

RAFI Note # 9

Innovations in Rural Deposit Mobilization



Rural Banker 2000

Staff at Philippines Rural Bank learn how to use the open source MIS software

“What was surprising, and continues to be, is how microcredit clients can repay on a weekly basis and save too,” said Bangko Kabayan manager Ellen Metica about the volume of savings deposits the rural bank attracted with the Ganansiva boxes. “I believe that about 70% of the bank’s entire portfolio is financed by microsavers. That is a remarkable thing we have noticed.”

Rural deposit mobilization harnesses the power of small amounts of public savings for the benefit of the community. By combining a large number of small deposits, greater sums can become more available to rural and agricultural enterprises that can use it most productively. The benefits of rural deposit mobilization to both rural and agricultural finance institutions (RAFIs) and RAF clients are many – most importantly they can provide a sustainable source of RAFI funding and offer clients a safe and liquid means in which to save. International evidence has shown that savings services are highly valued in rural areas and that RAFIs offering both savings and loan products on commercial terms consistently reach far more poor clients through savings than through credit alone.

However, several major challenges to mobilizing rural deposits exist. Chief among these are:

- Building rural inhabitants’ trust in the financial institution, sufficient to encourage deposits,
- Designing demand-driven, rural deposit services that can be delivered in a profitable manner,
- Identifying investment opportunities in technologies to significantly reduce costs of doing business in rural areas, resulting from low population density and poor physical infrastructure.

This Rural and Agricultural Finance Initiative (RAFI) note summarizes several recent innovations to mitigate the common constraints to rural savings mobilization by drawing from experiences of USAID programs in Madagascar and the Philippines. It also highlights key lessons learned and their transferability to other country contexts.

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This publication was produced for review by the U.S. Agency for International Development. It was prepared by Stephanie Charitonenko of Chemonics International Inc.

Rural Savings Mobilization Challenges and Innovations

Challenge: Building Trust & Institutional Capacity

Two of the greatest constraints to delivering financial services to underserved rural populations are the general mistrust of the banking system and limited institutional capacity to profitably provide financial services to rural markets.

Innovations: Enhancing Existing Networks & Institutional Strengths

When the Caisse d'Épargne de Madagascar (CEM) began transitioning from a state-owned bank into a corporation in 2001, it had a 43% share of the voluntary deposit market and a long history of mobilizing savings in rural areas. The same year, the CEM's relationship with the post office ended resulting in the loss of about 150 post office windows, leaving about 100,000 clients without access to their accounts. To retain its clients, CEM looked into expanding its rural outreach through the development of public-private partnerships and considered the use of mobile banking, which a feasibility study determined would be less expensive than adding full service branches. While the CEM's pilot of mobile banking was unsuccessful due to the prevalence of a rural culture that still values saving in kind over cash, it is now working with one of the largest private insurance companies in Madagascar, Nyhayana, to develop new financial service packages. These packages bundle savings with other products, such as life and home insurance, which simultane-

ously encourages rural clients to open a savings account with CEM. The CEM is looking at starting with three points of sale each serving 500 clients, for a total of 1,500 clients. Upon completion of a success pilot in these locations, CEM will expand this program to other urban and rural areas.

Rural banks in the Philippines interested in starting or expanding sustainable microfinance operations from the mid-1990s have had to overcome a legacy of state-led banking interventions that had created hundreds of unprofitable, inefficient banks sprinkled throughout rural areas, and many poorly run subsidized directed credit programs engendering high default rates. In the last few years, commercially-oriented rural banks have leveraged their large rural client bases and basic human capital to develop and expand savings services. In the late 1990s, the Rural Bankers Association of the Philippines (RBAP) was revamped to increase information sharing by rural banks across the islands, which with technical assistance, has become the preeminent forum for promoting rural bank performance standards, introducing new methodologies, and leading advocacy efforts on behalf of its membership, thereby solidifying the reputation of rural banks and facilitating savings mobilization.

Challenge: Developing Demand-Driven Deposit Services

Low-income and rural clients have different needs than those served by typical urban banks. In rural areas, deposit transactions often involve smaller amounts and the deposit patterns can be irregular

due to the seasonal and erratic nature of small scale income generating activities, such as crop production or cottage industries. Institutions mobilizing rural deposits need to innovate and adapt to make their products and services relevant.

Innovation: "Piggy Banking" in the Philippines

In the Philippines, "piggy banks" are as common a practice as they are in American homes. In the past, rural banks commonly collected savings daily, based on the belief that poor and rural clients could not save of their own accord. In an effort to reduce staff time spent processing these multiple small transactions, the Rural Bank of Talisayan designed a savings product around the widely recognized piggy bank concept. The Bank issued clients a small locked box, called a Ganansiya Box, at or below cost after opening the savings account with a minimum deposit. Keys to the boxes are kept at the bank, but the clients keep the boxes at home and bring them to the bank as needed to deposit their savings. This allows clients to save small amounts on a daily basis while reducing staff time spent on collections. Use of the boxes has allowed the Rural Bank of Talisayan to achieve and sustain a deposit-to-loan ratio in excess of 100%. Other banks have also attracted significant savings deposits by adopting the concept.

Innovation: Capitalizing on Remittance Technology in Madagascar

Shortly after CEM began the long process of transforming into a cor-

poration, the bank signed a service agreement with Western Union to provide money transfer services from abroad to Malagasy citizens. By enhancing this service through the development of an MIS platform facilitating interbank electronic funds transfers, the bank was able to enhance its image and provide more efficient savings, transfer and remittance services. Over time, CEM found its remittance services rapidly expand, and could better meet the rural clients' demand for a reliable place to store savings and secure money transfer services. The CEM now handles about 60% of the country's total remittances.

Challenge: Technologies Worth Investing In

Technological and MIS solutions are frequently necessary to overcome rural infrastructure challenges and achieve profitability; however the costs of each solution should be evaluated by its impact on the banks' efficiency, quality of service, bottom line and outreach potential. Additionally, local capacity to service new technologies should be pre-existing or developed, or new MIS systems may soon detract from the bank's efficiency rather than augment it. Systems requiring overseas experts to reprogram them if they crash, if they require updating, or return of hardware overseas should be evaluated with caution.

Innovation: Open Source Software

Local technology firms in the Philippines helped develop and adapt open source software to meet the specific needs of individual banks, banks with multiple branches and units, and the Central Bank's data

processing and reporting requirements. This windows-based software developed in cooperation with the RBAP and a US IT firm, allows customization by the rural banks, so that it can be adjusted as the bank adds or changes products and grows. It is a high-quality, cost effective system that improves the banks' ability to quickly and efficiently handle multiple transactions and more clients.

Innovation: Real-time Fund Transfers

In the past, CEM clients commonly complained about the 15-day delay between requests and completion of money transfers between its 18 branches, causing clients multiple trips to the banking center to complete a simple transaction. Clients were also unable to initiate or complete transactions at bank branches other than the one where they originally established an account. By adopting an electronic fund transfer system, the CEM became the first bank in Madagascar able to conduct branch-to-branch transfers in real time. This innovation helped the CEM to eliminate the delay in transactions and to dramatically improve its service quality and reputation.

Innovation: Personal Digital Assistants (PDAs)

PDAs, such as PalmPilots, can be an expensive investment, but rural banks in the Philippines found they can be a cost effective way to serve rural populations. The Rural Bank of Dipolog (RBD) conducted a cost comparison of traditional collection versus PDA-facilitated collection. Because the capital investment in PDAs was substantial, the RBD

borrowed money to purchase the

"Microfinance, in order to be viable, has to be lean and very efficient. It is therefore imperative that the maximum application and utilization of available technology be looked into to achieve this in order to promote a more viable market positioning. The utilization of the PalmPilot, in our experience, is definitely one technological development that has helped us to achieve this goal."

- Randolph Eric G. Ritch, Executive Vice President and Compliance Officer, Rural Bank of Dipolog

PDAs and found that use of this technology reduced their monthly computer and paper supplies costs by more than half. Further, the switch from traditional, manual collection to PDA collection reduced time spent by account officers and tellers on transaction data processing from an estimated 45% of their total time to just 10%. The bank calculates the total monthly savings for this switch to be around PhP10,000 (\$180 USD). A total of six rural banks are now using PDAs to process all bank units' microfinance transactions.

Challenge: Rural Realities—Dirt Roads and Distant Villages

Other major constraints to financial services delivery to rural populations include low population density and poor physical infrastructure (e.g. roads, electricity, etc.) that reduce the cost effectiveness of establishing bank branches in rural areas as compared to urban areas. Additionally, physical security of staff, time and expense are con-

cerns when transporting cash to and from main branches.

Innovation: Cell Phone Banking

Globe, one of the Philippines' two largest providers of wireless phone service, is pilot testing a new mobile phone-based technology with rural banks through an agreement with the MABS (Microenterprise Access to Banking Services) program. The technology enables microentrepreneurs to make loan repayments over the phone and to collect remittances from abroad. Globe recognized the tremendous potential that ubiquitous cell-phone ownership creates for new services and products even to the very poor and is moving aggressively to corner this market.

Lessons Learned and their Transferability

A number of the lessons learned and innovations emerging from Madagascar and the Philippines are transferable with adaptations to other country contexts. By applying such lessons, financial institutions can increase the quality, efficiency, cost-effectiveness, outreach and sustainability of rural savings services. However, there are no cookie cutter solutions, and certain conditions must be present to ensure any of these successful innovations will be relevant and appropriate, which are described below.

Transferability Tip

To benefit from strategic partnerships, organizations providing complementary, rather than competitive services must be willing and able to enter into mutually beneficial partnerships on a contractual basis.

Build on existing networks, local strengths

Dysfunctional and unprofitable retail bank networks are characteristic of the financial sector in many developing countries. These networks are often remnants of state-led initiatives to create rural economic growth, many of which achieved limited if any success in efficiently and sustainably serving rural areas. However, in Madagascar and the Philippines, financial institutions have cleverly capitalized on their principal assets to offer a new alternative. These include: i) physical network infrastructure, ii) long-established trust-based client relationships in rural areas, and iii) human capital, all of which could be strengthened and expanded to provide financial services more efficiently and profitably to achieve greater scale.

Respond to the needs and customs of rural clients

Interesting and replicable rural finance innovations have emerged

Transferability Tip

Local capacity—particularly the ability to analyze the needs and appropriateness of MIS and other information technologies, customize and adapt them to the growth needs of the bank—can be built or strengthened through donor interventions, such as training and study tours, but there must be a solid educational base from which to build.

from “getting back to the basics” of customer service in efforts to appropriately address the needs and customs of rural clients.

Transferability Tip

Existing financial institutions and donors supporting them must be willing and able to invest in and implement these innovations. CEM was able to acquire an MIS system enhancing its pre-existing savings and transfer services and to research *branching* alternatives through USAID support, but it needed its own capital to invest in implementing the suggested alternatives.

In-depth understanding of the financial products and service needs and informal banking practices of rural communities stimulate the creation of attractive and accessible products, providing the platform for increasing outreach.

Extract the most value from costly technologies

Cutting-edge technology may not always prove the most appropriate or cost-effective solution for rural banks. MIS, crucial for accurate accounting and reporting, do not have to be custom-built, nor must the whole banking sector use the same MIS platform. Effective MIS needs only to meet the medium-term growth needs of the bank to support and enhance its existing products and services. Small scale, off-the-shelf systems, with minor customizations, can be less expensive and often satisfy a bank's MIS needs.

Transferability Tip

To ensure effective use of mobile teller units, vehicles should be a locally popular make and model to ensure that parts and skilled mechanics are available to maintain them. The cost-benefit analysis the bank or donor undertakes before investing in a mobile teller unit should incorporate not only the initial cost of establishing the unit, but the monthly maintenance, gasoline and insurance costs associated with proper vehicle maintenance.

Identify appropriate, tailored solutions to rural infrastructure problems

Working in rural areas requires overcoming challenges in safely transporting capital from distant villages to main bank branches over muddy rural roads, resulting in high per unit transaction costs.

More than one potential solution can be found to overcome these difficulties—even in the same country or within the same bank network or financial institution. For example, options include mobile tellers as proposed in Madagascar

and partnerships with domestic cell phone carriers to make loan payments are being piloted in the Philippines.

Transferability Tip

PDA's and mobile teller units are only effective if there is a compatible MIS platform to support them. For example—the PalmPilot loses its cost effectiveness if the exchange of information from the PDA to the main branch is so labor intensive that it does not represent a savings in staff time, or if it requires switching from an MIS system that, while efficient and adequate in meeting the banks needs, is incompatible with the PDA.

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