MicroSave Briefing Note # 2

Introducing Savings into a MicroCredit Institution – Lessons from ASA

Graham A.N. Wright, Robert Peck Christen and Imran Matin

ASA – A Remarkable Institution

The Association for Social Advancement (ASA) in Bangladesh provides financial services to 1.5 million poor people, and is one of the best-managed, large-scale, sustainable, microfinance providers anywhere in the world. ASA operated a credit delivery and recovery system based on a modified version of the Grameen Bank's group-based lending methodology, stripped down to an elegantly simple (if somewhat inflexible) system that allowed management to control the flow of money precisely and exactly. Loan sizes and disbursement schedules were standardised and only compulsory savings were collected.

Introducing Savings Services

ASA took the decision to introduce more open access savings services, on the basis that providing high quality savings services was seen as providing a way to access relatively cheap capital, increase outreach, increase lending, maintain portfolio quality, increase productivity, and reduce poverty and vulnerability". This perception is common amongst MFIs today.

ASA was clear that it did not have the legal mandate to collect savings from non-members beyond those people with direct (usually family) links to its existing clients, and thus it was constrained in any attempts to mass mobilisation of deposits. Given the availability of cheap capital (5% - 7.5% pa) from the Palli Karma Shahayak Foundation (PKSF), ASA did not want to mobilise more, relatively costly, deposit-based capital than it could usefully use in tandem with PKSF's less expensive capital funds.

The Revised Savings Schemes

In July 1997, ASA introduced a new open access savings scheme that allowed members access to:

- Their "general account" savings, subject to maintaining 10% of their current loan principle.
- Truly open access accounts through the "associate members' account."
- A "long term savings account," a 5-year contractual savings agreement with monthly contributions ranging from $2-10.

However, just six months after introducing the open access savings system, ASA had generated $0.4 million less capital than would have been available under the compulsory, locked-in savings system. Furthermore, much of the balance was highly liquid in nature and subject to immediate withdrawal, thus necessitating ASA maintaining substantial reserves. By the end of 1999, the increases in both deposits and withdrawals meant that the actual net savings balance was only 95% of what it would have been theoretically under the compulsory, locked-in system. Clearly, mass savings mobilisation was not taking place. ASA had simply provided an improved client service at the cost of a substantially increased number of accounts and transactions, without any material increase in the capital generated. Although it might have been desirable to continue the experiment another year, with the uncertainty surrounding the availability of PKSF funds in 2000, the ever growing demand for capital and an eye on the all important bottom-line, ASA needed to make changes.

As a result, the new "composite" savings product was designed and introduced as of November 1999. This "composite" product locked-in 10% of the principle of current loans as of November 1999, plus a compulsory Tk.10 ($0.20) per week. Any additional money saved on top of the Tk.10 ($0.20) compulsory amount was fully liquid and subject to withdrawal on demand. Most ASA members were motivated to save at least Tk.20 ($0.40) per week as a norm. Thus, ASA created an account that met both clients' needs for an illiquid contractual savings account and a liquid account that allowed them to respond to emergencies, and, at the same time, created the locked-in balances that ASA needed to meet its demand for capital.

However, this system provided ASA's field staff with a complex set of calculations to determine the amount available for withdrawal whenever a client wanted to take out some of her savings. By the middle of 2000, ASA had decided to return to a simple requirement of 15% per current loan in compulsory savings accounts (for the 2nd and subsequent loan cycles) for all members. Thus, ASA essentially returned to its original policies.

Financial Implications of Savings Mobilisation

Many feel that capturing deposits from small clients is too costly and does not represent an attractive funding alternative. Others believe that the industry must offer small depositors an option for managing their liquidity, and that tiny savings accounts not only represent an important financial service for the poor, but potentially, an important source of funds for MFIs.

MicroSave

The full cost of savings mobilisation for ASA amounts to 8.6% of average deposits for 1999, and 2.6% of average 1999 total assets. If this is added to the financial costs of deposits (4.3%), it is apparent that the total savings strategy (including the compulsory savings system that is an integral part of the loan methodology) costs ASA 12.9% of the funds it mobilises. The marginal cost of the savings strategy is about 10.5%. This makes savings as, or more expensive to ASA as borrowing in the commercial sector. ASA currently borrows from Agrani bank at around 9.5%. It certainly costs ASA far more to mobilise savings than it does to access PKSF money.

Discussion and Conclusions

ASA's experience provides some very important lessons for the microfinance industry.

- Moving from a compulsory, locked-in savings system, to a voluntary open access savings service, requires significant institutional changes with respect to the management and information systems, auditing systems and personnel/training, as well as to the way units (branches) are furnished and secured, and the very organisational culture. And, of course, it requires the mandate to mobilise savings.
- Open access savings services necessitate highly flexible systems, capable of dealing with numerous, diverse transactions, and are thus not amenable to the rigid systems run by ASA and most microcredit organisations. Open access savings systems with their unpredictable cash flows, necessitate a different type and complexity of control built on a clear segregation of duties, as well as extremely efficient and transparent management information systems.
- The transition from forced to voluntary savings services is not only about the institutional supply side challenges, but also about effecting profound changes in the attitudes and behaviour of staff. To paraphrase Marguerite Robinson, "When lending, the institution must trust the clients - when mobilising savings, clients must trust the institution".
- Locked-in savings can be a source of capital for the institution, but in the long term, such locked-in arrangements can create default and drop-out incentives. Moving from compulsory to voluntary savings products can also lead to a high degree of "cannibalisation" (where one product simply takes over from another, with no net increase in the overall savings balances) – particularly in saturated markets.
- In Bangladesh, individuals within the MFI "target group" are already being given one and often multiple loans. Most clients' cash income is already encumbered by loan commitments and compulsory savings requirements, and thus, the potential for mobilising savings from this group may be limited.
- Microcredit organisations seeking to start mass savings mobilisation also need to overcome the information and knowledge gap within their own organisation. Simply because ASA is an outstanding loan service provider does not inherently make it ready to mobilise voluntary, open access savings. The markets are very different in nature.
- Most microcredit organisations have very limited knowledge of the clients outside their current "target group." This knowledge must be acquired, if they are to have a reasonable chance of designing, marketing and delivering savings products that are appropriate to the "non target group" market segments.
- Mass savings mobilisation depends on MFIs diversifying their client base by understanding and responding to the needs of people from a much broader range of socio-economic strata than they typically serve with their micro-loan products. In many Bangladeshi villages, for example, remittances from relatives working abroad are likely a very important source of cash income and thus potential savings. Market research is therefore essential, as is the need to cost and price any proposed products.
- In increasing numbers of districts in Bangladesh, the competition between MFIs has reached a level of intensity that threatens to undermine the industry. Clients choosing between as many as five or more MFIs in many villages, and clients belonging to multiple MFIs have risen to unprecedented levels. Sometimes as high as 40-50% of clients/households belong to two or more MFIs. This has led to many cases of over-indebtedness and appears to be undermining the primary incentive to repay, which is continued access to financial services. Increasingly, some clients appear to be willing to default with one MFI safe in the knowledge that they can access financial services from a competitor if follow-on loans are not made available. The microfinance industry in Bangladesh may well be facing its most profound challenge and threat since it began in Jobra in 1975.

This ***MicroSave*** Briefing Note was prepared on the basis of the ASA/***MicroSave***'s publication: "ASA's Culture, Competition and Choice: Introducing Savings Services into a MicroCredit Institution" available on ***MicroSave***'s website: http://www.***MicroSave.***org under - Study Programme.

MicroSave