response, Centenary positioned itself as a bank that could offer a wider range of products at more convenient times and places than its competitors. It also diversified its client base ensuring it was not dependent on one market segment and was able to maintain its profitability.[43]

The volume of savings held by BCS has continued to grow, despite an increasingly competitive microfinance market in urban Colombia. In response, BCS is constantly innovating and improving its offerings to small entrepreneurs and low-income wage earners. It has learned from the experience of savings banks around the world to create cross-selling opportunities that broaden the bank – client relationship and benefit both the bank and the client.[44] This, together

[41] In 1994 all members of the West African Monetary Union (including Benin) passed the PARMEC Law to regulate and supervise member-based microfinance institutions. According to Ouattara (2004), the PARMEC law falls short with respect to prudential regulations, which are not necessarily in line with best practice in microfinance.
[42] One Network Bank 2003 Annual Report
[43] Centenary Rural Development Bank 2003 Annual Report
[44] Kamewe and Koning, WSBI (2004) p.6

with its sound financial history and trustworthy reputation, has positioned it with small depositors as a secure and stable institution.[45]

In 2003, BAAC Thailand had little direct competition in rural areas due to its government mandate and its comprehensive network of branches, field offices, and mobile offices. However, to stimulate future competition, the government is reducing the special arrangements for BAAC and creating a more level playing field. New retail banks that offer financial services to small and medium-sized enterprises (SMEs) and low-income customers will soon be able to open an unlimited number of branches. Their minimum capital will, moreover, be far lower than that required for a commercial bank: 250 million baht (approx. $6 million) versus 5 billion baht (approx. $120 million). This threat of future competition, particularly in peri-urban areas, was already driving BAAC to improve its efficiency and profitability.[46]

Conclusion

"Deposit facilities are an essential service for microclients, but only technically and financially sound MFIs should embark on this business"[47] was one of the original study's conclusions. This follow-up study has demonstrated that there continues to be a strong demand for small-balance savings services by low income clients when products are designed appropriately and accessible. . Mr. Vincent Tumusiime at Centenary Rural Development Bank noted in September 2005, "We are overwhelmed with deposits." This type of demand is consistent across regions and institutional types and is maintained even when institutions are imperfect.

This study also shows that small balance savings services can be managed profitably over time by a range of different institutional types but a key challenge is to keep focused on risk management. A laser focus on managing risks is needed to address problems before they get out of control. Another common challenge is to develop their lending capacity as fast as their deposit-taking capacity, to maintain appropriate loan-to-deposit ratios. A challenge for the analysis of institutions that provide small-balance savings is to develop indicators that can more effectively measure performance and build industry consensus around them. These are all challenges of a fast growing sector, which is good news for low income savers.

[45] Interview with Eulalia Arboleda, CEO of BCS, www.bancocajasocial.com.co
[46] Haberberger, Marie Luise, Luk Wajanawat and Nipath Kuasakul (2003)
[47] Hannig and Wisniwski (1999) p.71

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