Country-Level Savings Assessment Tool

Improving the Supply of Deposit Services for Poor People

CGAP

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Acknowledgments

1 Introduction

CGAP produced this Country-Level Savings Assessment (CLSA) Tool to help guide analysts and researchers who wish to undertake CLSAs and to guide governments and donors who wish to commission CLSAs. This Technical Guide explains the areas of analysis covered in a CLSA, the methodology used, and how the CLSA can be tailored to meet the needs of the commissioning agency.

What is a Country-Level Savings Assessment?

CLSAs are financial sector studies that identify opportunities for, and obstacles to, increasing poor people's access to formal sector deposit services. CGAP developed and refined the CLSA methodology over the course of savings assessments in Benin, Bosnia, Mexico, the Philippines, and Uganda. These countries were chosen because they are diverse in terms of regulatory regimes, prevalent institutional models, and geographic location. This diversity helped ensure the methodology addressed variables that influence access to deposit services as comprehensively as possible. Examples from these assessments will be used to illustrate points throughout this guide.

A CLSA first examines the demand for savings mechanisms among poor clients, and then it evaluates the ability of the financial sector to meet that demand. The supply-side evaluation proceeds at three levels: micro (retail institutions), meso (financial sector infrastructure), and macro (policy).

This approach helps analysts make recommendations that address weaknesses and build on strengths that exist at all three levels to improve the supply of deposit services available to poor people. The CLSA does not include primary data collection among clients.

Why do a CLSA?

Savings play a critical role in financial management strategies of poor people. Deposit facilities make it easier for poor clients to turn small amounts of money into "useful lump sums," enabling them to smooth consumption and mitigate the effects of economic shocks (Rutherford 2001). Secure savings also can provide a measure of independence to socially

and economically vulnerable individuals, notably women and children. And, unlike credit, the benefits of savings are not limited to the economically active. Although significant research has documented the benefits of saving to the poor, the microfinance sector remains focused largely on credit delivery.[1]

Less attention focused on savings means that, despite the work of several notable organizations and researchers,[2] less is known about how to increase poor people's access to quality savings services. The CLSA methodology addresses both issues, by

1. focusing the attention of stakeholders in a given market on increasing access to savings services, and
2. helping them identify country-specific, locally appropriate ways for doing so. It should be noted that the CLSA tool is specifically for regulated institutions. In many countries, MFIs are not allowed to hold or intermediate client savings.

How to use this guide

This CLSA Technical Guide is designed to guide analysts, researchers, governments, and donors who wish to identify the questions that need to be addressed to facilitate access to deposit services designed for poor people.

Specifically, this Technical Guide contains the following:
- An overview of **key questions** to investigate and suggested **indicators** to examine at the client, micro, meso, and macro levels
- A description of the **process** used in the five CLSAs conducted by CGAP in 2005, including boilerplate consultant terms of references
- **Appendices** containing interview guides, pointers on where to find various types of data in the field, and suggestions for useful ways to communicate data

Financial sector analysis through the lens of retail deposit services is a relatively new concept, and analysts experienced in this type of work are rare. Yet the types of analyses employed should be largely familiar to financial sector experts. What is new is the emphasis given to implications for the availability of deposit services for the poor.

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[1] See for example Rutherford (2003), Ruthven and Kumar (2002), the Financial Diaries Web site (www.financialdiaries.com), and Finscope surveys (www.finscope.co.za).

[2] See, among others, Branch, Hirschland, Robinson, Rutherford, and Sherraden.

The CLSA methodology is a first step in the process of expanding deposit services for poor people. It is not a substitute for detailed feasibility studies and implementation plans, but rather it is meant to bring supportive stakeholders to the point where they have policy and program options to explore through such processes. It is meant to identify entry points for those who wish to promote small deposit mobilization, by finding concrete ways to incorporate this priority into their strategic and operational agendas.

The goal of this guide is to make those implications explicit for those who may not have worked specifically on savings before, making savings assessments feasible for anyone with a moderate level of experience in financial sector analysis. Additional guidance, including CLSA reports by CGAP, is available on CGAP's Web site (www.cgap.org).

2 Analytical Method

CLSAs are designed to achieve several objectives:
- Compare demand and supply in deposit services accessible to low-income clients in a given market
- Explore the factors shaping current supply
- Formulate recommendations to improve it

Like most market studies, CLSAs begin by looking at client behavior, preferences, and potential uptake of improved offerings. On the supply side, however, savings assessments differ from typical market studies in that they take a sector view of savings services. Rather than simply determine the extent and quality of supply, savings assessments look "behind the numbers" to determine *why* supply looks the way it does. This means looking at institutional capacity and incentives as well as industry infrastructure and the policy environment, respectively, the micro, meso, and macro levels of the financial system.

Taking a sector approach broadens the analysis to include factors that shape multiple institutions' ability to meet customer demand. A micro-level examination of current supply may reveal only the symptoms of a supply–demand mismatch, not the underlying causes. Constraints, incentives, and disincentives produced by elements of the environment can include the nature of support services, donor actions, and government regulation. A sector approach not only enables the analyst to document the extent to which supply meets demand, but encourages a deeper analysis of the reasons why—accounting for its growing popularity as a tool for financial sector studies.

This section presents the different levels of analysis described above and the key questions that must be answered at each level to identify supply–demand mismatches and formulate recommendations for addressing them. It also uses examples from CGAP's five test CLSAs to illustrate how those questions can be answered with the data at hand.

One way of shedding light on the key questions is to look at specific indicators, especially when diagnosing the "symptoms" of supply–demand mismatches at the client and micro levels. This section also suggests key indicators that should be collected during the analysis.

CLSAs are a combination of a thorough desk review and interviews with approximately 50 to 100 key stakeholders in a country. For determining the causes of those symptoms, interviewing key informants is often more useful. A comprehensive list of suggested interview questions is provided in Annex 1.

A range of experts with diverse technical skills in financial systems development should be deployed for a country-level assessment. For example, CGAP teams were typically made up of four persons: one senior consultant to lead the assessment, one junior consultant to provide research and logistical support, and two CGAP staff.

Background Information

Before diving into level-by-level analysis, it is useful to collect certain basic information on the market being studied to understand its economic situation and financial sector history, depth, and development. Below is a list of indicators that have been especially helpful in understanding key elements of the context for a CLSA. Some of them may not be directly relevant to financial sector analysis, but they are used to normalize indicators collected later in the methodology, particularly for comparison across countries.

Indicator	Comments
Population	To establish overall market size
Economically active population	Better approximates potential market for deposit services than overall population
Total number of households	Members of a single household sometimes share an account(s) in a financial institution. Numbers of accounts/household may sometimes be available. Estimates of access to financial services are also sometimes given per household.
Average USD or Euro exchange rate [year]	Needed for conversions if report will have international readership
GDP growth rate (real)	A measure of economic growth from one period to another expressed as a percentage and adjusted for inflation (i.e., expressed in real as opposed to nominal terms)
GNP per capita	Gross national product (GNP) per capita is the dollar value of a country's final output of goods and services in a year divided by its population.
Inflation-budget surplus/deficit	Important in determining saving and investment strategies for individuals and institutions; noncompetitive benchmark for deposit rates. High inflation environments discourage saving in financial assets. Comparison to rates on government treasury notes will also indicate attractiveness of investing in the latter.

National savings rate	Estimate of total resources generated by national economy available for investment. Includes surpluses/deficits generated by the public sector and businesses as well as by individuals.
Household savings rate	Reflects only savings by individuals; rarely available for developing countries
Liquid liabilities/GDP	Indicates the proportion of total economic production held in cash or near-cash form; an indication of the "depth" of the financial sector and monetization of the economy
Cash in circulation/deposits in banks	Reflects banks' success at converting cash in banks into deposits
Savings in banks/private credit	Indicates aggregate bank liquidity, or the adequacy of savings mobilized by banks to finance total lending (does not control for prudential loan-to-deposit ratios)
Average daily wage	Useful for comparing to deposit account fees, minimum balances
Daily minimum wage	More commonly available than average daily wage but often unenforced or out of date; actual subsistence wages may be much higher or lower
Daily income at national poverty line	More commonly available than average daily wage; more realistic benchmark for income among poor clients
Percentage of population under national poverty line	Indicates the number of people to whom above benchmark applies
Number of accounts in deposit-taking financial institutions	For comparison to total/economically active population, total number of households. Generally includes business as well as individual accounts.
Total deposit-taking financial institution branches	For comparison to total/economically active population

Some Useful Sources

- National central bank documents
- *Economist* Country Profiles (www.economist.com/countries)
- UNDP Human Development Reports (http://hdr.undp.org)
- LSMS or other national household surveys (www.worldbank.org/lsms)

- World Bank Country-at-a-Glance fact sheets (www.worldbank.org)
- World Development Indicators database (www.worldbank.org)

Levels of analysis: Clients
Dealing with a dearth of data

Poor and low-income clients are at the center of CLSAs. The performance of the financial system is judged by the extent and nature of demand from poor clients. At the client level, fact-finding focuses on poor clients' use of and preferences in savings mechanisms, both formal and (because formal savings services are so rarely available to the poor) informal. Informal savings mechanisms are widely used by poor people and often can reveal distinct patterns of demand among low-income clients.

In Benin a study of informal roving deposit collectors revealed that clients seemed to value two aspects of the service most highly: convenience and inter-actions with the individual deposit collector. Convenience related to the ability to deposit daily or on a schedule that suited the client; the fact that the collector came to the client; and the speed of transactions (three minutes on average). Clients further appreciated that savings collectors came from the local area, spoke the local language, and demonstrated "the qualities of a good person." Such information offers clues for formal institutions looking to compete with informal deposit service providers.

Hard evidence of this demand is often difficult to come by. In some countries, studies have attempted to document the size of the market for informal savings mechanisms, as well as client preferences for various features of savings services.[3] More often, studies are virtually nonexistent. In such situations, demand sometimes can be inferred by looking at the growth in deposits and number of clients among financial institutions that offer savings services appropriate for poor clients.

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[3] For more information see www.microsave.org.

Because a CLSA is meant as a rapid appraisal tool, this methodology does not include primary data collection among clients. However, primary market research easily could be conducted after the basic savings assessment is completed. Lack of data on clients should not be considered an obstacle to completing of the assessment. In fact, the results of the assessment—especially analysis of gaps at the micro level—can be used to better target subsequent market research to test key hypotheses.

How much demand exists?

There are two basic dimensions to analysis at the client level: quantitative and qualitative. Ideally, quantitative analysis would establish the number of poor and low-income individuals that currently use formal sector savings services; the number that do not currently use them but could or would if appropriate services were available; and the amounts of savings that are or could be mobilized from these groups.

   In the real world, few market studies on deposit services break respondents down by socioeconomic level. The FinScope studies in certain African countries are perhaps the most important exception. Nor are there typically large-scale studies of the amounts of funds saved formally or informally by low-income people, although projects such as the Financial Diaries have provided detailed information on limited samples of clients.

The Financial Diaries and FinScope represent two different approaches to collecting data on clients' use of and preferences in financial services. The Financial Diaries use qualitative research techniques to paint a detailed picture of household financial management strategies of the poor. This technique has been used in India, Bangladesh, and South Africa. FinScope uses surveys to compile nationally representative datasets describing use of credit, insurance, savings, and transaction accounts by the poor. To date, FinScope surveys exist or are underway in 11 African countries and in Pakistan.

Precisely quantifying potential demand for appropriate deposit services is difficult. The analyst's main goal should be to obtain whatever data are available from secondary

sources and use them to determine whether demand would likely exist among low-income clients, estimating the level where possible. Potentially useful data include financial institution client surveys, historical growth of number of deposits and clients in institutions serving the poor, and information on the use of informal mechanisms. Two examples from CGAP's CLSAs, below, illustrate different approaches that may be used with different kinds of available data.

Key questions
Does demand exist?
- *Are informal savings instruments widely used?*
- *Are savings in institutions targeting the poor growing?*
- *Are prepaid services, such as mobile phones or utilities, commonly used by the poor?*
- *Is demand documented in market research?*

How much demand exists?
- *How does the number of banked individuals compare with the total number of economically active individuals?*
- *What is the savings capacity of poor and low-income households?*

What is the nature of demand?

On the qualitative side, the main questions revolve around what poor savers want in a deposit service and how well they understand what is on offer. In part, what savers want depends on where their savings come from and what they are for. For example, clients who are saving remittance income to buy a house will accept a different level of liquidity and demand a different rate of return than clients who want to save daily earnings from a trading business and need frequent or unpredictable access to their deposits.

Purpose or origin notwithstanding, there are certain basic attributes that client surveys worldwide have consistently revealed as important in deposit services for the poor:
- **Security**. Clients need to trust that their savings are safe. In the countries CGAP studied, some of the main constraints on demand related to deep client mistrust of for-

In Bosnia, a national survey had determined that only 26 percent of the adult population had a bank account, but that an additional 38 percent wanted one. With the luxury of these statistics, it was relatively straightforward to calculate the potential market for bank accounts. By adding data on poverty, the team was also able to perform basic segmentation, as illustrated in the diagram.

Total working population 100%

Unbanked population 74%

650,000

1.5 million

2 million

2.7 million

Vulnerable population 50%

Poverty line 20%
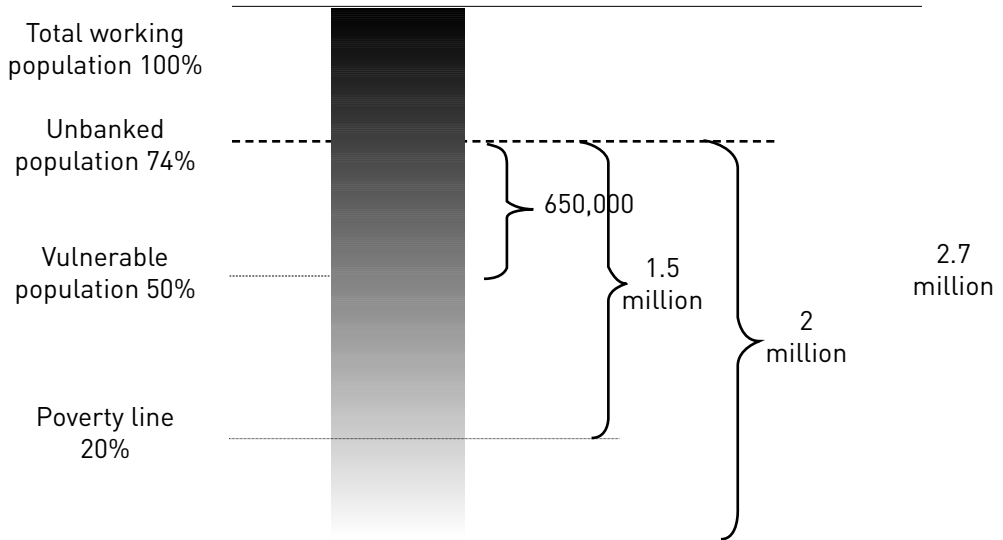
The next step was to make certain assumptions about the number of people sharing an account, the number of accounts each pair of clients would want, and the percentage of business accounts in the current account base. Comparing these numbers with the numbers of accounts currently in banks yielded an estimate of the potential increase in number of clients that banks could achieve. Even if they targeted only those above the poverty line, banks could grow their account bases by some 50 percent—a huge potential increase in a very competitive sector.

In most markets, however, detailed demand data are not available. Here, the best an analyst may be able to do is piece together evidence on savings habits and total client numbers to suggest the existence of a market. In the Philippines, for example, CGAP found a study quantifying savings preferences among clients in small cities. Over 60 percent of respondents said they saved at home, whereas less than 10 percent saved in a rural bank or cooperative. Another study surveyed clients on their top reasons for saving—overwhelmingly, for emergencies and children's education. Taken together, this information implies the existence of substantial unbanked resources in Filipino households and ways that formal institutions might be able to attract them as deposits (by tailoring and marketing products suited to client needs). It also points out the type of quantitative market research still needed for institutions to better estimate demand.

mal institutions, usually stemming from financial system collapses in the last 10–25 years. Although many clients prefer to save informally, there is reason to believe the risks associated with mechanisms like saving at home, in livestock, or with deposit collectors are often underestimated simply because they are familiar risks.[4] What is lacking in most markets studied is a simple, widely understood system to communicate institutional soundness to poor savers.

- **Accessibility**. This broad attribute takes different forms in different markets.
  - Perhaps most common is the desire for **physical proximity** in a service provider. Inconveniently located points of service increase transaction costs for clients, reducing the attractiveness of the service. But convenient access also has to do with **product features**. Can savers access their money at any time, without cumbersome formalities? This does not necessarily mean that poor clients want only liquid products. In fact, surveys around the world reveal a demand for a range of maturities. Rather, it means that savings are available for withdrawal upon demand. Ensuring this type of accessibility also promotes client trust in the institution.
  - The second aspect of accessibility is **financial**: can clients afford the service? Contrary to popular belief, in some cases, poor clients will even pay to save. In West Africa, for example, poor savers routinely pay up to 6 percent of average balances per month for the services of informal sector roving deposit collectors. To capture such savings, financial institutions must set minimum balances and fees so that they allow poor clients to access services and savings to retain their value.

Client understanding of product and service features, such as fees, charges, and security, also depends on savers' own financial literacy. Clients tend not to use what they do not understand. This reluctance can be reinforced by negative experiences with formal savings services arising from misunderstanding the terms of that service (Rand, Rusconi, and Sfiand 2007).

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[4] See Hertwig et al. (2004).

In Uganda, many interviewees reported being unpleasantly surprised by the rate at which high monthly fees eroded their savings balances. In Bosnia, interviewees complained about unexpected charges for payment and other services. In both these cases, clients did not fully understand the terms of service for their accounts, perhaps because financial institution staff had not properly explained them.

Client financial literacy can therefore affect both the nature and the extent of demand. Conversely, special efforts to ensure fees and charges are transparent to poor customers can prevent the impression that the financial institution is "stealing" savings and can contribute to client confidence.

Key questions
Why do clients save?
- *Emergencies*
- *Home improvement/purchase*
- *Children's education*
- *A cushion for old age*
- *Migration*
- *To start/expand a business*
- *Other*

Where do client savings come from? What is the cash inflow pattern?
- *Agricultural income (lumpy)*
- *Trading income (small frequent inflows)*
- *Remittances (regular/irregular)*
- *Government payments/salaries (regular)*
- *Other*

How do they currently save?
- *At home*
- *In kind (livestock, building materials, grain, other)*
- *Deposit collector/money guard*

- *In a ROSCA/ASCA*
- *In a financial institution (cooperative, MFI, postal bank, commercial bank, other)*

Does the savings mechanism vary according to the purpose?

What do clients like/dislike about their current savings mechanisms? What features of a deposit service are most important to poor clients?
- *Safety*
- *Proximity*
- *Low minimum balance*
- *Low monthly fees*
- *Convenient withdrawals*
- *High return on savings*
- *Ability to make payments from account*
- *Other*

Security
- *How safe are different types of savings mechanisms perceived to be?*
- *Do clients trust formal financial institutions? Why or why not?*

Accessibility
- *Proximity*
  - *How far do/would poor savers travel to make a deposit (time, distance)?*
  - *What is the farthest service point they do/would use (doorstep, in the same village/town/district)?*
- *Financial aspect*
  - *What is the highest minimum or maintaining balance savers would consider saving up in order to open or maintain an account?*
  - *How much would they pay in fees to maintain an account?*
  - *How long would they keep a certain sum of money in an account if they could earn a higher rate of interest on it?*

Do clients understand the various deposit services on offer?
- *Are fees and charges well understood?*
- *Do clients understand product benefits?*

Levels of analysis: Micro

How well does—or could—supply satisfy demand?
At the micro level, the focus is on retail institutions, the types of deposit services they deliver to low-income clients, and how well those services meet demand. Note that the CLSA methodology includes current accounts in its definition of savings facilities, although these are sometimes considered separate services. True savings accounts often have terms and conditions that make them inaccessible to poor savers. Poor clients therefore often end up using current accounts as a more liquid, accessible store of savings.

Analysis at this level begins with a survey of the landscape of deposit-taking institutions. This overview should reveal patterns regarding which institutions are achieving the largest scale in deposit-service delivery, where they are located, and the socioeconomic levels of clients served.

Occasionally, institutions are able to provide socioeconomic profiles of their savings clients; however, this is relatively rare, may be confidential information, and is hardly ever available across different types of institutions in the financial system. In such cases, average deposit balance may be used as a very rough proxy. Several factors can cloud the accuracy of this indicator, such as including institutional or business accounts, and an uncertain relationship between client savings balances and poverty levels. All the caveats that apply to using average loan size as a proxy for client poverty also apply here. However, it is often the only practical proxy available.

During the Uganda CLSA, the review team used average deposit balance data to chart the outreach of differ-ent types of financial institutions. The sur-prising results, illus-trated in this chart, showed that the coop-erative sector actually reached far fewer

small savers than the two banks with the largest branch networks in the country. The circles in the chart indicate the number of accounts in the smallest balance strata tracked by the Ugandan Central Bank (under USh 500,000), held in different tiers of financial institutions.
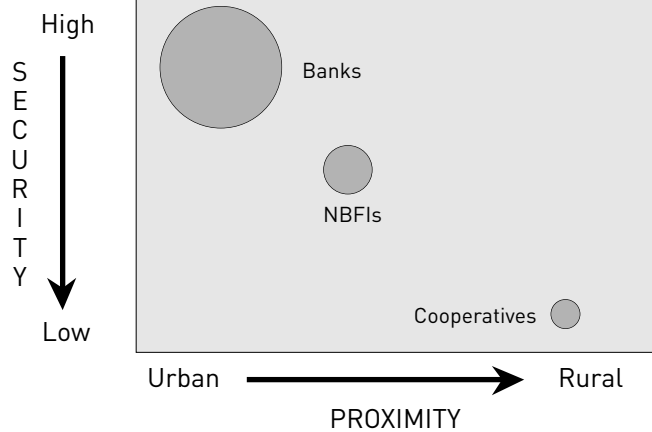
Evaluating services against client preferences

Data on institutions will also enable comparison of the deposit services available to poor clients with demand revealed through client-level analysis. Often, it is useful to focus on the three main parameters: security, accessibility, and affordability.

In gauging the security of institutions, a key indicator to collect can be the nonper-forming loan (NPL) ratio (or portfolio at risk). This indicator may be termed or calcu-lated differently in different environments; the important thing is to pick one that is com-parable across institutions. Because they track an institution's ability to loan and recover funds—a core function in financial intermediation—NPLs are a first signal of manage-ment quality and institutional soundness. Other indicators that may complete the picture include capital adequacy and profitability measures, such as return on assets or equity. For traditional commercial banks, these indicators can be more important. The weight-ing depends on the importance of the loan portfolio in the overall asset mix.

Looking at indicators of institutional soundness is important when evaluating types of institutions for their potential to deliver savings services to the poor. Low rates of loan repayment indicate operational problems that must be resolved before any effort is made to increase or mobilize deposits—especially from the poor.

As described earlier, accessibility tends to be the second broad area of importance to clients. One level of accessibility relates to the physical location of points of service. Physical proximity can be understood by comparing where different types of financial institutions are located vis-à-vis where poor people are located within a country. How much of the poor population is rural? Urban? Where are banks, postal bank branches, MFIs, and cooperatives located—in large cities, secondary or tertiary cities, small towns, or at the village level?

More precise quantitative estimates of average physical proximity are difficult to calculate. Mapping population per branch of deposit-taking financial institutions in different administrative units of a country gives some measure of the level of access of people in different regions.[5] Normalizing these numbers by the surface area of the administrative unit makes it more precise by controlling for population density.

Accessibility also depends on product features that render deposit services affordable and convenient to clients. Because of low minimum balance requirements, the most relevant type of account for poor savers is generally the basic demand deposit (also called current or transaction accounts). It is therefore important to understand prevailing market terms for these types of accounts across a range of institutions. Given the client-level data gathered, are minimum and maintaining balances, as well as fees and charges, affordable to low-income savers? Does the pricing structure of accounts allow them to increase or at least maintain their value? Do formalities prevent savers from withdrawing their money easily?

In Mexico, several of the commercial banks surveyed offered basic deposit accounts that would actually erode the value of small savings through monthly fees.[6] The lack of transparency around these fee structures has led some to call such products "predatory savings."

To evaluate the appropriateness of products more broadly, a survey of the different types of deposit products available in institutions that serve the poor is useful. Are products diverse or similar across institutions? Are they tailored to specific types of savings goals? Do they offer a range of options in the frequency of deposits and withdrawals?

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[5] For more information go to http://cgap.org/images/mfg_sirc/philippines_1.pdf
[6] See Mexico Country-Level Savings Assessment, page 12.

An additional dimension of analysis evaluates the potential of institutions that are not currently providing deposit services to the poor to do so, either directly or indirectly, through partnerships with other institutions. From this point of view, it may be important to collect the information described above from institutions that do not currently offer savings services as well as those that do.

Market research carried out among the clients of one credit-only MFI in Bosnia showed that there was a demand for savings services in addition to loans. However, because Bosnia's microfinance law forbids MFIs from mobilizing savings, management concluded that cooperation with the commercial banking sector was the best way to provide savings products. Analysis showed that if formulated and structured well, this partnership could meet client needs and bring strategic and financial benefits to the MFI and commercial bank involved.

Key questions

What types of institutions provide deposit services?
- *What market segments do they serve? (socioeconomic levels/average balances, rural/urban)*
- *At what scale? (branches, number of accounts/clients, volume of deposits mobilized)*
- *How safe are these institutions?*
  - *NPLs*
  - *Capital adequacy*
  - *Profitability*
  - *Regulation/supervision*
  - *History of collapses*
  - *Deposit insurance*
  - *Institutions in receivership*
- *What incentives do they have to mobilize small deposits? (liquidity position, other business reasons)?*

Do products on offer meet the needs of poor savers?
- *Security*
- *Accessibility*
  - *Financial (minimum balances and fees)*
  - *Physical (branches/pop/sqkm? ATMs and other access points, such as POS per pop/sqkm)*
- *Are they tailored to client cash flows and savings goals?*

Are there institutions that reach poor people but do not offer savings services? Why? What is the potential for them to do so, directly (capacity/incentives) or indirectly (partnerships)?

Levels of analysis: Meso

The meso level of analysis is about the financial sector infrastructure or support services that make it easier for retail institutions to function. These services take a wide variety of forms. They may relate to management support, in the form of training, technical assistance, and professional services (like auditing and accounting). They also can determine the flow of funds between and among institutions and clients.

CGAP's test assessments have revealed a few questions about the meso level to be particularly relevant from a small-balance savings angle.

Training and technical assistance resources

First, does the local market supply training and technical assistance (TA) resources that are knowledgeable about deposit mobilization? Because microfinance has been credit oriented in many markets, it can be difficult to find consultants and trainers who know about savings mobilization in a low-income context. Nor do traditional banking consultants typically have this expertise, which usually comes from an intersection of retail banking and microfinance or "bottom of the pyramid" skill sets. In the markets where CGAP found such expertise, it tended to come from institutions that straddled these two fields.

Wholesale funding and liquidity management mechanisms

The existence of and terms of access to liquidity management mechanisms and wholesale finance affects the flow of funds in a financial system, in turn influencing incentives for additional deposit mobilization. Liquidity management mechanisms help institutions place excess funds. A lack of placement opportunities and mechanisms decreases incentives for institutions to mobilize savings if they exceed the amount that can be safely and profitably placed in loans.

Wholesale finance facilities also can dampen incentives to mobilize deposits by providing cheaply and easily accessible portfolio financing. If such funding is subsidized, it represents even more formidable competition for deposits in terms of liabil-

ity share. While wholesale financing often can be negotiated in large chunks from a single supplier, efficiently mobilizing deposits requires a business-wide commitment and investment in systems and staff. However, in the long term, deposits may provide both cheaper and more stable funding than credit lines.

Unfortunately, wholesale facilities tend to target the very institutions that are best placed to mobilize small deposits. In the Philippines, these were well-managed rural banks that offered poor savers the best combination of safety and accessibility in the market. In Uganda, the largest wholesale funder was a government-owned apex targeting savings and credit cooperatives. Not only were these the only deposit-taking institutions available to most rural savers, but many of them were overliquid in the first place.

Payment systems

The nature of payment systems can influence the attractiveness of saving in institutions by enabling clients to withdraw and deposit money outside a single branch location and use it to pay for a variety of purchases. The most accessible institutions tend not to have access to traditional payment systems, which are often the preserve of large commercial banks. This may be for a variety of reasons: the payment system can be owned by the banks or, if owned by the government, may require a large deposit to access directly. Smaller, more accessible institutions therefore tend to access the payment system indirectly, through accounts at larger banks, which in turn increases costs and slows service times for their clients.

In some markets, however, new types of payment providers are experimenting with ways to connect institutions that serve low-income customers—or help to extend the networks of institutions that traditionally haven't served low-income customers. Progress is still limited, but experiments seem to have gone the furthest in Brazil, the Philippines, and Uganda. In the Philippines, mobile phone companies have partnered with banks to enable customers to make a range of transactions through their phones. Other mobile-phone-based systems are under development in South Africa and Kenya (Mas 2008).

Bypassing the Payments Systems

Banks are increasingly teaming up with retailers and mobile phone providers to offer financial services, including payments and deposits, to poor customers. In Brazil, six banks have built a network of over 26,000 banking correspondents or agents: merchants equipped with card-reading devices that customers can use to open accounts and make transactions.

To make a deposit, customers identify themselves by swiping their card and give cash to the retailer. The bank transfers the corresponding amount from the retailer's account to the customer's account. The clerk keeps the cash received in the till and issues a receipt to the customer (see diagram below). Largely because of the increase in banking agents, by the end of 2003, banking services were available in all of Brazil's more than 5,600 municipalities.
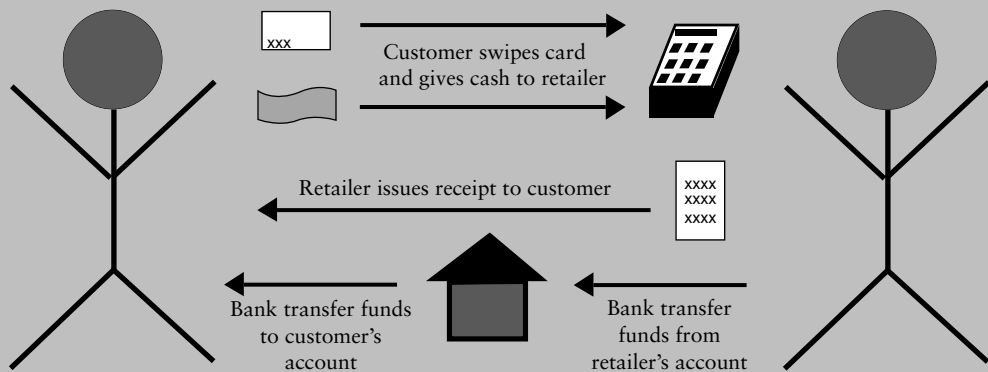
Similar services are being pioneered elsewhere. In the Philippines, Globe Telecom offers G-Cash, a service that lets subscribers load cash onto their mobile phones via affiliated merchants or Globe outlets, and then use it to make international or domestic money transfers, pay bills, or make purchases. The service is usually operated like a "virtual wallet," with no bank involved. However, Globe is partnering with a growing number of rural banks to enable clients to receive and repay loans via G-Cash. In South Africa, Standard Bank and mobile phone provider MTN formed the joint venture MTN Banking, a mobile phone banking service that has acquired more than 100,000 customers since 2004.

Source: CGAP research. For updates on innovative technology approaches, visit www.cgap.org

Key questions

What are the terms (market/below market) of wholesale funding? And what are the target institutions?

Existence of liquidity management mechanisms

- *For which types of institutions?*
- *Between types or within?*
- *Move excess liquidity into safe placements?*

Capacity-building resources/management support

- *Knowledgeable TA providers?*
- *Training programs that address deposit mobilization?*
- *Successful capacity-building initiatives?*
- *Quality support through federations?*
- *Industry associations that could house capacity-building efforts?*

Mechanisms for ensuring transparency on institutional soundness?

Payment systems

- *Traditional system accessible to microfinance institutions?*
- *New systems that bypass traditional clearinghouses?*

Levels of analysis: Macro

A delicate balancing act

The macro or policy level of analysis can be the most contentious for many reasons. Practitioners often see legal frameworks as their main impediments in mobilizing savings from the poor—even though institutional capacity usually represents just as great an obstacle.

Central bankers and supervisors, on the other hand, tend to be extremely sensitive to any moves that could potentially increase systemic risk, especially in countries that have recently suffered financial system collapses. Regulators may adopt a defensive stance toward suggestions for change, because they often need to protect conservative regulatory positions from demands by interest groups. Supervisors may lack the resources to increase the number of institutions they monitor.

Macro-level analysis also touches on other actions the government may be undertaking that, deliberately or not, affect the environment for small-balance savings mobilization. For these reasons, suggestions for change may be perceived as critiques of the government and are best couched carefully.

There are two main areas of macro-level analysis that CGAP's savings assessments have shown to be relevant to small deposit mobilization: regulations governing financial institutions and other government policy that indirectly affects the environment for the provision of savings services to the poor.

Regulatory imbalance

On the regulatory side, the main constraints tend to be (1) strict regulations that increase the cost of service delivery for regulated institutions, especially commercial banks, and (2) inadequate or nonexistent regulation for the most accessible deposit-taking institutions, usually financial cooperatives.

For banks, the very regulations that make them safe can make it prohibitively costly to do business in areas where a certain amount of profit cannot be guaranteed. Most often, these are poor and/or rural areas.

For cooperatives, regulation is often an afterthought. Many times, financial cooperatives have no distinct legal framework and are included instead under general cooperative legislation or even laws governing companies or nongovernment organizations (NGOs). Supervision can be even less adequate. The ministry charged with oversight is unlikely to have the specialized skills required, and in most countries, banking authorities are reluctant to take on the direct supervision of a large number of small, scattered institutions. Often, the solution is to delegate supervision to an independent body, such as a federation in which the supervised co-ops are members. However, the conflict of interest inherent in this arrangement can seriously compromise its effectiveness.

Other major types of government action that merit examination from a savings point of view include the following.

Macro policies
- Macroeconomic policies in place (e.g., privatizations, stability)
- Current financial sector policies—national strategies on microfinance

Other roles of government in financial sector
- Diversity and strengths of government entities involved in finance at central and local levels
- Tax treatment of each available legal form
- Role of government vs. private sector at micro and meso levels (e.g., doing business indicator)
- Role of government in donor project management
- Role of government in refinancing MFIs (see Apex)
- Strength of judiciary (e.g., how easy is it to cease collateral?)
- Interest rate policies
- Existence of deposit insurance scheme

Key questions
Are the key macroeconomic policies in place?

What has been the level and variability of inflation during the past 5 years?

Have there been any systemic shocks—banking crises?

Is there a deposit insurance system?
- *If so, does it cover small balance collectors?*
- *Are there financial sector policies or a national microfinance strategy?*
- *If there is a national strategy, does it explicitly consider how to promote access to savings?*

Is government policy toward microfinance coherent? Do certain agencies/ministries contradict or undermine the policies of others?

Do regulations prevent safe institutions from serving the poor (e.g., branching restrictions, physical requirements for branches, limits on maturity transformation)? Can they be safely relaxed in some areas to encourage outreach?
- *Is regulation and supervision of accessible institutions adequate to ensure depositor protection?*
- *Do loose regulations encourage proliferation of numerous unsupervisable institutions?*
- *If supervision is delegated, does the incentive/institutional structure prevent conflicts of interest? Does the supervisory body have enforcement power?*
- *Do regulations allow measured risk taking and innovation among financial institutions?*

- *Does the government engage in direct provision of financial services? Do these undermine the viability of the low-income market through subsidized loans with low repayment?*

Formulating recommendations

The analysis described should produce information on (1) the nature of demand for small deposit services; (2) the extent to which financial institutions are fulfilling that demand, and their capacity and incentives to do so; (3) the existence of supportive industry infrastructure; and (4) the impact of policy and regulatory frameworks. Blockages to improved small-balance savings mobilization will undoubtedly be present at most of these levels. A few may also contain opportunities (such as high-quality institutions, innovative payment systems, or changing regulation) that can be built on to increase access to savings services for the poor.

The last step in the CLSA process is to formulate recommendations that can be implemented to achieve this goal by addressing the most important obstacles and taking advantage of the opportunities identified. The strategies will likely flow from two sources.

First, they may come from the stakeholders interviewed as part of the assessment. One of the analyst's most valuable roles in this regard is to report the ideas of those involved in the sector back to the commissioning agency or agencies (and the financial sector at large) and encourage deeper exploration of the most promising ones.

Interviews for the Mexico CLSA revealed widespread dissatisfaction with the role of a government-owned bank, although for political reasons local actors were reluctant to voice this criticism. The CLSA team incorporated this feedback into its suggested recommendations, encouraging public debate of the issue.

Second, suggestions for recommendations will come from the analyst's own interpretation of the research findings. In this sense, the recommendations are the element of the assessment that depends most on the analyst's creativity and previous research and knowledge of successful and unsuccessful strategies implemented elsewhere. Bringing lessons from international experience to bear on the market being studied is another valuable role the analyst can play.

In Uganda, the government announced a plan to direct significant external funding to financial cooperatives. The CLSA recommended focusing support to these institutions on better monitoring, regulation, and supervision, instead of on-lending funds.

Because CLSAs examine all four levels of the financial system (client, micro, meso, and macro), they can generate recommendations for a range of stakeholders: donors, governments, financial institutions, industry associations, and others. However, because CLSAs are meant to be relatively rapid scans of the savings market, they produce suggestions in the form of preliminary ideas meant for deeper exploration by relevant stakeholders, rather than firm recommendations.

CLSAs can result in more specific recommendations depending on the length of the study, how much the analyst already knows about the country, and the number of stakeholders addressed. In general, the narrower the range of stakeholders to which suggestions are addressed, the more in-depth suggestions can be.

The nature and goals of the commissioning agency or agencies will also influence how specific the suggestions are. If analysts take into account the strategic priorities, comparative advantages, and competencies of the commissioning stakeholders, recommendations can be more tailored. If not, if more high-level recommendations are proposed, stakeholders themselves must consider these same factors in deciding which of the recommendations to pursue.

There is a range of resources available on corporate strategy that can help staff and consultants evaluate the fit between proposed recommendations on savings and what a particular agency is equipped to carry out. CGAP's resources on aid effectiveness at www.cgap.org are particularly useful for donor (and some government) agencies wishing to define their most useful roles with respect to microfinance.

Once recommendations are screened against an agency's priorities and abilities, selected recommendations should be further developed through a separate analytical and planning process. The CLSA methodology is not a substitute for detailed feasibility studies and implementation plans, but rather is meant to bring supportive stakeholders to the point where they have real policy and program options to explore. It is meant to identify entry points for those who wish to promote small deposit mobilization, by finding concrete ways to incorporate this priority into their strategic and operational agendas.

3. The Savings Assessment Process

This section describes the process and techniques used and refined during the five CLSAs conducted by CGAP. The various research methods used were divided up into the stages below partly because CGAP staff and sometimes consultants were located outside the market being studied. Countless variations on the process are possible; the process should be adapted to fit the needs and circumstances of the commissioning agency and the analyst.

CGAP's savings assessments proceeded in four stages:
 1. Reviewing the literature (hypothesis formulation)
 2. Interviewing stakeholders (hypothesis refinement; preliminary strategy formulation)
 3. Debriefing stakeholders (conclusion and strategy vetting)
 4. Writing the report (with stakeholder input)

Stage 1: Reviewing the literature—formulating hypotheses

The objective here is to cull from written sources as many of the indicators and as much information about the obstacles and opportunities for improved savings mobilization as possible. In addition to the quantitative sources cited in "Background Information," particularly useful sources of literature include the following:
 • Microfinance Gateway (www.microfinancegateway.org)
 • Microfinance Information Exchange (MIX) (www.themix.org)
 • Academic journals
 • World Bank, International Monetary Fund, United Nations Development Programme
 • Central banks and finance ministries
 • In-country donor offices
 • Banking/microfinance industry associations

One helpful way to organize information gathered is presented in the following hypothesis matrix. The hypothesis matrix is a "living document" that will go through many iterations as research is conducted and outstanding questions change. A "potential recommendations" column is included because ideas for strategies tend to emerge during the research process itself. Explicitly considering them, and the knowledge needed to determine whether they are promising enough to suggest, can help to focus subsequent research.

Hypothesis Matrix

	Strengths/ Opportunities	Weaknesses/ Constraints	Potential recommendations	Outstanding questions
Financial sector general (background)				
Client				
Micro				
Meso				
Macro				

Stage 2: Interviewing stakeholders—refining hypotheses, formulating recommendations

Once hypotheses have been formulated based on a desk review, the next step is to vet them with people on the ground through interviews with key stakeholders. These interviews have two main goals. The first is to confirm, refute, or refine hypotheses about the major obstacles to, and opportunities for, improving access to deposit services for the poor. The second is to hear from the local industry itself and its ideas for overcoming obstacles or building on the opportunities—in other words, identifying the seeds of potential recommendations.

Key stakeholders include individuals knowledgeable about and/or situated at all levels of the financial system: clients, retail institutions, support infrastructure, and policy. Specifically, they may include the following.

- At the client level, market research agencies, statistics agency staff [7]
- At the micro level, financial institutions, federations/associations, TA and professional services providers (auditors, raters, IT professionals, accountants, etc.)
- At the meso level, apexes/wholesale funders, payments clearinghouses
- At the macro level, donors, central bank staff, regulators, finance ministry officials, deposit insurance agency staff, representatives from other government agencies[8]

Academics, researchers from think tanks or foundations, consultants, and members of the financial press can be helpful at all levels of the analysis.

Asking different interviewees for their views on similar questions, and their views on others' views on those questions, helps to identify areas of consensus and disagreement among local stakeholders. This can build the credibility of the proposed recommendations and anticipate possible stumbling blocks (especially political ones that are not evident in written materials).

Annex 1 contains a wide-ranging list of questions for different types of stakeholders that can be used to stimulate the analyst's thinking on key issues that should be covered in different interviews. This list is *not* meant to be used in its entirety. If an individual is important enough to be interviewed, an hour of their time is likely the most the analyst can expect. In light of time constraints, the interviewer should approach the interview prepared with perhaps five key questions that are especially important at that stage in the analysis and make sure to cover them while letting the conversation flow freely otherwise. A back-up list of second-priority questions can also be prepared for use if the conversation flags, or if the interviewee seems to want guidance.

The analyst needs to make sure information from the interview is captured and incorporated into the ongoing analysis. An effective way to do this is to have interviewers create brief interview summaries with key takeaways highlighted. This is especially important if the analysis is being conducted by a team of people, all of whom may not participate in each interview.

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[7] Note that this methodology deliberately excludes primary data collection with clients, which would require another type of study.
[8] Other government agencies could include departments of agriculture, overseas workers, consumer protection; ministries of social welfare, rural development; commissions on poverty, policy coordination; etc.

In this case, daily debriefs to discuss the day's interview findings and to incorporate them into the hypothesis matrix are useful. These sessions also can be used to identify the most important questions, based on information already obtained, to ask the next interviewees.

How many interviews are enough? In part, the answer depends on the size of the market and the development of the financial sector. CGAP assessment teams generally spoke with 60–90 people—mostly individually, but sometimes in focus groups. Focus groups are especially useful for smaller financial institutions, like many MFIs, that may not directly provide deposit services, but are familiar with the low-income market. Similarly, donors who do not have significant financial sector programs but know the local market could also be interviewed through a focus group.

If conducting focus groups, it is helpful to schedule them to occur after a significant number of interviews have taken place. Generally, the first interviews should be with individuals who can give the broadest possible perspective on the industry. Often, these are consultants or academics who may have studied various aspects of the financial sector. This will set the interviewers up to ask more specific questions of individuals who deal with particular levels of the financial system or narrower aspects of the analysis. Annex 2 provides a snapshot view of which interviewees or sources more generally can provide specific types of information useful for the analysis.

A final note on process: in CGAP's assessments, interviews were conducted after the desk review because analysts were largely based outside the markets being studied. If enough analysts are based within the market in question, interviews can be conducted in parallel to the desk review, and the findings integrated into hypothesis formulation at an earlier stage. It is still useful, however, to think of the interviews as an up-to-the-minute "reality check" on desk-based findings.

Stage 3: Debriefing stakeholders

Synthesizing information from several dozen interviews can be a monumental task, but the process also sparks many ideas for recommendations to various stakeholders. Once tentative conclusions have been reached by integrating interview findings with the desk review, presenting them back to the interviewers before writing the final report can yield multiple benefits.

- It allows analysts to verify whether their manner of synthesis has produced realistic conclusions.

- It allows analysts to test stakeholder reactions to various points in the analysis and recommendations suggested.
- It promotes dialogue on the subject within the local stakeholder community itself, allowing individuals to hear what others are saying and to respond. For this reason, it can be especially beneficial to conduct the debriefing in a large group setting, at the end of the interview stage.

Stage 4: Writing the report

The final stage in the analytical process is writing up the findings and recommendations. This can be done in any number of formats, depending on the requirements of the commissioning agency. The format chosen by CGAP can be seen online in the Country-Level Savings Assessment reports for Benin, Bosnia, Mexico, the Philippines, and Uganda (go to www.cgap.org).

Regardless of the format, several types of data displays are particularly effective in illustrating different aspects of the analysis. These are listed in Annex 3. A summary matrix listing obstacles, opportunities, and strategies by financial system level is especially useful for quickly conveying the main findings and recommendations. Essentially this should be the ultimate version of the hypothesis matrix, with the "outstanding questions" column removed (because by the time the report is finalized, all outstanding questions should be answered).

To sustain and generate the maximum possible amount of stakeholder buy-in to the findings and recommendations suggested, CGAP circulated draft reports to all interviewees and integrated their comments into the final version. While generally a good practice, this was especially important in CGAP assessments because the reports were written for the industry at large. Assessments conducted for a narrower range of stakeholders or particular commissioning agencies will have different review processes.

Timeline

How long does all this take? The length of the assessment depends on the number of analysts and whether they are engaged full- or part-time. CGAP teams included typically one

senior consultant to lead the assessment, one junior consultant to provide research and logistical support, and two CGAP staff. With this level of resources, the timeline typically followed by the assessment teams through the debriefing stage was as follows.

	Weeks							
Stages	1	2	3	4	5	6	7	8
Literature review								
Interviewing/ debriefing								

The time necessary for the final report writing stage depends on the number of reviews necessary. In the beginning of the process, additional time must also be reserved for consultant selection and finalization of TORs. A sample TOR based on those used for CGAP consultants is included in Annex 4.

Final Results: What are we aiming for?

The goal of a savings assessment can range from simply raising the profile of access to deposit services as an issue for inclusive finance in a given market, to identifying concrete recommendations that particular donor or government agencies can undertake to increase this access. In either case, the process does not stop with a written report: the recommendations should be followed up on. The path to this goal is straightforward if the assessment is commissioned by a particular agency interested in promoting access to savings services.

CGAP would also like to know about any ways in which this methodology is used or adapted to increase access to savings services for the poor. Please keep us abreast of your work by writing to cgap@worldbank.org. We look forward to hearing about the results of your savings assessment.

Annex 1: Interview Guides

These interview guidelines feature examples of the types of questions that could elicit the information listed in the attached interview framework. While the interviews framework includes both qualitative/perception-oriented and quantitative/statistics-oriented data, these guidelines focus on the former, because qualitative/perception-oriented data are more apt to be obtained through interviews.

The guidelines organize interview questions in two ways. First, questions that could be asked to multiple stakeholders to elicit views on a common topic are listed under the relevant level of analysis. Within each level, questions that pertain more specifically to particular types of actors are grouped accordingly.

Note that these questions will be insufficient to gain a full understanding of the context for savings mobilization; extensive background research on the institutions being interviewed is essential to be able to tailor and expand on the questions asked. Nor should the interviewer concentrate on making sure each interview covers a pre-set list of questions. Issues that arise early in the interview and that have been identified by earlier research should guide the choice of questions the interviewer poses.

As a general guideline, starting with general topics and moving to more specific questions tends to yield the most natural interview flow. Begin by ensuring the interviewee understands the nature of the exercise and the purpose behind your interview, by going over the introduction below if necessary. Remember that the overall goal of the assessment is to uncover the major constraints and opportunities for small-balance savings mobilization. In order not to prejudice or "guide" the interviewee's answers in this regard, it is generally good practice to begin by asking a very broad, open-ended question on this topic (see below). Save possibly contentious questions for later in the interview, after a rapport with the interviewee has been established.

SAMPLE INTRODUCTION FOR INTERVIEWS

[Agency] is undertaking an assessment of the major constraints and opportunities for small-balance savings mobilization in [country]. Our analysis will examine the financial

system at four levels: clients (demand for small-balance deposit services), micro (institutional), meso (the industry infrastructure), and macro (policy). We hope that the findings of this assessment will enable policy makers, donors, and others to identify promising avenues for action to increase the supply of high-quality deposit services for the poor.

COMMON OPENING QUESTION

What do you feel are the major factors encouraging and hindering the supply of good quality deposit services catering to low-income people in [country]?
- *Note initial responses*
- *Probe for factors on levels (client/micro/meso/macro) NOT initially mentioned.*

CLIENTS

Do you believe there is a significant unmet demand for savings products by the poor?
Has there been any work that you know of on an industry-wide level looking at the extent and form of demand for savings by the poor?
What types of formal and informal savings instruments do they tend to favor? Why?
Are most people paid in cash? How prevalent are direct deposits, checks, or payroll cards?
What are the main barriers to access to formal savings products by the poor (e.g., appropriate products, accessible points of presence, cultural preferences, unwelcoming banks, etc.)?
How familiar are low-income people with formal financial institutions? Is consumer confidence in financial institutions an issue?

MICRO

What types of institutions currently offer deposits from low-income people?
- Are they all authorized to do so?
- What is the quality of their management and governance?
- Which types are financially stronger?
- Do they compete for the same customers or do they serve different clientele (demographic, geographic segmentation)?
- Are cost-driven frontiers different for different types of institutions? For example, do you notice a difference in the size of communities that different types of institutions tend to locate in, or the economic level of clients they tend to

serve? Are there differences in the average savings balance held in institutions of different types?

- What can you tell us about the depth of outreach of various types of institutions that take small deposits? Where might we be able to obtain such data?

What emphasis do you think institutions are currently placing on mobilizing small deposits?

If there is going to be a growth in microsavings, in which kind of institutions do you think it is likely to occur and why?

Is it your impression that many microcredit institutions are intending to transform into deposit-taking institutions, and if so, how do they intend to do this (e.g., internal transformation, alliances and mergers, taking savings informally/savings)?

What do you think are the main barriers to transformation by microcredit institutions into deposit-taking institutions?

Which financial institutions are authorized and have the capacity to distribute government payments?

For particular institutions:

- When was your institution founded?
- What is the size of your assets/number of depositors?
- What is the profile of depositors: small, medium, large?
- What is the institution's primary target market? What challenges have you had to overcome to serve it?
- How were your savings products developed? When were they introduced?
- Do you conduct market research into customer demand and customer satisfaction?
  - Tell us about the product development process you use for introducing new savings products starting possibly with market research.
  - Do you have any data on low-income clients' savings behavior that you could share with us?
- How do you make your products accessible to customers to be able to deposit and withdraw their funds (e.g., branches, cards, alliances)? Do you offer other delivery channels apart from branches where customers can deposit or withdraw their money?
  - How do you measure the profitability of these different channels?
  - Are some of them more appropriate for poor clients than others?

- What is the objective of taking savings at your bank? For example, customer retention, source of loan funds, profitability?
- What proportion of your income comes from savings accounts and how much from credit? Do you know if all the savings products are profitable?
- How do you set the price of your products?
- How do you structure your savings products and their delivery to optimize cost effectiveness and profitability?
- Are you able to use new technologies to improve your services and reduce costs?
- Why do your customers put their savings in your bank and not your competitors' or do many of them bank with more than one bank?
- Would you say that many of your clients also participate in informal savings? Why would they do this?
- Who would you see as your main competitors in relation to savings? Why would potential customers use them rather than your bank?
- Would you say that your market is very competitive or would you say that there is a large amount of unserviced demand for savings in your region and if so why?
- Do you see government policy as supportive in encouraging or enabling your bank to take microsavings?
- Do you find the regulatory requirements, such as reporting, reasonable—why or why not?
- How do you ensure your bank has the right skills to be able to manage its liabilities adequately and meet the needs of the regulator? Is this difficult to do? What are the main skills you find hard to develop or attract that you need to have?
- Is it difficult to find the professional skills you need, such as auditors, IT support, and management consultants who understand the needs of your bank?
- Who are your bank's shareholders and has this changed over the last five years or so?
- Describe your board members—what are their backgrounds, skills, methods of appointment, roles in strategy, other roles?

MESO

What is the second-tier financing situation in [country]?
- Where can retail financial institutions go for wholesale funds?
- Do you know the total volume of on-lending funds channeled to various financial institutions through various government programs? To what extent are these funds subsidized?

- How does this affect institutional decision making between funding the portfolio through wholesale funds and deposits?
- *If institutions are overliquid:* How does this square with overliquidity in the financial system?
- Have you noticed any difference in the stability and profitability of banks that rely on large numbers of small savings and those that focus more on wholesale deposits?

For wholesale lenders

- Tell us about the governance of your agency, for example, describe the appointment of its board and the setting of strategy.
- Describe your loan/credit guarantee program. Are there special features (e.g., target group, loan terms, subsidies)?
- How do you set your interest rates and fees?
- Would you expect your retail lenders to get loan capital from other sources, such as the savings of their clients?
- What proportion of your retail lenders are in a legal or regulatory position to take savings should they wish to do so?
- How would you characterize the safety and soundness of your partner institutions? How do they compare to other types of financial institutions that take small deposits?
- Do you think your products have an impact on the likelihood that retail lenders will want to offer savings products to their clients?
- Do you think there is a significant unmet demand for savings products by the end clients of the financial institutions you do business with?
- Has your agency conducted any research among the end-user clients (farmers and coperative members) looking at customer satisfaction with their access to financial products including savings?

What liquidity management mechanisms are open to institutions taking deposits from low-income people?

Do these types of institutions have direct links to the payment system?

What types of technology providers service this market of institutions?

Does deposit insurance cover institutions taking deposits from low-income people?

- On what terms is it offered? Are there any pricing or other product differences for small banks or microfinance banks to make this product more affordable?

- Does it increase customer confidence in covered institutions?
- How does it balance the need for clients to feel safe and avoid moral hazard?

For deposit insurance agencies
- Looking at the banks you have assisted recently, where was the most problematic area in the banking sector? Are there lessons that we can learn about where supervision should be focusing?
- How would you characterize risk management in local banks? What has been the general record of bank stability? Do you have any data on the costs of previous bank failures and the numbers of people affected?
- Have you had legal and/or political difficulties in rapidly liquidating banks that got into trouble to protect the assets of the depositors? Describe the extent of this problem and what political support you are getting to manage this.

What, if any, efforts are being put into increasing consumer financial literacy?

Where can consumers turn for redress of grievances against financial institutions?

Are retail financial institutions organized into federations or associations? What functions do these bodies perform? Do they have a regulatory role? What is their capacity? How are they funded?

MACRO

Macroeconomic situation

Give us an up-to-date macroeconomic picture. For example, describe trends in inflation, income per capita, disposable income, and the incidence of poverty. Describe some important trends in the economy and specifically in the banking and financial sectors (e.g., growth rates, level of foreign investments, financial sector, and economic reforms).

Policy attitudes

What is the government's view on financial services for low-income people, especially deposit services? What type of financial services, if any, is it looking to promote? How?

What is the current policy regarding interest rates or other types of price controls in the financial sector?

Are there any particular institutions or business models that are most promising in delivering financial services, especially savings, to the poor?

What type of data or information does the government rely on in formulating its policies in this general area? What would be compelling evidence, from a policy making perspective, of the importance of savings services for the poor?

Has there been any specific policy work undertaken in the area of promoting broad-based access to financial services?

What do you see as the role of policy in expanding broad-based savings? What would you see as the main policy obstacles to expansion at this time?

What is the main driver for political support to encouraging microsavings, if it exists—i.e., as a macroeconomic benefit to encourage national household savings, as a potentially large and stable source of funds for credit, or as a financial service demanded by the poor to store value and manage risk?

Are there differing attitudes on the importance of encouraging micro savings, say between government politicians and regulators?

Who, within the government, are the key players with whom we need to speak to get a candid perspective about support for pro-poor savings programs?

Are there any fiscal or tax policy decisions that encourage or discourage savings? Any links to welfare benefits that would discourage savings (e.g., loss of welfare benefit if person has an account in his or her name)?

What is the local attitude to the provision of below market level wholesale funding to microcredit programs? Will this change going forward?

Are there any changes in the pipeline for regulations that would affect access to microsavings products?

In many countries anti-money laundering regulations make it difficult for poor people to open savings accounts with banks. How has this country dealt with these potential barriers to meet the needs of FATF without making it impossible to open an account?

Regulatory/supervisory framework

What types of institutions are authorized to take deposits from the general public? From low-income clients? From members?

Describe the regulatory and supervisory framework for banks/co-ops and credit unions/NGOs/other types of institutions. Do different types of institutions have permission to offer different services? Does this go along with different regulatory requirements?

Do you believe this system adequately protects deposits held in these institutions?

Are there restrictions on branching or installing ATMs?

What is the effect of the regulatory framework on competition between institutions?

Who conducts supervision (the Central Bank, another regulatory authority, a delegated/deputized/auxiliary body)? What are the qualifications of supervisors?

How is supervision conducted (on-site, on paper, how often)?

Do these bodies regularly rate institutions in their jurisdiction? With what system? How would you characterize their stability?

Role of Central Bank

How would you describe political support improving the capacity and independence of the Central Bank regulators?

What is the Central Bank's current stance on controlling inflation in [country]?

What role does the Central Bank play in supporting the provision of microfinance?

Is there a specific focus on microsavings and employees who understand the particular characteristics of institutions focusing on that market?

Does the Central Bank assist with research into the demand for microsavings?

The Central Bank has to balance the need to manage potential systemic risk in the banking sector; the demands of global standards, such as Basel II; and to some extent, the protection of depositors with the need to encourage access to savings and the national need for appropriate regulation and advancement for poor people. Would you say the Central Bank has been successful in achieving this balance? Does the regulatory/supervisory framework for banks, co-ops, and credit unions contribute to this balance?

Often regulation veers from over regulation to liberalization and then back to tighter regulation again when problems emerge. Where, along this continuum, is the regulatory environment for banks now, and where do you think it is going?

What role, other than as a regulator, could the Central Bank play to enable mobilization of savings by the poor?

Donors

What programs is your agency involved in that might affect the quality of the infrastructure to support savings mobilization (e.g., the regulatory environment, national payments system access and costs, and the effectiveness of professional bodies, such as auditors)?

Are any donors providing disincentives for savings mobilization? How?

Annex 2: Interview Framework

The following matrix provides preliminary guidance on possible sources for the various types of information collected as part of the country savings assessment. Note that the Xs indicate *potential* sources of information based on the results of CGAP's test assessments. Actual sources will differ depending on particular country contexts. For example, the matrix's heavy reliance on the central bank may be more appropriate for countries where proportionately more deposit-taking institutions are regulated and supervised. In countries where the deposits of the poor are held largely in unregulated institutions, reviewers will have to make much more use of other actors, such as federations and academia. Similarly, sources of client-level data can be highly diverse. While financial institutions are an obvious first place to look, donor and academic research may also prove invaluable, especially in cases where institutions do not systematically collect market data.

Some of these data may not be readily available through interviews, but will require going through MIS, statistics, or internal reports. Regardless of the sources consulted, leveraging or developing relationships with contacts at each relevant institution is crucial to obtain this type of data. The more personal involvement and stake interviewees feel in the assessment, the more successful your data-gathering efforts are likely to be.

	Central bank	Regulators	Finance ministry	Statistical agency
Clients				
• Preferences with respect to deposit products				
• Data on savings behavior, habits				
• Income stratification (using LSMS categories?)				X
Micro				
• Number of accounts in various types of financial institutions	X	X		X
• Deposit size distributions/avg balances				
• Economically active population				X
• Types of deposit-taking financial institutions	X	X		
• Audiences served by different financial institutions (using LSMS categories if possible)				
• Number and location of branches of various types of financial institutions, ATMs, POS	X	X		X
• Governance quality of different types of financial institutions	X	X		
• Financial strength/ performance of different types of financial institutions	X	X		
• Features of entry-level deposit products				
• Strength of human capital in various types of financial institutions	X	X		

	Deposit insurance agency	Other government agencies*	Financial institutions	Federations/associations	Apexes/wholesale funders	Payments clearinghouse	Industry experts**/consultants	Academics/universities	Research centers/think tanks***	Donors	TA and professional service providers (e.g., IT, audit)	General/financial press/EIU
		X	X					X	X	X		
		X	X					X	X	X		
	X			X								
				X			X			X	X	
		X		X			X	X		X	X	
			X	X								
							X		X	X	X	
			X	X			X		X	X	X	
			X									
		X					X	X	X	X	X	

	Central bank	Regulators	Finance ministry	Statistical agency	
Meso					
• Volume, sources, and terms of second-tier funds	X				
• Existence of liquidity management mechanisms	X				
• Existence, coverage, and cost of deposit insurance	X				
• Existence, quality of TA projects	X				
• Links to payment systems	X				
• Technology uptake	X	X			
• Functions, quality of regulatory/rating/ monitoring agencies	X				
• Existence, functions, quality of consumer protection organizations and/or financial literacy efforts	X				
• Existence, quality, and functions of associations/federations of institutions		X			
Macro					
• Macroeconomic policies	X		X		
• Financial depth statistics	X			X	
• Total private domestic credit/total bank deposits	X			X	
• Regulations on deposit taking	X	X			
• AML regulations	X		X		
• Agency/branching/ATM regulations	X	X			
• Costs of regulations					
• Tax policy affecting deposits	X	X			
• Ownership/governance rules and regulations	X	X			
• Interest rate controls	X	X			
• Competition policies	X	X	X		

* May include departments of agriculture, overseas workers, consumer protection; ministries of social

welfare, rural development; commissions on poverty, policy coordination; and others.

Deposit insurance agency	Government agencies*	Financial institutions	Federations/associations	Apexes/wholesale funders	Payments clearinghouse	Industry experts**/consultants	Academics/universities	Research centers/think tanks***	Donors	TA and professional service providers (e.g., IT, audit)	General/financial press/EIU
	X	X	X	X		X			X		
		X	X	X							
X		X									
	X	X	X			X			X		
		X	X	X	X					X	
		X								X	
		X	X				X	X	X	X	
	X	X	X			X			X	X	
		X	X	X		X			X		
						X		X	X	X	X
		X									
		X									
		X	X			X					
		X								X	
		X	X			X					
	X	X	X								

** May include investment analysts

*** May be free-standing or located within other institutions, such as trade unions and political parties

Annex 3: Useful Data Displays

1. Statistical snapshot of country—a table including the following figures, with comparative statistics for the region/all developing countries/industrialized countries where possible:
   a. growth rate, GNI per capita, inflation rate in the last five years
   b. number of accounts in financial institutions as a percentage of economically active population or total households
   c. financial depth (M2/GDP?)
   d. financial intermediation (total private domestic credit vs. total bank deposits)

2. Population stratification by income level (use LSMS categories?)

3. Comparison of different types of financial institutions—a table comparing banks, co-ops/credit unions, NGOs, and other relevant types along the following dimensions:
   a. number of entities
   b. number of service points
   c. number of depositors
   d. total number of deposits mobilized
   e. asset size
   f. performance measures (ROA/ROE)
   g. risk measures (NPL/PAR/capital adequacy)
   h. depth of outreach measures: average savings balances, ALS, income categories of clients?

4. Affordability analysis of entry-level deposit products in different types of institutions—mainstream banks (choose those most likely to be patronized by low-income customers; microfinance/rural banks; major co-operatives/credit unions); dimensions to compare include the following:

    a. product name
    b. formalities/documentation required to open account
    c. minimum opening balance
    d. minimum maintaining balance
    e. interest rate
    f. fees
    g. ATM card conditions
    h. expected balance on typical opening deposit after one year assuming no activity

5. Maps showing varying concentration of financial institution branches in terms of inhabitants/branch
    a. nationwide (by state)
    b. one rural state (by district)
    c. major metropolitan area (by district)

6. Line/bar graph showing population per financial institution service point and some measure of marginalization, by state/province/district, or scatter plot showing correlation between population per service point and measure of marginalization per state/province/district. Various measures of marginalization may be used depending on what is available (e.g., families under the poverty line, composite marginalization index, etc.).

7. Summary matrix of opportunities, obstacles, recommendations (see next page).

	Description of current situation (sample indicators only)
Client preferences (How do poor people currently save?)	• Preferences with respect to savings products • Savings patterns • Levels of demand • Segmentation with respect to all of the above
Micro/institutional level (outreach and institutional capacity)	• Banking penetration rate and distribution • Number and variety of deposit-taking financial institutions • Number of financial institution branches, ATMs, POS per population, geographical distribution • Other delivery channels • Range, features, price, nonpecuniary barriers, security of products offered • Efficiency, capacity, sustainability, ownership/governance of financial institutions; partnerships
Meso level (quality of financial infrastructure, 2nd tier services, etc.)	• Capacity, effectiveness, efficiency of existing players (regulators, standards bodies, trade associations, IT providers, training and TA resources) • Existence, quality, and accessibility of physical and financial infrastructure (e.g., payments system, telecom, liquidity management mechanisms) • Availability and terms of second-tier funds; volume from government • Information availability about and for consumers
Macro/government level (regulation and supervision, market distortions, etc.)	• Macroeconomic policies; interest rate controls • Financial depth, intermediation • Regulatory and supervisory framework • Taxation • Systemic risk and insurance/mitigation • Overall openness of policy framework • Specific competition policies • AML/CFT regulations • Agency/branching/ATM regulations • Ownership/governance rules • Costs imposed by regulations

	Opportunities/ strengths	Obstacles/ shortcomings	Recommendations

Annex 4: Sample TOR

NOTE: This sample TOR needs to be adapted to address the agency's specific needs, its internal systems, and its administrative processes. A range of experts with diverse technical skills in financial systems development should be deployed for a country-level assessment. For example, CGAP teams were typically made up of 4 persons: one senior consultant to lead the assessment, one junior consultant to provide research and logistical support, and two CGAP staff.

SAVINGS MOBILIZATION COUNTRY ASSESSMENT
Terms of Reference

BACKGROUND

The microfinance community has long recognized the importance of savings. For the economy as a whole, collecting large numbers of small-balance deposits produces pools of capital that can be efficiently invested—the heart of financial intermediation with all its attendant multiplier effects. Financial institutions also can derive substantial benefits from mobilizing deposits. Access to a potentially inexpensive and stable source of funds is a major benefit (although there is some debate about the viability of very small deposit services). Mobilizing deposits also promises to help financial institutions both broaden outreach and diversify their product offerings.

Most important, well-designed deposit services can enable poor people to take charge of their financial lives. Savings can provide a cushion against economic shocks, enabling poor households to smooth consumption and reduce vulnerability. Because savings are equally an asset-building strategy, they also can be a safer way to capitalize a business than credit, especially for poorer clients.

Numerous studies have revealed that financial institutions catering to low-income clients tend to have more savers than borrowers. But there are widespread disparities in both the availability and the quality of deposit services. Understanding the degree to which different obstacles block the development of quality pro-poor deposit facilities in a given country context is crucial to designing appropriate policy and programmatic interventions. Yet governments and donors possess no systematic method of determining which obstacles limit development of pro-poor savings in a given country.

PROJECT DESCRIPTION

This terms of reference covers the consultant's contribution to the assessment to be held in [country] from [dates]. Additional information is contained in the overall terms of reference for the country savings mobilization assessments.

SPECIFIC TASKS

The consultant will have primary responsibility for research and report writing. If the consultant is not located in-country, it might be useful to have a logistics coordinator (LC) to provide support in identifying and arranging interviews with key informants and in arranging logistics such as hotels, transportation, and meeting space. In this case, the consultant will be expected to coordinate closely with and provide guidance to the LC. If the consultant is located in-country, he/she will be expected to take on these roles as well (see section on Level of Effort).

Phase 1: Preparation (expected amount of billable time: up to 5 days if review team includes LC; up to 10 days without LC)

Pre-assessment planning is essential to the success of this study. Background material should help familiarize the review team with key issues related to pro-poor deposit mobilization in [country].

The consultant will do the following

- **Compile and review background documents,** and send summaries of key documents to the review team periodically.

- **Participate in a telephone conference** to review the TOR and the main objectives and expected outcomes of the study.
- **Review and comment on the TORs.**
- **Identify key informants.** This task will be one of the most time-consuming elements of the preparation, and it is key to the success of the assessment. The consultant and LC (if applicable) will identify and arrange meetings with key informants on savings mobilization in the country in question. Persons to be interviewed include the following:
    - (i)   government staff involved in microfinance, financial legislation committees, ministry of finance, ministry of trade and industry or other agency responsible for SMMEs, ministry of social welfare if relevant, etc.
    - (ii)   representatives of the central bank and banking supervisory authorities
    - (iii)   representatives of other (quasi-) government agencies, such as funding apexes and the statistical and deposit insurance corporation, if applicable
    - (iv)   retail-level financial institutions of different sizes, taking special care to also meet practitioners working outside the capital city (banks, co-operatives, MFIs, etc.)
    - (v)   staff from banking or microfinance associations, networks, training institutions, and other relevant service providers
    - (vi)   donor and donor project staff working on access to financial services in the country in question, in both the field office and headquarters
    - (vii)   technical services providers including TA providers, consultants, and service providers in areas such as ratings, IT, and payment systems
    - (viii) academics and researchers in universities, research departments, and think tanks
- **Identify information sources.** Some statistical and other data will be available only in-country. The consultant will be responsible for identifying specific information that the review team will need to obtain in-country and for contacting the appropriate agencies before the review mission to arrange to make the information available.
- **Consult via email and phone with the project coordinator and LC (if applicable)** to plan for the two-week review, including scheduling meetings, identifying key stakeholders, constructing a time line of activities, and dividing main responsibilities.
- With prior agreement, **make selected phone calls** to key informants for the review who are based outside [country], when necessary, to gather additional background materials and gain insight on key issues and people to meet.

Phase 2: Country Review (expected amount of billable time: 10 days)

- **Hold preparatory meeting.** The consultant will participate in a preparatory meeting with the project coordinator and the LC (if applicable). During this meeting, the review team should discuss any pending logistics issues finalize the agenda for the first week, and discuss major issues pertaining to savings mobilization.
- **Interview key informants and collect statistical and other data.** The consultant will interview key informants from the stakeholder groups.
- **Review additional key documents.** The consultant will read key documents not previously received. All interviewees will be asked for their analysis of the opportunities and obstacles to small-scale deposit mobilization in the country in question and their suggested recommendations on how to improve the situation. The consultant will also visit statistical and other agencies, as necessary, to pick up the information previously sourced by the LC and speak to agency staff as appropriate.
- **Conduct focus group meetings**. When appropriate, the consultant will help organize focus group meetings. Such meetings may be organized for one stakeholder group (e.g., practitioners, the in-country donor coordination group) while others may be designed to explore specific issues among a variety of stakeholders. Generally, participants in the focus groups also will be interviewed individually.
- **Conduct daily debriefings on research findings.** The consultant will participate in daily debriefings on findings to date and adjust the agenda for the remaining days as necessary.
- **Draft interim findings.** After the first week in-country, the consultant will present an outline of the main findings so far to the review team. The outline should help orient the team's work during the second week to fill gaps and prepare for the debriefing workshop at the end of the two weeks.
- **Prepare briefing presentation.** The consultant will work with the review team to synthesize the initial findings and recommendations in short (20–30 minute) presentations for the debriefing workshop. To check factual accuracy, the review team should go over the content of the briefing with local informants.
- **Conduct final debriefing workshop.** To confirm the review team's findings and begin a discussion about the issues investigated among a group of stakeholders in-country, the review team will hold a debriefing workshop on or near the final day of the review

mission. The consultant will be expected to participate (if not present) in the workshop. At the workshop, the review team will present initial findings and conclusions to the participants, solicit feedback, and arrange for next steps and follow-up to keep the participants involved in the country review process.

- **Establish spreadsheet of all contacts made and send thank you email to all interviewees.** To keep track of all persons interviewed, the review team will create a simple spreadsheet with the names, organizations, and contact information (email address and phone and address information if possible). In coordination with the consultant, the project coordinator will send a brief email thanking all interviewees for their time and indicating next steps in the study (estimated date for final report, for example).

Phase 3: Reporting (expected amount of billable time: up to 10 days)

The consultant holds primary responsibility for this phase of the assessment, which may take up to eight weeks to complete, given different rounds of feedback, etc.

- **Draft report.** The consultant will draft the country assessment report after the in-country work is done. The report will summarize the team's findings with respect to (1) client-level demand for pro-poor deposit services; (2) factors encouraging or impeding the development of pro-poor deposit services at the micro/institutional, meso, and macro levels; and (3) recommendations for specific stakeholders. The report will include a section suggesting modifications to the country assessment framework, based on that particular country experience. The consultant will submit the final report to the project coordinator within two weeks of the end of the assessment. The project coordinator will return a commented version to the consultant for incorporation of changes within one week of submission of the draft report. Several rounds of comments and editing may be necessary to arrive at a final version.
- **Send draft report to key informants in-country.** At a minimum, the draft report should be sent to those who were interviewed. They should be asked for their comments, and those comments should be incorporated, as appropriate, into the final version of the report by the consultant.
- **Final report.** The consultant is responsible for incorporating the feedback from in-country stakeholders and submitting a final version to the project coordinator.

KEY OUTPUTS AND TIMEFRAME

1. Literature summaries received [2 batches before review]
2. Informants identified and review agenda finalized [before start of the review]
3. Participation in the in-country assessment
4. Draft report due
5. Final report due

LEVEL OF EFFORT, PAYMENT AND DISBURSEMENT SCHEDULE

If there is an LC, the consultant has up to 25 days of work, estimated to be roughly:

Preparation	5
In-country	10
Report writing	10

If there is no LC, 5 days of preparation may be added to this contract for a total of up to 30 days.

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