

***MicroSave***

*Market-led solutions for financial services*

Offices across Asia, Africa  
and Latin America

[www.MicroSave.net](http://www.MicroSave.net)

[info@MicroSave.net](mailto:info@MicroSave.net)

---

**ASA's Culture, Competition and Choice:  
Introducing Savings Services into a  
MicroCredit Institution**

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

**July 2001**

*MicroSave – Market-led solutions for financial services*

## Table of contents

### Executive Summary

Introduction	4
ASA – A Remarkable Institution	4
Introducing Savings Services	4
Results	4
General Member's Savings Account	4
Small Enterprise Development Programme Member's Savings Account	5
Associate Member's Savings Account	5
Long Term Savings Account	5
Total Savings	6
Financial Implications of Savings Mobilisation	6
Discussion and Conclusions	7

### Introducing Savings Services into a MicroCredit Institution

1. Introduction	9
2. ASA – A Remarkable Institution	9
3. Introducing Savings Services	10
3.1 Why the Decision Was Taken	10
3.2 Market Research	10
3.3 Pilot-Test	11
3.4 Roll-Out	11
4. Savings Products	12
4.1 Savings Mobilised	12
5. Changes to the Systems	20
5.1 Internal Control/Management Information Systems	20
5.2 Staff Working Routines	21
5.3 Liquidity Management Systems	21
6. Key Issues for the MicroFinance Industry	23
6.1 Overview	23
6.2 Issue 1: Flexible/voluntary savings schemes will not necessarily generate more capital for on-lending than compulsory savings schemes	23
6.3 Issue 2: Flexible/voluntary savings schemes can be (but are not always) relatively inexpensive sources of capital	24
7. Discussion	27
7.1 Metamorphosis to Financial Intermediation (Just To Remind Ourselves ...)	27
7.2 The Right Systems for the Job ...	28
7.3 ASA's Culture and Norms	29
7.4 The Bottom-Line Issues	30
7.5 Moving from Compulsory to Voluntary Savings Services	31
7.6 A Final Note on Competition in Bangladesh	33

<b>References</b>	<b>35</b>
-------------------	-----------

## **Appendixes**

Appendix 1:	Disclaimer, Study Methods & Acknowledgements	36
Appendix 2:	ASA's information from 1992 to 1999	37
Appendix 3:	Circulars and Summary	39
Appendix 4a:	General Savings	40
Appendix 4b:	Small Enterprise Development Programme Savings	40
Appendix 4c:	Associate Members Savings	41
Appendix 4d:	Long Term Savings Account	41
Appendix 4e:	ASA all Savings Accounts: Comparison of Actual v. Compulsory Based Results	42
Appendix 4f:	Total Savings Per Member - Excluding Fixed Deposit Scheme	43
Appendix 4g:	ASA all Savings Accounts over Time	44

==0==

## **ASA's Culture, Competition and Choice: Introducing Savings Services into a MicroCredit Institution**

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

### **Executive Summary**

#### **Introduction**

Recognising the importance of, and growing interest in introducing savings products into microcredit institutions, *MicroSave* and the Consultative Group to Assist the Poorest (CGAP) collaborated to study the dynamics of institutional change during the transformation from a microcredit to a microfinance institution (MFI).

#### **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 flows of money precisely and exactly. Loan sizes and disbursement schedules were standardised and only compulsory savings were collected. Loan repayment discipline was, and remains, second-to-none and is a noticeable feature in the organisation's culture, which lives and breathes for on time, every-time, without fail repayment.

#### **Introducing Savings Services**

Why did ASA take the decision to introduce more open access savings services when most of the other large microcredit institutions in Bangladesh remained unwilling to do so? In the words of Healey (1999), providing high quality savings services was seen as providing an excellent 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.

The ASA management team was well aware of the potential pitfalls of opening up voluntary savings services and remained focused on the primary function and comparative strength of ASA, disbursing and recovering small loans in a cost effective and efficient manner. Any and all attempts at providing savings services were secondary to achieving this, the overriding institutional objective.

Furthermore, 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. Finally, given the availability of cheap capital 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.

#### **Results**

##### ***General Member's Savings Account***

The General Member's Savings Account was a basic, traditional, compulsory, locked-in savings account common amongst microcredit institutions. Effective July 1, 1997, ASA opened this account to allow withdrawals subject to clients maintaining a balance of 10% of their current loan principle. The result was a marginal increase in deposits and a sharp increase in withdrawals. Some general members used these accounts to save regularly in order to build up lump sums that were subsequently withdrawn. Thus many of these became highly liquid accounts.

Early in the second quarter of 1999, ASA field staff moved to establish a weekly contribution (which most groups fixed at Tk.20 or \$0.40) to the general savings account. This resulted in a rapid increase in deposits by 56% over the previous quarter. The additional liquid funds resulting from the new norm also meant that withdrawals rose even more, by 24% from the first to the second quarters of 1999, and still further in the third quarter.

Thus, all the activities significantly increased both deposits and withdrawals while only modestly increasing the net savings (77%) in the two and half years beginning July 1, 1997. Most, if not all, of this increase can be accounted for by the 85% increase in general members during the same period. The changes to the rules governing this account had not generated mass savings.

### **Small Enterprise Development Programme Member's Savings Account**

The Small Enterprise Development Programme (SEDP) Member's Savings Account functions in much the same way as the General Member's Savings Account. The only difference was that SEDP members were required to save Tk.25 (\$0.50) per week (since they received larger loans than general members did). As of July 1, 1997, the SEDP Member's Savings Accounts were also opened subject to clients retaining 10% of their current loan principle in the account. The deposit and withdrawal pattern of the SEDP Member's Savings Accounts broadly mirrored that of the General Member's Savings Accounts.

### **Associate Member's Savings Account**

The Associate Member's Savings Account was the only truly open access, voluntary savings account offered by ASA. This account allowed clients (largely drawn from existing members and their relatives) to deposit and withdraw any amount at will. Initially it was well subscribed, and discussions in the field suggest that it was being used by many general members to store "secret" savings, out of the sight and grasp of their husbands. By the beginning of 1999, over half a million Associate Member's Savings Accounts had been opened.

From a brief review of the monthly movements on these accounts, the way account holders used them seems to be very variable. Initially, account holders seemed to focus on building up their balances, so that by the end of 1997, deposits were nearly six times larger than withdrawals and account holders had an average of Tk.139 (\$2.87) in their accounts. But 1998 saw large-scale withdrawals that nearly matched the deposits made, and the average account size had only increased to Tk.209 (\$4.18) - an average increase of less than 3 US cents (Tk.1.3) per week. Behind these aggregated figures clients appear to have been using the accounts in different ways – some very actively and many others almost not at all.

Given the limited increase in the net balances of the Associate Member's Savings Account, the large number of accounts and the high cost of maintaining them, ASA became concerned about the cost-effectiveness of offering this service. It was generating relatively little capital (in the first quarter of 1999, only \$1.98 million spread over 561,680 accounts) at a very high cost. By the second quarter of 1999, Credit Officers were working to close the low value Associate Member's Savings Accounts and merge them into the General Member's Savings Accounts whenever possible. By the end of 1999, only 35% of the accounts that were open as of March 31, 1999 remained so. The selective closure of these accounts meant that the higher value ones remained open, and as of December 31, 1999 the average account balance had risen to Tk.355 (\$7.10).

### **Long Term Savings Account**

The Long Term Savings Account is a five-year contractual savings scheme with a monthly contribution of Tk.100-500 (\$2 -10). The Long Term Savings Account took off very rapidly after its introduction in the second quarter of 1998. However, this was a false start because the field staff motivated members to open these accounts with promises of larger loans, etc., encouraging people unable or unwilling to try and make

the long term commitment. As a result, many account holders soon fell behind with the monthly instalments. In the second quarter of 1999, ASA Head Office staff identified the problem caused by the over enthusiasm of field staff in encouraging clients to open Long Term Savings Accounts and issued instructions to assist those unwilling to continue to close their accounts.

### **Total Savings**

ASA's dilemma can be seen by comparing the actual amounts generated by the new savings accounts with what would have happened if the old system of a fully locked-in weekly contribution had been maintained. Just six months after introducing the open access system, it had generated \$0.4 million less than would have been available under the compulsory, locked-in system. Furthermore, much of the balance was highly liquid in nature and subject to immediate withdrawal, thus necessitating ASA maintaining substantial reserves. And ASA needed capital to lend ...

The nearly 120,000 general/SEDP members who joined in the last quarter of 1997 were due for their first loan in the first quarter of 1998, and resulted in an additional demand for capital of \$11.6 million. Furthermore, each existing general member that completed a loan cycle was generally looking for a new loan of Tk.1,000-2,000 (\$20-40) more than their previous loan. This process would have added an additional demand for capital of \$3.3 million in the first quarter of 1998. Thus, the total demand for capital generated by loans alone in the first quarter of 1998 was nearly \$15.0 million.

By the end of 1999, after the close out of most of the Associate Member and Long Term Savings Accounts, the increases in both deposits and withdrawals had meant that the actual net savings balance was only 95% of what it would have theoretically have been 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.

In recognition of the factors outlined above, 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 2<sup>nd</sup> and subsequent loan cycles) for general and SEDP members. This left only a few Associate Member's and Long Term Savings Accounts operational and the General Member's and SEDP Member's Savings Accounts returned to their compulsory, locked-in status. 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.

The full cost of savings mobilisation for ASA amounts to 8.6% of average 1999 deposits 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.

1. 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, 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.
2. 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.
3. 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.
4. 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. For example, by the end of 1998 ASA had attracted \$21.2 million savings, against the \$19.3 million that would have been expected under the compulsory, locked-in system. However, the actual savings of \$21.2 million were spread across many more accounts resulting in an average balance per account of Tk.604 (\$12.09), as opposed to the average account balance of Tk.1,003 (\$20.06) that would have been expected under the compulsory, locked-in system.
5. 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.
6. 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.
7. Most microcredit organisations have very limited knowledge of the clients outside their current "target group" and 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.

8. 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.
9. 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



## **ASA's Culture, Competition and Choice: Introducing Savings Services into a MicroCredit Institution**

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

### **1 Introduction**

Recognising the growing interest in introducing savings products into microcredit institutions, *MicroSave* and the Consultative Group to Assist the Poorest (CGAP) collaborated to study the dynamics of institutional change during the transformation from a microcredit to a microfinance institution. These dynamics encompass changes in fund management, information systems, internal controls, staff work patterns and the clients' attitude towards the institution and the products it offers. The experience of the Association for Social Advancement (ASA) provides important lessons for microcredit institutions seeking to follow its lead to introduce savings services.

The authors are most grateful to Md. Shafiqul Haque Choudhury, Md. Azim Hossain and all the staff and clients of ASA who gave so generously of their time and ideas. Errors, omissions, etc. remain the responsibility of this report's authors.

### **2 ASA – A Remarkable Institution**

ASA provides both credit and savings services on a remarkably large scale. In only nine years as a microfinance institution (MFI), ASA has become the third largest Bangladeshi MFI-NGO in terms both of membership and amount of outstanding loans - after Bangladesh Rural Advancement Committee (BRAC), which started financial services in 1974, and Proshika, which started operations in 1976. ASA is financially sustainable and provides financial services to 1.5 million poor people. It is among the best-managed, large-scale, sustainable, microfinance providers anywhere in the world.

By the mid-1990's, ASA had developed a reputation as the most rapidly expanding microcredit institution 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 flows of money precisely and exactly. Loan sizes and disbursement schedules were standardised and only compulsory savings were collected. Loan repayment discipline was, and remains, second-to-none and is a noticeable feature in the organisation's culture, which lives and breathes for on time, every-time, without fail repayment.

The numbers speak for themselves. ASA provides loans to over one million clients with a loan loss ratio of 0.01%. In 1999, it had an adjusted return on average assets of 2.5%. ASA employs 5,145 full time staff, of which 3,334 are Credit Officers. Its 325 clients per Credit Officer make it one of the most efficient programmes in the world. More striking is the fact that the Head Office consists of fewer than 60 employees. Virtually everyone else in the system is located in ASA Units (branches), or spends most of their working day out in the field.

ASA has achieved these impressive results through a highly standardized and rigid lending system. The loan product itself is a model of simplicity and standardization. A Unit Manager, 5-8 Credit Officers and a Messenger/Cleaner run ASA's Units. The Unit Manager is also responsible for a loan portfolio and spends most of his time in the field, alongside the Credit Officers. There are no administrative staff at the Unit: Credit Officers are responsible for all administrative tasks. Strict internal control is achieved through all staff at a Unit noting daily transactions in the same book – this allows everyone to see what has happened during the day. All staff at the Unit know the total cash expected from loan recovery and savings collection for each day. Thus, if a Credit Officer comes in with less than the projected amount, he/she is subject to

immediate questioning by fellow staff members and follow-up by the Unit Manager. The system's reliance on transparency and discipline means that it works extremely well. To reinforce the system, Regional Managers also play an important role in internal control. They visit Units and review the books of account. They even visit clients and groups to verify transactions when warranted.

The entire ASA system is controlled and driven by directives sent out from Dhaka, without substantial financial investment in training staff on the contents of individual directives. The directives are typically generated on the basis of discussions with field staff in regular coordination meetings and field visits by senior staff, which are used to monitor and review ASA's policies. ASA's extraordinary operational achievements and systems have been extensively documented in a series of publications made available by ASA.

### **3 Introducing Savings Services**

#### **3.1 Why the Decision Was Taken**

The proposal to introduce open access savings services was a significant departure for ASA in great part because it required a radical rethink of the organisational approach and institutional culture. Rutherford (1995) observed, "ASA argued that a large part of its success has been based precisely on the rigidity of its services. There appears to be a dilemma: ASA can go forward only if it goes back on an essential element of its success." But sweeping change of institutional culture is by no means new to ASA. It has demonstrated a remarkable ability to manage such transformation. In the words of ASA Managing Director, Md. Shafiqul Haque Choudhury (Rutherford, 1995), "The ability to change course quickly was always our secret weapon. ASA has always shown the ability to adapt." The introduction of voluntary savings services could be seen as the start of the fourth incarnation of ASA. The first ASA (1978-85) was a radical organisation seeking to empower the poor through social mobilisation and "conscientisation". The second ASA (1985-1990) was a service provider offering health, education, women's empowerment, etc. to its members. The third ASA (1991-1997) was an inflexible (but highly successful) microcredit institution. The fourth ASA (1997-date) is a microfinance institution seeking to offer a broader array of savings services in addition to its loans. All four incarnations required momentous metamorphosis, but the later occurred when ASA had over half a million clients, 3,500 staff and superbly honed system for disbursing and collecting loans.

So why did ASA make the decision to introduce more open access savings services when most of the other large microcredit institutions in Bangladesh remained unwilling to do so? After several years of deliberation and careful analysis of results and reports from the field, several factors drove Md. Shafiqul Haque Choudhury and his team to make this important decision. In the words of Healey (1999), providing high quality, voluntary savings services was seen as an excellent 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. But the ASA management team was well aware of the potential pitfalls of opening up voluntary savings services and remained focused on the primary function and comparative strength of ASA: disbursing and recovering small loans in a cost effective and efficient manner. Any and all attempts at providing savings services would have to be secondary to achieving this, the over-riding institutional objective. Furthermore, ASA was clear that it did not have the legal mandate to collect savings from the non-members beyond those people with direct (usually family) links with its existing clients, and thus it was constrained in any attempts at mass mobilisation of deposits. Finally, given the availability of cheap capital 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 these less expensive capital funds. Thus ASA's primary motivation for embarking on efforts to develop a savings programme was to provide its clients with improved financial services, which (it was hoped) would improve the quality of its loan portfolio and reduce the number of dropouts.

### **3.2 Market Research**

ASA's systems for market research are informal and based on the organisational philosophy that even the most senior officials should be "in the field" reviewing Units and discussing operational issues with Unit staff and clients as often as possible. This allows direct feedback from the front-line staff and their clients to the executive decision – makers in ASA. On the basis of this informal information gathering process, in late 1996, ASA staff collected savings-specific data and talked to members (particularly in/around Dhaka) on the ability of members to save, noting that this ability seemed quite high. It was also clear that monitoring and control would be a problem and that introducing savings would necessitate ASA strengthening its monitoring/internal audit systems

### **3.3 Pilot-Test**

In early 1997, after approximately 3 months of informal testing in late 1996, a report was submitted to the Managing Director, recommending that ASA introduce savings services. At the February 1997 Half-Yearly Co-ordination Meeting, the possibility of mobilising savings and the idea of "Associate [savings only] Members" were discussed, and a pilot-test of the idea in 14 selected Units was endorsed. These Units started to provide access to their clients' compulsory savings (subject to clients maintaining a minimum of 10% of their current loan principal in their savings accounts) and completely open voluntary savings for associate (non-borrowing) members on a pilot basis. On the basis of the pilot-test in the 14 Units, ASA designed the passbook/ register/monitoring systems, including checklists for staff charged with monitoring/auditing the new products, and added fourteen extra internal auditors<sup>1</sup> to strengthen systems of internal control.

### **3.4 Roll-Out**

#### **3.4.1 Products (discussed in detail in 4.1 below)**

From July 1997, all General Member's and Small Enterprise Development Programme Member's Savings Accounts in all ASA Units throughout the country were made voluntary and open-access subject to the members maintaining a balance of 10% of their current loan principal. In August 1997, ASA added the Associate Member's Savings Account, a truly voluntary, open access savings account for members and their relatives. In March 1998, ASA added a contractual savings scheme product (the "Long Term Savings Account") and six months later, a fixed deposit product (the "Term Deposit Scheme").

#### **3.4.2 Communication and Staff Training**

One of the many remarkable features of ASA is its simplified staff recruitment and training systems, which seem to flout conventional wisdom in almost every respect, and yet result in a disciplined, efficient and cost effective staff (Healey, 1999). Despite the introduction of five different savings products into an institution that was clearly and exclusively focused on microcredit, ASA did not provide any special training to its existing staff. The Managing Director described the new products in a series of the regular circulars sent to all Unit offices, and matters related to the savings services were often but a few of several different directives contained in these circulars. The circulars and the instructions they contain are discussed by the staff under the direction of the Unit Manager and then implemented in the field.

The introduction of savings services also necessitated changes in ASA's training systems for new recruits. Before 1997, new trainees under went four days of theoretical training and then started in a new Unit under an experienced Unit Manager. Since mid 1997, new trainees undergo two days theoretical training and then six days practical training (following a Credit Officer around observing his/her work) plus another day for review/exam. However, this does not directly impact ASA's costs since trainees pay their own way (plus a fee) for the training they receive under ASA.

---

<sup>1</sup> Prior to July 1997, there were five internal auditors based in the Head Office. Beginning July 1997, one internal auditor was posted in each of the District Offices and three remained in Head Office.

## 4 Savings Products

### 4.1 Savings Mobilised

The results of ASA's introduction of voluntary savings services varied according to the terms and conditions of the accounts involved and how the Credit Officers marketed them in the field. The different types of accounts and their results are outlined below:

#### 4.1.1 General Member's Savings Account

The General Member's Savings Account was the first open-access, savings account introduced by ASA. It was a revision to the basic, traditional compulsory, locked-in savings account common amongst microcredit institutions. Effective July 1, 1997 ASA opened this account to allow withdrawals subject to clients maintaining a balance of 10% of their current loan principal. Thus, if a member had Tk.3,000 (\$60) in her compulsory savings account and a Tk.5,000 (\$100) loan, she could withdraw up to Tk.2,500 (\$50). Members were required to continue to save Tk.10 (\$0.20) every week. Until January 1, 2000, members were paid 8% on their savings account (on the basis of the lowest monthly balances) if no withdrawals were made during the year, and 6% if they had withdrawn. From January 1, 2000 this was amended to pay 8% on all accounts lowest monthly balances, irrespective of whether withdrawals had been made or not.

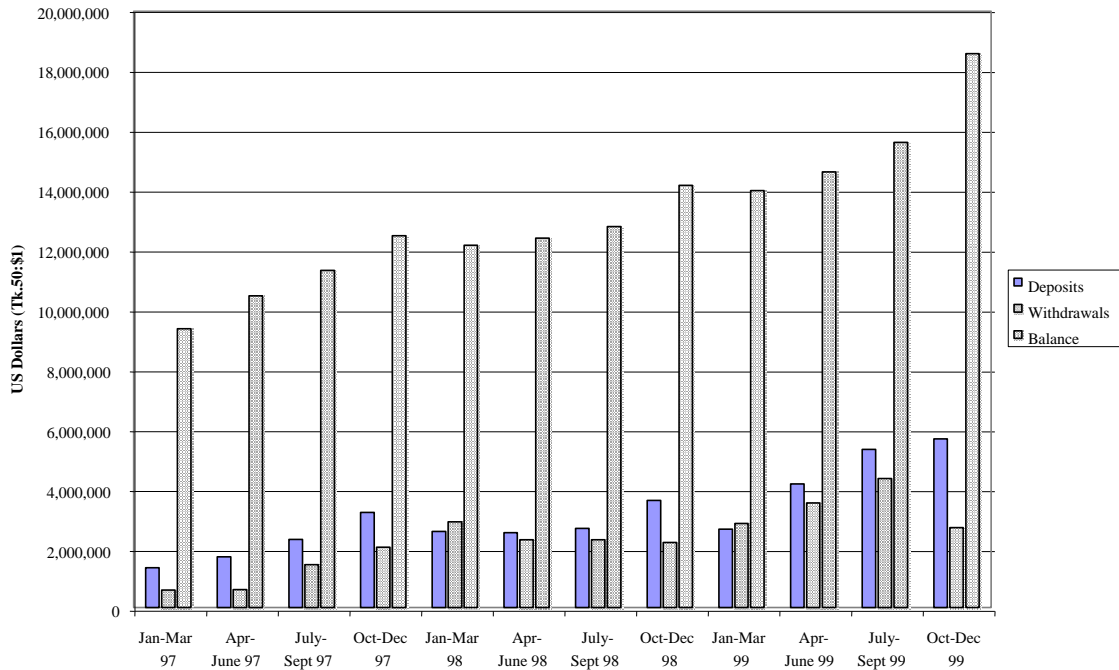
The changes to the rules governing this account did not generate greater savings balances, but they did generate a substantial increase in the number of transactions (see Table 1). Though the volume of savings deposits increased dramatically over time, so did the number of ASA members. Two years after all of the rules changes, the average savings balance per member had declined from Tk.887 (\$17.74) as of July 1997 to Tk.847 (\$16.95) as of December 1999, and the growth in total saving deposits was generated exclusively by the growth in the total number of clients – almost all of whom had joined to get loans. Furthermore, based on a small sample of transactions in 1999, around 15% of members were making withdrawals every month – suggesting that ASA staff were dealing with an additional one to one and half million transactions every year.

Table 1. General Members' Savings in \$ (Tk.50:\$1)

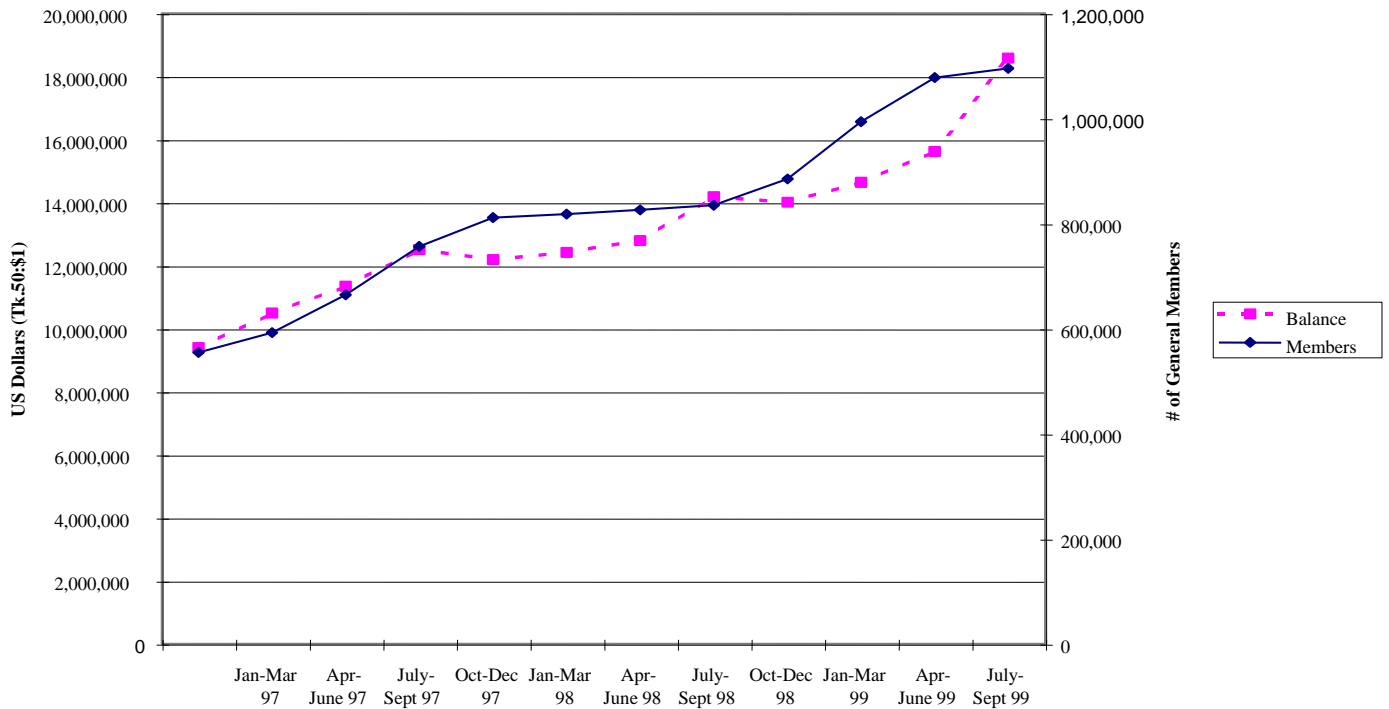
Quarter	Members ('000)	Deposits (\$'000)	Withdrawals (\$'000)	Net Balance (\$'000)	Net Balance per Member (\$)
Jan-Mar 97 (before opening access)	554	1,253	479 <sup>2</sup>	9,396	16.95
Jan-Mar 98	813	2,626	2,946	12,187	14.99
Jan-Mar 99	882	2,695	2,869	14,008	15.87
Oct-Dec 99	1,096	5,713	2,752	18,578	16.95
Increase Jun 97 - Dec 99	85.3%	221.5%	305.3%	77.1%	-4.5%

<sup>2</sup> Withdrawals as a result of clients leaving the programme

ASA General Members Savings Account Over Time



ASA General Members and their Savings over Time



#### 4.1.2 Small Enterprise Development Programme Member's Savings Account

The Small Enterprise Development Programme (SEDP) Member's Savings Account functions in the same way as the General Member's Savings Account, the only difference being that SEDP members are required to save Tk.25 (\$0.50) per week (since they receive larger loans than general members). The SEDP was introduced in 1996 and was designed to offer male entrepreneurs (usually traders in the *haats* – the weekly markets in rural Bangladesh) slightly larger loans, ranging from Tk.12,000 (\$240) to Tk.40,000 (\$800). From July 1997, SEDP members' savings (which had been hitherto locked-in until the member left ASA) were redesigned to allow withdrawal subject to the member maintaining a minimum of 10% of the principal of their current loan. SEDP members were required to continue to save Tk.25 every week. Interest was paid as for General Member's Savings Accounts.

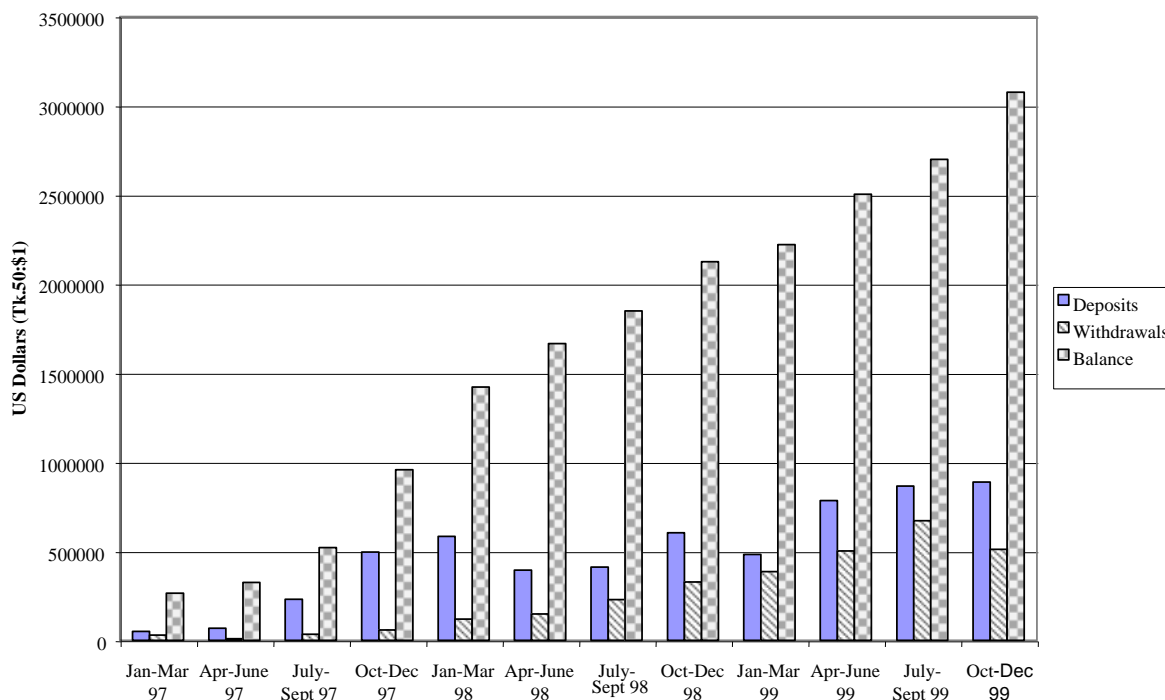
By December 31, 1999, the 82,672 SEDP Member's Savings Account balances had reached \$3.1 million and were equal to 17% of the 1,096,315 General Member's Savings Account balances. Typically a SEDP member's balance (averaging \$37.23) was more than twice that of a general member – but this reflects the SEDP members' larger loans, and the need to maintain 10% of the loan principal in their accounts. After an initial dip during late 1997, when the number of members joining the SEDP programme grew exponentially (thus depressing the average), the account balance per member has remained steady at around Tk.1,750 (\$35.00) during the last 18 months.

Therefore, as in the General Member's Savings Accounts, the policy changes did not generate an increase in the mass of net savings per member, only in the number and volume of transactions associated with these accounts. Both of these accounts are clearly driven by members desire to get increasing loan amounts. Net withdrawals from these accounts result in decreased access to credit and therefore are only taken in response to relatively severe need on the part of the ASA client.

Table 2. Small Enterprise Development Programme Members' Savings in \$ (Tk.50:\$1)

Quarter	Members ('000)	Deposits (\$'000)	Withdrawals (\$'000)	Net Balance (\$'000)	Net Balance per Member (\$)
Jan-Mar 97 (before opening access)	8.3	50.5	18.9	265	31.91
Jan-Mar 98	56.6	582.4	112.4	1,431	25.29
Jan-Mar 99	64.8	482.6	384.9	2,224	34.32
Oct-Dec 99	82.7	888.8	516.8	3,078	37.23
Increase Jun 97 - Dec 99	592%	1,190%	3,878%	859%	39%

ASA Small Enterprise Development Programme Savings Accounts



### 4.1.3 Associate Member's Savings Account

The Associate Member's Savings Account is the only truly open access, voluntary savings account offered by ASA. In August 1997, ASA added an additional 'savings-only' facility for "associate members". This account allows clients (largely drawn from existing members and their relatives) to deposit and withdraw any amount at will. Initially it was well subscribed, and discussions in the field suggested that it was being used by many general members to store "secret" savings out of the sight and grasp of their husbands. Associate members were paid 7% on their savings account (on the basis of the lowest monthly balances) and can withdraw at any time.

By the beginning of 1999, over half a million Associate Member's Savings Accounts had been opened (see Table 3 below). From a brief review of the monthly movements on these accounts, the way account holders used them seemed to be very variable. Initially, account holders seemed to focus on building up their balances, so that by the end of 1997, deposits were nearly six times larger than withdrawals and account holders had an average of Tk.144 (\$2.87) in their accounts. But 1998 saw large-scale withdrawals that nearly matched the deposits made, and the average account size had only increased to \$4.18 (an average increase of less than 3 US cents [Tk.1.3] per week). Behind these aggregated figures, clients appear to have been using the accounts in different ways – some very actively and many others almost not at all.

Given the relatively limited increase in the net balances of the Associate Member's Savings Accounts, the large number of accounts and the high cost of maintaining them<sup>3</sup>, ASA became concerned about the cost-effectiveness of offering this service. It was generating relatively little capital at a very high cost (in the first quarter of 1999, only \$1.98 million spread over 561,680 accounts – compared with \$14.01 million spread over 882,497 General Member's Savings Accounts). By the second quarter of 1999, Credit Officers were

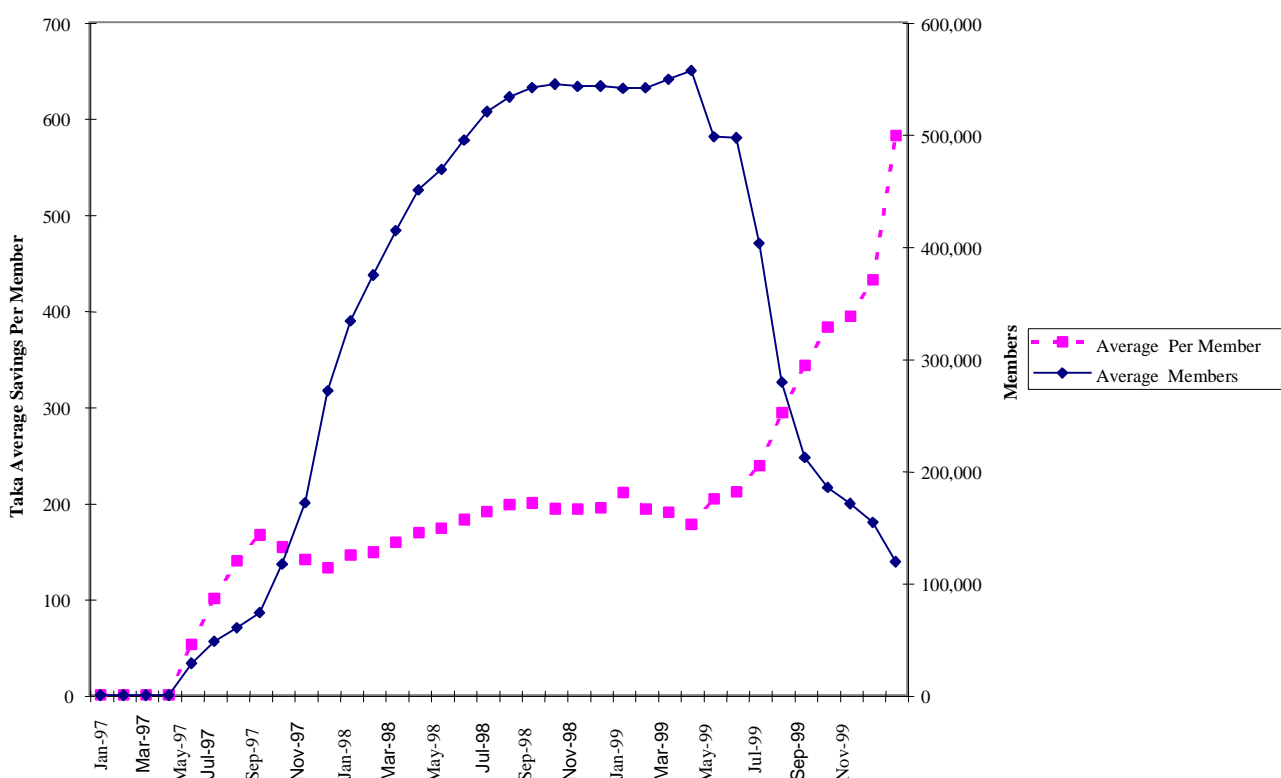
<sup>3</sup> Credit Officers estimate that offering the Associate Member's Savings Accounts added up to a half an hour to the time it took to meet each group – a total of an additional hour and half each day. This represents roughly a 50% increase in the amount of time spent with each group.

working to close the lower value Associate Member's Savings Accounts and merge them into the General Member's Savings Accounts whenever possible. By the end of 1999, only 35% of the accounts that were open as of March 31, 1999, remained so. The selective closure of these accounts meant that the higher value ones remained open, and as of December 31, 1999, the average account balance had risen to Tk.355 (\$7.10).

Table 3. Associate Members' Savings in \$ (Tk.50:\$1)

Quarter	Members ('000)	Deposits (\$'000)	Withdrawals (\$'000)	Net Balance (\$'000)	Net Balance per Member (\$)
Jul-Sept 97	116.8	409	49	359	3.08
Jan-Mar 98	455.5	1,148	600	1,521	3.34
Jan-Mar 99	561.7	1,543	1,852	1,975	3.52
Oct-Dec 99	194.6	1,153	1,187	1,382	7.10

ASA Associate Members Savings Per Member





#### 4.1.4 Long Term Savings Account

The Long Term Savings Account is a five-year contractual savings scheme for members and associate members requiring a monthly contribution of generally Tk.100 (\$2). The Long Term Savings Account was introduced in March 1998, and offered clients a monthly contractual savings account facility in denominations of Tk.100-Tk.500 for five years. After five years, the clients receive their savings with 9% interest compounded annually. There is a Tk.2 penalty for every Tk.100 if the deposit is not made by the 10<sup>th</sup> of each month, and the Long Term Savings Account is cancelled if deposits are not made for five consecutive months. Withdrawals (and thus cancellation before maturity) are discouraged, but allowed and result in loss of all interest if they occur in the first year and payment of interest of only 8% if they occur thereafter.

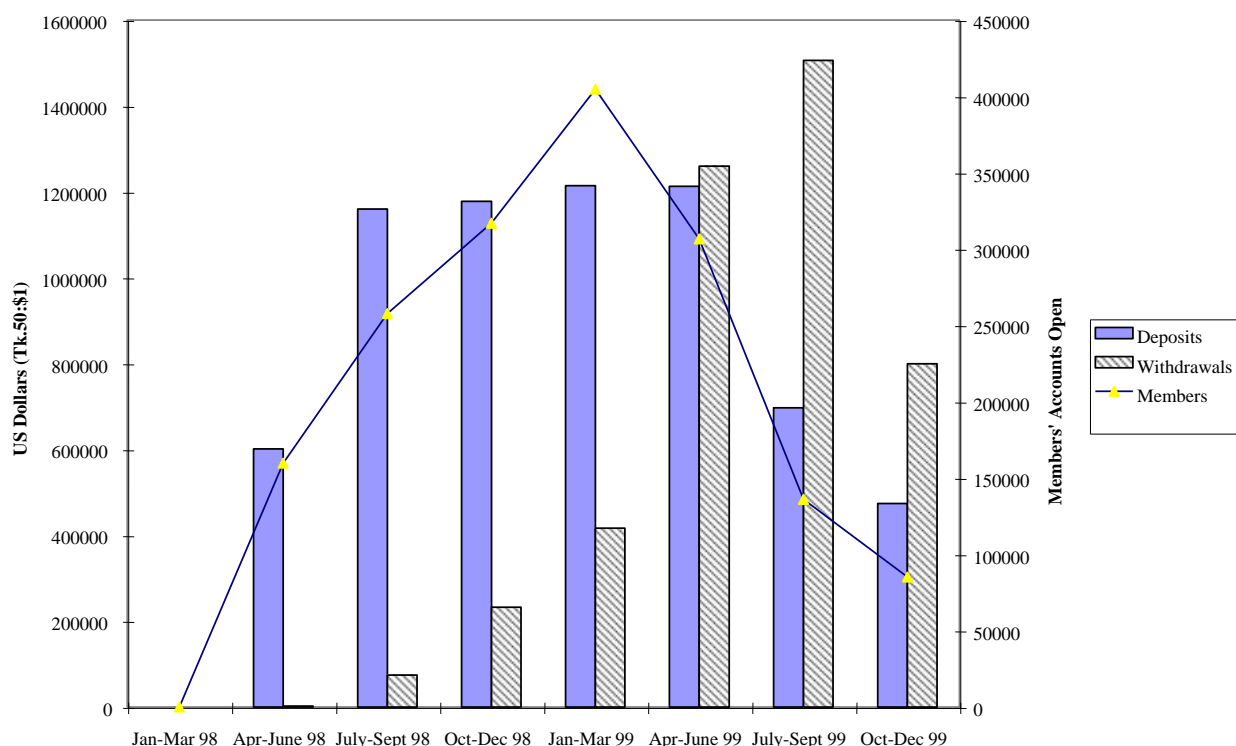
The Long Term Savings Account took off very rapidly after its introduction in the second quarter of 1998 (see Table 4). But this was a false start. Members of field staff were motivating members to open these accounts - often beyond their means. Many clients were enticed to open these accounts by being assured that they would receive bigger loans. Thus soon after this product was introduced, the uptake appeared remarkable, and by December 1998, Tk.131 million (\$2.6 million) had been mobilised through the Long Term Savings Accounts. As a result of the way they had been motivated to open accounts, unwilling account holders soon fell behind with the monthly instalments and after a while (because of the stipulation that members could miss 5 months of instalments before the account would be closed) the accounts were terminated. In the second quarter of 1999, ASA Head Office staff identified the problem that had been caused by the over enthusiasm of field staff in encouraging clients to open Long Term Savings Accounts and issued instructions to assist these unwilling clients to close their accounts. Thus, while the remaining average balance per account has increased steadily since the beginning, the total number of accounts has fallen sharply from its high of over 400,000 (Table 4).

Most members did not seem willing or able to commit to depositing the typical monthly amount (initially Tk.100, although this was later dropped to Tk.50 in recognition of this problem and to encourage poorer members to join), a commitment particularly difficult to honour in the lean seasons before harvest and in the context of on-going loan instalments. Nonetheless, there remains some demand for this product as shown by the few accounts that were still being opened at the end of 1999. The power and potential of contractual savings accounts is, however, demonstrated by the average balance of Tk.1,226 (\$24.51) in the accounts that remained open at the end of 1999 – the remaining Long Term Savings Accounts were still providing ASA with \$2.2 million (illiquid) capital for its lending operations.

Table 4. Long Term Savings Accounts in \$ (Tk.50:\$1)

Quarter	Members ('000)	Deposits (\$'000)	Withdrawals (\$'000)	Net Balance (\$'000)	Net Balance per Member (\$)
Apr-Jun 98	161.2	600	2	598	3.72
Jan-Mar 99	412.8	1,214	407	3,432	8.32
Apr-Jun 99	315.6	1,213	1,264	3,381	10.71
Oct-Dec 99	92.1	474	787	2,258	24.51

ASA Long Term Savings Account Over Time



#### 4.1.5 Term Deposit Savings Account

From October 1998, ASA also offered a Term Deposit facility for amounts of more than Tk.1,000 (in Tk.1,000 [\$20] denominations). This facility offers a return of 9% compounded annually, with withdrawals resulting in zero interest being paid for that year. The research team spent very little time analysing ASA's Term Deposit Account. Once again, many members opened these accounts to please Credit Officers; in some cases, staff even instructed clients to open Term Deposits by deducting the required Tk.1,000 (\$20) investment from loans disbursed. This product was used on a voluntary basis by very few members, and was quickly all-but closed down (\$83,680 remains on deposit with ASA) once Head Office understood the circumstances under which members had opened Term Deposit accounts. Md. Shafiqul Haque Choudhury believes that no poor person will want to open a term deposit account, a belief that is substantiated by the very limited voluntary uptake of these facilities where they have been offered by MFIs in Bangladesh<sup>4</sup>.

#### 4.1.6 The Big Picture: Total Savings Generated

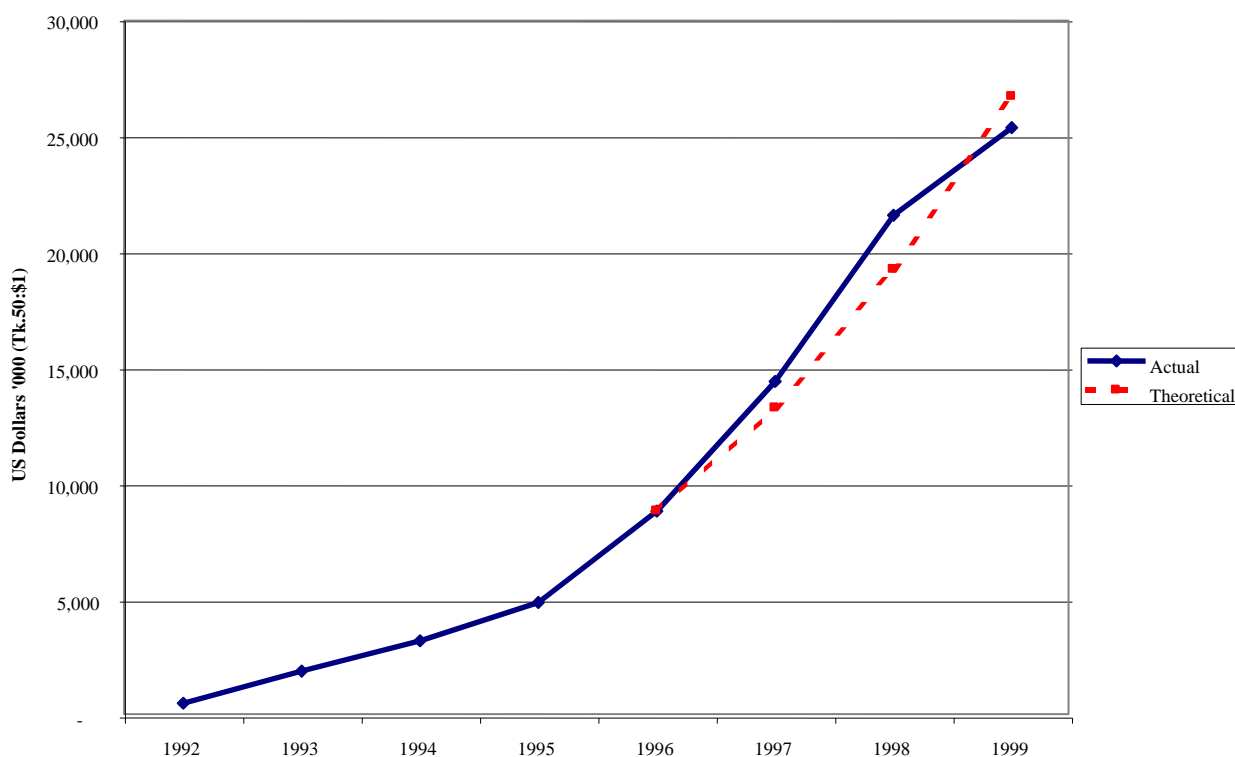
ASA's dilemma can be seen by comparing the actual amounts generated by the new savings accounts (not including the Term Deposit Savings Account) with what would have happened if the old, fully locked-in system that required weekly contribution of (minimum) Tk.10 (for general members) and Tk.25 (for SEDP members) had been maintained. Table 5 presents an analysis that assumes that withdrawals under the old compulsory system would have grown at the same rate as the number of members, and examines the results.

<sup>4</sup> The MFIs BURO, Tangail and Society for Social Service have been offering these facilities for several years with almost no uptake by members.

Table 5. Total Savings Per Member in \$ (Tk.50:\$1) - Excluding Fixed Deposit Scheme

Comparison Between Actual and a Theoretical (if ASA had maintained compulsory savings at Tk.10/25)										
	Actual	Theoretical	Actual	Theoretical	Actual	Theoretical	Actual	Theoretical	Actual as % of Theoretical	
Quarter	Deposits \$'000		Withdrawals \$'000		Balance \$'000		Average Balance Per Account \$		Balance	Per Account
Jan-Mar 97	1,304	1,304	498	498	9,661	9,661	17.17	17.17	100%	100%
Jan-Mar 98	4,257	2,482	3,658	1,009	15,139	14,746	11.43	15.51	103%	74%
Jan-Mar 99	5,935	2,715	5,513	1,100	21,640	29,879	11.26	20.55	104%	55%
Oct-Dec 99	8,228	3,388	5,244	1,369	25,296	26,717	17.26	21.17	95%	82%

ASA Actual v. Theoretical Total Savings Mobilised

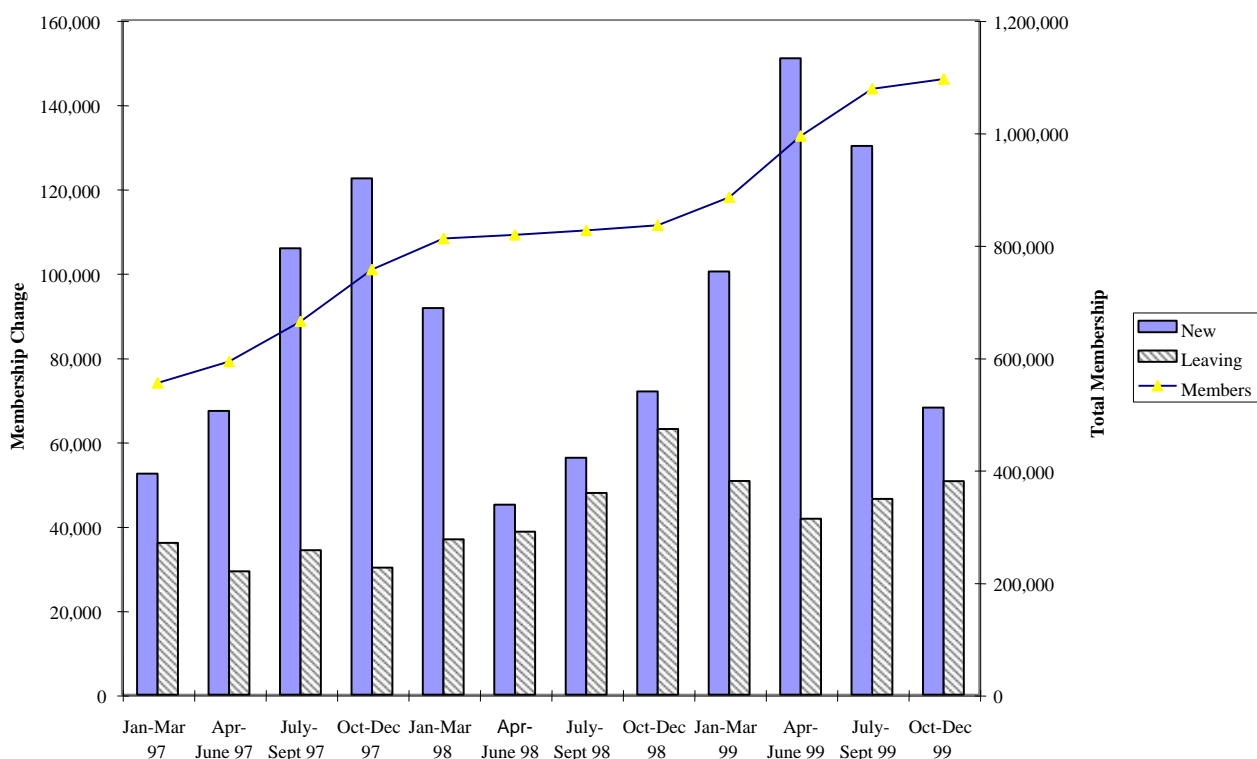


After just six months, the open access system had generated \$0.4 million less than would have been available under the compulsory, locked-in system. Furthermore, much of the balance was highly liquid in nature and subject to immediate withdrawal, thus necessitating ASA maintaining substantial reserves.

#### 4.1.7 The Big Picture: Membership

One of the reasons for introducing voluntary, open access savings services was to reduce the rate of dropout from ASA's programme. Managing dropouts and recruiting new members to replace them is a time-consuming process, and ASA had hoped to save resources by reducing dropouts through introducing client-responsive savings services. In the quarter April-June 1997, just over 3% of ASA general members left the programme; in the quarter April-June 1999, the rate rose to just over 3.5%. This pattern is broadly reflected throughout the period. Overall, in 1997 21% of general members left ASA, in 1998 this figure rose to 23% but it dipped again to 19% in 1999. Thus the new services did not appear to have any clear impact on the rate at which ASA members withdrew from the programme.

ASA General Members Over Time



## 5 Changes to the Systems

Historically, ASA's strength has been based in its simple, effective procedures. ASA's internal and management control systems have allowed it to disburse and recover well over one hundred million dollars in loans, and expand at an exponential rate to serve 1.5 million clients through 800 Units, all within the space of the last nine years. These systems are perfectly honed for ASA's primary business, microcredit. It would have required significant change to introduce open access voluntary savings services designed to mobilise deposits on a massive scale. However, in view of the efficiency and decentralised nature of their systems, ASA made relatively small changes to them, modifying only the passbooks and registers and adding some additional internal audit functions.

### 5.1 Internal Control/Management Information Systems

As a microcredit organisation, ASA's systems of control were built around the simplicity, regularity and the predictability of the amounts of money that were due to be collected by the Credit Officer each day. With the introduction of open access savings services, this form of control was essentially lost. ASA resorted to strengthening its internal audit systems, both in terms of the number of auditors and in terms of redefining the roles of Unit and Regional Managers to place more emphasis on checking transactions at the field level. In mid 2000, ASA further strengthened the system by increasing the number of Regional Managers from 96 to 150, so that the number of Units for which they were responsible decreased from 8-10 to around 5. This, it was hoped would allow them to check still more of the transactions.

Since the introduction of savings services, ASA has modified its bookkeeping systems regularly- reflecting the organisation's constant quest for more efficient, well-controlled operations. The current (2000) system has the Credit Officers taking the Registers (essentially personal ledgers organised by group) into the field.

## 5.2 Staff Working Routines

Staff working routines have changed and continue to change as a function of introducing the savings services. Before 1997, every group member gave Tk.10 as compulsory savings plus their loan instalment – it was very easy to monitor. Unit Managers knew exactly how much money should come back to the office with the Credit Officer, and would follow-up if there was a shortfall.

Since 1997, with the introduction of savings services, cash flows are no longer predictable. Since Managers do not know how much will/should come back to the office with the Credit Officers, they have to make regular visits to the field to check passbooks to the registers. Thus Unit Managers are now required to:

- Visit 2 groups every day (checking the passbooks with the register);
- Visit houses of 2/3 members per group to discuss what the members think they have deposited and withdrawn and to ensure that this is correctly reflected in the passbook; and
- Check every passbook every 3 months.

Nowadays, with the introduction of associate members and all the additional entries in the general members' registers, there are many more registers and entries to check. In addition, the Unit Managers have to handle the cash withdrawn at the Unit. Once again, they do not know how much members are going to want to withdraw. Members are requested to come for savings withdrawals or indeed deposits (similar to loan disbursements) between 1-3pm, so that the Unit can deposit the excess at the bank or withdraw any additional funds required.

After the introduction of savings services, the “social services” (primarily “motivation/education” of groups) was dropped as part of the Credit Officers' responsibilities and the Unit Manager stopped visiting members to ensure “proper” loan use (i.e. the income generation activities members were undertaking). In this way, ASA has introduced savings services without greatly extending the working hours of the Credit Officers. New savings programmes often require some additional work on the part of the Credit Officer during the initial set-up period. In ASA's case, this was generally found to last only a couple of weeks. However, independent of the savings programmes, Credit Officers have found their working hours extended in the pursuit of outstanding loan instalments. This has become an increasing difficulty in the (highly competitive) areas that the *MicroSave*/CGAP research team visited (and is discussed further below).

## 5.3 Liquidity Management Systems

As part of the changes to introduce savings services, ASA totally revised its systems and forms for liquidity management. From 1997, Credit Officers have been required to plan for each of their groups only through the next 6 months. The Regional Manager then compiles these plans into the “Unit Plan”, which is reviewed and then revised/authorised before being sent to the Head Office. At the Head Office, the Regional plans are compiled and analysed to determine if ASA will have enough money to meet the plans. They are then authorised or else the Head Office makes recommendations to Regions to reduce their plans. Once finalised, this six-month plan then becomes the basis for comparison with actual monthly “Unit Fund Management Report/Plans”.

At the end of each month, Credit Officers must consider the following in order to develop the Unit Fund Management Report/Plan:

- New members waiting for loans;
- Members who have completed/will be completing loans and want a follow-on loan;
- Members who will drop-out/withdraw;
- The six-month plan submitted to the Head Office.

The Unit then completes a Unit Monthly Fund Management Plan and the Unit Manager takes this to his monthly co-ordination meetings with the Regional Manager and the other Unit Managers of the Region. If the Region can manage the excess/shortfalls of cash by transferring cash between Units, they are

empowered to do so. If they need additional funds, they submit a request to Head Office, and if they are likely to have excess cash for more than 2-3 months, they remit this to the Head Office. Unit Monthly Fund Management Plans are then compiled into a Regional Plan and sent to Head Office. The Revolving Loan Fund section in the Head Office is responsible for analysing the 96 (soon to be 150) Regional reports and comparing these to the 6-month plan. Generally, 10% variations are authorised; but Regional Managers are requested to explain those greater than 10%.

Initially, ASA was severely tested by the challenges of liquidity management, as the open access services hindered the predictability of the cash flows. Before 1997, each Unit sent a one-year credit operation plan (through Regional Manager) to Head Office. It was easily prepared, essentially on the basis of policy/guidelines set by Head Office. These cash flow projections were usually 95% accurate since loan disbursement and repayments/savings requirements easy to predict – the only deviations (and thus problems to estimate) were dropouts and small-scale delinquency.

Introducing open access savings accounts inevitably resulted in increased volatility of funds and has had important implications for the MFI's liquidity management. ASA had planned for the initial high level of withdrawals that inevitably follow opening up of locked-in savings, and, unwittingly, the staff helped them manage this. Possibly in fear of facing massive withdrawals, ASA staff in the field seem to have been sceptical and worried about the effects of opening up access to the General Member's Savings Accounts. The staff let the members know of this important policy change with varying degrees of commitment and clarity. As a result, many members did not understand that the rules governing the account had been changed and that they could withdraw the (often relatively large – an ASA member of 5 years standing would typically have Tk.2,300 [\$46] in their account) amounts hitherto locked-in. The result of the staff's action was a staggering of the initial mass withdrawals that normally accompanies the opening of locked-in savings accounts and in this respect the staff probably served ASA and its liquidity management well.

After this initial period, ASA was, however, surprised by the seasonal withdrawals associated with the coincidence of two Eid festivals and the *boro*<sup>5</sup> cultivation season at the beginning of 1998. In the first quarter of 1998, ASA was suddenly faced with a liquidity crisis that threatened its ability to meet demand for loans and savings withdrawals in that period. In a manner that is typical of ASA's speed and efficiency, ASA addressed this crisis by:

- Slowing the disbursement of loans (by a few weeks here and there);
- Reducing the level of loans (for example Tk.5,000 not Tk.6,000 as requested);
- Borrowing from PKSF;
- Borrowing from Agrani bank (at commercial rate of interest);
- Temporarily liquidating its Staff Provident Fund Fixed Deposit Receipts; and
- Making agreements with suppliers to lend ASA money should the situation necessitate it.

With these measures, ASA was able to ride out the crisis, and has amended its liquidity planning and procedures to ensure that the crisis is not repeated. The experiences in the following years have demonstrated that ASA has significantly improved its liquidity management systems.

---

<sup>5</sup> The chief high-yielding variety rice, which requires high levels of relatively expensive inputs (fertiliser, pesticides, weeding etc.) to realise its potential.

## 6 Key Issues for the MicroFinance Industry

### 6.1 Overview

There are several important issues for the microfinance industry arising from ASA's experience. These are broadly as follows:

- flexible/voluntary savings schemes will not necessarily generate more capital for on-lending than compulsory savings schemes; and
- flexible/voluntary savings schemes can be (but are not always) relatively inexpensive sources of capital. These are considered in detail below.

### 6.2 Issue 1: Flexible/voluntary savings schemes will not necessarily generate more capital for on-lending than compulsory savings schemes

Although there is a constant inflow of money from loans being repaid, the constant expansion of membership and the increases in loan sizes with each cycle in ASA (and many Bangladeshi MFIs) means that they are almost always in need of additional capital to meet the demands of their clients. It is this reality that has allowed donors, and particularly PKSF, to place such large amounts of money in the market.

The 119,115 general/SEDP members who joined in the last quarter of 1997 were due for their first loan (typically Tk.3,000 (\$60) and Tk.12,000 (\$240) respectively) in the first quarter of 1998, and resulted in an additional demand for capital (\$11.6 million). Furthermore, each existing general member that completes a loan cycle is generally looking for a new loan of Tk.1,000-2,000 (\$20-40) more than their previous one, and this process would have added an additional demand for capital of \$3.3 million in the first quarter of 1998<sup>6</sup>. Thus, the total demand for capital generated by loans alone in the first quarter of 1998 was nearly \$15.0 million.

Thus the need for increasing capital in an expanding ASA is clear. The question is whether providing savings services were the optimal source of this capital. During the period when members were using (willingly or otherwise) the wide variety of ASA savings products, the capital generated was marginally (at its height 10%) above what would have been generated under the old compulsory, locked-in system (see Appendices 5e, f and g.). However, before ASA moved to close out most Long Term Savings Accounts and Associate Member's Savings Accounts, the average balance in each account was as low as half of the balance that would have been held in the (far fewer) compulsory, locked-in accounts had the old system been continued.

In 1998, actual deposits were more than twice, and in 1999 nearly three times, the level that would have been generated under the compulsory, locked-in system. However, withdrawals showed an even greater increase. In 1998, actual withdrawals were nearly four times, and in 1999, over five times<sup>7</sup>, the level that would have been expected under the compulsory, locked-in system, under which only clients leaving ASA could take their savings.

By the end of 1999, after the close out of most of the Associate Member's and Long Term Savings Accounts, the increases in both deposits and withdrawals had meant that the actual net savings balance was only 95% of what it would have theoretically have been under the compulsory, locked-in system. Clearly mass savings mobilisation was not taking place. Reasons for this are discussed below. Essentially, ASA had provided an improved client service at the cost of a substantially increased number of accounts and

<sup>6</sup> Assuming that one quarter of the 554,121 active loanees in ASA as of March 31, 1997 completed their loan cycle in the first quarter of 1998, and 80% remained with ASA to take an average of Tk.1,500 in additional loans.

<sup>7</sup> This is inflated by the process of closing out most of the Associate Member's Savings Accounts and Long Term Savings Accounts.

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.

In recognition of the factors outlined above, the new “composite” savings product was designed and introduced as a replacement for the General Member’s and SEDP Member’s Savings Accounts as of November 1999. This “composite” product locked-in 10% of the loan principal as of November 1999, plus a compulsory saving of Tk.10 (\$0.20) per week. Any additional money saved on top of the Tk.10 compulsory amount was fully liquid and subject to withdrawal on demand – and most ASA members have been motivated to save at least Tk.15 (\$0.30), typically Tk.20 (\$0.40), per week as a norm. Thus ASA attempted to create an account that met both clients’ needs for an illiquid contractual savings account and a liquid account that allowed them to respond to emergencies. At the same time, these accounts 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 for general and SEDP members to have 15% of the principle of their current loan in their compulsory savings accounts (for the 2<sup>nd</sup> and subsequent loan cycles) and had thus essentially returned to its original policies. This left only a few Associate Member’s and Long Term Savings Accounts operational and the General Member’s and SEDP Member’s Savings Accounts returned to their compulsory, locked-in status.

### **6.3 Issue 2: Flexible/voluntary savings schemes can be (but are not always) relatively inexpensive sources of capital**

ASA’s new savings services essentially resulted in improved client services and a marked increase in the number of accounts and transactions. The following analysis of the financial implications of providing these services focuses on the full and marginal costs of providing the full range of savings services (i.e. all five accounts<sup>8</sup>). This makes the analysis somewhat limited since the cost analysis includes costs associated with the compulsory, locked-in elements of the General Member’s and SEDP Member’s Savings Accounts despite the fact that these are an integral part of ASA’s lending methodology.

The team was not able to disaggregate the marginal costs of the purely voluntary savings since a substantial proportion (of the General Member’s Savings Account and the SEDP Member’s Savings Account) is so closely integrated with the compulsory savings systems. The team was unable to get detailed transactions data for the Associate Member’s Savings Account and Long Term Savings Accounts, and furthermore, there was never a steady state period in which to view these accounts since they were opened with extraordinary speed and then discontinued just as quickly.

Nonetheless, despite these limitations, the analysis provides important insights into the cost structure and sustainability of ASA’s savings services as a whole.

#### **6.3.1 The Direct Financial Cost of Deposit Mobilisation:**

ASA utilises four primary sources of funds:

- deposits from clients through a number of different products;
- borrowing from PKSf’s apex facility at a subsidised rate of interest;
- borrowing from its employees’ fund; and
- using its own profits and equity funds.

---

<sup>8</sup> The open access General, SEDP, Associate Member’s Savings Accounts, and the Long Term and Term Deposit Savings Accounts.



Table 6 shows that interest expense paid on the average value of savings compares favourably to other sources of funds. Although the nominal rate paid on deposits is far higher (at between 6 and 8%), the actual expense incurred by ASA is slightly over 4% due to the rules governing the payment of this interest to clients, which stipulate that interest is paid on the lowest monthly balances.

Overall, ASA had an average weighted cost of funds of about 6.5% for 1999. Currently, ASA funds about one third of its loan portfolio through its savings products. Virtually all of this comes from the compulsory savings product that is tied to borrower's accounts.

Table 6: Financial Costs as Percent of Average Value of Each Major Liability

<b>Financial Cost</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Interest expense on savings	6.6%	5.0%	4.3%
Interest on soft loans (PKSF)	3.5%	4.4%	4.0%
Transfer price borrowing against own liabilities (employees' fund)	9.8%	13.3%	16.0%
Maintenance of value of equity	7.5%	10.9%	11.4%

### 6.3.2 Administrative Costs of Mobilising Savings

In an effort to evaluate the services associated with mobilising deposits from small savers, ASA administrative costs were calculated. As part of the study ASA undertook a data gathering exercise to identify these costs at 30 Units. Unit Managers accompanied Credit Officers into the field and determined the time they spent recording different types of transactions for three groups during one day's work. Subsequently they recorded the time spent in the office registering that day's transactions. Finally, they analysed the time spent consolidating transaction information on a weekly and monthly basis for reporting to headquarters. Given the extremely efficient and standardised nature of ASA's working environment, these results are representative of the typical situation throughout the organisation.

ASA's field based administrative costs can be divided equally among three major tasks: initial collections at three groups each morning, recording transactions back at the Unit in the afternoon, and following up on difficult loanees during the late afternoon. Evening collections were not included in the calculations. These late calculations are thought to be the result of the increasingly competitive environment throughout Bangladesh. Although Credit Officers are spending an increasing amount of overtime collecting loans from difficult borrowers in the evening, it is believed (hoped) that this situation will not persist. If it were to persist, then it would change the cost structure since ASA would probably either have to increase salaries or take on additional staff.

In April/May 2000, during the morning cash collection the time is spent in the following manner:

Average transportation time	13 minutes
Average introductory time	12 minutes
Average transactions time	<u>38</u> minutes
Total time per group	63 minutes

#### 1) Administrative costs associated with morning cash collection:

Of the total time spent on transactions, 56% goes to recording those related to the deposit services. Therefore, the full cost of the savings "cash collection" activity is equal to 56% of the average total time, 63 minutes, spent with each group, or 35.3 minutes. Since the Credit Officer has to travel to the group and go through the introductions for loan services, the marginal cost of this savings "cash collection" would be only 56% of the 38 minutes, or 21.2 minutes per group. This marginal cost is equal to 34% of the total time per group.

2) *Administrative costs associated with savings record keeping at the Unit office in the afternoon:*

Not including the limited administrative duties performed by staff, approximately 60% of the recording time is devoted to the deposit transactions and 40% to loans. In this case, both the marginal and the full cost of recording the deposit transactions would therefore be 60% of staff salaries. Not much else goes on at the Unit other than the recording of transactions and the co-ordination of the collection activities.

Table 7 summarises the full and marginal cost of the field staff time allocation in response to the savings mobilisation strategy.

Table 7. Full and Marginal Costs of Savings Services Based on Time Committed by Field Staff

Costing Services	In the Field (per minute)		In the Office	% of Total
		per 3 Groups		
Transport	13	39		7%
Introductions	12	36		7%
Loan Transactions	17	50	65	21%
Savings Transactions	21	64	97	30%
Loan Recovery/Follow-up		189		35%
Total Minutes	63	378	162	100%
Total Hours	1.05	6.3	2.7	
<b>Proportion of Time Assigned to Savings</b>				
Full Cost Basis - including proportion of transport/introductions $[(39+36)/2+64+97]/(378+162)$				36.7%
Marginal Cost Basis - excluding transport/introductions that must occur to collect loans				30.0%

In addition, ASA incurs other administrative expenses related to the savings services. Again, because the operating structure of ASA is so decentralised and efficient, 36.7% of the other administrative expenses are assigned to the full cost calculation for savings services. For the purpose of estimating the marginal cost of the savings services, 10% of other administrative expenses are assigned to reflect the fact that the transaction burden of the deposits must imply some increased overhead in the head and regional offices (through reporting/liquidity management and auditing systems). The study team were not able to establish a more precise value for this calculation. Thus, the total staff and administrative cost of savings mobilisation would be the following:

Table 8: Full and Marginal Staff and Other Administrative Costs of Savings Mobilisation

	Full staff cost of savings	Marginal staff cost of savings
Proportion of staff costs associated with savings	36.7%	30.0%
Total annual staff costs associated with savings (1999 figures)	\$1,675,027	\$1,369,232
Proportion of administration costs associated with savings	36.7%	10.0%
Total annual administration costs associated with savings (1999 figures)	\$353,736	\$96,386
Total Costs for 1999	\$2,028,763	\$1,465,618

In 1999, the full cost of savings mobilisation for ASA therefore amounted to 8.6% of average deposits and 2.6% of average total assets. Adding this cost to the financial costs of deposits (4.3%) indicates that providing the savings services cost ASA 12.9% of the funds it mobilises. However, since ASA must

undertake the loan collection activities any way, it is essential that cost of capital comparisons be based on the marginal cost of savings mobilisation. The marginal cost of savings mobilisation is slightly lower, representing 6.2% of average 1999 deposits and 2.0% of average 1999 total assets. Adding this cost to the financial cost of deposits (4.3%) indicates that providing the savings services costs ASA 10.5% of the funds it mobilises. This makes savings as a source of capital appear as 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. ASA had (and is likely to continue to have) access to subsidised credit from PKSF – at 5% or roughly a half of the marginal cost of mobilising the capital through savings services. On this basis, all other things being equal, an economically rational organisation would simply seek funds from PKSF<sup>9</sup>.

Thus ASA was faced with a problem, particularly in the light of the growing competition in the microfinance industry in Bangladesh. There was (and indeed still is) a clear need to optimise the quality of client service if ASA is to retain its clients and not lose them to other MFIs offering better services that are, in some cases less strict on loan repayment. But offering such services requires substantial systems and staff changes, and is certainly considerably more expensive than ASA's traditional method of delivering and collecting loans.

## 7 Discussion

This discussion section takes the ASA experience and seeks to extract lessons for the microfinance industry as a whole. The first five sub-sections (7.1-7.5) discuss issues internal to ASA and other MFIs, whereas subsection 7.6 explores a key external issue driven by the environment within which ASA and other MFIs in Bangladesh are operating.

### 7.1 *Metamorphosis to Financial Intermediation (Just To Remind Ourselves ...)*

Making the change from a credit-focused organisation to a true financial intermediary that provides voluntary, open access savings services is a process whose degree of difficulty is generally underestimated by the microfinance industry. This is probably due to the fact that microcredit organisations are forever making small changes to their systems, procedures and practices, and there is a tendency to mistake the introduction of voluntary, open access savings services as simply another of one these changes.

#### 7.1.1 New Systems

Introducing the type of savings services that ASA offered necessitated significant changes to their systems including bookkeeping, internal control, management information, liquidity management, personnel, audit and monitoring, Head Office computers, etc. Introducing full-fledged voluntary savings services would have required radical changes in all these systems as well as intensive and extensive staff training. But, in addition, it necessitated a fundamental change in ASA's institutional culture to reflect the change in the nature of the risk, responsibility, and locus of imperfect information.

#### 7.1.2 New Markets

Microcredit organisations seeking to start mass savings mobilisation also need to overcome the information and knowledge gap within their own organisation prior to doing so. Simply because ASA is an outstanding

---

<sup>9</sup> Nonetheless, ASA remains committed to maintaining its independence from PKSF, which appears to want to develop small and medium sized MFIs in Bangladesh and is considered likely to lend an increasing proportion of its capital to these in preference to the large MFIs like ASA, BRAC and Proshika. Furthermore, PKSF has clear ideas on its preferred operational guidelines and norms as well as extensive and rigid reporting requirements to enforce its will. ASA's size has allowed it to negotiate on these issues with PKSF, and it does not want to compromise this ability to negotiate by becoming too dependent on PKSF funds. Finally, it seems likely that PKSF will raise its interest rates (for the larger MFIs like ASA) to 7% pa.

loan service provider did not inherently make it ready to mobilise voluntary, open access savings. The savings and loan markets are very different in nature. ASA (in common with all the Bangladeshi MFIs) lends to specific demographic groups: the poor (but not poorest) and the vulnerable not-so-poor that represent reasonably good credit risks for microcredit institutions. This section of the population is now extremely well served, possibly over-served, by a plethora of competing microfinance organisations that offer loans in return for compulsory saving commitments. The nature of most Bangladeshi MFI loan products is to increase the loan size with every cycle thus making more and more demands on clients' household weekly (cash) income. In Stuart Rutherford's terms, these households are "saving down" as they pay-off their (increasingly multiple) loans in weekly instalments (Rutherford, 2000). It is reasonable to suggest that many of these households have very limited additional capacity to "save up" at the same time.

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 micro-loan products<sup>10</sup>. Most microcredit organisations have very limited knowledge of the clients outside their "target group" and 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". It is important to understand local financial environment such as the fact that in many Bangladeshi villages, remittances from relatives working abroad are likely to be the most important source of cash income and thus potential savings.

### **7.1.3 Pilot-Testing and Roll-out**

Once the market research has been completed, the MFI needs to cost and price the proposed product, and then conduct an extensive pilot-test. A carefully controlled pilot-test is essential for assessing the adequacy of the revised systems, staff training, marketing efforts, and the client response to the new product. A well-conducted pilot-test will provide important information on the new product and on the issues that need to be addressed before rolling it out to be delivered throughout the organisation's network so as to avoid costly and other unwanted surprises. These fundamental steps are essential but not simple<sup>11</sup>. This type of time-consuming work is also unnatural for ASA, which prides itself on rapid institutional change and transformation.

## **7.2 The Right Systems for the Job ...**

### **7.2.1 The Strength and Shape of ASA's Systems**

ASA's commitment to cost effective lending with minimal loan recovery problems and to achieving financial sustainability through such efficiency has meant that ASA has focused on two key organisational norms:

- 1) simple, effective and rigid procedures that allow cost-effective de-centralisation of decision-making, and
- 2) an institutionalised obsession with on-time repayment that yields very impressive results.

These two fundamental commitments have been the key to ASA's strength and success, but it is the maintenance of these norms that were also ASA's inherent disadvantage or weakness when it came to offering open access savings services. Open access savings services necessitate highly flexible systems capable of dealing with numerous, diverse transactions, and are thus not amenable to the rigid, minimalist and increasingly field-based systems run by ASA. 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.

---

<sup>10</sup> Bank Rakyat Indonesia has 14 savers for every borrower.

<sup>11</sup> See *MicroSave*'s toolkits on these.

Furthermore, as a microcredit organisation introduces open access savings services designed to mobilise savings on a massive scale, it needs to transform the institutional culture in the way client service is approached. ASA and its staff are focused on disciplined and prompt loan recovery. Md. Shafiqul Haque Choudhury has noted with some concern the more relaxed approach of some of his field staff towards loan recovery and their tendency to use clients' savings to "balance-off" loans. Introducing savings services through separate staff to meet these systems of control and client service challenges would have significantly raised ASA's operating costs. Until such time as ASA has the mandate and will to mobilise savings on a massive scale, this approach would simply not be cost effective<sup>12</sup>.

### 7.2.2 A Brief Comparison with the Bank Rakyat Indonesia Experience

Bank Rakyat Indonesia (BRI) has achieved international acclaim for its success in mass mobilisation of deposits, and thus comparisons between the ASA and the BRI experience are inevitable. These comparisons should be made with great caution since the institutional objectives were markedly different. BRI set about mass mobilisation of deposits with three important advantages:

- 1) the infrastructure (teller windows, safes, two cashiers, a treasurer etc.) in an extensive branch network and a clear comparative advantage to offer savings services<sup>13</sup>,
- 2) the commitment of large-scale resources and extensive international technical assistance to the effort of developing mass savings mobilisation, and
- 3) the mandate and deposit guarantee of the Indonesian Government.

These proved to be important ingredients for the BRI success story (see Robinson, forthcoming).

ASA was introducing savings services in a very different context. The services were secondary to its primary objective of maintaining the quality of its loan portfolio and its stream-lined, simplified systems. Given the secondary importance of savings services, ASA did not want to compromise its profitability by committing large-scale resources to their development and no technical assistance was sought. Finally, ASA did not have the mandate or Government deposit guarantee to mobilise savings on a massive scale. The mandate issue remains today as the microfinance industry in Bangladesh grapples with the thorny problem of trying to develop a workable framework for the regulation and supervision of its extensive activities. It is difficult to assess the impact of the absence of Government deposit guarantee, particularly since ASA had the good sense not to over-extend itself and to mobilise deposits from the public at large. Nonetheless, it is reasonable to suggest that better-off villagers<sup>14</sup> in ASA's working areas may well have chosen to deposit their savings in the Post Office, or the state-owned Sonali, Janata, Kishi or Agrani banks, which still maintain a relatively high level of outreach into the countryside.

### 7.3 ASA's Culture and Norms

In a typical Bangladeshi MFI, clients take loans (usually based on some predefined progressive lending schedule) and repay in equal and regular instalments designed to amortise the loan within a specified period of time. This approach to the provision of loans makes concepts such as "voluntary" and "flexibility" difficult for Credit Officers to deal with, even from a conceptual perspective. The ASA credit methodology is based on standardisation and predictability at every level possible. Loan size increment over membership length is well-defined - Tk.2,000 (\$40) for good clients and Tk.1,000 (\$20) for ordinary clients. In order to

<sup>12</sup> And, of course, in the context of the large amounts of soft loan money washing into Bangladesh, mass savings mobilisation is unlikely to be a cost effective or economically rational approach for any MFI.

<sup>13</sup> A brief comparison of the staffing a typical ASA Unit with that of a typical BRI *Unit Desa* illustrates the profound differences in the way that two organisations are structured. An ASA Unit typically comprises one Unit Manager, four Credit Officers and one cook/cleaner/messenger, whereas a BRI *Unit Desa* comprises one Manager, two Tellers, a Treasurer, one Administrative Assistant, two Credit Officers and one Security Guard. In order to provide both savings and loan services, BRI is structured in a fundamentally different way from ASA.

<sup>14</sup> Given the level of indebtedness of the MFIs' target group, any large scale savings mobilisation would seem to depend on those clients who are financially better off.

remain members of ASA, clients are encouraged (essentially required<sup>15</sup>) to take a repeat loan almost immediately after repaying their previous loan. Loan sizes are in denominations of Tk.1,000 (\$20) and prepayments are limited to a maximum of the last three instalments.

These rules have made ASA a super efficient institution. It is also easy to appreciate the difficulties field level staff encounter when faced with client driven flexibility not governed by any of the regularities and certainties that they are used to. This is reflected in the ways the new saving products, like the Long Term Savings Account, were introduced and also in the way in which the new composite savings product (part compulsory, part voluntary) ended up being so uniform at Tk.15 or Tk.20 per member per week. In Tangail, where the team conducted their fieldwork, interviews with clients consistently revealed how the field staff are unwilling to accept deposits into the composite savings account of less than Tk.20 (Tk.10 as compulsory and Tk.10 as voluntary – even though, in principle, the latter can be any amount). Though most clients do understand that they have open withdrawal rights over the voluntary part of the savings in the composite account, the amounts they deposit in this part of the account is perceived to be governed by institution-defined norms (“*nioms*”) rather than being truly voluntary. ASA figures suggest that the Tk.20 (\$0.40) per member per week norm was established in early 1999 and the circulars bear this out.

## **7.4 The Bottom-Line Issues**

### **7.4.1 Cannibalisation of Products**

Moving between or trying to combine compulsory and 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). Indeed, there are clear suggestions that ASA faced this problem (see sub-section 4.1.6 above). By the end of 1998, ASA had attracted \$21.2 million savings<sup>16</sup>, against the \$19.3 million that would have been expected under the compulsory, locked-in system. However, the actual savings of \$21.2 million were spread across many accounts resulting in an average balance per account of Tk.604 (\$12.09), as opposed to the average account balance of Tk.1,003 (\$20.06) that would have been expected under the compulsory, locked-in system.

#### *7.4.1.1 Associate Member's Savings Account*

Given that members are generally from the same families and are often the very same members opening additional savings-only accounts, there was a legitimate concern amongst ASA staff that the Associate Member's Savings Accounts were simply cannibalising the General Member's Savings Accounts. This may be true, but it was also clear that they were being used by ASA's female members as a way of storing savings outside the reach and knowledge of their husbands. As such, these accounts played an important development role and once again ASA was faced with a dilemma. ASA could maintain these low-volume, high-cost accounts in the interests of the clients or encourage their merger with the General Member's Savings Accounts in the interests of the institution's financial sustainability.

This dilemma might have been substantially resolved had ASA had the legal mandate and the economic imperative to mobilise savings on a massive scale in order to fund its loan portfolio. In the absence of either, and with the presence of cheap capital from PKSF, ASA understandably chose to essentially drop efforts to develop the Associate Member's Savings Account service.

#### *7.4.1.2 Long Term Savings Account*

The Long Term Savings Account got off to a bad start with the misleading and coercive approach adopted by ASA field staff to “sell” the product. Furthermore, since it appears that most clients' cash income is already encumbered by loan commitments that require both payments and the compulsory savings, the demand for such a product is likely to be limited. Although this savings programme raised \$2.3 million as

---

<sup>15</sup> In most cases clients are also seeking rapid follow-on loans.

<sup>16</sup> This does not include the \$0.4 million that had been raised in Term Deposits.

of December 1999, given its history, it is difficult to assess the effects of its introduction. There is circumstantial evidence from BURO, Tangail, another MFI in the Bangladesh market, to suggest that the Long Term Savings Account might also have had a cannibalistic effect.

In April 1998, BURO, Tangail introduced a fully liquid current account as well as a contractual savings scheme in place of locking-in 15% of any loan balance<sup>17</sup>. Analysis of the subsequent experience suggests that clients often chose to set up one or more (typically Tk.5-20 per week) contractual savings agreement in addition to maintaining a net balance (typically very low) in their open access voluntary savings accounts. Thus the contractual savings scheme has in effect replaced the locked-in savings while the net savings balances generated for on-lending are broadly similar.

Comparing the BURO products to ASA's new composite product, that combines a locked-in component and a liquid component, one is tempted to conclude that ASA has created a similar, but slightly less flexible, product with about half the number of accounts and transactions. Time will tell whether the greater flexibility of BURO, Tangail's products will lead to larger scale savings mobilisation than ASA's composite product. There is, however, clear evidence from BURO, Tangail's efforts to sell this type of product that weekly-based contractual savings schemes are generally more popular with Bangladeshi villagers than monthly-based schemes<sup>18</sup>.

## **7.5 Moving from Compulsory to Voluntary Savings Services**

### **7.5.1 Long Term vs. Short-Term Vision**

Locked-in savings can be a source of capital for the institution requiring less liquidity management than an open access voluntary savings arrangement. However, in the long term, such locked-in arrangements create default and dropout incentives (Wright, 2000 for a discussion of the issues surrounding this).

Why do the MFIs continue using such an arrangement? Again, as mentioned above, there are good short-term supply side reasons, not least of all being that it provides significant capital funds. But there are equally important "development vision" related reasons. It is hoped that the poor will, over time, build up an asset base through using credit and by saving up, and leave the MFI's programme richer and poverty-free. Dropping out of a microfinance programme is thus, from this perspective, not necessarily viewed as a cost or a problem<sup>19</sup>. The balance between such a development vision and the competing microfinance service vision is ever present and affects the ways in which financial products are designed and delivered.

However, locked-in compulsory savings systems can create default traps. First, restricting withdrawals can force the client to manage paying instalments by borrowing from other MFIs or informal moneylenders (Matin and Sinha, 1998). Such cross-financing can create long term indebtedness and eventual default for the MFI. Second, the dissatisfaction with a locked-in savings system that forces the clients to use more expensive ways of paying instalments or responding to emergencies can trigger mass default. In the mid-1990s, Grameen Bank's clients protested demanding access to their locked-in savings. Mass level default reported in studies of some Grameen Bank areas was often triggered by dissatisfaction with the locked-in savings arrangements and the ambiguity of later policies to address it (Matin, 1998a).

Usually the only way in which clients can get access to their locked-in savings in a traditional microcredit contract, is by leaving the programme. This is an arrangement that can have the effect of encouraging some of the most mature and valuable clients to leave the MFI. In a competitive environment with many players operating within an increasingly saturated market, it is easy to see the long term cost to an MFI of such an

---

<sup>17</sup> Although BURO, Tangail's system varies substantially from that of other MFIs operating in Bangladesh in that they do not require their members to be borrowing, and at any one time only 50-70% of their member are taking loans. Thus when they did not have loans outstanding, BURO, Tangail members could withdraw their savings.

<sup>18</sup> And those with monthly salaried income flows can always pay four weeks in advance each month.

<sup>19</sup> See Wright, 2000 for a critique of this view.

arrangement. ASA was considering an appropriate mechanism to allow withdrawal of the locked-in Tk.10 per week compulsory savings in the new composite savings account after a certain critical balance (possibly Tk.3,000 [\$60]) is reached.

### 7.5.2 Voluntary vs. Compulsory Saving

#### ***The Clients' Perspectives***

*“Why will I save more in an account that does not allow me to save less when I'm in trouble?”*

*“It's mostly Tk.20 - the kormi (Credit Officer) does not usually want to take less than that.”*

*“A complete instalment (kisti) is the full loan instalment and the full savings instalment of Tk.20”.*

*“Yes, of course there are times when I can save more (than Tk.20) - but I'll always save Tk.20. It was Tk.10 before and now it's Tk.20 - it's simple and easy to remember - that's that.”*

#### 7.5.2.1 Volunteers Please ...

ASA offers a voluntary savings service through the Associate Member's Savings Account. Though the idea of associate members was to include non-credit clients (i.e. the general public), in practice, the clients who opened this account were general members or close relative of members of ASA's credit clients (their children, aunts, etc.). There are regulatory constraints in ASA mobilising voluntary savings from clients to whom it does not provide credit (the net savers). However, interviews with field staff revealed that even in the absence of such constraints, given the existing workload (which is increasing due to the greater difficulty staff face in collecting loan arrears in a competitive market) and credit-driven work culture, such savings mobilisation would be a challenge.

ASA's women clients had a strong preference to keep their Associate Member's savings separate from their General Member's Savings Accounts. Clients whose Associate Member's Savings Account were closed, were encouraged to use one single savings account - the composite savings account - to save what they were saving in their Associate Member's Saving Accounts. Interviews with clients however suggest that such an automatic, one to one, transfer might not happen due to the very different motivations and intra-household cash economy from which the two savings stem.

Capturing such “secret” savings might require non-group settings given the lack of privacy within the group. Furthermore, the uniformity in savings amount, across group settings, not only in ASA but also in informal Rotating Savings and Credit Associations (RoSCAs) and Accumulating Savings and Credit Associations (ASCAs), suggest that such settings might not be appropriate for launching completely voluntary products. The weakness of such systems is that the uniformity (though user defined in RoSCAs and ASCAs) makes them inflexible and unresponsive to the users' ability to save. The trade-off, of course, is between the cost of ASA maintaining such “petty” accounts (sometimes with frequent small deposits and withdrawals), and the develop objectives they can meet.

The group setting has been seen to encourage some kind of “herd” behaviour in loan taking, where group members behave in a collectively rational but not necessarily individually rational way<sup>20</sup> (Matin, 1998b). This could also be true for savings deposit and withdrawal patterns. ASA allowed clients to withdraw from the weekly compulsory savings account at the weekly group meetings up to a maximum of Tk.1,000 (\$20) starting in 1999. The ease of withdrawal, combined with the possible “herd” behaviour, may have contributed to the high levels of petty, low-utility withdrawals.

<sup>20</sup> A combination of psychological pressure to keep up with the loan sizes of fellow members and a desire to maintain “balance” within the group guarantee system (so that all are guaranteeing the same amounts) means that group members often take the next loan size up whether they need (or even can afford) it or not.



### 7.5.2.2 Forcing the Issue

The obvious operational reasons behind the use of compulsory, locked-in savings have been discussed. In addition, Bangladeshi MFIs persist in using this approach for other reasons that reflect deep held views about savings and the poor, including two particularly powerful perceptions:

1. The poor lack financial discipline and need to be “forced” into a commitment to save; and
2. Restrictions need to be in place to prevent the poor from withdrawing and ‘spoiling’ the growth of their funds.

The transition from forced to voluntary savings services is thus not only about the institutional supply side challenges, but also about challenging the staff’s deep held perceptions about the poor and their ability to manage their own money.

## 7.6 A Final Note on Competition in Bangladesh

Evidence to date<sup>21</sup> has indicated that there is a clear preference amongst the poor for voluntary, open-access savings. However, compulsory minimum weekly deposits (particularly when they are client-defined) with withdrawal restrictions are also often welcomed since they provide savings discipline and an opportunity to safeguard savings from “trivial” spending. Given this, it was remarkable to note the limited adoption of ASA’s savings services. Clearly, other important dynamics were involved. Much of the cash income of Bangladeshi MFI clients is already committed to servicing one or more loans. Thus it appears potential clients have little additional income to set aside in voluntary or contractual savings accounts. This situation probably reflects the high levels of competition and over-indebtedness already prevalent in Bangladesh (Matin 1998a/b).

In Bangladesh, the poor make up about 50% of the population. If we made the unrealistic assumption that there is only one MFI member per household and that each individual belongs to only one MFI, then, given the number of current members, the MFIs would be reaching 62% of the country's households. Several studies<sup>22</sup> estimate that the bottom 15-25% (i.e. the very poor) do not use MFI services. The poor who are above the bottom 15-25% number around 50 million. If households average 6 members, then the households who are poor, but are well enough off to use the MFIs' services, are about 8 million. If there really are 13 million active members as stated by Centre for Development Finance 1999 Annual Report, then there would seem to be a very large number of non-poor clients and/or households using multiple MFIs. This latter group, as we know, is subject to elevated repayment risk. The true market penetration is a great deal lower when households joining more than one MFI are factored in. But even with this adjustment, market saturation is very high.

Evidence from various regional studies (Rahman, 1999; Matin, 1998a/b) where MFI concentration is dense indicates that the repayment performance is quite poor for MFIs such as Grameen Bank. There are increasing suggestions that repayment discipline throughout Bangladesh is perceived as being under severe stress. Collecting missed instalments, according to ASA Credit Officers in Madhupur, a fiercely competitive MFI market, is now much more time consuming and adding an extra hour (and often more) to the existing daily workload of each officer. Given the level of saturation of the core microfinance market served by MFIs in Bangladesh with very similar products, models and plans for future expansion<sup>23</sup>, the situation in Madhupur may become the norm rather than the exception.

In increasing numbers of districts in Bangladesh, the competition<sup>24</sup> between MFIs has reached a level of intensity that threatens to undermine the industry. Clients are now able to choose between as many as five

<sup>21</sup> See for example Wright et al. 1997; Rutherford, 1998 and Robinson forthcoming.

<sup>22</sup> See for example Hashemi, 1997, Hulme and Mosley, 1996, Ito, 1999.

<sup>23</sup> BRAC has, apparently, asked PKSf support for an expansion of \$160 million and Proshika has requested \$100 million.

<sup>24</sup> Commonly referred to, in Bangladesh, as “overlapping” – as if it is a planning rather than market-based problem.

or more MFIs in many villages, and multiple membership of MFIs has 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: on-going access to financial services. Increasingly, clients appear to be willing to default with one MFI safe in the knowledge that they can access financial services from one of its competitors if follow-on loans are not made available.

The World Bank seems likely to put an additional \$150-200 million into the MFI industry through PKSF over the next five years, a move that may well result in additional capital funds chasing clients. The irresponsible competition that is likely to follow further over-capitalisation of MFIs with cheap capital and the resulting breakdown of repayment incentives could compromise the quality of PKSF's loan portfolio. Indeed there is anecdotal evidence that this is already happening.

The “general equilibrium” picture that takes into account all the players in the market, needs to be considered when institutions make programmatic decisions about expansion. In the absence of any form of collective sanctioning mechanism (such as a credit bureau for clients) that makes default on loans from a MFI costly, the overall survival of the industry could be at stake, because the client can always switch to another provider. The real debt capacity of the clients is often seriously overestimated by individual MFIs as clients can always play the “*ponzi*” game of borrowing from Peter to pay Paul.

While the MFIs in Bangladesh are aware of the growing competition and have, in some cases, responded by offering more client-responsive products (including savings services), the importance and gravity of the situation may be being under-estimated. There is a growing body of evidence that several of the larger MFIs are experiencing significant repayment problems and that a systemic malaise has set in. The microfinance industry in Bangladesh may well be facing its most profound challenge and threat since it began in Jobra in 1975.

## References

- Hashemi**, S.M., 1997, "Those Left Behind: A Note on Targeting the Hardcore Poor", in "Who Needs Credit ? Poverty and Finance in Bangladesh" (eds.) G.D. Wood and I. Sharif, *University Press Limited*, Dhaka, 1997, and *Zed Books*, London and New York.
- Healey**, Kurt, 1999, "ASA Innovations", ASA, Dhaka.
- Hulme**, D., and P. Mosley, 1996, "Finance Against Poverty, Vols. 1 and 2", *Routledge*, London & New York.
- Ito Sanae**, 1998, "The Grameen Bank and Peer Monitoring: A Sociological Perspective", in "Recent Research on Micro-finance: Implications for Policy", eds **Matin** Imran and Saurabh Sinha, *PRUS Working Paper # 3*, IDS, Sussex.
- Matin**, Imran, 1998a, "Rapid Credit Deepening And A Few Concerns: A Study Of Grameen Bank In Madhupur", *mimeo*.
- Matin**, Imran, 1998b, "Rapid Credit Deepening and Joint Liability Credit Contract: A Study of Grameen Bank borrowers in Madhupur", *D.Phil. thesis*, University of Sussex (unpublished)
- Matin**, Imran and Saurabh Sinha, 1998, "Informal Credit Transactions of Microcredit borrowers: A study of Grameen Bank borrowers in Madhupur", *IDS Bulletin* University of Sussex.
- Rahman**, Aminur, 1999, "Micro - Credit Initiatives for Equitable and Sustainable Development: Who Pays?", *World Development*, 27(1): 67-82
- Robinson**, Marguerite S., 1995, "Introducing Savings Mobilization in Microfinance Programs: When and How ?", *Microfinance Network*, Cavite, Philippines, and *HIID*, USA.
- Robinson**, Marguerite S., forthcoming, "The Microfinance Revolution: Sustainable Finance for the Poor", *World Bank*, Washington.
- Rutherford**, Stuart, 1995, "ASA: Biography of an NGO", ASA, Dhaka.
- Rutherford**, Stuart, "The Savings of the Poor: Improving Financial Services in Bangladesh", *Journal of International Development Vol. 10, No.1,1-15* , UK, 1998.
- Rutherford**, Stuart, 2000, "The Poor and Their Money", *Oxford University Press*, Oxford.
- Wright**, Graham A. N., M. Hossain and S. Rutherford, 1997, "Savings: Flexible Financial Services for the Poor (and not just the Implementing Organization)" in "Who Needs Credit ? Poverty and Finance in Bangladesh" (eds.) G.D. Wood and I. Sharif, *University Press Limited*, Dhaka, and *Zed Books*, London and New York.
- Wright**, Graham A. N., 2000, "Microfinance Systems: Designing Quality Financial Services for the Poor", *University Press Limited*, Dhaka, and *Zed Books*, London and New York.

## **Appendix 1**

### **7.7 Study Methods**

ASA, CGAP and *MicroSave* staff worked together to:

1. conduct interviews with selected ASA staff at Board, Head Office and Branch Office levels;
2. document the build up of savings by savings service type over the period to date;
3. analyse the cost of introducing savings products – on both a full and marginal cost basis;
4. review changes made in Head Office management and reporting systems;
5. review changes made in Unit Office accounting and reporting systems;
6. review the training provided to Unit Office staff as the savings products were introduced;
7. review the impact on the introduction of savings services on staff time;
8. conduct discussions with ASA members and associate members to review clients' perceptions of how the savings services were introduced and marketed;
9. conduct discussions with clients of other microfinance institutions offering savings services in the (fiercely competitive) Tangail District; and
10. review the experience of other microfinance institutions offering savings services in the Tangail District.

### **7.8 Disclaimer**

The review team worked for a total of around 30 days on the study. With around a half to a third of this dedicated to preparation, analysis and report-writing, it is clear that much more research would be needed (particularly in the context of analysis of client attitudes and behaviour) before any of the issues identified by the report warranted policy change. Nonetheless, we hope that the report will provide some indications of the areas that are worthy of further attention from ASA and others in the field. We thank all those who have been kind enough to review and comment on this report, but must stress that any inaccuracies, tortured grammar, horrible spelling errors and unsubstantiated assertions are our responsibility alone.

### **7.9 Acknowledgements**

The team would like to thank all the ASA staff and clients (and indeed non-clients) who gave so generously and freely of their time. In particular, Md. Azim Hossain was a fount of information, knowledge and wisdom; he and his team worked tirelessly to help us crunch the numbers and understand the issues. Md. Shafiqul Haque Choudhury also spared us a great deal of his precious time and demonstrated his usual clarity of vision and commitment. ASA is particularly remarkable in terms of its transparency and openness, even in the context of operational problems that many other microfinance institutions so often try to hide from visitors. This is one of the (many) features of ASA that make it a truly inspiring and remarkable institution.

## Appendix 2

### ASA's information from 1992 to 1999

Years >	1992	1993	1994	1995	1996	1997	1998	1999
<b>Portfolio</b>								
Total loan disbursed	170,173,000	499,493,000	772,097,000	1,031,359,290	1,823,083,465	2,971,949,000	4,175,883,000	6,615,505,000
Number of loans disbursed	88,355	204,066	267,410	330,255	534,522	722,411	864,155	1,141,526
Average loan size	1,926	2,448	2,887	3,123	3,411	4,114	4,832	5,795
Total loan outstanding (end balance)	114,326,448	249,766,261	346,764,406	559,680,902	936,311,601	1,668,090,661	2,210,526,428	3,678,975,756
Current	114,326,448	249,344,170	339,046,375	553,543,040	926,793,231	1,659,668,495	2,205,734,976	3,667,788,617
Overdue	0	422,091	7,718,031	6,137,862	9,518,370	8,422,166	4,791,452	11,187,139
Number of active clients	85,753	197,512	262,167	326,244	516,000	635,399	786,492	1,084,318
Average outstanding balance by client	1,333	1,265	1,323	1,716	1,815	2,625	2,811	3,393
Average loans outstanding balance (Annual)	0	182,046,355	298,265,334	453,222,654	747,996,252	1,302,201,131	1,939,308,545	2,944,751,092
Total loan loss provision (end year)	1,149,649	0	3,860,485	5,080,770	9,115,417	14,742,500	43,281,010	66,155,050
Total amount written off (end year)	34,341	0	0	20,418	6,837,489	2,337,864	5,933,905	441,392
Total loan loss reserve (end year)	1,115,308	1,115,308	4,975,793	10,036,145	12,314,073	24,718,709	62,065,814	127,779,472
Number of Loan Officer (end year)	911	980	1,060	1,499	1,912	2,673	2,739	3,334
Number of full time staff (end year)	1,239	1,961	2,043	2,627	3,400	4,627	4,656	5,145
<b>Productivity and Quantitative Indicators</b>								
Admin cost per Taka money lent	0.166	0.093	0.085	0.077	0.068	0.054	0.052	0.043
Admin cost per loan made	319.09	227.10	244.89	241.46	230.65	222.67	252.67	247.60
Number of Active Borrowers/Loan Officer	94.13	201.54	247.33	217.64	269.87	237.71	287.15	325.23
Portfolio per Loan Officer	125,496	254,864	327,136	373,370	489,703	624,052	807,056	1,103,472
Portfolio in Arrears	0	0.17%	2.23%	1.10%	1.02%	0.50%	0.22%	0.30%
Portfolio at Risk	NA	NA	NA	NA	NA	NA	NA	0.72%
Loan Loss Ratio	0	0.00%	0.00%	0.00%	0.73%	0.14%	0.27%	0.01%
Reserve Ratio	0	0.45%	1.43%	1.79%	1.32%	1.48%	2.81%	3.47%
<b>Savings and Liabilities</b>								
Total Savings (end balance)	28,744,156	98,184,722	163,395,639	245,631,485	442,769,599	722,046,795	1,080,106,632	1,269,003,678
Compulsory	28,744,156	98,184,722	163,395,639	245,631,485	442,769,599	276,138,200	392,821,900	635,182,700
Voluntary	0	0	0	0	0	445,908,595	687,284,732	633,820,978
Types of savings (end balance)	28,744,156	98,184,722	163,395,639	245,631,485	442,769,599	722,046,795	1,080,106,632	1,269,003,678
Members	28,744,156	98,184,722	163,395,639	245,631,485	442,769,599	673,416,696	815,437,632	1,082,813,840
Pass book(Associate)	0	0	0	0	0	48,630,099	114,219,937	69,128,155
Long-term	0	0	0	0	0	0	131,241,063	112,877,683
Term	0	0	0	0	0	0	19,208,000	4,184,000
Number of savings account (end balance)	143,894	256,512	268,020	404,218	561,530	1,144,541	1,767,688	1,467,145
Members	143,894	256,512	268,020	404,218	561,530	805,631	894,119	1,178,987
Pass book(Associate)	0	0	0	0	0	338,910	545,864	194,638
Long-term	0	0	0	0	0	0	316,947	92,096
Term	0	0	0	0	0	0	10,758	1,424
Average savings balance by account	200	383	610	608	789	631	611	865
Members	200	383	610	608	789	836	912	918
Pass book	0	0	0	0	0	143	209	355
Long-term	0	0	0	0	0	0	414	1,226
Term	0	0	0	0	0	0	1,785	2,938

Total concessional loan (end balance)	2,600,000	35,820,000	46,280,000	73,850,000	136,350,000	425,600,000	700,500,000	1,300,000,000
Total commercial loan (end balance)	0	0	0	5,000,000	4,166,668	10,086,986	10,000,000	18,333,334
Total equity(end balance)	141,781,328	218,090,510	277,592,684	376,632,632	493,613,466	640,588,822	972,765,795	1,357,129,624
<b>Financial indicators</b>								
Effective yield on Assets	11.94%	20.79%	23.76%	19.00%	19.64%	19.61%	20.53%	20.87%
ROE (Average Return on Equity)		2.07%	3.32%	0.39%	0.91%	2.25%	5.02%	7.71%
ROA (Average return on Assets)		1.31%	1.81%	0.19%	0.39%	0.81%	1.65%	2.47%
Operating Financial Self-sufficiency	53.17%	123.99%	121.31%	113.87%	109.77%	114.05%	118.65%	127.34%
Financial Self-sufficiency	47.03%	106.72%	108.23%	101.02%	102.05%	104.29%	108.66%	113.72%
Total expenses/ Total average assets		19.48%	21.95%	18.81%	19.24%	18.81%	19.06%	17.99%
Financial costs/Total average assets		0.47%	4.38%	3.91%	4.63%	6.09%	6.79%	6.48%
Adjustment costs/Total average assets		2.71%	2.37%	2.12%	1.35%	1.61%	1.61%	1.92%
Loan loss costs/Total average assets		0.00%	0.85%	0.77%	0.91%	0.93%	1.76%	1.82%
Admin costs/Total average assets		16.29%	14.35%	12.01%	12.35%	10.18%	8.89%	7.77%
Total equity/assets	73.54%	57.99%	51.75%	47.59%	40.96%	32.75%	32.93%	31.41%
Total equity/liability	284.15%	139.04%	109.36%	93.06%	70.59%	49.62%	50.68%	47.85%

Note: 1999 figures is provision, all currency in Taka, 50 Taka = 1 US\$

<b>Other information</b>								
Total perform. Assets (end balance)	192,793,070	376,065,452	536,397,428	791,375,745	1,205,224,809	1,956,231,028	2,954,117,323	4,320,941,620
Aver. perfor. assets	0	284,429,261	456,231,440	663,886,587	998,300,277	1,580,727,919	2,455,174,176	3,637,529,472
Total Capital / equity (end balance)	141,781,328	218,090,510	277,592,684	376,632,632	493,613,466	640,588,822	972,765,795	1,357,129,624
Average capital / equity	0	179,935,919	247,841,597	327,112,658	435,123,049	567,101,144	806,677,309	1,164,947,709
Total concessional loan (end balance)	2,600,000	35,820,000	46,280,000	73,850,000	136,350,000	425,600,000	700,500,000	1,300,000,000
Savings on portfolio	25.14%	39.31%	47.12%	43.89%	47.29%	43.29%	48.86%	34.49%
Savings on assets	14.91%	26.11%	30.46%	31.04%	36.74%	36.91%	36.56%	29.37%
Savings on capital/equity	20.27%	45.02%	58.86%	65.22%	89.70%	112.72%	111.03%	93.51%
Admin costs on total expenses	86.54%	83.63%	65.39%	63.86%	64.18%	54.11%	46.67%	43.18%
Personnel costs on total expenses	67.11%	65.88%	52.50%	52.34%	50.75%	42.03%	37.17%	34.86%
Total cost per Taka Money Lent	0.191	0.111	0.130	0.121	0.105	0.100	0.112	0.099
Total cost per Loan Made	368.738	271.537	374.499	378.105	359.412	411.487	541.405	573.400

Note: 1999 figures is provision, all currency in Taka, 1 US\$ = 50 Taka

### Appendix 3

Circular No. & Date	Summary
<b>Circular No. 04/97</b> <b>Date: Jan 8, 1997</b>	Based on successful experimentation in 1—2 areas for 2/3 months, plan to roll out the voluntary savings project across all ASA working area developed. To be completed by December 1997.
<b>February 1997: Pilot-Test of voluntary, open access savings scheme for general and Small Enterprise Development members initiated in 14 Units</b>	
<b>Circular No. 014/97</b> <b>Date: March 8, 1997</b>	Based on field visits a personal message from the MD laying out the reasons why voluntary savings is important for clients. Staged plan of roll out abandoned and fast expansion all over ASA working area asked for.
<b>Circular No. 036/97</b> <b>Date: May 15, 1997</b>	Confusion regarding minimum weekly savings 'collectable' ( <i>aday joggo</i> ) by Credit Officers after making savings open access and flexible deposit. Decision taken that the minimum 'collectable' is Tk.10 per week per member.
<b>July 1997: Roll-out of General and Small Enterprise Development Programme Member's Savings Accounts</b>	
<b>August 1997: Roll-out of Associate Members' Savings Account</b>	
<b>Circular No. 072/97</b> <b>Date: October 15, 1997</b>	Target setting of General and SEDP Member's Savings Accounts and Associate Member's Saving Accounts—30% of members under a Credit Officer to open voluntary savings account and 100 Associate Member's Saving Accounts per Credit Officer set. Strict enforcement.
<b>March 1998: Long Term Savings Account Introduced</b>	
<b>Circular No. 034/98</b> <b>Date: Aug. 06, 1998</b>	Compensating balance required to be held in General and SEDP Member's Savings Accounts raised to 15% of loan principal to discourage withdrawal between paying a loan and getting a new one.
<b>September 1998: Term Deposit Scheme Introduced</b>	
<b>Circular No. 051/98</b> <b>Date: Nov. 12, 1998</b>	Long Term Savings Account (the contractual savings account) minimum contribution lowered to Tk.50 per month. Massive effort asked for emphasising increased ability to save of members after taking loans from ASA.
<b>Circular No. 006/99</b> <b>Date: Feb. 18, 1999</b>	Compensating balance lowered back to 10% of loan principal - effective from March 1, 1999.
<b>Circular No. 013/99</b> <b>Date: April 22, 1999</b>	Ad hoc ways in which employees increase savings (by deducting from loan etc.) discussed and discouraged. Ways of motivating/encouraging clients to save more indicated.
<b>Circular No. 022/99</b> <b>Date: June 05, 1999</b>	Wide variation in opening up Long Term Savings Account among areas/units/ Credit Officers detected. Mainstreaming sought through Unit- and Credit Officer- wise target setting. Targets to be set based on socio-economic characteristics of the area and membership length of groups. Strict enforcement of targets indicated
<b>Circular No. 033/99</b> <b>Date: Aug 5, 1999</b>	Increase in weekly savings deposited in General and SEDP Member's Savings Accounts from Tk.10 appreciated and encouraged. Long Term Savings Account target per Credit Officer set at 5-50 accounts. More than 50 encouraged. Made clear that forceful opening up would not be sustainable.
<b>Circular No. 038/99</b> <b>Date: October 7, 1999</b>	Policy change regarding withdrawal from General and SEDP Member's Savings Accounts to be effective from November 1, 1999 for better fund management and loan plan of the institution. From January 1, 2000 a new "composite" product will be introduced. This product will "lock-in" 10% of the loan principal as of November 1999, plus a compulsory saving of Tk.10 per week. Any savings above this amount will be voluntary and open-access.

### Appendix 4a

The table shows the significant increase in both deposits and withdrawals over time as the locked-in restriction was lifted as of July 1, 1997.

General Savings in \$ (Tk. 50: \$1)							
Quarters	Deposits	Withdrawals	Monthly Net Balance	Average Per Member			Members
				Deposit	Withdrawal	Balance	
Jan-Mar 97	1,252,867	479,170	9,395,537	2.26	0.86	16.95	554,341
Apr-June 97	1,776,713	679,106	10,493,144	3.00	1.15	17.74	591,564
July-Sept 97	2,356,140	1,511,877	11,337,407	3.54	2.27	17.05	665,095
Oct-Dec 97	3,264,233	2,094,465	12,507,175	4.30	2.76	16.47	759,549
<b>Total 1997</b>	<b>8,649,953</b>	<b>4,764,617</b>	<b>12,507,175</b>	<b>11.39</b>	<b>6.27</b>	<b>16.47</b>	<b>759,549</b>
Jan-Mar 98	2,625,740	2,945,720	12,187,195	3.23	3.62	14.99	812,990
Apr-June 98	2,580,107	2,347,006	12,420,296	3.15	2.86	15.14	820,171
July-Sept 98	2,721,646	2,344,269	12,797,673	3.31	2.85	15.56	822,614
Oct-Dec 98	3,658,409	2,274,449	14,181,633	4.39	2.73	17.04	833,119
<b>Total 1998</b>	<b>11,585,902</b>	<b>9,911,444</b>	<b>14,181,633</b>	<b>13.91</b>	<b>11.90</b>	<b>17.04</b>	<b>833,119</b>
Jan-Mar 99	2,695,042	2,869,130	14,007,545	3.05	3.25	15.87	882,497
Apr-June 99	4,207,737	3,575,322	14,639,960	4.23	3.60	14.73	994,151
July-Sept 99	5,365,127	4,387,405	15,617,682	4.98	4.07	14.51	1,076,673
Oct-Dec 99	5,712,852	2,752,276	18,578,258	5.21	2.51	16.95	1,096,315
<b>Total 1999</b>	<b>17,980,758</b>	<b>13,584,132</b>	<b>18,578,258</b>	<b>16.40</b>	<b>12.39</b>	<b>16.95</b>	<b>1,096,315</b>

### Appendix 4b

The table shows the increased levels of both deposits and withdrawals on the Small Enterprise Development Programme (SEDP) Savings Accounts after they were opened up in July 1999. The net deposits remain higher probably because of the relatively recent introduction of the SEDP, which means that members have smaller amounts available to withdraw if they are to maintain the required balance of 10% of loan principle.

Small Enterprise Development Programme Savings in \$ (Tk.50:\$1)							
Quarters	Deposits	Withdrawals	Monthly Net Balance	Average Per Member			Members
				Deposit	Withdrawal	Balance	
Jan-Mar 97	50,589	18,972	265,168	6.09	2.28	31.91	8,311
Apr-June 97	68,888	12,994	321,062	5.77	1.09	26.87	11,948
July-Sept 97	230,303	33,618	517,747	8.71	1.27	19.58	26,436
Oct-Dec 97	494,718	51,306	961,159	9.68	1.00	18.81	51,097
<b>Total 1997</b>	<b>844,498</b>	<b>116,890</b>	<b>961,159</b>	<b>16.50</b>	<b>2.28</b>	<b>18.81</b>	<b>51,194</b>
Jan-Mar 98	582,397	112,431	1,431,125	10.29	1.99	25.29	56,580
Apr-June 98	393,121	142,468	1,681,778	6.99	2.53	29.92	56,203
July-Sept 98	411,287	232,813	1,860,252	7.12	4.03	32.22	57,729
Oct-Dec 98	603,789	336,921	2,127,120	9.90	5.52	34.87	61,000
<b>Total 1998</b>	<b>1,990,594</b>	<b>824,633</b>	<b>2,127,120</b>	<b>32.63</b>	<b>13.52</b>	<b>34.87</b>	<b>61,000</b>
Jan-Mar 99	482,619	384,897	2,224,842	7.45	5.94	34.32	64,821
Apr-June 99	784,030	502,220	2,506,652	10.63	6.81	33.97	73,790
July-Sept 99	865,490	665,855	2,706,286	10.35	7.96	32.35	83,647
Oct-Dec 99	888,579	516,847	3,078,018	10.75	6.25	37.23	82,672
<b>Total 1999</b>	<b>3,020,717</b>	<b>2,069,819</b>	<b>3,078,019</b>	<b>36.54</b>	<b>25.02</b>	<b>37.23</b>	<b>82,672</b>



### Appendix 4c

This table clearly show the rapid uptake of associate members savings accounts after their launch – rising to over half a million members' accounts by early 1999. It also demonstrates how the average balance per member stabilised at around Tk.200 until ASA began closing out these accounts and merging them with the general members' savings accounts in mid 1999. The closing out of all the low value associate members accounts to leave only the high value accounts, results in a dramatic rise in the average account balance to over Tk.500 by the end of 1999.

	Associate Members Savings in \$ (Tk. 50:\$1)						
	Deposits	Withdrawals	Monthly Net	Average Per Member			Members
Balance			Deposit	Withdrawal	Balance		
Jan-Mar 97	-	-	-	-	-	-	-
Apr-June 97	-	-	-	-	-	-	47,808
July-Sept 97	408,616	49,213	359,403	3.50	0.42	3.08	116,804
Oct-Dec 97	830,084	216,885	972,602	2.45	0.64	2.87	338,910
<b>Total 1997</b>	<b>1,238,700</b>	<b>266,098</b>	<b>972,602</b>	<b>3.65</b>	<b>0.79</b>	<b>2.87</b>	<b>338,910</b>
Jan-Mar 98	1,148,407	599,925	1,521,084	2.52	1.32	3.34	455,494
Apr-June 98	1,315,844	850,777	1,986,150	2.50	1.62	3.78	525,455
July-Sept 98	1,470,699	1,346,998	2,109,851	2.72	2.49	3.90	540,983
Oct-Dec 98	1,605,104	1,430,556	2,284,377	2.94	2.62	4.18	545,864
<b>Total 1998</b>	<b>5,540,054</b>	<b>4,228,257</b>	<b>2,284,377</b>	<b>10.15</b>	<b>7.75</b>	<b>4.18</b>	<b>545,864</b>
Jan-Mar 99	1,542,907	1,852,180	1,975,126	2.75	3.30	3.52	561,680
Apr-June 99	1,741,217	1,792,736	1,923,607	3.62	3.73	4.00	481,055
July-Sept 99	1,368,679	1,875,220	1,417,066	5.25	7.19	5.43	260,896
Oct-Dec 99	1,153,091	1,187,594	1,382,563	5.92	6.10	7.10	194,638
<b>Total 1999</b>	<b>5,805,894</b>	<b>6,707,730</b>	<b>1,382,563</b>	<b>29.83</b>	<b>34.46</b>	<b>7.10</b>	<b>194,638</b>

### Appendix 4d

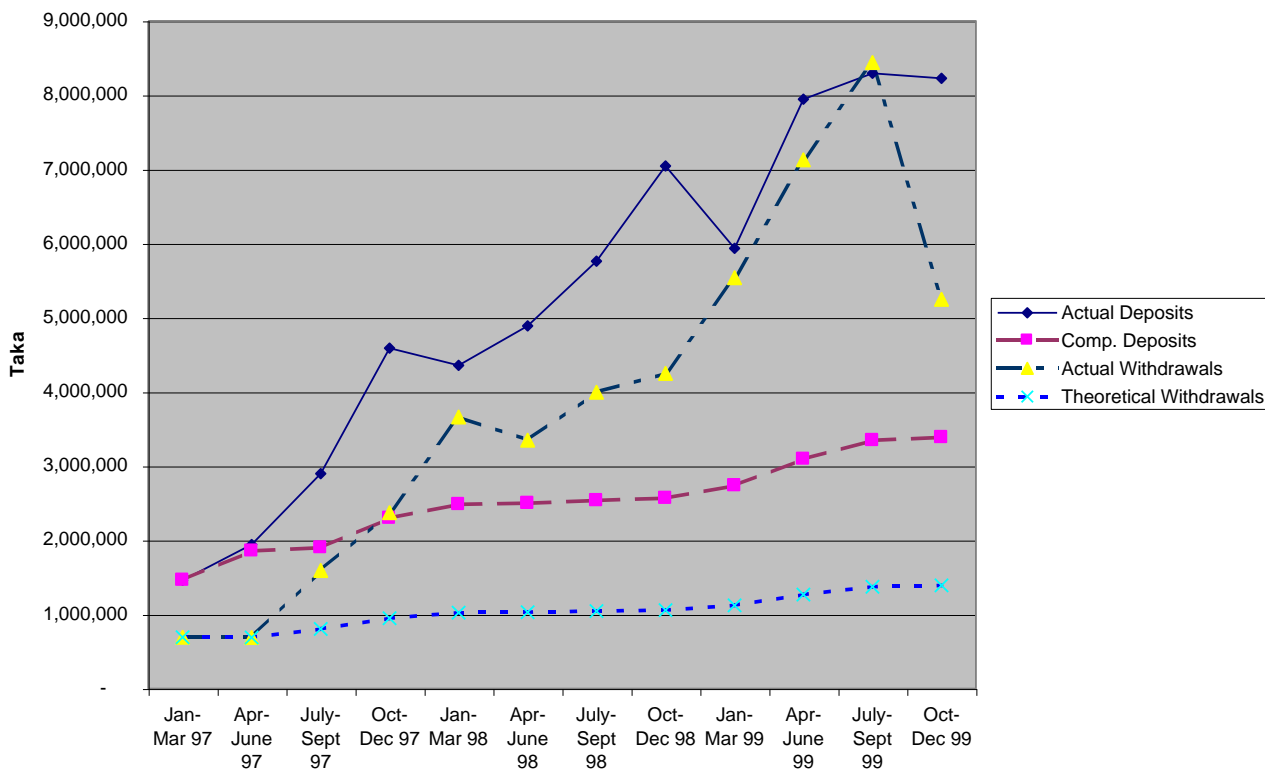
This table shows the history of the long term savings scheme – from its rapid (somewhat coerced) uptake to its rapid closure when the ASA Head Office found out what had been going on in 1999.

Table 4	Long Term Savings Account in \$ (Tk.50:\$1)						
	Deposits	Withdrawals	Monthly Net	Average Per Member			Members
Balance			Deposit	Withdrawal	Balance		
Jan-Mar 98	-	-	-	-	-	-	-
Apr-June 98	600,814	1,962	598,852	3.73	0.01	3.72	161,195
July-Sept 98	1,162,749	74,400	1,687,201	4.88	0.31	7.08	238,250
Oct-Dec 98	1,177,716	240,096	2,624,821	3.72	0.76	8.28	316,947
<b>Total 1998</b>	<b>2,941,279</b>	<b>316,458</b>	<b>2,624,821</b>	<b>9.28</b>	<b>1.00</b>	<b>8.28</b>	<b>316,947</b>
Jan-Mar 99	1,214,477	407,000	3,432,298	2.94	0.99	8.32	412,764
Apr-June 99	1,212,934	1,264,266	3,380,966	3.84	4.01	10.71	315,579
July-Sept 99	696,810	1,506,801	2,570,975	4.89	10.57	18.04	142,503
Oct-Dec 99	473,801	787,222	2,257,554	5.14	8.55	24.51	92,096
<b>Total 1999</b>	<b>3,598,022</b>	<b>3,965,289</b>	<b>2,257,554</b>	<b>39.07</b>	<b>43.06</b>	<b>24.51</b>	<b>92,096</b>

### Appendix 4e

This graph illustrates the actual level of deposits and withdrawals on the various savings accounts offered by ASA and compares it with the theoretical deposits and withdrawals had ASA maintained its previous compulsory, locked-in system. The variable level of deposits and withdrawals illustrates the liquidity issues associated with providing open access savings services. The sudden increase in withdrawals in mid 1999 is as a function of the closing out of the associate members savings account and the deposit savings scheme, a process largely completed by the last quarter of 1999 – hence the decline in actual withdrawals.

**ASA All Savings Accounts: Comparison of Actual v. Compulsory-Based Results**



### Appendix 4f

This table compares the net savings that were actually realised through the various accounts offered by ASA as a percentage of the net savings that would have been realised through the previous compulsory, locked-in savings system. It illustrates that the actual net savings were only marginally above those that would have been realised under the previous system – and only before most of the Associate Member's and Long Term Savings Accounts were closed out. At the same time, the average account size (i.e. the net balance in the account) decreases dramatically as members spread their savings through the various accounts on offer. This trend is reversed in 1999 when ASA began to close out most of the Associate Member's and Long Term Savings Accounts.

<b>Table 5. Total Savings Per Member in \$ (Tk.50:\$1) - Excluding Fixed Deposit Scheme</b>										
<b>Comparison Between Actual and a Theoretical (if ASA had maintained compulsory savings at Tk.10/25)</b>										
	Actual	Compulsory	Actual	Theoretical	Actual	Theoretical	Actual	Theoretical	Actual as % of Theoretical	
	Deposits		Withdrawals		Balance		Average Per Account		Balance	Per Account
Jan-Mar 97	1,303,456	1,306,889	498,142	498,142	9,660,705	9,660,705	17.17	17.17	100%	100%
Apr-June 97	1,845,601	1,854,375	692,100	692,100	10,814,206	10,822,980	16.60	17.93	100%	93%
July-Sept 97	2,995,059	1,901,081	1,594,707	798,882	12,214,557	11,925,178	15.11	15.86	102%	95%
Oct-Dec 97	4,589,035	2,306,958	2,362,656	940,303	14,440,936	13,291,833	12.56	14.93	109%	84%
<b>Total 1997</b>	<b>10,733,151</b>	<b>7,369,302</b>	<b>5,147,605</b>	<b>2,929,428</b>	<b>14,440,936</b>	<b>13,291,833</b>	<b>12.56</b>	<b>14.93</b>		
Jan-Mar 98	4,356,544	2,481,544	3,658,076	1,008,988	15,139,404	14,764,389	11.43	15.51	103%	74%
Apr-June 98	4,889,886	2,497,764	3,342,214	1,016,727	16,687,076	16,245,426	10.68	17.07	103%	63%
July-Sept 98	5,766,381	2,514,035	3,998,479	1,021,573	18,454,978	17,737,889	11.12	18.67	104%	60%
Oct-Dec 98	7,045,018	2,562,609	4,282,022	1,038,008	21,233,134	19,262,490	12.09	20.06	110%	60%
<b>Total 1998</b>	<b>22,057,828</b>	<b>10,055,952</b>	<b>15,280,791</b>	<b>4,085,295</b>	<b>21,233,134</b>	<b>19,262,490</b>	<b>12.09</b>	<b>20.06</b>		
Jan-Mar 99	5,935,046	2,715,829	5,513,207	1,099,805	21,639,812	20,878,514	11.26	20.55	104%	55%
Apr-June 99	7,945,917	3,064,428	7,134,544	1,239,980	<b>22,451,185</b>	22,702,962	<b>12.04</b>	19.77	98%	61%
July-Sept 99	8,296,106	3,343,055	8,435,281	1,347,899	22,312,010	24,698,118	14.27	19.79	90%	72%
Oct-Dec 99	8,228,323	3,387,787	5,243,941	1,369,144	25,296,392	26,716,761	17.26	21.17	95%	82%
<b>Total 1999</b>	<b>30,405,392</b>	<b>12,511,099</b>	<b>26,326,973</b>	<b>5,056,827</b>	<b>25,296,392</b>	<b>26,716,761</b>	<b>17.26</b>	<b>21.17</b>		

### Appendix 4g

This graph shows the relative contribution of the various savings accounts to ASA's savings balances over time and highlights the relatively small provided by the Associate Member's and Long Term Savings Accounts ... at a high administrative cost.

