



## New Frontiers in Micro-Savings



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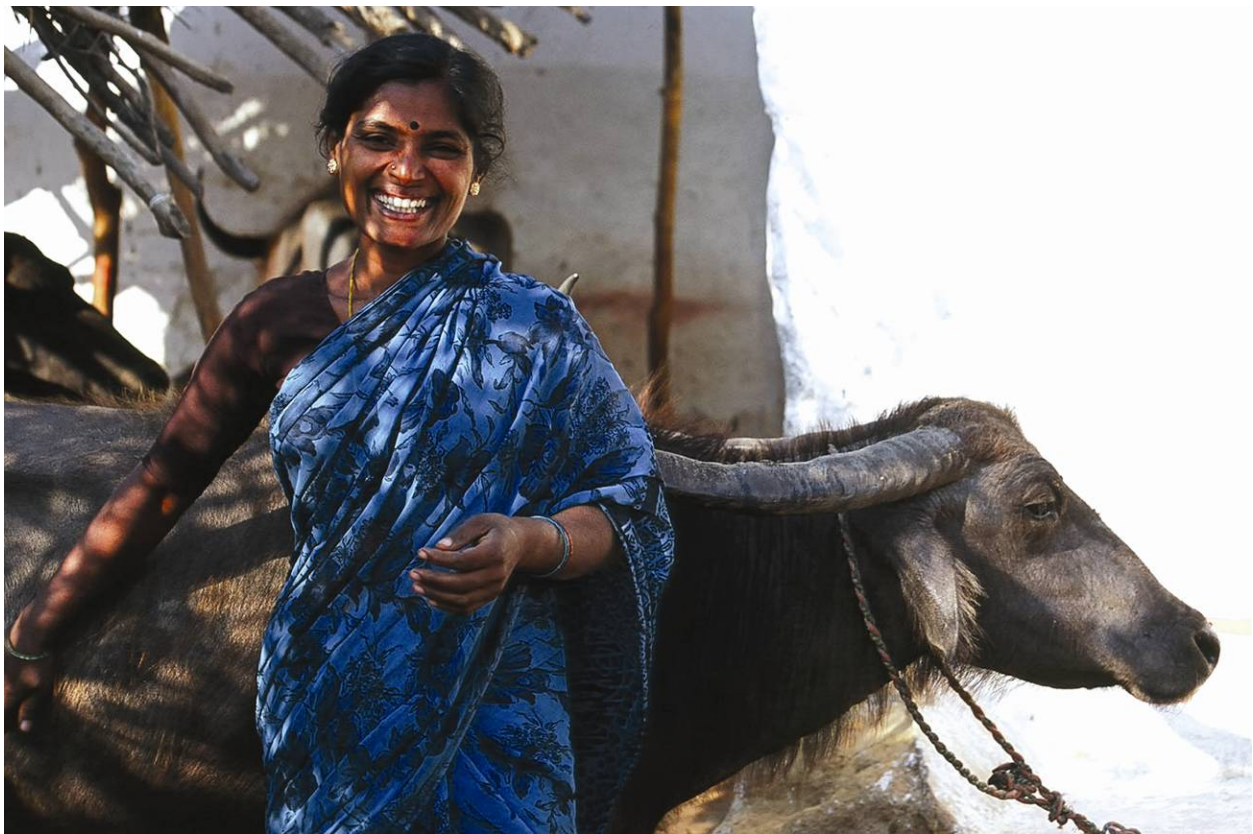
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With a small microloan, a poor woman in India can purchase a cow and sell its milk in a local market.

## Overview & Summary

This paper will argue that collecting savings deposits is critical to the continued growth and evolution of the microfinance sector. Mobilizing savings will empower depositors, strengthen MFIs, and alleviate poverty in ways that lending alone cannot. The paper details the experiences of several leading practitioners and their creative approaches to solving the problem of collecting and managing savings. We conclude by asserting that deposit insurance is a possible way to catalyze support for expanding access to micro-savings and share several important lessons learned.

Extensive research and experience in many contexts has proven that the poor can and do save for many reasons, including to build assets and to cover expenses related to life cycle and extraordinary events. A variety of formal and informal savings mechanisms have arisen to facilitate their doing so; the best of these take into account the fact that the poor lead complicated and precarious lives. The propensity to save for marriages, schooling, and emergencies, and the practice of keeping savings secret from other family members spans culture, history, and geography.

Many MFIs have focused on credit products. Most have not offered savings or only offered limited savings products such as compulsory savings as a part of their standard product offerings. Among the factors preventing MFIs from accepting deposits are (1) regulatory barriers, (2) reluctance on the part of both MFI staff and clients due to the perceived risk of managing deposits, and (3) concerns about the cost implications of collecting and managing large numbers of small deposits. Today, a growing number of practitioners are working to promote access to savings and have plans to expand access to appropriate, convenient, and reasonably secure savings products; enabling environments and targeted financial and technical support would facilitate their work toward that goal.

Drawing on the experience of the Grameen Bank, the experiences of several Grameen Foundation MFI partners, and the emerging consensus of thought and practice leaders in the microfinance sector, we assert that expanding access to safe savings is critical to alleviate poverty. Therefore, we support expanding access to the full range of microfinance services including savings products. Well-designed savings products help clients plan for the future, create new business products for MFIs, and mobilize additional capital for MFIs. For even the very poorest, for whom many credit products currently being offered by MFIs may not be appropriate, savings may be a useful tool to help them access financial services.

We will conclude by briefly outlining our recommendations and listing lessons learned that should inform the ways that access to micro-savings can be expanded in the future. The paper is based primarily on recent interviews with three leading poverty-focused practitioners in three diverse countries and also draws on the experience of the Grameen Bank.

## Grameen Bank: Grameen II Innovations and Implications

The experience of Grameen II or the Grameen Generalized System (GGS) has been documented in detail in the outstanding book *The Poor Always Pay Back* by Asif Dowla and Dipal Barua (Kumarian Press, 2006). The GGS was carefully evaluated by Stuart Rutherford, who documented its overall positive impact in a series of papers published in 2004. Grameen II goes well beyond savings products, although those products are a key element of it. This section of the paper will attempt to summarize the key achievements of Grameen II's savings products and the lessons learned.

Generally speaking, GGS moved from group-based and compulsory savings to individual and voluntary savings. However, in the case of the Grameen Pension Scheme (GPS), participation is mandatory for most borrower-members. The most important new savings products in GGS are:

- GPS, a fixed deposit that is similar to a certificate of deposit (CD)
- “Double in Seven Years”, where the principal doubles in seven years, representing a rate of interest of slightly more than 10%
- Monthly income plan, where interest earned on a lump sum deposit is paid to the account holder on a monthly basis

These products pay annualized interest rates ranging from 9% to 11%, with higher rates for contractual savings with longer time commitments. There are penalties for early withdrawal (before maturity), most notably for those who withdraw before one year. The inflow of savings deposits allows Grameen branches to access funds for their loan portfolios at a cost lower than they would pay if they borrowed from the Grameen Bank Head Office (12%). For the last several years, Grameen Bank has been in a fund surplus situation, with deposits (two-thirds of them from borrower/members) being in excess of its loan portfolio. At the end of 2007, Grameen Bank had a savings balance of US\$705 million, comprising US\$401 million from borrower/members and another US\$304 million in non-member deposits. This figure represents 135% of the bank's total outstanding loan portfolio; 1,373 out of 2,475 Grameen Bank's branches (or 55%) currently have funds on deposit in excess of their outstanding loan balance.



Weaving is a common microbusiness for Grameen Bank clients. Each basket is hand-made from materials purchased with their small loans.

There are many insights that can be gleaned from the Grameen II experience including the importance of an enabling regulatory environment and the importance of thoughtful product design. Some of the key lessons learned are discussed below.

1. Having regulatory authority to mobilize deposits is important. In the case of Grameen Bank, this was the Grameen Bank Ordinance of 1983. As much as possible, regulations should be tailored to the business logic of microfinance, rather than simply being extensions of the regulatory framework of traditional commercial banking.
2. Creating incentives for staff to mobilize savings can be an important factor in success. In the case of Grameen Bank, staff and branches are given non-financial incentives (that are related to promotions, among other things) if they are self-sufficient in funds (i.e., if their savings balance exceeds their loan portfolio). The extent to which they are able to mobilize deposits enhances profitability, which is also rewarded. New branches are expected to be self-sufficient financially from inception, and this expectation causes staff to market savings products from the day they open a new office (which was happening at a rate of nearly two branches per day in 2006).
3. A limited number of mandatory savings such as GPS (required for those whose loans are over a defined amount) help address what behavioral economists call “time inconsistency” and “hyperbolic discounting” and the tendency of these behaviors to suppress demand for voluntary savings products (Dowla and Barua). Mandatory savings products also overcome problems related to gender. For example, female borrowers tend to open extra GPS accounts without the knowledge of their husbands so as to protect hard-earned savings from their whims.
4. Being able to save tax free is an important benefit available to Grameen Bank members, which is not available to non-members (see point 7 below) or to those who hold generic competitive products known as deposit pension scheme (DPS) offered by other financial institutions. Conferring tax-free status may be a preferable way for governments to support the microfinance sector and overcome poverty, as compared to offering direct financial support to MFIs.
5. Approaching local businessmen who are too wealthy to be loan clients to become savings clients when opening a new branch, as Grameen Bank now does, has the added benefit of building awareness and support among an important constituency that can have long-term benefits. This also has the added benefit of using local savings to finance local investment rather than being siphoned off to finance investments in urban centers.
6. Linking access to loan products to a client’s savings history can be a powerful incentive for mobilizing savings, as long as it does not lead to self-exclusion among the poorest clients and potential clients. Carefully calibrating incentives is critical.
7. Savings products, particularly ones that are voluntary and non-contractual, require a robust MIS, strong internal controls, and operational standards including regular audits. Otherwise, the potential for mismanagement and fraud is significant. The fixed costs associated with

upgrading these systems argue for going into savings in an aggressive way with the ultimate goal of having a suite of highly attractive products that (a) can successfully compete even without tax advantages and (b) allow the MFIs to be self-sufficient in funds or close to that level.

8. As has been seen in many parts of the world, having low minimum balance requirements is important to attracting poor micro-depositors, and offering competitive interest rates is certainly important as well (although some micro-depositors may not focus on this initially, particularly if they are unaware of the rates of other financial institutions). Grameen Bank has offered 8.5% interest on its basic savings products for years and its contractual savings programs accrue higher rates. Historically, even Grameen's basic interest rate paid on deposits has been higher than rates being offered by most if not all of the other financial institutions taking deposits in Bangladesh. Convenient access is also an important criterion for savers, especially voluntary ones.
9. As traditional societies change, primarily through urbanization and globalization, and given the inability of governments in poor countries to provide social protection, the importance of pension and retirement schemes will continue to grow. Appropriate savings products may be the best way to combat growing poverty among the vulnerable elderly especially widows. Research from 1998 indicated that approximately 25% of poor individuals in Bangladesh did not know how they would support themselves in old age (Dowla, 2006).
10. The success of Grameen II underscored important lessons from earlier research: savings products for the poor must be designed appropriately to ensure that they meet the needs of the poor and that they take into account barriers related to culture, geography, gender, and disadvantage. Well-designed savings products would entail minimal risk and clearly articulated benefits to the client.



Grameen Bank clients can see a dramatic change in their lives from loans as small as \$100.

11. Dowla and Barua assert, convincingly in our view, that named products like the GPS – where the name suggests the use of the savings asset to be accumulated rather than how the product is structured – are taken up more quickly than ones that are generic.

We recommend that practitioners and policy-makers study the experience of Grameen II, especially its savings products. We feel strongly that the lessons learned in Bangladesh, including those listed above, will inform the evolution of the microfinance industry. During the researching of this paper, we were frankly surprised to learn that many MFIs within the GF network were not familiar with the details of Grameen II; GF will make every effort to ensure that the lessons learned are disseminated widely.

In some circles, Grameen Bank is viewed as neglecting savings and it is important that perception catch up to reality which is quite the opposite, as detailed above. Grameen Bank continues to refine the model to better meet the changing needs of its growing numbers of

clients who increasingly span the economic spectrum of rural Bangladesh. The history of success to date clearly demonstrates that the poor do save and that collecting those savings can have a profound positive effect on both the depositors and the deposit taking institution.

## The Fonkoze Experience and Tapping into the Diaspora and their Remittances

Fonkoze (and its sister organization Fonkoze Financial Services or SFF), a leading MFI in Haiti that serves 50,000 loan clients and 120,000 savings clients, began mobilizing deposits from the time of its establishment in 1995. It did so despite having unclear regulatory support for doing so. The consensus of legal opinion was that Fonkoze could take deposits but it could not lend out those deposits. Fonkoze made the decision to convert all savings deposits into US dollars and keep them in a U.S. bank. At the same time, its loans were financed through socially responsible investment dollars from abroad. This strategy, which has since been discontinued, entailed a hypothetical foreign exchange risk for the organization – the reality is that the value of the Haitian gourd has steadily declined over time which has effectively protected the savings of Fonkoze’s depositors.

From the outset, because Fonkoze branches were opened in rural areas where no other financial institution was available, deposits grew at a rapid rate and *always* exceeded in volume the size of the loan portfolio. Poor and non-poor alike chose Fonkoze as their savings institution because they offered multiple savings products that were easily accessible and offered competitive interest rates, at least as good as the commercial bank sector.

In fact, in-country savings grew more quickly than socially responsible investments from abroad. It became apparent to Fonkoze’s management team that to meet its growth goals, it would need to intermediate those savings to make loans. It made the decision to go to the Central Bank and ask to be regulated. While the Central Bank was not prepared to give Fonkoze a commercial banking license, over time, informal support from the regulatory authorities was received. Fonkoze and its sister organization Fonkoze Financial Services (SFF) began to use client savings to make loans when it received written legal permission from each of its clients to do so (which the regulatory authorities informally recommended would be an acceptable way to move forward). At the same time, Fonkoze engaged the services of an experienced auditor and former Director of the Department of Supervision of the Central Bank to train its board and staff in how to prudently manage savings in the absence of Central Bank supervision.



A Fonkoze client can use the profits from her microbusiness to pay for her childrens' education.

In a discussion about lessons learned and possible new directions/products for Fonkoze's savings products, the following points emerged:

1. Fonkoze's initial strategy was to convert its local currency savings into dollars and deposit them in a U.S. bank (City National Bank of New Jersey or CNB). This strategy offered protection to the depositors because the bank was FDIC insured. (No bank in Haiti is government insured.) In addition, it made Fonkoze members (in the aggregate) an important savings client of CNB, which led to Fonkoze receiving special attention from CNB's leadership. This status as a preferred client led to CNB designing a program with Fonkoze that enabled Haitians and non-Haitians in the U.S. to transfer funds into a Fonkoze account in Haiti for a flat fee of \$10 regardless of the size of the deposit – a much better price than any money transfer company could offer. This in turn helped to increase the growth rate in savings.
2. Having access to advisors versed in the legal, regulatory and operational issues involved in savings and remittances is essential to developing and managing a robust and prudently managed micro-savings program.
3. There is an opportunity to build on early successes by introducing more and better products. A pension scheme similar to Grameen Bank's GPS was launched among Fonkoze's staff and there is a strong desire to offer it to clients in the future.
4. Educating clients who accumulate assets through savings and/or remittances about the importance of using these assets for long-term investment in health, education, nutrition and housing – as opposed to non-productive consumption – is believed to be an important element of maximizing the anti-poverty impact of micro-savings. This assumption should be confirmed by research. Bi-weekly borrower meetings give opportunities to convey these concepts in a culturally appropriate way and represents a strategy for leveraging the microfinance platform.
5. In the case of remittances, educating both the sender and receiver is important, and is possible when the diaspora is centered in a few major cities (e.g., New York and Miami in the case of Haiti). In an effort to rise to this challenge, Fonkoze has set up programs to bring financial education to “hometown associations” of Haitians in these U.S. cities.
6. Fonkoze has discovered that many of its clients value the opportunity to set up accounts in which Fonkoze supervises or even controls access to the savings. For instance, Haitians living abroad might set up an account with Fonkoze and make deposits into that account through CNB. But they might provide instructions that the account recipient only receive a certain amount of money from the account on a weekly or monthly basis. In some cases, clients even ask Fonkoze to make tuition payments from the account directly to the school and send the receipt to them.
7. Some of its bigger clients, such as NGOs or business people, appreciate the opportunity Fonkoze provides for them to have each of their employees set up an account with Fonkoze and to have their payroll handled by Fonkoze. The employer simply sends

Fonkoze a list of their employees, the account numbers and the amount they are to receive and Fonkoze automatically takes the funds from the employer's account and deposits them into the employees' accounts, and then provides a full report and receipts to the employer. Fonkoze benefits financially and in the process while creating positive relationships with medium to large companies and their workforces.

8. A product that Fonkoze would like to launch, if it had the human and financial resources to do so, would be to offer individuals in the diaspora the opportunity to save towards building a retirement home in Haiti. At any point after saving an amount equal to half of the total estimated cost of building/buying the house, Fonkoze would be willing to lend the balance to the depositor. This would encourage savings, give Fonkoze access to loan capital, create a new credit product, and encourage (at the margins) the return of members of the diaspora to Haiti. This product would also leverage the knowledge and relationships that Fonkoze has built among the diaspora and in Haiti.
9. All of these examples demonstrate that “niche” that Fonkoze has developed in the Haitian financial sector, one that is focused on providing customized services to its individual and institutional clients who are not poor but who value its services and may have affinity for its mission. As a result, Fonkoze has some clients who maintain balances as high as US\$150,000.

## Esperanza and the Potential Role of Cooperatives

Esperanza, a leading faith-based and unregulated MFI in the Dominican Republic (D.R.), has accepted compulsory savings since its inception, mainly through a “group tax” of 10% and later 5% of the loan amount, which is put into a “group fund” that is owned by the borrower solidarity group collectively. Later, voluntary savings products were introduced, including one where the client is required to save the same amount (determined by the client) on a bi-weekly basis during the entire term of a loan. The client can change the savings commitment with the issuance of each new loan. Presumably, the requirement that the same amount be saved each week during the term of a loan is related to internal controls and the desire to limit the opportunity for fraud.

Like Fonkoze, Esperanza believes that educating the poor about savings products and the importance of accumulating assets for productive investment purposes (e.g., home, education, business) rather than consumption (especially liquor, gambling) is an important part of its culture and mission. Research could confirm the effectiveness of these messages, conveyed during the bi-weekly meetings of its “banks of hope”, in promoting healthy behavior modification.

Esperanza mobilizes savings from clients at biweekly meetings, and deposits client savings in accounts at commercial banks. They do this because the commercial bank branches are not located near the clients, but are usually near Esperanza branch offices. It is estimated that 15%-20% of the loan officers' time is spent administering savings, and in some sense this can be thought of as representing a subsidy to the clients and/or to the banks. The interest earned by clients on these accounts is about 4%.

Esperanza is exploring creating and launching a savings cooperative, a sister organization, following a strategy employed by another GF MFI partner, AlSol in Mexico. The cooperative would accept savings deposits and would allow Esperanza to effectively intermediate savings (since the cooperative would be allowed to lend to Esperanza the MFI) and also pay depositors a higher rate of interest (8-12%) since this would still be less than the cost of funds Esperanza pays now on its borrowed loan capital (16-22%).

Collective action by local non-regulated MFIs to advocate for permission to mobilize deposits has not yielded any results to date. Lessons from Esperanza's work in micro-insurance suggests that regulators would only take local, non-regulated MFIs desire for a supportive regulatory framework seriously if they had one or more respected international partners, such as a microfinance network, a well-endowed foundation, and/or an international company specializing in financial services.

It should be noted that until recently, Esperanza was also largely unfamiliar with Grameen II, which has been rectified but suggests an opportunity to profile in new and better ways this breakthrough approach to the wider microfinance community across multiple regions.

Several lessons from Esperanza include:

1. Culture is critical. The poor in the DR tend to immediately spend excess income on consumption including entertainment. Once Esperanza launched a client education initiative, clients understood that the power of compounding interest and began to change their behavior.
2. Institutional reputation is important to inspire consumer confidence, especially in a situation when savings schemes that failed in the past may have disillusioned many people. In some instances, such as the fairly restrictive environment in DR, it may be advisable to partner with an international network to catalyze greater support among government officials and supervisors.
3. A robust savings program requires that making deposits be convenient for clients. Esperanza's loan officers collect and aggregate micro-savings, providing each client with a pass book, while the deposits are held in an interest-bearing single account at a commercial bank. Esperanza in essence acts as an agent for the commercial bank by providing a service to a population that the bank would not typically serve, mainly due to proximity. Bringing these services virtually to the doorstep of a poor family living in a remote area is an essential aspect of why Esperanza's savings program works well.

## The LAPO Experience and the Potential for Savings from Local Social Investors

Lift Above Poverty Organization (LAPO), a leading MFI in Nigeria that is currently more than 130,000 clients in seven states, has instituted both compulsory and voluntary savings products. Under Nigerian law, it can only offer savings products to its loan clients, but it is anticipated that this will change when LAPO converts into a regulated bank. Now, however, it deposits savings in licensed banks on behalf of its clients. The key lessons from the LAPO experience are:

1. A named product – the Xmas Business Savings program – has been successful in encouraging clients, starting in January, to begin amassing the resources needed to stock inventory and successfully meet demand at Christmas. This was a compulsory product but the amount saved was variable based on a client's preferences.
2. Purely voluntary savings has become an even bigger program than Xmas Business Savings. It was important for LAPO, with Grameen Foundation support funded by USAID, to upgrade its MIS and use of technology generally before rolling out these products. This is critical because the introduction of voluntary savings products can imply an enormous increase (up to 5 to 10 times) in the number of transactions processed. Such growth, as well as the increase in cash flow, could overwhelm an unprepared MFI and lead to an increase in fraud. Robust MIS and internal controls are critical.
3. In order to prime demand for its savings products, it was necessary for the CEO of LAPO to visit branches and meet with elected leaders among clients to explain the product offerings and their benefits. A brochure in a local language was developed that helped increase demand as well.
4. Training and incentivizing loan officers is an important part of making savings products successful, as we have seen elsewhere.
5. LAPO's experience with savings and its relationships with wealthy Nigerians living in Nigeria has prompted it to seriously explore a program whereby high net worth individuals could deposit funds with LAPO and receive a below-market return in exchange for the satisfaction of knowing that their resources were helping to meet the loan demand of their poor countrymen. It could work along the lines of some of the products offered by the Calvert Foundation in the United States, but without the cross-border currency risk. Testing the demand for and overall potential of this product should be a priority, as it could be applicable in other countries where there are local wealthy individuals who are looking to impact poverty but are distrustful of traditional charity programs and/or where American-style philanthropy has not taken root for whatever reason. This could be made available to the Nigerian diaspora, particularly if they were willing to save in local currency. In effect, LAPO is proposing to use Grameen Bank's strategy of marketing its savings products to rural entrepreneurs and applying it to some of the wealthiest Nigerians in the country as a socially responsible investment. Grameen is getting the support of local entrepreneurs by offering attractive tax-free interest rates.

Grameen is able to do this because it has the legal cover and solid brand name. LAPO would likely be able to do this as well when it transforms into a bank. It could have the effect of developing a constituency for LAPO (and microfinance generally) amongst influential business leaders, which could have other benefits.

6. LAPO also has a strong desire to launch CDs and pension-type products, along the lines of Grameen II, once it becomes a bank, if not before. It would require additional human and financial resources to do so.



A LAPO client transports her products to sell in a local market.

LAPO expressed interest in tax-free, contractual savings accounts for building up assets to pay for future educational costs of their children's clients, similar to those now available in the United States.

The experiences of Grameen Foundation's MFI partners in Haiti, Dominican Republic, and Nigeria and of the Grameen Bank in Bangladesh confirm that there is a strong demand for savings products but that MFIs confront a range of barriers to providing those services. One barrier is that many MFIs are precluded from accepting deposits due to regulatory barriers. Another is that many practitioners and clients are averse to the potential risks inherent in accepting savings. One potential solution to both of these barriers is through the creation of deposit insurance that would create a safety net that protected depositors and a limited the risk to policy-makers if they allowed unregulated MFIs to accept deposits and intermediate them.

## The Catalytic Potential of Deposit Insurance

The rationale most regulatory authorities give for not allowing some or all MFIs to (a) mobilize deposits from loan clients, (b) mobilize deposits from the public, and/or (c) intermediate savings is that it puts poor micro-depositors at risk of losing their savings if the MFI collapses or loses the savings of its depositors for any other reason. This is particularly true for unregulated MFIs but even extends to some non-bank financial institutions (NBFIs), such as in India. While in some cases this may be a pretext for simply not granting this authority to MFIs and developing the means of certifying NGO-MFIs as deposit worthy, there is some merit to this reluctance on the part of regulators. Certainly there are many countries where the poor have lost assets in regulated and unregulated deposit-taking entities, and the government has a role in limiting the frequency and extent to which this occurs.

One approach to doing this would be to extend a national deposit insurance program to qualified MFIs, if one exists<sup>1</sup>. This would protect micro-depositors up to a certain threshold; in the case of Nigeria, it could be US\$800 which is the ceiling in place under Nigeria's current deposit insurance scheme for commercial bank accounts. However, many countries do not have deposit insurance and for those that do, extending it to MFIs that are not already covered could be difficult or even inappropriate, as the insured amount and the cost to the financial institution, if any, were likely designed with traditional financial institutions and their clients in mind. Creating a deposit insurance program specifically for qualified MFIs (or some subset of them) is also possible, but it would take considerable effort on the part of the government. If the government is skeptical of MFIs' ability to attract deposits and be good stewards of those resources, it is unlikely to move towards a deposit insurance regime of any kind covering MFIs that are not already covered.

As a way of breaking out of this conundrum, at a recent Grameen Foundation meeting, Professor Muhammad Yunus, the founder of the Grameen Bank and a member of Grameen Foundation's Board of Directors, suggested that an institution, such as a local or international non-profit organization or foundation, could provide deposit insurance on a pilot basis to an individual MFI or even a subset of its branches. The insured amount for each qualified account could be set so that it would be equal to or greater than the amount a moderately poor family would be likely to accumulate over a reasonable amount of time. The government would be requested to provide explicit permission to that MFI to collect and intermediate deposits in the branches covered by this program, during the time when the insurance is in force. This would allow the MFI to "learn the ropes" on a limited scale, test products, and prove that they could attract and prudently manage micro-deposits. Government regulators could monitor the progress at regular intervals, and the philanthropic deposit insurer could publicize the results and learnings within that country and internationally. Ultimately, this could lead to the regulators gaining confidence that some MFIs that are not currently allowed to collect or intermediate deposits could do so, either without deposit insurance, or with insurance that would be provided comprehensively by extending the current system (if any) to MFIs or creating one specifically designed for microfinance. It would probably make sense to do these demonstration projects simultaneously in a number of countries in order to prove the concept and generate meaningful lessons and impact.

Another alternative will be to form a coalition of MFIs to create an external fund that would provide private deposit insurance. It could be similar in many respects to the highly successful Bangladeshi microfinance wholesale fund PKSF but focused instead on deposit insurance. The fund would be capitalized by subscriptions from MFIs. An external funding agency could provide a guarantee that could provide another layer of protection. This structure would spread the risk of a "run" on a bank or MFI among several organizations.

There are many variations on this theme of using deposit insurance to protect poor savers, develop capacity among MFIs to handle savings, and win over the confidence of regulators.

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<sup>1</sup> In another paper prepared for the Gates Foundation's savings conference, Colleen Green of DAI and Tillman Bruett of Alternative Credit Technologies did an excellent survey of the extent to which deposit insurance exists in developing countries and also looked at whether these laws applied to MFIs. While in draft form, the title of this paper was "Deposit Insurance: New Options for Protecting and Bolstering Savings of the Poor."

Clearly there are issues of moral hazard, among others, that would need to be thought through and solved or at least mitigated. But deposit insurance is a fact of life in many economies. There is a body of best practices to tap into. Appropriately modifying and applying those learnings in the microfinance context should not be beyond the reach of those seeking to bring micro-deposit services to the poor and enabling MFIs to access a new source of capital.

## Conclusions and Recommendations

No formal study that we are aware of has analyzed, in a comprehensive way, the gap between supply and demand of formal (institutional) micro-savings and the extent to which MFIs would be able to meet that demand if they had the regulatory and technical support, and technology in place, that would allow them to do so. Certainly, there are regulated banks involved in microfinance as well as credit unions that can already provide these services. For them, the key constraint may be developing products that fully meet the needs of the poor and especially the poorest, while not overburdening their capacity. However, based on anecdotal evidence, the supply/demand gap is large (and perhaps growing in absolute terms), and the latent ability of existing MFIs to meet that demand is probably significant. As discussed in Morduch (2007) and demonstrated by the Grameen Bank, it would be likely that, given the general risk aversion among the poor, the demand for savings products would be greater, perhaps up to seven times as great, than the demand for loans. The demand for savings products and the potential transformative impact of expanding access to savings should spur practitioners to action.

### Recommendations

1. It is important that influential institutions including philanthropic foundations continue to stress the importance of micro-savings to the poor and to the MFIs that serve them. Micro-savings can empower and support micro-credit, micro-insurance and remittances in the microfinance context. Holding a “Micro-Savings Summit” in Bangladesh, co-chaired by Bill Gates and Muhammad Yunus, would represent a historic rallying point for those who seek to dramatically increase the availability of quality savings products for the poor and the poorest.
2. Product development is essential, bearing in mind the needs, opportunities and limitations of the poor and especially the poorest. Front-end as well as back-end technology has an important role to play in making products viable that currently are not. In addition, spreading general awareness about and knowledge of best practices regarding successful micro-savings programs, such as Grameen II, can have a catalytic impact.
3. Financial and technical support to upgrade management information systems, technology platforms, human resources, and audit procedures, all can contribute to preparing an MFI to offer micro-savings services, or to do so more responsibly/confidently/effectively if it already offers those services.

4. In a regulatory environment that is not supportive, there may be “work arounds” – such as creating a sister institution (such as a cooperative) – that comply with current law. Assisting well-chosen MFIs to do this may have impact beyond one institution; it can have a demonstration effect on other MFIs and regulators. While product development is increasingly important in the microfinance context, institutional development is also critical, especially in the context of micro-savings.
5. There appears to be significant interest among MFIs to offer more and better micro-savings products. With human, financial and technical support, they will be able to act on this interest faster and more responsibly – even in a regulatory environment that is not unambiguously supportive.
6. Rigorous academic research on the impact of micro-savings and the relative effectiveness of certain products in particular contexts is clearly needed. Behavioral economists should be engaged to further study and describe the ways that products should be marketed to the poor and the poorest. Special attention should be given to the poorest, least developed countries, as they may have different characteristics than dynamic countries (e.g., India, Brazil) with well developed financial sectors.

In general, Grameen Foundation believes that the best sources of the capital to serve the demand for microcredit are local ones, denominated in local currency. In order to bring local capital to leading MFIs, we launched a “Growth Guarantee” program to link MFIs with commercial banks, and have leveraged more than \$120 million of local currency financing in less than 2 ½ years. Another source of capital must be micro-deposits from loan clients and the public. We believe that this will be an increasingly important source of capital for MFIs in the years ahead, but only if resources and attention are paid to its yet-unrealized potential and to successful efforts already in operation. We therefore support the idea raised in the savings seminar to adopt a goal related to increasing the percentage of MFI loan capital that is sourced through deposits. In addition, we believe that well designed micro-savings services meet a critical need of the poor, the poorest and formerly poor microcredit clients. For these reasons, we believe that building on past successes in micro-savings must be approached with a high degree of urgency in the years immediately ahead. In addition, we believe that special attention should be paid to scaleable MFIs serving the poorest and most remote populations and that are not willing or able to transform into banks or NBFIs.

## **What Lessons Learned Could We Share with Practitioners?**

Our interviews with leading practitioners revealed several key factors and concepts that will be useful for any MFI seeking to launch and promote savings programs as listed below.

***Do your market research.*** Know your market and customers. Do not assume your only customers are borrowers or even non-borrowing individuals in the community. Fonkoze discovered early on that many organizations, including churches and NGOs, wanted to show

their support for Fonkoze's work by opening accounts. Once remittances were tied to accounts, even the diaspora began to save. Fonkoze plans to offer a specialized product to allow diaspora Haitians to save to build retirement homes in their beloved Haiti. Researchers such as Rutherford rely on detailed household level tools and analysis that document demand, cash flow, and capacity to save.

**Create options, reliability, and flexibility for clients.** Many poor people lead complex and precarious lives and are involved in multiple financial transactions. Secure, convenient savings products are attractive because they promote asset accumulation and mitigate risk. But the savings must be easy to access when emergencies occur. LAPO created named, fixed-term and also flexible voluntary products. Both are successful. Grameen II had a similar experience.



Offering flexible savings products allows clients to invest in their future.

**Educate clients about the advantages of savings.**

Although many of the poor and poorest can and do save, often in creative ways, they may not always be aware of the advantages of regular savings in a secure and interest-bearing account. Client education will promote savings, especially for high interest and fixed-term products. Many MFIs, including Fonkoze, LAPO, and Esperanza encourage poor savers to set specific goals and to only withdraw savings for investments in health, education, and home improvement.

**Create incentives to save, and market your products creatively.**

Incentives to save can be as simple as providing a small gift to those who open a long-term account with a minimum balance or as multifaceted as Grameen Pension Scheme (GPS). Yet both can lead to increased savings and savers rapidly. The GPS product quickly came to dominate the savings portfolios of many Grameen branches and was typically twice the share held by personal savings. When becoming a paying agent for Moneygram (which does not

provide home delivery), Moneygram and Fonkoze joined hands to open an account with \$1 of seed capital for anyone who came to the branch to pick up their transfer. Each partner (Moneygram and Fonkoze) deposited 50 cents into the account. The clients loved it. To take another example, LAPO's Xmas Saving Program allowed clients to save all year for end-of-the-year expenses in a convenient and secure manner. It was very appealing to clients.

**Be innovative.** Develop products and delivery systems that are appropriate and convenient. Fonkoze was able to develop an innovation due to relationship with a commercial bank in the U.S. Today they have about US\$11 million on deposit in 160,000 accounts across Haiti. The Grameen Bank offers a variety of savings products to meet the diverse needs of a broad range of clients. Esperanza is considering creating a cooperative subsidiary to take advantage of a unique local law that allows cooperatives to accept savings and lend those funds to a related company. LAPO and other organizations are considering creating regulated financial institutions (banks) that would be supervised and legally eligible to accept deposits. It is also critical to invest in staff training, internal controls, and robust MIS to ensure that savings deposits are well managed and fraud is averted.

**Be proactive.** Fonkoze is not formally regulated. As the amount on deposit from savers grew, their board of directors opted to bring in outside experts to set up internal controls and systems so they would be fully compliant with all regulations – even though they were not required to do so – so they would be fully compliant if and when they were ever required to be.

To this list of findings gathered during our extensive interviews with leading field-based practitioners, GF would add one additional key lesson learned – *Document your successes and setbacks*. If the microfinance movement is to go to scale, we should share experience and learnings widely. We can help one another be successful and move even more people out of poverty.

## Some Final Thoughts Based on the Savings Conference Proceedings and Papers

The conference held February 27-28 was an important opportunity for thought and practice leaders to gather with the Bill and Melinda Gates Foundation staff and explore emerging trends and potentially high impact ideas related to micro-savings, against the backdrop of a shared understanding of key barriers that exist today. The following ideas stood out to us as important to bear in mind as the Foundation develops and refines its strategy.

1. Rather than focus its projects on advancing micro-savings for families under \$5 per day with the hope that casting the net wide will help spur innovation related to products for those under \$2 and \$1 per day per capita, a safer strategy would be to focus on micro-savings for the poorest segments of humanity based the belief that if business models and products for serving them can be developed and rolled out on a meaningful scale, this will naturally spur increased focus by financial institutions on savings products for those in the next rung up (\$2-\$5 per day).
2. A high impact strategy could be supporting a limited number of “bellwether” MFIs who meet the follow criteria:
  - a. Are high achievers in all or most areas with the exception of deposit mobilization
  - b. Are eager to begin to capture and manage deposits
  - c. Have regulatory support to mobilize and intermediate savings
  - d. Are well known in the industry for innovation that is later adopted by other MFIs
  - e. Have large numbers of clients who, upon beginning their relationship with the MFI, have incomes of less than \$2 per day and especially \$1 per day.
3. Despite its relative neglect when compared to microcredit, the Foundation should resist the temptation to focus narrowly on micro-savings while neglecting its place in a larger ecosystem of products including micro-credit, micro-insurance, and non-financial products provided through the microfinance channel. For example, with respect to making the business case for micro-savings, we assert that there are probably micro-savings products that are not profitable in and of themselves, but may represent a “loss leader” that can attract clients to a financial institution who will utilize profitable

financial and non-financial products (and may not have done so without the savings product that was the initial basis of the MFI-client relationship). While financial institutions often talk about developing profitable client relationships as their unit of analysis, they often focus on developing profitable products instead.

## About Grameen Foundation

Founded at the behest of 2006 Nobel Peace Prize winner Dr. Muhammad Yunus, GF has its historical roots in the Grameen Bank, but it is a separate organization with a \$16 million annual budget that works with 44 microfinance institution partners that serve 4 million borrowers in 22 countries worldwide. GF provides technical assistance, products, expertise, training, capital, and other support to its partner organizations mainly through its technical staff, consultants, technology, and volunteers. The mission of GF is “to empower the world's poorest people to lift themselves out of poverty with dignity through access to financial services and to information.”

[www.grameenfoundation.org](http://www.grameenfoundation.org)

## About the Authors

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## Organizations Mentioned in this Paper

### Esperanza International

[www.esperanza.org](http://www.esperanza.org)

### Fonkoze

[www.fonkoze.org](http://www.fonkoze.org)

### Grameen Bank

<http://www.grameen-info.org/bank/index.html>

### Lift Above Poverty Organization (LAPO)

[www.lapo-ng.org](http://www.lapo-ng.org)

## Also by Grameen Foundation

GF has published a number of papers, some of which are available in languages other than English (especially Spanish). A partial list follows. Many are available for download at [www.grameenfoundation.org](http://www.grameenfoundation.org).

*Microfinance: A Platform for Social Change*, Marge Magner, March 2007

*Factors That Contribute to Exponential Growth: Case Studies for Massive Outreach to the Poor and Poorest*, Alex Counts, Roshaneh Zafar, and Erin Connor, published in *More Pathways out of Poverty*, (Kumarian Press, November 2006)

*Taking Stock of the Microcredit Summit Campaign*, Susan Davis and Vinod Khosla, November 2006

*Thinking About Microfinance Through a Commercial Lens*, October 2006

*Building on Success: The Next Challenges for Microfinance*, Robert Eichfeld and Henry Wendt, September 2006

*Measuring the Impact of Microfinance: Taking Stock of What We Know*, Nathanael Goldberg, December 2005

*Tapping the Financial Markets for Microfinance*, Jennifer Meehan, 2004