



USAID
FROM THE AMERICAN PEOPLE

Savings and the Crisis

Moderator: Jamie Zimmerman (New America Foundation)

Panelists: Mary Ellen Iskenderian (WWB)

John Ikeda (Grameen Foundation)

Jeff Ashe (Oxfam America)

Fourth in a *Microfinance Learning and Innovations After Hours* mini-series on the impact of the global financial crisis on MFIs & their clients.

March 10, 2009

Savings and the Crisis

Presentation at the USAID
Microfinance After Hours Seminar

Mary Ellen Iskenderian, President and CEO
March 10, 2009



Women's World Banking: Who We Are



**WWB Global**
Women's World Banking

- ▶ 40 Staff, Experts in MF




**Network Members**
Women's World Banking

- ▶ 30 Microfinance Providers
21 countries
- ▶ 24 Other Financial Institutions
Additional 9 countries

**Services**
Women's World Banking

- ▶ Customer analysis & insights
- ▶ Product design
- ▶ Marketing & distribution strategies
- ▶ Linkage to capital markets
- ▶ Peer-to-peer learning
- ▶ Knowledge creation & dissemination



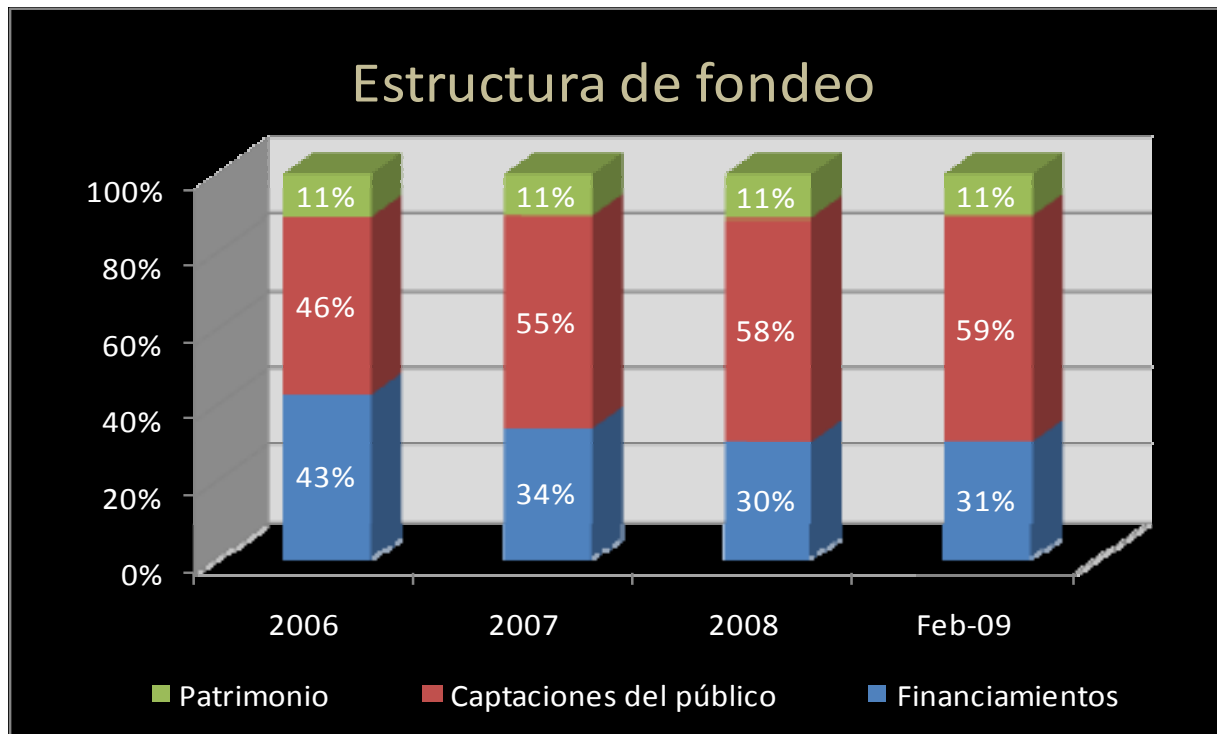
**WWB Network Impact**
Women's World Banking

<i>Directly</i> 11 MILLION POOR ENTREPRE- NEURS	<i>Indirectly</i> ANOTHER 10 MILLION FOR TOTAL IMPACT OF OVER 21 MILLION CLIENTS
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GLOBAL NETWORK = Leveraging convening power, communication channels & reputation to promote women as entrepreneurs, leaders and innovators

Are Deposit-taking MFIs Better Insulated to the Credit Crisis?

Yes. Savings provide an additional source of funding that allows the MFI to negotiate better terms with funders. (Fie, Bolivia)



Are Deposit-taking MFIs Experiencing a Crisis of Confidence from Their Clients?



- ▶ **No. Clients value trust in the MFI more than earning interest.**
- ▶ **No. Clients see savings as being for emergencies, not short-term cash flow.**
- ▶ **No. Clients have become more risk averse on other investment opportunities and leaving savings alone.**
- ▶ **Yes. Public confidence in banking system dropping with rumors of possible failures.**

How Are Deposit-taking MFIs Increasing Their Levels of Savings?



- ▶ **Increased rural savings programs where there are fewer options to save money and therefore clients are more stable. (*FIE, Bolivia*)**
- ▶ **Increased deposit rate. Savings had a 44% growth in 2008, the highest to date. (*Fincomun, Mexico*)**
- ▶ **Aggressive marketing campaigns to bring in more fixed rate depositors. (*Mibanco, Peru*)**
- ▶ **Increased outreach to bring in new customers. (*several*)**

Risk Management & Confidence

Building Suggestions for MFIs



Risk Management

- ▶ Focus on low-income retail savers instead of institutional ones as they represent a more stable source of funds (*FIE*)
- ▶ Shift sight deposits to fixed rate
- ▶ Increase deposit interest rates (several)

Maintain/Increase Public's Confidence

- ▶ Marketing campaign to focus on local currency deposits and importance of savings (*XacBank, Mongolia*)
- ▶ Publish ratings report to the public
- ▶ Maintain an image of safety (*Fincomun*)

Managing the Crisis: What a Global Network Can Offer



WWB's Experience in Savings Product Design and Roll Out

Demand Deposits (Passbook/ Payment Card)	Time Deposits (CDs)	Programmed Savings (short and long-term)
Should be low minimum balance, no fee, flexible transactions.	Not likely for <\$2/day segment but important product for higher-income clients who can cross-subsidize passbook accounts.	Offer clients a choice of how much to save and for what time period. Need incentives to stay with the program.

If Savings is the Answer, How Can We Accelerate its Uptake?



“What MFIs can do to mitigate liquidity risks, my proposition is thus: Be savings led and inspire your clients to save, match savings with loans, avoid funding mismatch, develop an array of savings and deposit products, be market and fund driven, never depend on bank loans, rely less on donor and oversee funds, do not compete with commercial banks, avoid high volume loans, lend short and lend small, slow down on lending-race up to savings.”

C.J. Agwu, Agric Banking FMFB, Lagos Nigeria

Prognosis for the Future



“As MFIs, we make the best of new crises by looking for new solutions...”

(Kenyan Network Member)

*Presented by Women's World Banking
www.womensworldbanking.org*



**GRAMEEN
FOUNDATION**

*Empowering people. Changing lives.
Innovating for the world's poor.*



Savings and the Financial Crisis

John Ikeda, Program Officer
March 10, 2009

Savings and Grameen Partners



- **Minority of GF Partners can take public deposits**
- **Those that can have not seen significant changes in savings volume**
- **Credit much harder to get, more expensive**

Savings and Financial Crises

- **BRI: Indonesian Financial Crisis, 1997-1998**
- **Credit Unions in Ecuador: Dollarization, 1999-2000**
- **ACLEDA (Cambodia): Global Financial Crisis, 2009**

The Social Case for Savings



Country Level

Increased Financial Sector Outreach → Higher GDP

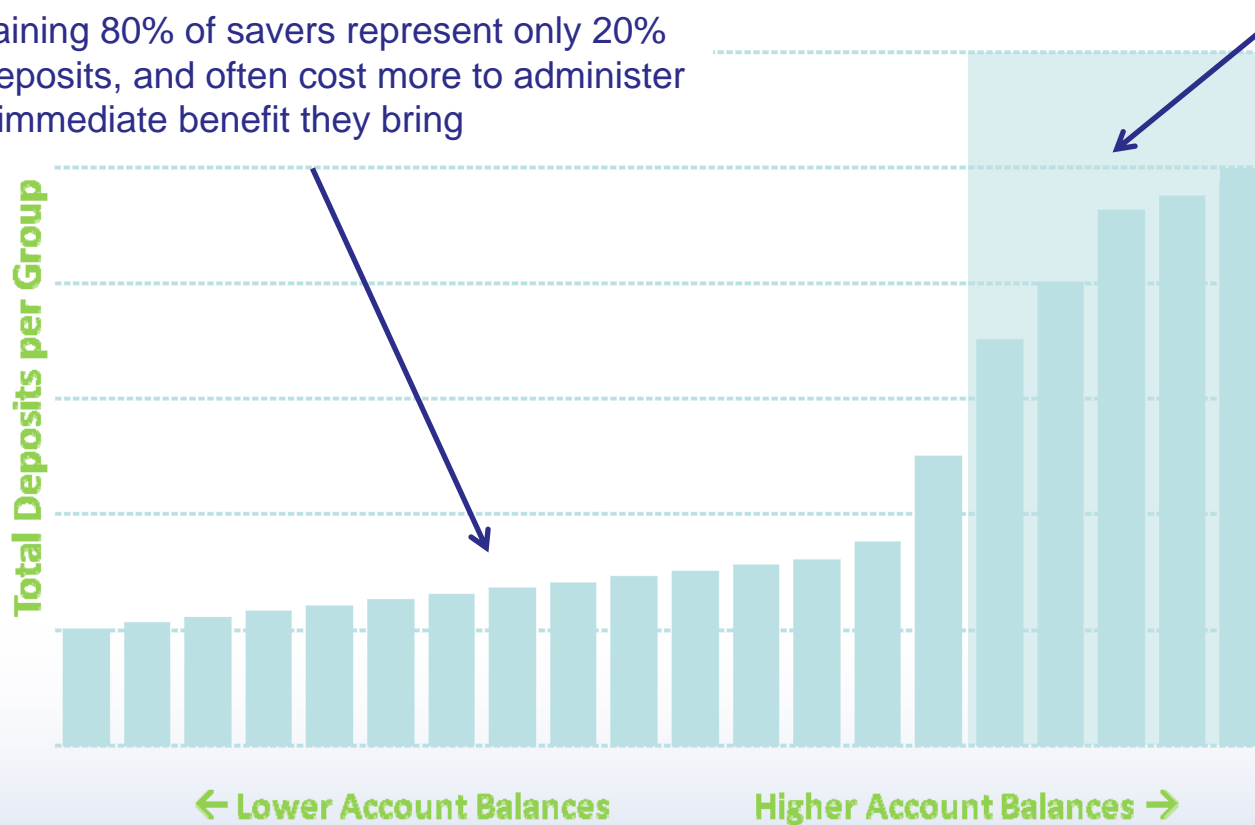
Household Level

Access to Formal Savings → Higher Household Assets

Access to Formal Savings → Lower Income Variability

Distribution of Account Balances

The remaining 80% of savers represent only 20% of total deposits, and often cost more to administer than the immediate benefit they bring



In a typical financial institution, the top 20% of depositors tend to have around 80% of the total savings

The Business Case for Savings



Cost of Funds

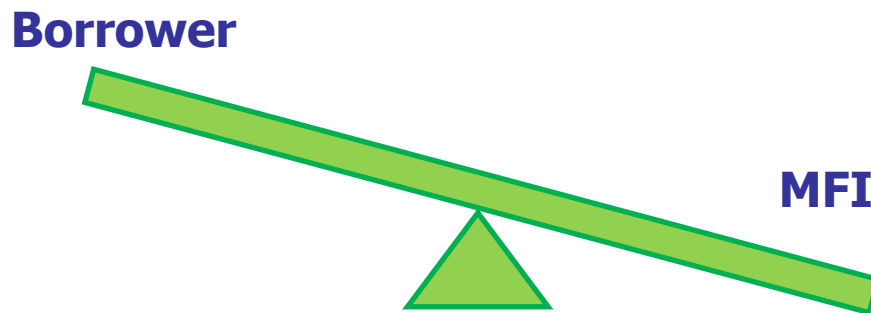
Interest on External Debt – (Interest Paid on Savings + Increased OpEx)

Customer Lifetime Value

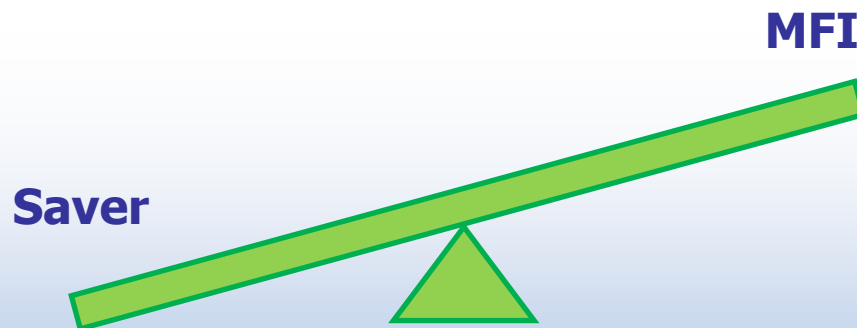
PV of Expected Future Profits from New Clients – Acquisition Costs

The Balance of Power

Lending: Borrower asks for MFI's money



Savings: MFI asks for saver's money



Savings: A Process and a Product

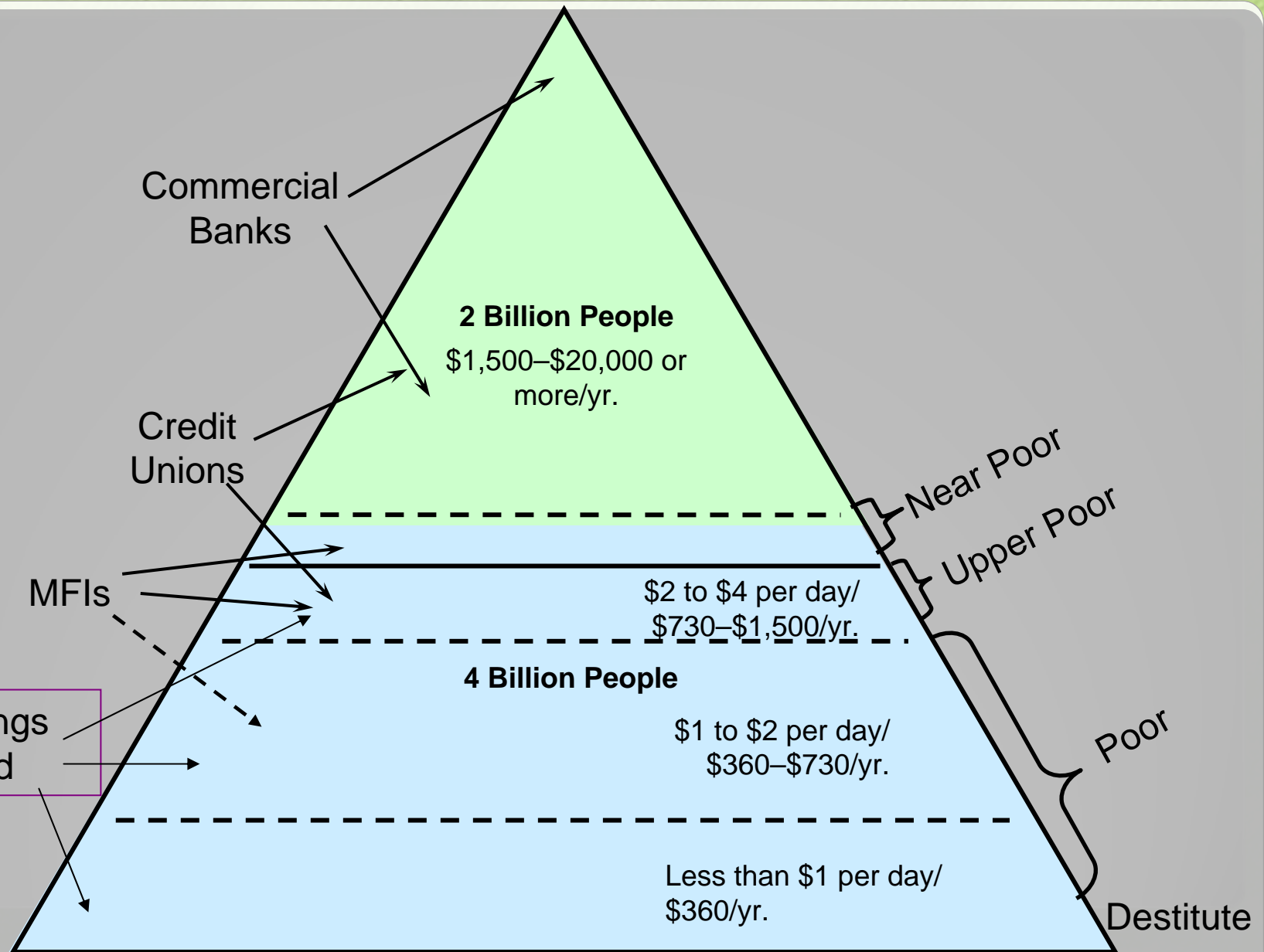
- **Product: Well-designed products are**
 - Secure
 - Convenient
 - Accessible
 - Offer a positive return
- **Process: Savings processes \neq credit processes**
 - Savings is more difficult and random
 - Savings requires more timely information flows
 - Savings requires stronger internal controls

SAVING FOR CHANGE

A joint Initiative of Oxfam America and Freedom from Hunger



USAID AFTER HOURS SEMINAR, MARCH 10th 2009



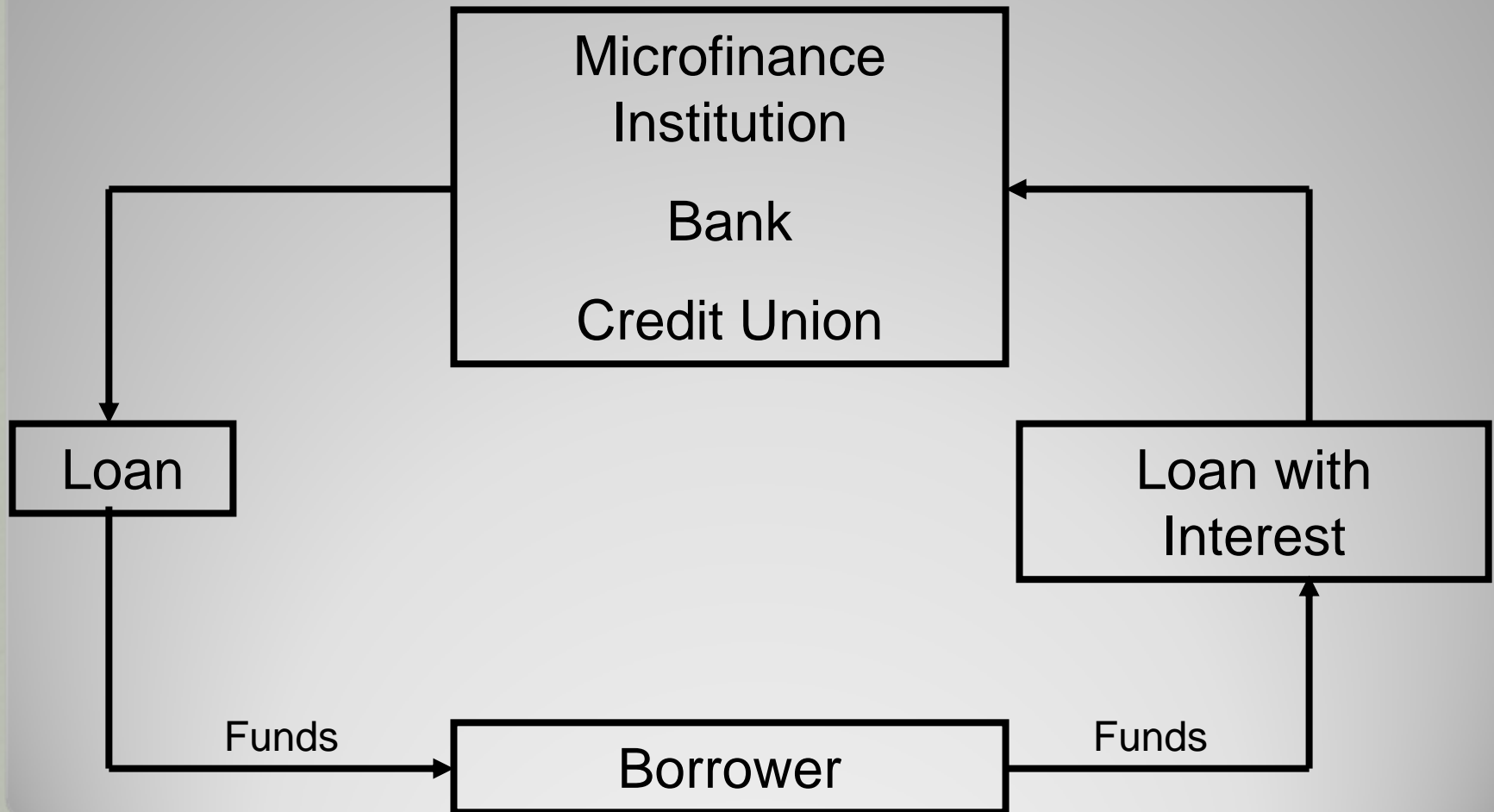
*Sources: VISA International, World Bank, C.K. Pralahad

Guiding Principles for savings-led models

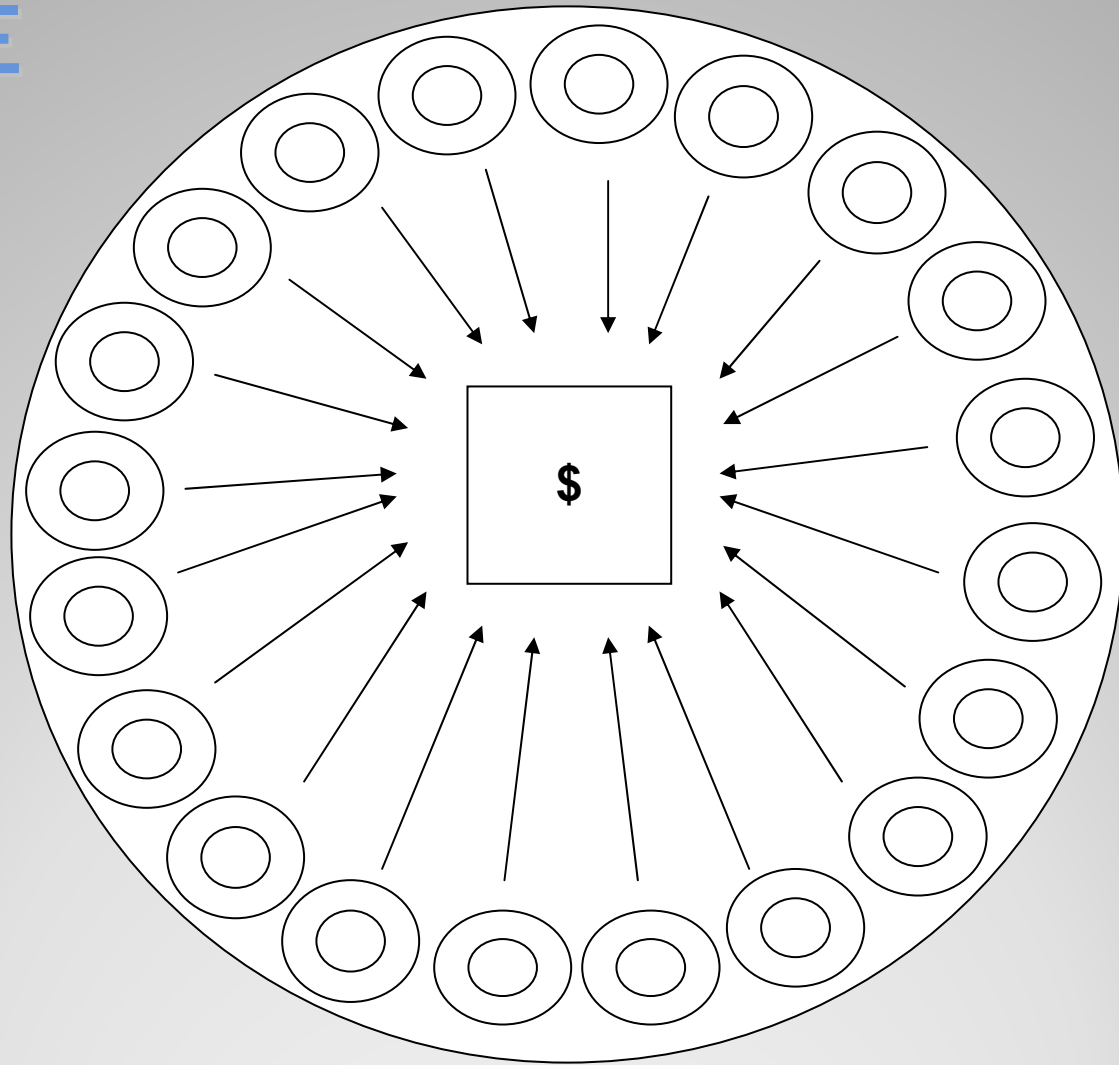


- Not everyone needs a loan
- The poor are not *too poor* to save
- There is enough potential in savings within a group to take care of smaller credit needs
- The fund is managed by the group
- Groups operate independently in a year or so

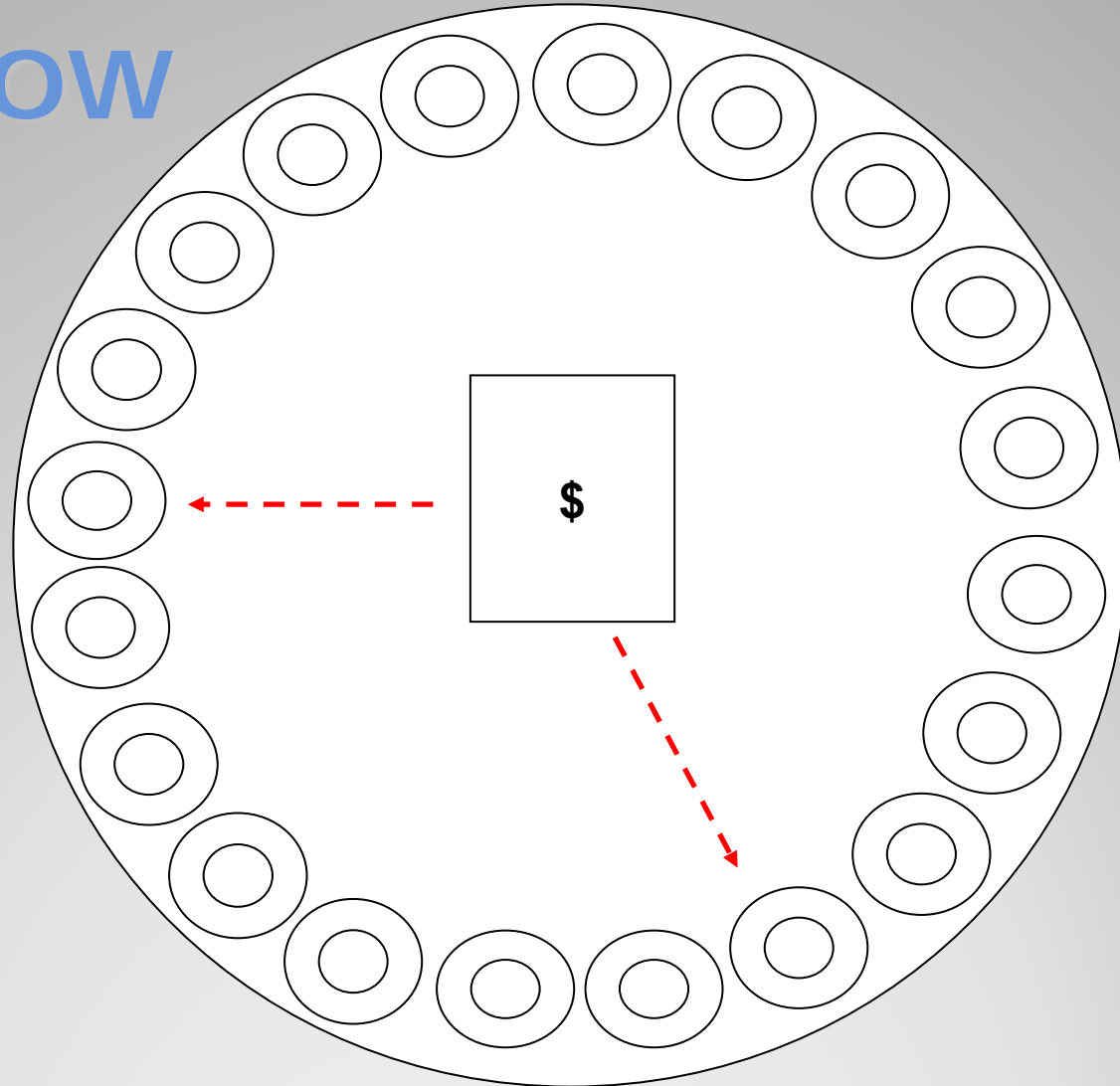
Credit Model of Microfinance



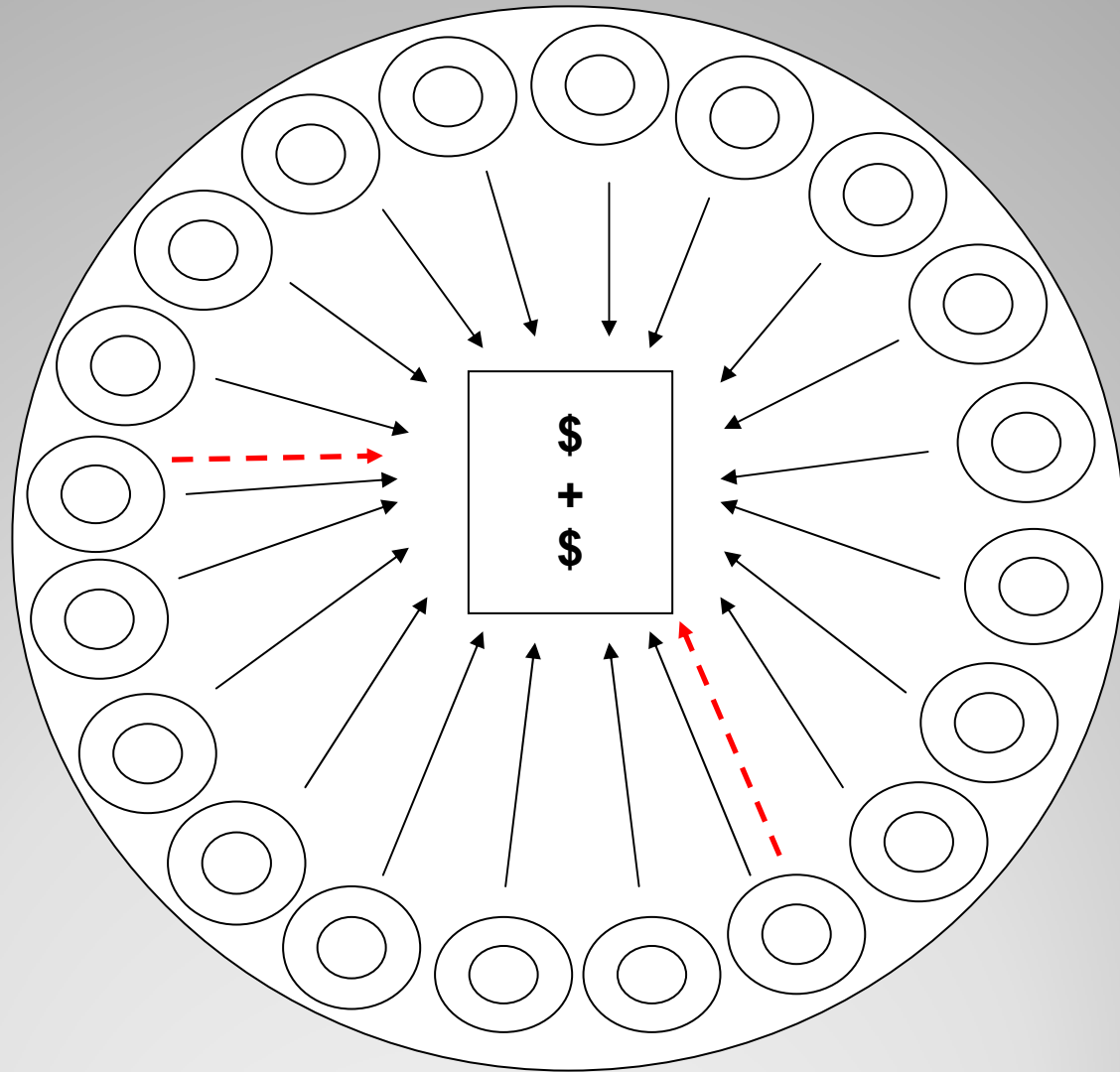
SAVE



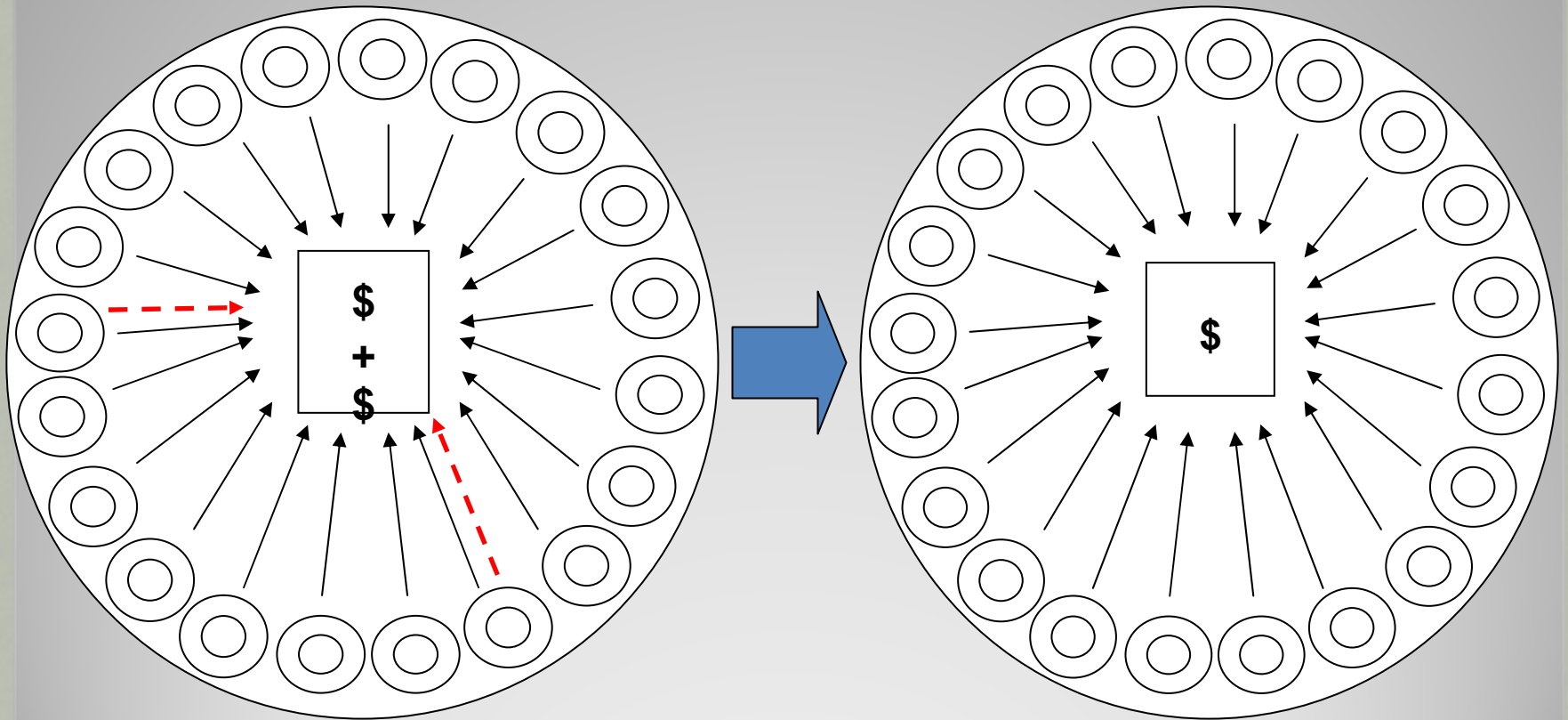
BORROW



SAVE AND REPAY

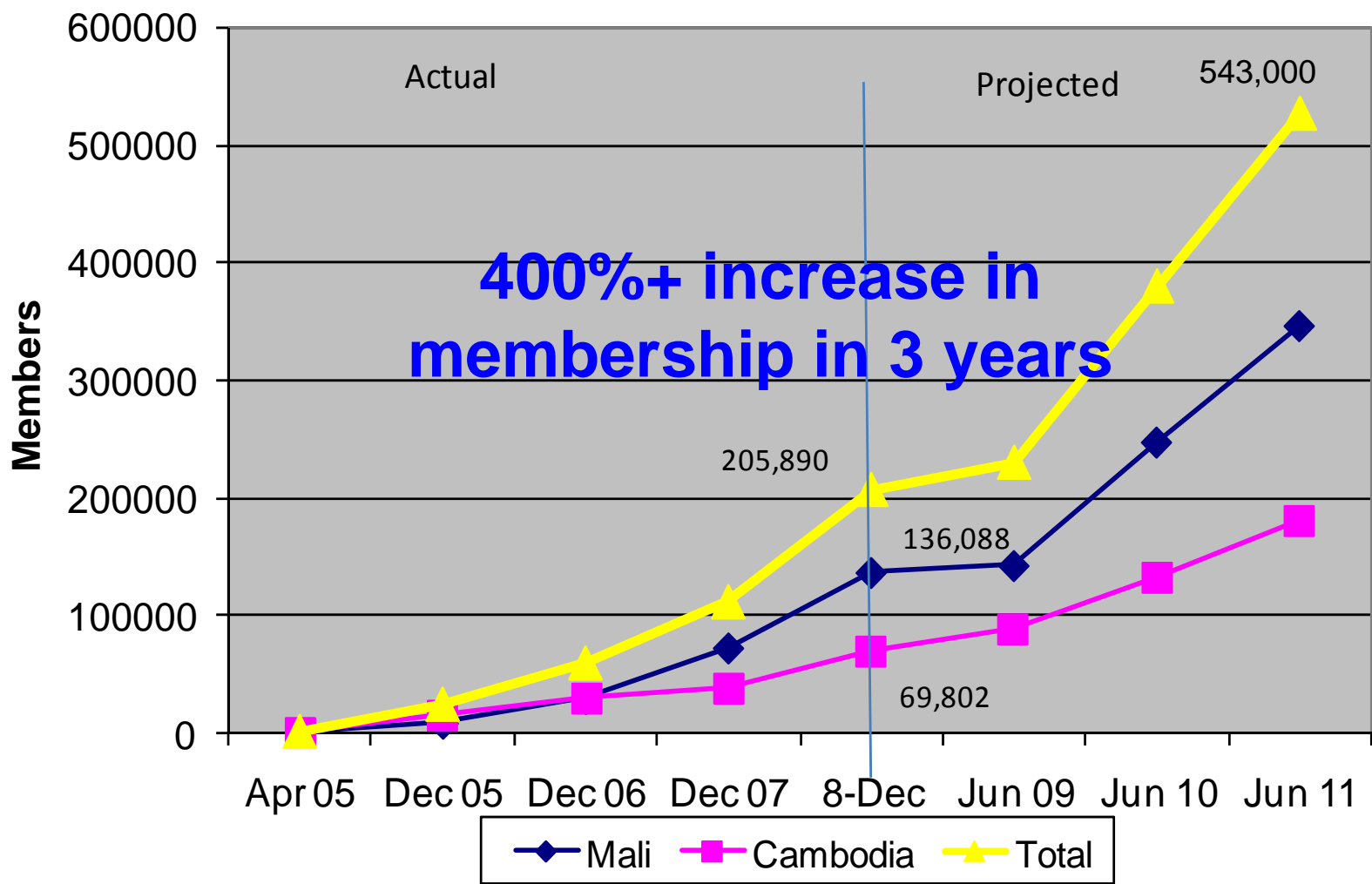


Group Leaders create New Groups



Group 1

Group 2



Saving for Change Created a new MF Market

- 10% had MFI or Credit union loan
- 20% members of *tontines* (ROSCAS)
- 70% to 80% had no access to improved financial services
- Cambodia 20% had access to MFI credit



SfC Model

Current Savings lose 20% per year

Current Lending Sources

More savings 20%-40%

Home
Animals
Jewelry
Tontines
Remittances

Social Capital

Income Generating Activities

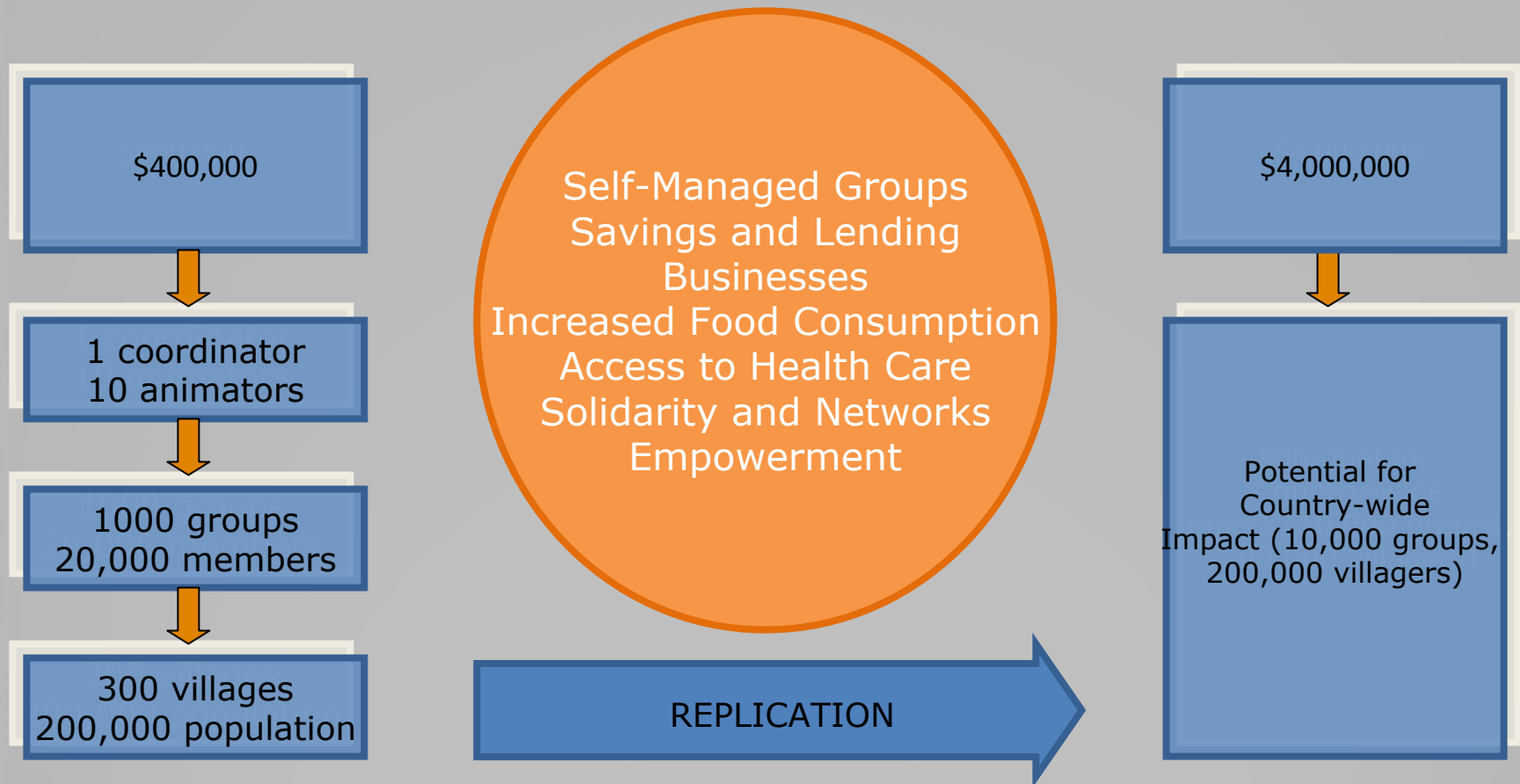
Money Lenders
Suppliers
MFIs

More Income



Oxfam America: Saving for Change

A Savings-led, Low Cost, Sustainable Microfinance Initiative for the Rural Poor



OUR COMMITMENT: 10 YEARS, 1,260,000 VILLAGERS, 63,000 GROUPS, 8-10 COUNTRIES

Role of MFIs in Supporting Savings Groups

- Groups do not need external loans – savings are sufficient
- Loans to groups risky – fund at risk when only two or three need loans
- Given management capacity of MFI, best role:
 - Set up separate savings group training unit
 - Effectively serve the rural poor
 - Loan to growing market of individuals

A Resilient Tool for reaching the poor

- 95% of group in Mali earn < \$1 per day
- 75% of groups trained by Pact's program in Nepal survived seven years with no support
- CARE's savings groups in Zimbabwe survived hyperinflation as MFIs financial institutions collapsed



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Thank you!

A screencast of this presentation will be available shortly at www.microlinks.org/afterhours.

For more news and resources on the global financial crisis, visit www.microlinks.org/financialcrisis.

The fifth seminar in this mini-series,
on “Remittances and the Crisis,”
will take place in April 2009.