Significance of Small Deposits for Microfinance Providers

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ABOUT PMN

Pakistan Microfinance Network is a network of organizations engaged in microfinance and dedicated to improving the outreach and sustainability of microfinance services in Pakistan through knowledge management, capacity building, transparency and advocacy.

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This paper is an attempt by the Pakistan Microfinance Network (PMN) to bring attention to the important issue of small deposit mobilization in the microfinance sector globally. The research was undertaken by the PMN and funded by Citi Foundation-USA and the UK Department for International Development (DFID).

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ACRONYMS

ASA	Association for Social Advancement
CARD	Center for Agriculture and Rural Development, Inc.
CGAP	Consultative Group to Assist Poor
FMFB	First MicroFinanceBank Ltd.
GLP	Gross Loan Portfolio
GNI	Gross National Income
MFB	Microfinance Bank
MFI	Microfinance Institution
MFP	Microfinance Provider
USD	United States Dollar

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INTRODUCTION

1.1 BACKGROUND

There is an increasing focus on savings in the microfinance sector worldwide. This focus is a result of a number of factors: a realization that the low income segments want access to deposit services and that they have the ability to save; long term sustainable growth of microfinance will not be possible without generating funds through deposits; and the impact of access to deposit services may outstrip access to credit in the long run.

In Pakistan's context, savings have become a focal point of discussion especially after the promulgation of the MFI Ordinance 2001 which enabled the establishment of full - fledged microfinance banks (MFBs) in the country that could provide not only microcredit but also deposit services. Unfortunately, we have not seen savings mobilization take-off as had been anticipated – deposits still only fund 27.4 percent of total assets of the MFBs.

It is often stressed that these banks need to go down market and target the small saver, as that is where their comparative advantage lies and that without successfully mobilizing small deposits, MFBs will not be able to sustain themselves in the long run. Without discounting the importance of providing formal savings options to the lower end of the market, it is nonetheless important to question how significant a source of funding these deposits can be for a microfinance provider (MFP). The answer to this question has implications for deposit mobilization strategies of MFPs as well as public policy regarding microfinance. Through this paper we attempt to inform this debate on small versus large deposits in microfinance, using data from five MFPs from different countries.

1.2 Data & Methodology

As mentioned above, we use data from five MFPs from different countries that are often cited as examples of microfinance institutions that have been successful in deposit mobilization. The initial scope of the paper had been much larger, but we faced significant challenges and delays in getting access to the required data. This forced us to limit the sample size and scope of analysis.

The core focus of this paper is on the deposit base of the sample MFPs, to understand the composition of their deposit base in terms of sources of deposits i.e. is the volume coming from large or small depositors and how significant are small deposits as a source of funding for the MFPs? Given the limitations of sample size, we see this paper as one that raises this question yet again rather than providing conclusive evidence.

Sample: Of the five institutions used in the study, three are licensed institutions. These are: ACLEDA Bank in Cambodia, BancoSol in Bolivia, and First MicroFinanceBank Ltd. in Pakistan. The non-bank MFIs that can mobilize deposits are the CARD (NGO) in the Philippines and ASA in Bangladesh. As mentioned above, the original sample had been larger with a view of maintaining geographic diversity and the different institutions' reputation with respect to deposit mobilization in microfinance. However, the final sample was defined by the level of interest and response from the MFPs. Here we would like to acknowledge and appreciate the support of institutions that provided the data to make this paper possible.

Data Sources: Data was directly acquired from the following institutions: ACLEDA, ASA, CARD[1] and FMFB. BancoSol's data was taken from the CGAP paper *'Stability of Small Deposits'* by J. Bald published in January 2008. In addition, the MIX *(www.themix.org)* was used as the main source for information on assets and gross loan portfolio sizes of the MFPs.

Defining Small Deposits:
Comparing deposit sizes in absolute terms across institutions that operate in different countries does not make sense given that one dollar can translate into very different purchasing power in different economies. An accepted practice in this situation is to compare deposit sizes as a percent of per capita incomes. For the purposes of this paper, we use deposits as a ratio of gross national income (GNI) and define 'small' deposits as those at or below 100

[1] PMN would like to acknowledge the support and cooperation of the Microfinance Council of the Philippines, Inc. in acquiring data from CARD (NGO).

percent of the country's GNI. This definition of small bank deposits is derived from the CGAP paper – *'Stability of Small Deposits'* (Bald, 2009), which says:

In his research with the World Savings Banks Institute, Steve Peachey finds that savings banks in the poorest 20 percent of countries operate with an average savings balance that is roughly a quarter of per capita gross national income (GNI). At this ratio to average income, Peachey believes mass access to financial services is possible. The same relationship between average deposit size and per capita GNI can be observed in rich European countries with strong savings banks (e.g., France, Germany, and Spain). These countries successfully reach the mass and middle market and contribute to very high levels of access to finance. For commercial banks in developing countries, the situation is often very different. According to World Bank data, per capita deposits average five to six times per capita GNI in the poorest fifth of countries, a ratio that is compatible with servicing the needs of only the top-end of the market. Thus, setting the cut-off for the definition of SBDs at 100 percent of GNI per capita or ideally below is likely a better starting point than an arbitrary absolute threshold.

It is obvious that there are many other factors that act as pre-requisites and/or factors of success for MFPs which are looking into savings mobilization such as the savings model, staff skills, appropriateness of products, marketing strategies and risk management. In the initial terms of reference for this paper, a detailed look at each of the MFPs in these areas was also included. However, extensive literature review showed that there are many good resources that talk about these and consolidate lessons from across the global microfinance sector. The authors' recommendation for useful literature on the topic are, *'Savings Services for the Poor - An Operational Guide'* edited by Madeline Hirschland and CGAP Focus Note 37, *'Safe and Accessible: Bringing Poor Savers into the Formal Financial System'.*

SECTION 2

STATE OF SAVINGS IN THE MICROFINANCE SECTOR IN PAKISTAN

The real push on savings in Pakistan's microfinance sector came after the promulgation of the Microfinance Institutions Ordinance 2001, which created room for setting up full-fledged microfinance banks that could provide a broader range of financial services, including deposits. Prior to this, MFIs and RSPs could only 'mobilize' deposits as opposed to 'intermediating' them[2].

Although the establishment of microfinance banks in the country has increased the volume of savings in the microfinance sector, the overall level of deposits remains low. According to 2008 data, voluntary deposits currently finance only 12.3 percent of the sector's total assets and 20.5 percent of the gross loan portfolio (see Table 1).

Most of these deposits are accounted for by MFBs (two MFIs *Asasah* and *Kashf Foundation* reported approximately Rs. 21 million in voluntary savings collectively in 2008). At end 2008, of the seven MFBs currently operating in the industry, FMFB alone accounted for 80 percent of these deposits, followed by Tameer MFB with a 16 percent share. Although MFBs' collective deposit base has consistently risen over time, any significant increase can be attributed to only one institution i.e. FMFB (see Figure 1).

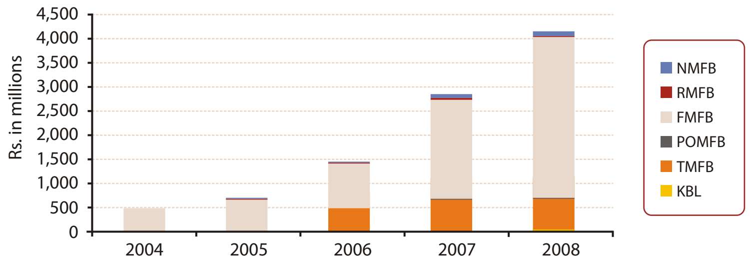
Table 1: Industry Financing Structure

	2005	2006	2007	2008
Total Assets (Rs. billion)	13.4	17.5	22.9	33.2
Gross Loan Portfolio (Rs. billion)	5.7	8.4	12.8	20
Deposits/Voluntary Savings (Rs. billion)	0.7	1.4	2.9	4.1
Deposits to Total Assets (%)	5.2	8.6	12.7	12.3
Deposits to GLP (%)	12.3	17.9	22.7	20.5

Source: Pakistan Microfinance Review

[2] **Intermediation:** Public deposits used to finance an organization's loan portfolio. Only SBP-regulated MFPs (CFIs and MFBs) can accept and intermediate deposits from the general public. **Mobilization:** MFPs not regulated by SBP (MFIs, NGOs, RSPs) cannot hold or intermediate deposits from the general public. These organizations do, however, mobilize savings from their members/clients to place with licensed commercial banks.

Figure 1: Trend in Value of Deposits of MFBs in Pakistan



Source: Performance Indicators Report & Pakistan Microfinance Review, PMN.

Reasons cited for this slow progress include the relatively young age of the MFBs and the nascent state of the industry, the lack of brand recognition by general public, competition with more established commercial banks and the costs of small deposit mobilization.

Given that FMFB has been relatively successful in overcoming these challenges requires a closer look at its deposit base to understand the source of these savings.

SECTION 3

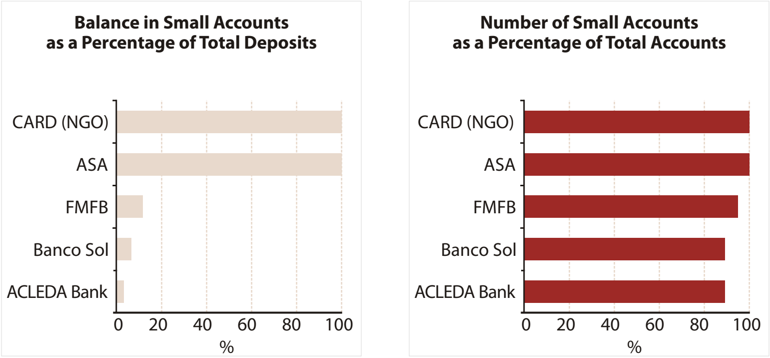
BREAKING DOWN THE DEPOSIT BASE OF MICROFINANCE PROVIDERS

Do microfinance providers fund themselves through small deposits? Do microfinance providers have to compete with commercial banks to carve a space for themselves in the savings market? Is the age of an institution or the industry it operates in a factor that affects its success in mobilizing savings? These are some of the questions that have important implications for MFPs' deposit mobilization strategy as well as public policy. We try to provide some answers to these questions in this section.

3.1 Deposits in Microfinance – Breakdown by Size of Accounts

We begin by looking at the break down of deposits by size of deposit in our sample MFPs to understand what proportion of the total value of their deposits comes from small deposits. Figure 2 below shows the small versus large deposit composition of the sample MFPs - on average, the proportion of 'small' accounts in regulated MFPs is over 90 percent but these add up to less than 10 percent of the savings balance of these institutions. On the other hand, 100 percent of saving accounts of the non-regulated MFPs fall in the 'small' category.

Figure 2: Balance in Small Deposits vs. Number of Small Deposits



These ratios seem to imply that both NGOs and microfinance banks are largely serving small depositors with over 90 percent of their deposits being small. Success in reaching down market clients is thus not a question of the type of institution. On the other hand, these small deposits contribute a small percentage in terms of value to the MFPs' deposit base. It is only in the NGOs, which due to regulatory restrictions cannot tap into public deposits, that small deposits make up the entire savings base.

To put the volume of small deposits into perspective, it is useful to compare it with an institution's assets as shown in Table 2 below. Not surprisingly, small deposits fund a small percentage of the regulated MFPs' assets or loan portfolio (case of ACLEDA, BancoSol and FMFB). But even in the case of ASA, which in absolute value of small savings far outstrips any other institution in the sample, these savings fund less than 20 percent of its asset base.

The data thus suggests that:
a) even NGOs that seem to be successfully mobilizing small savings need significant alternative funding sources
b) microfinance banks may have focused on small savings but continue to rely on large deposits and will have to continue to tap into this source.

A possible cause for the low volumes in small deposits may be that our definition of 'small' is too low. Table 3 shows where the cut-off values for our sample MFPs in U.S. dollar. These are all equivalent to a 100 percent of the GNI per capita of the respective countries. Even irrespective of this ratio, the absolute values seem reasonably high.

Table 2: Small Accounts as a Ratio of Assets and Gross Loan Portfolio

	Small Accounts (USD)	Total Assets (USD)	GLP (USD)	Savings to Assets	Savings to GLP
ACLEDA Bank	14,526,483	692,877,455	464,477,809	2%	3%
BancoSol	8,337,931	222,450,000	163,126,817	4%	5%
FMFB	4,382,377	52,025,792	26,811,464	8%	16%
ASA	90,768,652	508,526,178	466,081,486	18%	19%
CARD (NGO)	14,891,714	49,680,700	36,624,936	30%	41%

Table 3: Cut-off Value of Small Deposits in U.S. Dollar	
ACLEDA	Deposits below USD 600 (= 100% of GNI per capita) considered small
BancoSol	Deposits below USD 1,460 (= 100% of GNI per capita) considered small.
FMFB	Deposits below USD 980 (= 100% of GNI per capita) considered small.
ASA	Deposits below USD 520 (= 100% of GNI per capita) considered small.
CARD (NGO)	Deposits below USD 1,890 (= 100% of GNI per capita) considered small.

CONCLUSION

The main purpose of this paper was to look beyond average deposit sizes and analyze the composition of the deposit base of MFPs in terms of large vs. small deposits to understand the significance of small deposits for MFPs. Data collected for this paper shows that microfinance providers are focused on reaching the small depositors. This is supported by the fact that over 90 percent of saving accounts in all sample institutions fell under the small category. This also shows that being a bank or an NGO is not a defining factor in reaching the small depositor.

On the flip side, however, we see that small deposits make up a tiny fraction of microfinance banks' deposits. These institutions either need to access the large depositor or other alternate source of funds for financial intermediation. This has implications in terms of policy - microfinance providers need to compete with mainstream financial institutions for the public's money and require a level-playing field to do so. These institutions thus have to strategize their deposit mobilization strategy keeping in view that they will need the large depositor for sustainability and their needs may be different from the average microfinance client.

The global microfinance sector should focus on reaching the small depositor for a number of reasons - but it seems that the potential of these savings becoming a major funding source for an MFP may be limited. Microfinance providers that want to have a strong and significant deposit base on their balance sheets will need to gain mainstream recognition that builds the public's trust in them as well as develop a service mix that serves both low and high-end clients.

However, as we conclude, we reiterate that the sample used in the paper is small and should prompt more research rather than be viewed as conclusive evidence.

ANNEX 1: OVERVIEW OF SAMPLE INSTITUTIONS

A brief overview of the sample MFPs is provided to help contextualize the information provided in the paper.

1. ACLEDA Bank Plc.

ACLEDA Bank Plc. was established in January 1993 as a national NGO for micro and small enterprises development and credit in Phnom Penh, Cambodia. It has been licensed as a commercial bank since December 2003. It employs 7,050 staff in 232 branches and offices in all provinces and towns in The Kingdom of Cambodia. Its major funding sources are savings and shareholders' capital.

The Bank started its savings operations in February 2001, and its savings products include Savings Accounts, Current Accounts, Demand Deposit Accounts, Fixed Deposit Accounts, Corporate Deposit Accounts, Trust Accounts for Real Estate, Notice Withdrawal Accounts, Euro Flex Accounts, Individual Retirement Accounts, Health Savings Accounts, and Education Savings Accounts.

2. BancoSol

Banco Solidario S.A. was established in 1984 (then called PRODEM) by a group of entrepreneurs (with support from Accion International) to promote microenterprise in Bolivia. It then acquired legal status as a bank by the name of BancoSol in 1992, and is regulated by the central bank. The Bank is present in eight major cities in Bolivia, through a network of more than 100 branches. Its major funding sources are loans, savings and shareholders' capital.

BancoSol started its savings operations in 1992 after acquiring its bank status. Its savings products include savings accounts and time deposits.

3. FMFBL

The First MicroFinanceBank Limited was established in January 2002 and was the first NGO to Bank transformation in Pakistan's microfinance sector. It is present in 46 geographic districts of Pakistan and employs 552 staff. Its major funding sources are grants, savings and shareholders' capital.

4. CARD (NGO)

Center for Agriculture and Rural Development, Inc. (CARD) has both bank and NGO operations, and is based in the Philippines. CARD

(NGO) was established in 1986 to extend microfinance services to rural clients. As it has an NGO status it is not regulated, according to law in the Philippines. It has a network of 593 branches and employs 5,163 employees[3]. CARD (NGO)'s major funding sources are grants, loans and savings deposits.

CARD (NGO) started its savings operations in 1986 along with other microfinance services, and its savings products constitute capital build up (CBU).

5. ASA Bangladesh

ASA was founded in 1979 and originated in Bangladesh as an NGO – a status it maintains to this day, and is hence unregulated. ASA Bangladesh operates through a network of 3,232 branches, servicing 64 districts in the country[4]. Its major funding source for operations is savings.

ASA Bangladesh started its savings operations in 1982, with weekly savings being the prime deposit service provided.

[3] According to unaudited figures as of January 31, 2009, taken from *www.cardbankph.com*
[4] Figures for January 2010 taken from *www.asa.org.bd*

ANNEX 2: BREAK-DOWN OF DEPOSIT BASE OF SAMPLE MFPS

ACLEDA Bank (2008)*				
Segments of Accounts by Size	Balance in Accounts(USD)	% of Total Balance	Number of Accounts	% of Total Accounts
≤ USD 150	5,119,090	1%	352,271	84%
USD 151 - 300	3,236,073	1%	15,116	4%
USD 301 - 600	6,171,320	1%	14,617	3%
USD 601 - 1200	9,262,654	2%	10,701	3%
USD 1201 - 2400	12,698,898	3%	7,425	2%
≤ USD 2401	450,718,307	93%	21,393	5%
Total	***487,206,341***	***100%***	***421,523***	***100%***

** Deposits below USD 600 (= 100% of GNI per capita) considered small.*

BancoSol (2006)*				
Segments of Accounts by Size	Balance in Accounts(USD)	% of Total Balance	Number of Accounts	% of Total Accounts
≤ USD 500	4,206,130	3%	87,766	86%
USD 501 - 1000	4,131,801	3%	5,560	5%
USD 1001 - 5000	15,148,659	13%	6,584	6%
USD 5001 - 10,000	9,476,117	8%	1,313	1%
≤ USD 10,000	87,540,486	73%	1,168	1%
Total	***120,503,193***	***100%***	***102,391***	***100%***

** Deposits below USD 1,460 (= 100% of GNI per capita) considered small.*

First MicroFinanceBank Ltd. (2008)*				
Segments of Accounts by Size	Balance in Accounts(USD)	% of Total Balance	Number of Accounts	% of Total Accounts
≤ USD 245	1,598,799	4%	132,753	92%
USD 246 - 490	1,015,863	2%	3,000	2%
USD 491 - 980	1,767,715	4%	2,608	2%
USD 981 - 1960	3,184,784	8%	2,359	2%
USD 1960 - 3920	3,862,244	9%	1,374	1%
≤ USD 3921	30,030,644	72%	1,729	1%
Total	***41,460,049***	***100%***	***143,823***	

** Deposits below USD 980 (= 100% of GNI per capita) considered small.*

ASA (2008)*				
Segments of Accounts by Size	**Balance in Accounts(USD)**	**% of Total Balance**	**Number of Accounts**	**% of Total Accounts**
≤ USD 150	106,800,340	90%	4,636,708	99%
USD 151 - 300	9,437,189	8%	44,521	1%
≤ USD 301	2,753,284	2%	8,961	0%
Total	***118,990,813***	***100%***	***4,690,190***	***100%***

** Deposits below USD 520 (= 100% of GNI per capita) considered small.*

CARD (NGO) (2008)*				
Segments of Accounts by Size	**Balance in Accounts(USD)**	**% of Total Balance**	**Number of Accounts**	**% of Total Accounts**
≤ USD 473	14,891,714	100%	393,687	100%

** Deposits below USD 1,890 (= 100% of GNI per capita) considered small.*

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