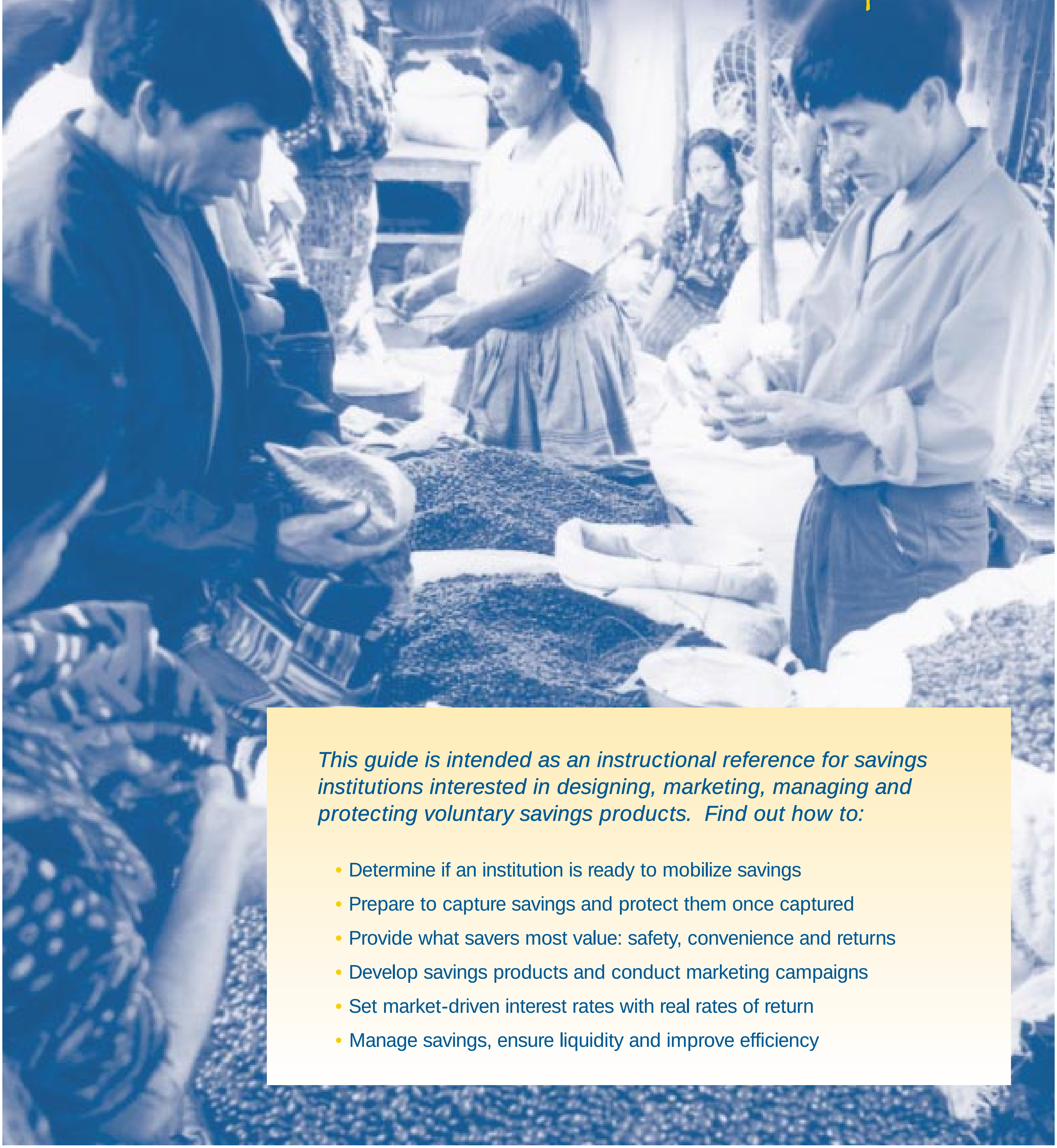
World Council of Credit Unions, Inc.

A Technical Guide to Savings Mobilization:

Lessons from the Credit Union Experience



This guide is intended as an instructional reference for savings institutions interested in designing, marketing, managing and protecting voluntary savings products. Find out how to:

- Determine if an institution is ready to mobilize savings
- Prepare to capture savings and protect them once captured
- Provide what savers most value: safety, convenience and returns
- Develop savings products and conduct marketing campaigns
- Set market-driven interest rates with real rates of return
- Manage savings, ensure liquidity and improve efficiency

Why Savings?

Savings are fundamental to sustainable economic development

Voluntary savings are by far the most frequent source of funding for microenterprise startup and expansion. Savings deposits enable households to build for the future and better prepare for unexpected emergencies.

Most development finance professionals no longer question if poor people save. Various studies find that the poor can and do save, although these savings are rarely in liquid financial form. Research also reveals that the large majority of poor savers lack access to safe and sound institutions for depositing their savings. WOCCU savings-driven credit union development programs worldwide demonstrate that low-income people will substantially increase their voluntary savings deposits if provided with a safe and convenient place to deposit their savings.

Despite these findings, millions of people continue to lack access to reliable and convenient savings services.

As financial service providers to the poor, microfinance institutions (MFIs) are under growing pressure to offer voluntary and withdrawable micro-savings services to their clients. At the same time, savings deposits provide a relatively stable source of funds that could enable an institution to become a sustainable, self-reliant financial intermediary. Savings mobilization increases the supply of internally generated funds that can be invested in housing, microenterprise and small business loans.

Many existing MFIs are not in the position to begin mobilizing savings responsibly. This technical guide is intended to provide instructive lessons from the experience of savings-driven credit unions to MFIs legally authorized to capture savings, such as postal savings banks, non-governmental organizations (NGOs) that have transformed into legal financial intermediaries, finance companies and credit unions.

What most distinguishes credit unions from other non-bank financial entities offering microfinance services is the ability to mobilize mass numbers of small, voluntary savings accounts. **WOCCU project credit unions serve 2,168,000 member-clients with a total savings volume of $345,755,916.** The weighted average passbook deposit per member-client is $97. In many credit unions that have mature savings offerings, net savers outnumber net borrowers by seven to one.

WOCCU Savings Programs

All Figures in US Dollars
All Numbers Rounded to Nearest Dollar

PROJECT COUNTRY	DATE	NO. OF CREDIT UNIONS	NO. OF MEMBER-CLIENTS	TOTAL SAVINGS DEPOSITS	TOTAL DEPOSITS/ MEMBER-CLIENTS	PASSBOOK DEPOSITS	PASSBOOK DEPOSITS/ MEMBER-CLIENTS
Bolivia	12/31/01	10	60,179	$32,682,018	$543	$10,700,175	$178
Bulgaria	12/31/01	13	11,027	$1,187,155	$107	$391,264	$35
Ecuador	6/30/01	22	914,485	$92,215,792	$101	$75,988,230	$83
Guatemala	12/31/01	28	406,074	$132,466,655	$326	$66,371,647	$163
Honduras	9/30/01	21	194,679	$34,120,182	$175	$16,471,616	$85
Kenya*	9/30/01	6	45,438	$4,524,854	$100	$4,524,854	$100
Macedonia	9/30/01	1	1,273	$155,545	$122	$4,551	$4
Nicaragua	12/31/01	17	17,937	$1,776,178	$99	$1,229,963	$72
Philippines	12/31/01	18	171,561	$15,758,701	$92	$7,416,128	$43
Romania	12/31/01	26	105,069	$5,181,554	$49	$591,314	$6
Rwanda	12/31/00	145	229,453	$23,413,012	$102	$23,413,012	$117
Uganda*	12/31/01	15	10,785	$2,274,270	$211	$2,274,270	$211
Total for 12 WOCCU Programs		**322**	**2,168,000**	**$345,755,916**	WEIGHTED AVERAGE **$159**	**$209,447,024**	WEIGHTED AVERAGE **$97**

* In Kenya and Uganda, most savings products offered have the passbook core characteristics. Passbook deposit data for these two countries was not separated out from total savings deposits. The Kenya project works with 16 credit unions total, serving 122,263 member-clients.

This guide was prepared by Janette Klaehn, Anna Cora Evans and Brian Branch of World Council of Credit Unions, Inc. (WOCCU). The guide offers parameters for financial performance, referring specifically to WOCCU Standards of Excellence, guidelines for product development and pricing, recommendations for marketing savings products and instructions on managing savings based on lessons learned from the field experience of WOCCU technical assistance programs.

Savings: Mixed Outreach

Sharing Best Practices

In order to strengthen and expand savings mobilization in underserved communities, WOCCU launched the **Savings Best Practices** project in 2000. The project offers credit unions the opportunity to share grassroots lessons learned with other savings institutions in the field. Concurrently, it offers credit unions the prospect of placing savings mobilization within the safety of an adequate regulatory and supervisory framework. Together with the German Confederation of Credit Unions (DGRV), WOCCU has conducted training conferences in Latin America: *Best Practices in Savings Mobilization* and *Best Practices in Credit Union Supervision*.

The project will culminate in the publication of a practitioner-focused guide to savings mobilization, complete with operational tools for implementation. WOCCU plans to release the book at its seminal conference *Best Practices in Savings Mobilization* on November 5-6, 2002 in Washington, DC. The U.S. Agency for International Development's Latin America and Caribbean Bureau supports the **Savings Best Practices** project.

For information from past conferences or to register for upcoming conferences, visit **www.woccu.org**

The savings deposits mobilized by credit unions represent significant depth of outreach (vast numbers of small accounts) and diversity of outreach (accounts of every size from savers with diverse income levels). The savings account distribution from credit unions in Ecuador, Kenya, Romania and Rwanda reveals that at least 78% of deposits are less than $100 and comprise no more than 20% of the volume of accounts. Over 80% of the total volume is found in deposits larger than $100, comprising no more than 22% of the number of accounts. These country examples reinforce the fact that credit unions offer microsavings to large numbers of poor people and service fewer large-deposit savers in order to mitigate fixed costs and fund the loan portfolio for poor, low and middle income borrowers.

Although distinct in terms of macroeconomic conditions and scale of outreach, the Ecuadorian and Romanian credit unions display a pattern consistent with more mature credit unions: the proliferation of many small accounts, the small number of large accounts over which to spread fixed costs and the moderate presence of a middle range group of accounts that provide a relatively stable base of funds. The two tables below have similar percentages of number and volume of accounts for similar deposit sizes. The credit unions in both Ecuador and Romania serve diverse groups of clients, providing broader savings services to the lower income market while spreading costs over the fewer medium and large accounts which provide most of the volume.

The smaller accounts tend to be relatively stable with little movement, while the larger accounts are interest rate-sensitive and can be volatile. As such, the larger accounts must be managed with stronger liquidity reserving discipline.

ECUADOR: 22 Credit Unions - 6/30/01 Passbook Savings — All Figures in US Dollars

	$0-$100	$100-$300	$300-$500	$500-$1000	$1000+	TOTAL
Number of Accounts	659,199	79,852	23,058	17,941	11,294	791,344
Percentage of Number	83.3	10.1	2.9	2.3	1.4	100
Volume of Accounts	$14,445,908	$17,110,629	$10,071,121	$11,946,164	$22,414,408	$75,988,230
Percentage of Volume	19.0	22.5	13.3	15.7	29.5	100

While 791,334 passbook accounts represent $75,988,230, the 22 credit unions also have 17,188 fixed deposit accounts worth $16,227,562. The passbook average size is $96 per saver, while the fixed deposit average size is $944 per saver. These comparatively fewer larger accounts spread the fixed costs over a larger volume, reducing the fixed costs per dollar deposited.

ROMANIA: 26 Credit Unions - 12/31/01 Total Fixed Term Deposits — All Figures in US Dollars

	$0-$94	$94-$281	$281-$469	$669-$938	$938+	TOTAL
Number of Accounts	56,636	4,451	1,647	1,273	880	64,887
Percentage of Number	87.3	6.9	2.5	2.0	1.4	100
Volume of Accounts	$783,026	$722,959	$626,736	$833,652	$1,368,998	$4,335,372
Percentage of Volume	18.1	16.7	14.5	19.2	31.6	100

Of the 105,069 member-clients in these Romanian Credit Unions, 44,798 had voluntary savings accounts; therefore, the average fixed deposit size per saver is $97 (some savers have more than one account). The size distribution illustrates that the credit unions offer savings services to member-clients characterized by diverse economic levels.

Savings: Mixed Outreach

FINANCIAL SAFETY NETS

In many cases, clients utilize savings services for the purpose of creating financial safety nets to soften the costly repercussions of health emergencies. The costs of health-related crises negatively impact individuals of all socioeconomic levels, but most gravely destabilize the poor. Studies on HIV/AIDS and microfinance conducted by Donahue, Parker and others find that the clients of microcredit group-lending institutions highly desire savings services.* Formal savings institutions can serve this demand-driven market. The Kenyan and Rwandan savings distribution tables reveal that member-clients of diverse income levels save at the credit unions in countries struck by the HIV/AIDS pandemic.

Clients also make use of savings services to deal with personal emergencies and unforeseen challenges that stem from political and economic crises. In Rwanda, more than 200,000 active savers struggling to rebuild a nation after the genocide of the mid-1990s rely on savings to fuel community economic growth.

KENYA: 6 Credit Unions - 9/30/01 Total Savings — All Figures in US Dollars

	$0-$63	$63-$127	$127-$253	$253+	TOTAL
Number of Accounts	16,268	819	688	4,116	21,891
Percentage of Number	74.3	3.7	3.1	18.8	100
Volume of Accounts	$171,439	$74,222	$121,473	$4,157,720	$4,524,854
Percentage of Volume	3.8	1.6	2.7	91.9	100

In these six Kenyan credit unions, the majority of deposits are very small amounts, i.e., 74% of the deposits are for amounts less than $63 and represent only 4% of the savings volume, while the 19% of deposits greater than $253 represent 92% of the volume of accounts. The average deposit size per account is $207.

RWANDA: 145 Credit Unions - 12/31/00 Passbook Savings — All Figures in US Dollars

	$0-$12	$12-$24	$24-$117	$117-$233	$233+	TOTAL
Number of Accounts	176,333	32,095	41,169	17,532	22,001	289,130
Percentage of Number	61	11.1	14.2	6.1	7.6	100
Volume of Accounts	$792,596	$550,024	$2,650,767	$2,864,691	$16,554,934	$23,413,012
Percentage of Volume	3.4	2.3	11.3	12.2	70.7	100

The case of the 145 Rwandan Banques Populaires reveals an overall average deposit size of $81 per account. Deposits of less than $233 make up 92.4% of the total number of active accounts and 29.3% of the total volume. Accounts greater than $233 comprise only 7.6% of the total number of accounts but make up 70.7% of the total volume.

The total excludes 196,832 inactive accounts equivalent to $3,350,852. Inactive accounts belong to Rwandans now missing, deceased or living as refugees outside of the country.

* For further information on microfinance and HIV/AIDS, see **www.mip.org.**

Savers Most Value Safety, Convenience & Returns

SAFETY
Savers most frequently report that the key feature they seek is safety for their savings. They want to feel confident that their deposits will be available when they need them.

CONVENIENCE
Savers demand access and liquidity. They want to be able to access their funds the moment that they need or desire them.

RETURNS
Savers expect a positive real return on their savings. Small savers will often shift their savings to real goods, which can be resold without losing their value (a chicken or a calf in rural areas, tires or construction blocks in urban areas), if financial instrument returns are below the rate of inflation.

BEFORE

AFTER

Savings growth is highly correlated with the perceived soundness and professionalism of the institution mobilizing savings. The attractive and secure public appearance of the physical infrastructure of the institution does much to create a safe and professional image that depositors can trust. Facilities should exhibit tangible security infrastructure for risk management such as grills on windows, structural soundness, glass partitions for tellers, safes and locked cash drawers. Although secure in its structure, a savings institution should continue to present a pleasant, friendly and inviting personalized image.

When is an Institution Ready?

ENABLING ENVIRONMENT
Three key elements repeatedly stand out as prerequisite environmental factors for mobilizing savings:

- Manageable inflation
- Legal authority
- Supervision

The ability of an institution to successfully mobilize savings is contingent first upon a macroeconomic environment which allows the savings institution to operate at rates that are viable and sustainable while providing a real positive return to protect the value of client savings.

Savings mobilization is a pact between parties: the institution receiving the savings and the individual placing savings in that institution. Savings services need to operate within an established legal framework that identifies which institutions, under which criteria, are able to receive savings from members or from the public. The legal framework should also identify what recourse savers have to recover their savings from savings institutions.

Savings institutions will be able to mobilize savings responsibly and more effectively within the safety of an adequate regulatory and supervisory framework. Institutions that mobilize voluntary deposits should be supervised by an objective third-party government regulatory agency responsible for supervision of the financial sector. Effective supervision requires a sound legal system, formalized audit requirements, supervisory monitoring capacity, an established regulatory framework and authority for enforcement.

RESPONSIBILITY
Savers need to be able to trust that the institution will safeguard their savings. In offering savings products, an institution takes on the responsibility of protecting the deposits of savers.

Per WOCCU's worldwide field experience, the minimum critical elements for responsible savings mobilization are (in no specific order):

- Entrepreneurial institutional vision
- Professional staff
- Effective governance structure
- Prudential financial discipline
- Sound credit risk analysis and risk management
- Physical security
- Internal controls

When is an Institution Ready?

VISION

Institutions that seek to mobilize savings must have the vision, commitment and disposition to attract voluntary savings. Each institution must adjust its own policies and product offerings to provide financial services that are competitive and in accordance with the needs of the market.

PROFESSIONALISM

To accept savings and administer them in an efficient manner which preserves their value requires a minimum professional capacity of staff trained in how to manage savings. Employees should handle cash with strong ethical and professional working standards, while maintaining a warm and personal approach with clients. Staff familiar with local languages, customs and norms will facilitate trusting relationships with clients.

GOVERNANCE

In member-owned and member-controlled financial institutions, it is the simultaneous presence of savers, who provide the funds, and borrowers, who borrow the funds, which forms the basis for a self-sufficient and balanced financial intermediary. Yet, the two groups have inherent conflicting objectives. **Net savers demand high deposit rates and strong prudential disciplines to protect their savings, while net borrowers demand low loan rates, low transaction costs and laxness in prudential discipline**. The quality of the savings services and the credit screening and collection policies will determine the proportion of net borrowers to net savers in an institution.

The threat of deposit withdrawal due to savers' lack of confidence in management should keep managers on track, since widespread withdrawals would eliminate the base of funds in a self-sufficient savings institution. In theory, this threat should force managers to follow sound principles of adequate capital reserves, loan loss provisions and liquidity reserves. In reality, the threat of deposit withdrawal is not always sufficient to ensure that managers operate with prudential financial discipline; therefore, third party regulators are necessary to uphold prudential norms and protect public savings.

Protecting Savings

PRUDENTIAL FINANCIAL DISCIPLINE

Before engaging in or accelerating public savings mobilization, an institution must establish prudential financial management disciplines as standard, well-understood and staff-supported practice. Institutions should demonstrate strong financial management of their own funds, beyond merely meeting basic requirements of solvency.

Savings institutions must establish the core disciplines of delinquency control, loan loss provisions, liquidity reserves and capital reserves in order to protect client savings. These disciplines must be formalized in policy and implemented in practice. Financial disciplines are interdependent and mutually reinforcing; as such, they should be implemented as an integrated system, not in a piecemeal manner that addresses some risks but not others.

LINES OF DEFENSE

A savings institution must defend the value of the deposits captured. Provisions for loan losses provide the first line of defense against observable risks, allowing a savings institution to protect itself from loan losses that can be predicted by the monitoring and aging of delinquency. The WOCCU Standards of Excellence require that savings institutions provision for 100% of loans delinquent more than 12 months and 35% of loans delinquent less than 12 months. Institutions should write off loans delinquent for periods over 12 months. The total outstanding principal balance of a loan should be classified as delinquent (portfolio-at-risk) at 30 days past due.

Reserves, or institutional capital, provide a second line of defense against unexpected shocks. If a savings institution has built up institutional capital or retained earnings, then these funds can provide security during a period of macroeconomic instability or during a banking crisis. Savings institutions should establish and maintain capital reserves and retained earnings at 10% of total assets.

Paid-in shares in credit unions, or shares of stock in other privately-owned savings institutions, are a third line of defense against external shocks that can be utilized in extreme cases to avoid impairing the value of client deposits.

RISK MANAGEMENT

As an institution mobilizes savings, liquidity increases and those funds are directed out as loans back into the community. **It is critical that the savings institution have in place strong policies and practices for credit screening and risk analysis so that the loans financed by savings are collectible.** Credit risk management must include strict delinquency monitoring, provisioning and collection procedures. In a savings institution, delinquency (portfolio-at-risk at 30 days) should be 5% or less of the total loan portfolio. WOCCU recommends that a savings institution establish loan concentration limits, or limit the amount of related direct or indirect aggregate loans or credits to 10% of net capital.

ASSET LIABILITY MANAGEMENT

Savings institutions must carefully manage their assets and liabilities. They need to prevent asset liability mismatches in either term or rate; for example, withdrawable passbook savings are not safe sources of funds for long-term loans. On the other hand, long-term certificates of deposit are appropriate to fund long-term loan products.

PHYSICAL SECURITY

Secure infrastructure requirements include locked drawers at teller stations, safes or vaults for holding cash and grill or glass partitions between teller stations and the public. Grills and bars should be present in place over doors, windows and air conditioners. Guards should be present in larger institutions, such guards must be trained in what to do in the event of a robbery. Training of all staff is necessary to ensure the safety of the employees.

PEARLS

The PEARLS financal performance monitoring system was developed by WOCCU as a tool for monitoring and managing credit union operations:

- Protection
- Effective financial structure
- Asset quality
- Rates of return and costs
- Liquidity and
- Signs of growth

For more information on PEARLS see the research area of **www.woccu.org** to download the PEARLS monograph.

Developing Savings Products

The credit union experience in mobilizing voluntary savings has focused primarily on six savings products: passbook accounts, fixed term certificates of deposit, youth savings, programmed savings, institutional accounts and retirement accounts. Each product has core characteristics.

Product characteristics should be adjusted to meet the local demand for savings services. When developing products, savings institutions first conduct market studies to determine local client preferences and evaluate local competitive conditions.

Please note: interest rates on withdrawable passbook savings accounts serve as the base rate (“X” %) for the savings interest rate structure. The base rate is set according to market competitive rates, transaction costs and the rate of inflation.

PRODUCT (OR SERVICE)	TARGET MARKET	INTEREST RATE	MINIMUM OPENING DEPOSIT
PASSBOOK SAVINGS	Primarily micro and small savers, large savers for on-demand use of some funds	X (base rate), rate increases with increasing account balance	None or very low
FIXED TERM CERTIFICATES OF DEPOSIT	Net savers who seek to maximize returns	X + 2%, fixed at opening of certificate, higher for longer term or higher balance	High
YOUTH SAVINGS	Population under the legal age of client status (usually 18 years of age)	X - 1%, paid only on accounts with balances above certain threshold	None or very low
PROGRAMMED SAVINGS	Clients with specific goals or set targets, examples are: Christmas clubs, education or housing accounts	X + 1%, higher than passbook and lower than fixed term	Higher than passbook
INSTITUTIONAL ACCOUNTS	Organizations such as NGOs, churches, foundations, associations or corporations that require servicing of funds	X + 2%, increases with increasing account balance	Highest
RETIREMENT ACCOUNTS	Net savers who seek to maximize returns for long-term planning	X + 2%, tied by contract to real return above inflation	High

MINIMUM BALANCE REQUIREMENT	WITHDRAWAL POLICY	PROMOTION	INSTITUTIONAL IMPLICATIONS
None or very low	Unlimited, or completely liquid	Brochures, flyers, lobby signs, lotteries, raffles, prizes and advertising	Most popular product. Provide abundant and low cost source of funds. Higher transaction costs when balances are low or withdrawals are frequent.
Set at opening of account	Term stated at opening of account, only upon reaching maturity, minimum 30 days	Brochures, flyers, lobby signs, lotteries and raffles	Low administrative costs. Stable funds to finance longer term loans or investments. Facilitate cash and liquidity management.
None or very low	Unlimited, or completely liquid	School outreach, brochures, flyers, lobby signs and targeted gifts or promotional items	Establish early client relationships, attract parents of youth to become clients. High transaction costs and low consolidated volume.
Accumulates with consecutive deposits	Specified at opening of account, only at end of planned savings period, penalty assessed if withdrawn early	Brochures, flyers and lobby signs	Provide easily managed, predictable liquidity flows. Low administrative costs because of only one withdrawal.
Highest	Unlimited, or completely liquid	Visits to institutions	Provide access to larger savings collected by institutions or groups. Very sensitive to interest rates, can create liquidity risk if constitute large percentage of total deposits.
High, accumulates with consecutive deposits	Upon reaching retirement age, highly restricted	Brochures, flyers, lobby signs and visits to target groups	Prior to offering services, institution must find out about applicable laws. Facilitate liquidity management due to restricted withdrawals.

Developing Savings Products

Since savers most value safety, convenience and returns, once an institution has established itself as a safe place for deposits, it moves on to address the issues of convenience and returns through product development.

Savings mobilization is a demand-driven activity. A savings institution asks savers to place their funds within its caretaking. This relationship reverses the traditional power relationship between client and financial intermediary in which borrowers approach banks, credit unions or other microfinance institutions to ask for loans. The savings institution must market and sell itself to clients; it must convince savers that their savings will be safe and well managed. Any savings institution, whether bank, credit union or other financial intermediary, should offer savings products which meet the demands of both prospective and existing clients.

IDENTIFY THE MARKET

In order to reach a more diverse clientele and attract net savers, savings institutions must first identify who the savers are in a community. Savings institutions begin by conducting studies to find out two types of information: client profiles and preferences, and intelligence about services and product characteristics that competing or alternative institutions provide to savers in the market. Both types of information are useful in tailoring savings services to market demand and local conditions. Market studies also examine local demographic and economic characteristics and can assist managers to create a strategy to penetrate a particular market.

DEVELOP PRODUCTS

Savings services are built in three ways. Products are:

- Designed to balance the trade-off between convenience (liquidity) and return (interest rate)
- Tailored to respond to the demands of particular market niches; e.g., farmers who save in large blocks after a harvest and withdraw savings gradually through the year, or children and students who save in small amounts due to limited incomes
- Adapted to the purposes for which clients save; e.g., to pay education fees for children or to purchase large expense items such as appliances or home improvements

As products are built to meet client demand, the defining characteristics of products are liquidity or access, term, minimum balance, rate of return and transaction costs.

Product design must be simple and clear to enable customers to choose products with the confidence that they understand all the benefits and costs of each product. Simplicity also helps reduce administrative procedures and contain operations costs.

Savings policies establish and formalize the products offered and outline the procedures by which their liquidity, pricing and transactions are managed. Savings policies should be updated regularly in response to market demand in order for products to remain competitive in the marketplace.

DETERMINE THE RIGHT MIX

Savings products exist along a continuum of trade-offs between liquidity (access and convenience) and return (compensation). Some products offer complete access to deposits, or withdrawals whenever the saver wishes. Other products restrict liquidity and consequently offer higher returns. A mix of products may offer alternatives of fully liquid, semi liquid, fixed short-term and accumulating long-term accounts.

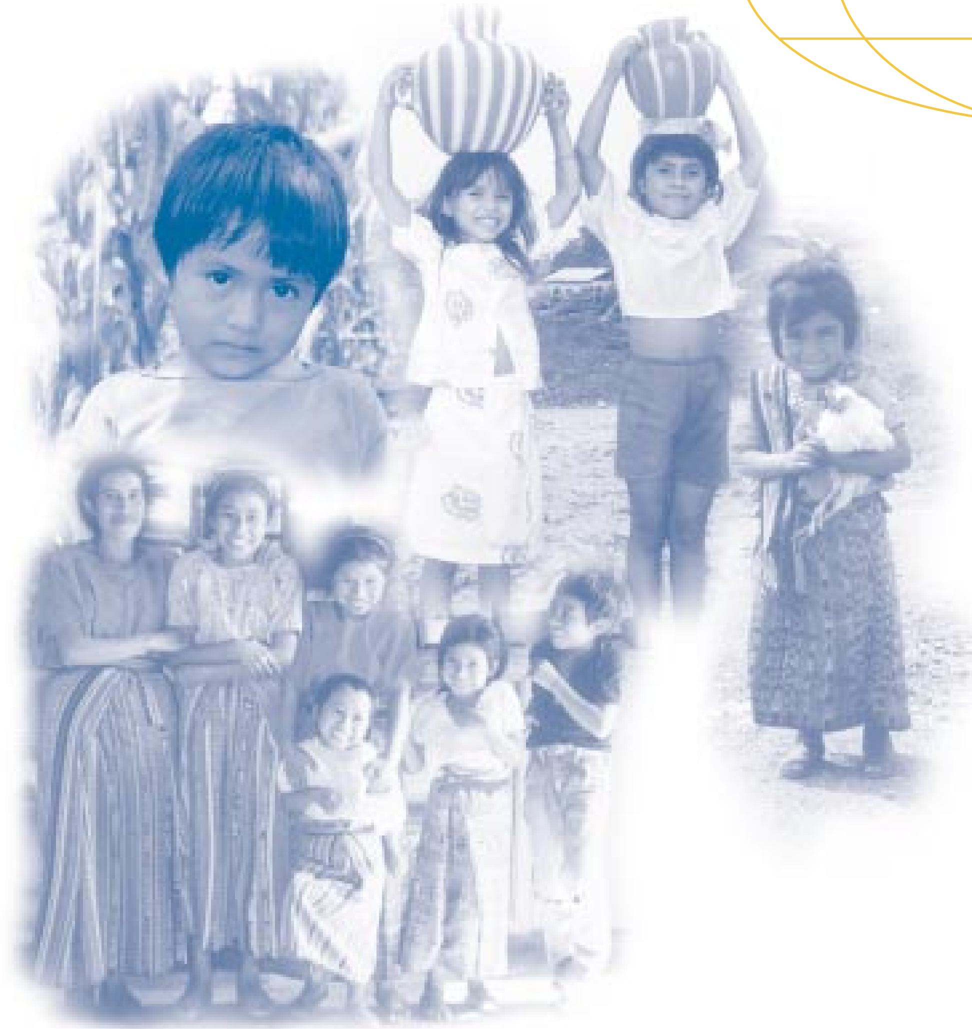
Lower-income savers often seek small accounts that offer high levels of liquidity. These savers exhibit strong preferences for products such as passbook accounts, with low minimum balances and complete and immediate access to savings at all times. These small savers have proven willing to sacrifice returns for open access to their funds. Alternatively, larger or wealthier savers seek to maximize their return on savings and have proven willing to sacrifice liquidity for higher return.

Fully Liquid	Semi Liquid	Predictable Flows	Short-term Frozen Deposits	Accumulating Long-term Accounts
Passbook Accounts	Limited Withdrawals	Programmed Savings	Fixed Term Certificates of Deposit	Retirement Accounts

Tailoring Products: Youth Savings

A savings institution may offer a combination of generic savings products for the market at-large and tailored savings products designed to address the particular demands of an identified niche. Youth accounts are designed to combine low returns and limited liquidity with small balances to serve the market segment under the age of formal client status (usually 18 years of age).

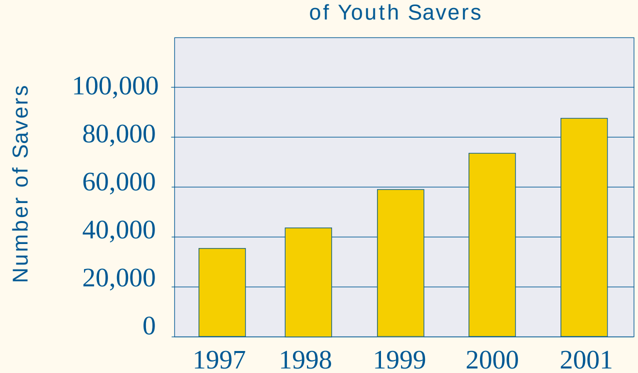
The Guatemalan credit union system conducted market research, introduced youth savings and launched a full-fledged marketing campaign for children and adolescent savers in 1996. As of December 31, 2001, youth savers made up 21.7% of the 406,074 member-clients and 0.6% of the total savings volume.



Guatemala: 28 Credit Unions - 12/31/01 Youth Savings — All Figures in US Dollars

Number of Credit Unions	Number of Member-Clients	Number of Youth Clients	Percentage of Total Member-Clients	Total Savings Deposits	Total Youth Deposits	Percentage of Total Deposits
28	406,074	88,219	21.7	$132,466,655	$779,404	0.6

Growth in Number of Youth Savers



Setting Interest Rates

THREE PRINCIPLES

In setting interest rates, savings institutions must pursue three guiding principles:

- Market-driven, competitive savings rates
- Positive real return on savings
- Cost-based loan rate setting

To mobilize savings on a large scale, savings institutions must offer interest rates that are attractive to savers; i.e., competitive with rates offered in the local financial market. To this end, management should monitor other local savings institutions regularly to track the rates the competition offers on savings products.

The rates on deposits should be higher than the inflation rate in order to preserve the value of the savings and provide a positive real return to savers. If this is not the case, the savings institution actually provides poor quality service to savers, since their money loses value while deposited in the institution.

Interest rates should be established through entrepreneurial planning, fitting the savings price into the business plan for cost coverage and growth. Through business planning, savings institutions can determine competitive real rates to be paid on savings and then set loan interest rates to cover the financial costs of savings products, the administrative costs of the institution, the provisions for non-collectible loans and the necessary contributions to build capital reserves.

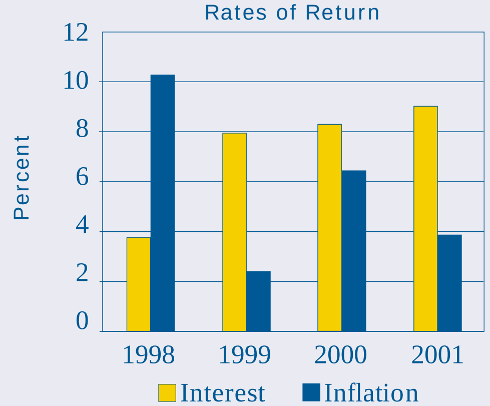
PRICING

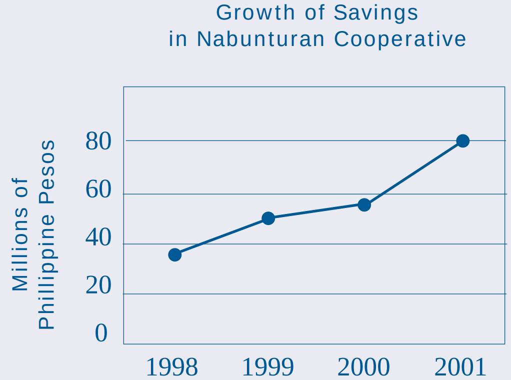
Differentiation by Balance. The administrative and transaction costs are a higher percentage of the value of smaller accounts than of larger accounts. For this reason, savings institutions offer higher interest rates on accounts with higher balances and lower interest rates on accounts with lower balances. The positive relationship between the interest rate and the account balance also provides an incentive for savers to increase their balances, or not to withdraw their savings.

Differentiation by Products. Interest rate pricing varies across products because the institution's costs vary according to the different transaction costs, account balances, terms and withdrawal frequencies associated with each product. For those products with more administrative steps and higher levels of transactions required for management of the account, lower interest rates are paid in order to compensate for the higher administrative costs.

The Impact of Pricing

Nabunturan Cooperative, on the troubled island of Mindanao in the Philippines, now prices its deposits competitively. Increasing the rate paid on savings to yield a real positive rate of return has helped the credit union to more than double the volume of savings mobilized from 1998 to 2001. The growth in deposits confirms that savers accessing multiple products, including passbook savings, fixed term certificates of deposit and programmed savings value a real positive rate of return.





Marketing Savings Products

By expanding membership and the attractiveness of savings services, many credit unions have converted from small-scale dependent borrower clubs to full financial intermediaries of funds from net savers to net borrowers. MFIs authorized to mobilize savings could make the same transition, but must first position themselves in the market as providers of savings services.

Savings mobilization is driven by marketing. Once products are defined, institutions must brand or package them, set sales expectations and goals and then sell the products to the local market. This effort may include marketing new products or re-launching old ones.

The primary objectives of savings-based marketing activities are to identify and expand the local market of net savers, improve the competitiveness of savings services and improve the public image of the institution. A key indicator of success is the ability of an institution to attract a broad mix of savers and borrowers of a scale sufficient to generate the earnings necessary to sustain institutional services and growth.

Successful marketing plans designate a staff member to be directly responsible for marketing activities. An effective marketing plan also specifies objectives, goals, activities and indicators for evaluation. The activities and goals laid out in the marketing plan must be compatible with the annual business plan of the institution.

DEVISING A STRATEGY

Savings institutions should conduct studies to analyze the services provided by other financial institutions in the local community before defining a strategy for launching new or revamped savings products. These studies:

- Identify the existing service delivery structure
- Compare the competitive characteristics of services—prices, terms, minimum amounts, convenience, waiting periods, service variety and sophistication of products—with other local financial institutions
- Evaluate interest rate scales on similar products of other local financial institutions
- Identify the financial service demands which the savings institution may satisfy for the local population

IMAGE

Trademarks, brands and standardized logos should be used to give products recognizable and memorable names associated with a quality image. The product image and branding should be carried through on brochures, lobby signs, posters, paper forms and all other printed materials.

SKOK

FINANCIERA

FOCCUS
FINANCE ORGANIZATIONS ACHIEVING CERTIFIED CREDIT UNION STANDARDS

Once a savings institution has devised a clear strategy and created a strong image, it must engage in aggressive marketing of its products. The campaigns may include brochures, posters, flyers, media spots on local radio or television stations and advertisements in local newspapers.

In addition to the tiering of interest rate structures discussed earlier, savings institutions may provide savers incentives for increasing deposits by offering lotteries of small benefits or prizes. **Credit unions have found that the raffle or lottery of small benefits or prizes, with the associated publicity, can provide significant incentive to encourage small savers to mobilize savings.** Lotteries and raffles have proven to be very popular in markets with low savings capacity. Raffles can serve the dual purpose of increasing deposit amounts from existing clients and attracting new clients to the institution. The most effective raffles and lotteries provide incentives not only for increasing account balances, but also for maintaining them.

Another way to increase savings mobilization is to offer interest rate premiums to new savers. A savings institution announces, through public notices and posters on the walls or windows, that an additional fraction of a percent on top of the normal rate will be paid for new passbook accounts or fixed term certificates of deposit during the specific period of the promotion. **Offering interest rate premiums is a fast and efficient way to attract new resources and stimulate savings growth.**

Providing Savings Services

Convenience is a key factor in mobilizing savings. If the transaction costs of making deposits or withdrawals in an institution are high, then savers will be less likely to maintain their savings in that institution. Since the physical proximity of the savings institution determines the major cost and time required for savers to make deposits or withdrawals, institutions should try to locate their offices in high-traffic markets or town centers, and even open lower cost or minimal infrastructure branches to serve outlying communities.

Savings institutions should provide competitive service hours compatible with the schedules of clients and prospective clients in the local community. For this purpose, many credit unions have eliminated the practice of closing during mid-day hours, and now provide service on weekends and offer extended evening hours with window service after the lobby is closed.

Convenient access also requires:

- A well-planned physical layout to control public traffic
- Sufficient human resources to facilitate transactions
- Simple, streamlined procedures to provide savers with fast and cost-effective service

Time-consuming procedures will increase the costs of savings for clients and may deter prospective clients. Institutions must formalize clear, standardized and streamlined procedures for the administration of savings accounts to limit the time necessary for clients to open accounts, make deposits or take out withdrawals.

Managing Savings

LIQUIDITY

The WOCCU Standards of Excellence require that a savings institution maintain a minimum of 15% of the savings portfolio in cash liquidity reserves to ensure response for withdrawal demands. An institution's ability to capture savings depends largely on the confidence of local savers. If there is a perception that the institution does not have the funds to pay out savings, then both small and large savers will withdraw their deposits. For large savings accounts above a certain threshold, institutions should maintain a minimum 20% liquidity reserve to mitigate the concentration risk.

EFFICIENCY

The best financial intermediaries strive to maximize efficiency so that they can afford to pay attractive rates on savings, charge competitive rates on loans and build capital reserves. Savings institutions should strive to keep their operating expenses (operating expenses/average assets) to between five and 10% of total assets. The discipline of maintaining low operating expenses ensures that an institution does not allocate too much of its resources on personnel or administration that do not generate income.

Non-earning assets should be limited to 7% or less of total assets. Limiting non-earning assets prevents a savings institution from investing deposits in fixed assets, such as an ostentatious building, which would limit the returns on those deposits.

CASH MANAGEMENT

For institutions that have not offered savings services previously or that have only received savings via payroll deduction, the receipt of over the counter cash deposits poses a new set of risks. **A savings institution must put into place procedures and internal controls for handling deposits and withdrawals.**

Access to the teller and vault areas by persons unrelated to the cash operations should be restricted. Internal policies should regulate the maximum amount of cash kept on hand in order to minimize potential losses and avoid endangering the persons responsible for handling it. The amount of cash on hand should not exceed the insurance coverage for cash losses.

Managing Savings

INTERNAL CONTROLS

Internal controls for savings management are implemented through rules for common transactions. Examples of such rules include:

- Document all teller transactions with receipts
- Include teller identification on all passbook entries or receipts
- Prohibit tellers from keeping client passbooks at the institution
- Prevent any official or employee from transacting business on his or her own account or on a family member's account

Savings institutions must maintain a separation of functions so that the employees who approve or conduct business in the organization are not the same ones who do the processing, prepare accounting entries and maintain the internal part of the transactions.

The total amount of money received, either by means of check or cash, in daily operations should be deposited in a formal bank account. The total of this daily deposit serves as a verification of the total daily income report.

COSTS RELATED TO SAVINGS

Numerous non-financial costs associated with designing, marketing, managing and protecting savings deposits are difficult to quantify beyond the direct financial cost of the interest that an institution pays clients on their savings deposits. As suggested in previous sections of this guide, building sufficient trust in a client pool in order to be able to attract deposits involves physical image and security enhancements, staff training, institutional policy changes, marketing and many other costly activities which can be difficult to separate out and quantify in monetary terms.

A savings institution may consider conducting a functional costing of savings-related financial and non-financial costs to determine what it actually spends to provide safe and well-managed savings products. A costing exercise can then enable the staff of the institution to design and offer a balanced range of financial products which mitigate both costs and risks.

MAKING THE TRANSITION

Electing to mobilize microsavings from clients is a strategic long-term institutional decision. The motivations of why, when and how an institution authorized to accept deposits should launch into accepting them can weigh on considerations such as client demand and institutional funding constraints.

The decision to become a savings institution must be made with long-term perspective. Not only does building trust among clients absorb significant time and resources, but also preparing the institution to adhere to the requisite financial disciplines takes serious time and effort.

ABOUT WOCCU

World Council of Credit Unions, Inc. (WOCCU) has credit union affiliates in Africa, Asia, the Caribbean, Central Asia, Europe, Latin America, North America and the South Pacific. WOCCU manages long-term technical assistance programs to develop, strengthen and modernize credit unions and credit union systems around the world. WOCCU works to create an appropriate regulatory environment for safe and sound credit union operation.

WHAT IS A CREDIT UNION?

Credit unions, or savings and credit cooperatives, are user-owned microfinance institutions that offer savings and credit services to their members in developing and transitioning countries. Membership in a credit union is based on a common bond, a linkage shared by savers and borrowers that can be based on a community, organizational, religious or employee affiliation. Depending on a country's legal framework, credit unions may be authorized either by the Superintendency of Banks, the Central Bank, the Ministry of Finance, the Ministry of Cooperatives or a freestanding law to mobilize member savings.

Photo credits: Anna Cora Evans, Janette Klaehn, WOCCU Kenya, WOCCU Nicaragua and WOCCU Philippines

World Council of Credit Unions, Inc.

Home Office

5710 Mineral Point Road
PO Box 2982
Madison, WI 53701-2982 USA
Phone: (608) 231-7130
Fax: (608) 238-8020

Washington Office

601 Pennsylvania Avenue, NW South Bldg., Ste. 600
Washington, DC 20004-2601 USA
Phone: (202) 638-0205
Fax: (202) 638-3410

Website

www.woccu.org

E-mail

mail@woccu.org