

SAVINGS MOBILIZATION: LESSONS FROM THE PERUVIAN MUNICIPAL SAVINGS BANKS IN TRUJILLO AND SULLANA¹

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1. Introduction

For a long time, the mobilization of savings was not regarded as an important means of funding the lending activities of financial institutions directed at the poorer strata of the population in developing countries. It was taken for granted that these institutions had to be provided with external funds made available by donor organizations and drawn from government budgets. Only since the beginning of the 1980s, when this method of funding target group-oriented financial institutions began to be criticized more and more, has savings mobilization been given serious consideration as an alternative for financial institutions serving the poor (see Adams/Donald/von Pischke, 1983; Adams/Graham/von Pischke, 1984; Krahnen/Schmidt, 1994; Nitsch, 1987; Schmidt/Zeitingner, 1994; Vogel, 1984; Vogel/Burkett, 1986; von Pischke, 1983). Due to the influence of the "Theory of Finance" on the one hand - especially its microeconomic branch as developed at Ohio State University - and to the insights of the New Institutional Economics - as applied to this field by the academics and practitioners associated with "Internationale Projekt Consult (IPC)" - on the other, a fundamental change in attitudes towards savings mobilization took place: Savings mobilization, hitherto the "forgotten half" of development finance (Vogel, 1984), was discovered. In practice, this meant that poor people were no longer considered to be incapable of saving. It was now assumed that they actually do accumulate savings, and, by extension, that this potential has only to be tapped by channeling the resources thus created into financial institutions in order to contribute to a process of financial deepening in the economy.

Development finance projects have been hesitant to recognize - and act upon - the implications of the theoretical reevaluation of savings mobilization. The Municipal Savings Banks (MSBs) in Peru ("Cajas Municipales de Ahorro y Crédito", CMACs) are among the few target group-oriented financial institutions which have tried to put into practice the relevant theoretical insights. Over a period of more than ten years, they have gained experience in funding their credit activities almost exclusively by mobilizing voluntary savings. They have demonstrated their ability to survive not only populist policies and hyperinflation, but also, in 1990, a sudden political change which ushered in a period of drastic liberalization, leading to a series of bankruptcies within the financial sector in 1991 and 1992. In view of their rather successful, deliberate strategy of relying on voluntary

1. This paper is a summary of a diploma thesis written within the framework of a study of the savings customers of the Municipal Savings Banks in Peru which was carried out by Internationale Projekt Consult (IPC), Frankfurt, and will soon be published as a Discussion Paper by the "Lateinamerika-Institut" (LAI), Berlin (see references).

savings mobilization, and their relatively long experience in implementing such a strategy, the MSBs are a very appropriate subject for an investigation into the characteristics of savings mobilization by target group-oriented financial institutions. The objective of this paper, which is based on a survey of the savers at two MSBs that was conducted at the end of 1994, is to draw lessons from the Peruvian municipal savings banks' experiences. After a description of the MSBs (Section 2) and a presentation of hypotheses regarding savings mobilization by target group-oriented financial institutions (Section 3), the data collected at two Peruvian savings banks will be analyzed (Section 4). Finally, conclusions drawn from the empirical data will be presented (Section 5).

2. The Municipal Savings Banks in Peru

The MSBs are target group-oriented financial institutions which direct their lending activities at the poorer parts of the population, especially micro entrepreneurs, who are frequently denied access to financial services in developing countries. The first Peruvian MSB was founded in 1982 in Piura. At present, twelve such institutions - each of which is an autonomous entity - are in operation in various towns. The savings banks, which are not eligible for central bank funds, are subject to monitoring and regulation by the national banking supervisory authorities. They are owned by the municipal governments of the towns in which they are domiciled and are all affiliated with the national federation of MSBs, the "Federación Peruana de Cajas Municipales de Ahorro y Crédito" (FEPCMAC). Within the context of the Peruvian banking system, the MSBs are tiny institutions: In December 1994, when their combined balance sheet total was almost US\$ 40 million (Tello, 1995), their share of total system lending was only 0.47%, and they accounted for an even smaller proportion of aggregate deposits, namely 0.33%.

Technical assistance has been provided to the entire MSB system by IPC on behalf of "Deutsche Gesellschaft für Technische Zusammenarbeit" (GTZ) in cooperation with the German Savings Banks and Giro Association ("Deutscher Sparkassen- und Giro-Verband", DSGV) since 1982/1983, when the MSB in Piura requested such assistance from GTZ. IPC is following an "institution building" approach, and with this approach the mobilization of savings forms an important part of the overall project concept. By mobilizing savings, it was - and is - assumed that the MSBs could avoid repeating the mistakes of money-losing "development banks", which had funded their operations through allocations from national budgets and/or development institutions. If a financial institution has to rely on voluntary savings in order to obtain the resources needed to conduct its banking activities, decapitalization will immediately lead to the imposition of sanctions by its depositors -

namely, withdrawals. For a household, losing its savings means a property loss, and it will therefore take its money out of a capital-losing financial institution. Funding their activities through savings mobilization thus strengthens the MSBs' incentives to adhere to a "banking logic", i.e. follow prudent banking practice, so as to ensure that they receive further resources, thus enhancing their sustainability.

For this reason, development aid to the MSBs has consisted almost exclusively of technical assistance, whereas provision of funds for onlending has played only a secondary role (Lepp, 1994). Only since December 1992 has the system cautiously begun to accept loans and grants from donor organizations. For this purpose, a contact office for the acquisition and processing of credit lines - the "Fondo de Cajas Municipales de Ahorro y Crédito" (FOCMAC), which is affiliated with FEPCMAC - was founded in 1991. Thus, acceptance of donor resources is institutionally separated from the savings banks' lending activities. This separation prevents the funding policies and patterns of donors from undermining the MSBs' incentives to "recycle" their loan capital, thus ensuring that they operate "revolving funds" in the true sense of the word.

At the level of the MSBs themselves, a strict institutional separation between ownership on the one hand, and management of the banks on the other, was established. The influence of the municipality is limited to representation on a board of directors without executive powers whose role is to lay down general business policies. It consists of seven directors, of whom three are members of the town council, with one being a representative of the opposition.² This arrangement enables the MSB to take advantage of the municipal government's desire to promote the interests of the target group in order to enhance its own reputation and image while at the same time eliminating the risk of decapitalization as a result of politically motivated lending policies: In their executive decisions, the bank's management and other key staff are not subject to the municipal administration's politically motivated "logic of promotion", and their incentive structure encourages them to follow a "banking logic". Their self-image as "bankers for the poor" is further reinforced by continuous training.

In order to effectively manage the risks they incur when granting credits to their customers, the MSBs use special credit arrangements. In their pawnbroking business, a pawn of gold or silver serves as security for the credit, whereas a credit for micro

2. The other four directors are representatives, respectively, of the Catholic church, the chamber of commerce, an association of micro entrepreneurs, and either the state-owned bank "Banco de la Nación" or the public development finance corporation "Corporación Financiera de Desarrollo" (COFIDE).

entrepreneurs is granted by the MSBs after they have convinced themselves of the adequacy of the client's debt capacity by means of an individual evaluation. In certain selected cases, customers who have demonstrated their creditworthiness may receive a supplementary credit line for a limited period. The MSBs also grant personal loans to wage and salary earners against the assignment of wages.

As to their deposit products, the MSBs offer highly liquid savings accounts aimed at the poorer strata of the population, in line with the assumption that in developing countries low-income people often save because they wish to insure themselves against emergencies (Vogel/Burkett, 1986). In addition to these customers, the MSBs have attempted from the outset to attract deposits from people with higher incomes (Geis *et al.*, 1983; Nitsch/Wabnitz, 1994). Such persons are assumed to be motivated to save because of the yields they obtain on their assets. In order to attract their savings, the MSBs offer time deposits and pay real positive interest rates on all types of deposits which are slightly higher than those available at other Peruvian financial institutions. As the MSBs are not allowed to offer current accounts, they provide their customers with a special kind of savings account that includes a facility for issuing payment orders. Nevertheless, they do not participate in an interbank funds transfer system nor are the individual institutions themselves linked to each other to form an "internal" savings banks payments system.

3. Hypotheses Regarding Savings Mobilization by Target Group-Oriented Financial Institutions

Widespread disappointment in the past with "development banks", which never cared very much about savings, gave rise to the following hypotheses:

- (i) savings are so essential for poor people, as well as for their financial institutions, that they constitute the "forgotten half" (Vogel, 1984) of development finance;
- (ii) providing the loan capital needed by a target group-oriented financial institution by mobilizing household savings leads to institutional stabilization and is therefore useful in terms of facilitating a self-sustaining target group-oriented lending activity.

The MSBs' policy of mobilizing savings to fund their lending activities is based on the following hypotheses:

- (iii) a capacity to save exists on the part of the low-income population in developing countries, and this potential can be tapped to fund the credit-granting operations of financial institutions;
- (iv) people with low incomes accumulate savings because they wish to insure themselves

against emergencies, and thus they choose to place their savings in highly liquid assets;

- (v) in absolute terms, the savings capacity of better-off people is greater than that of low-income savers.

Mobilizing savings from the more affluent strata of the population can thus successfully contribute to a process of intersectoral financial intermediation via a target group-oriented financial intermediary:

- (vi) as incomes rise, people are increasingly motivated to accumulate savings by the level of the yields obtainable on their assets. They tend to deposit when yields are high.

4. Depositors at the Peruvian Municipal Savings Banks: A Survey of Customers

Field research on savers at two MSBs (Trujillo and Sullana) was carried out between July and November of 1994. Data were collected on both quantitative and qualitative aspects through surveys covering nearly 400 clients at each of the two institutions and interviews with staff at both savings banks. In addition to the information yielded by the field research, data furnished by the accounting departments of both financial intermediaries and by FEPCMAC were included in the analysis.

4.1 Structure of Deposits in the MSBs in Trujillo and Sullana

The MSBs in Trujillo and Sullana are among the oldest and largest of the municipal savings banks. The Trujillo MSB has been in operation since 1984, and the savings bank in Sullana opened its doors in 1986. At the time of the survey, the institution in Trujillo accounted for approximately 22% of the MSB system's total deposits, and the facility in Sullana for some 10%. Some 9,100 clients maintained deposits of well over US\$ 4 million in approximately 11,300 accounts at the Trujillo MSB, which in December 1994 had a 3.42% share of its local deposit market. At the time of the survey, approximately 3,300 clients maintained some 3,800 deposit accounts at the MSB in Sullana, and the combined balance in these accounts amounted to roughly US\$ 1.6 million. In December 1994, the Sullana savings bank had a market share of 11.69%.

Table 1: Breakdown of accounts by volume deposited (as of 30 Sept. 1994 for the Trujillo MSB and 20 Nov. 1994 for the Sullana MSB)

Savings Volume in US\$	Trujillo MSB		Sullana MSB	
	Percentage of Accounts	Percentage of Total Deposit Volume	Percentage of Accounts	Percentage of Total Deposit Volume
< 10	48.0%	0.5%	53.0%	0.6%
10 - 99.99	28.5%	3.2%	25.5%	3.1%
100 - 499.99	15.3%	11.4%	14.2%	11.0%
500 - 4,999.99	7.6%	31.9%	6.7%	31.4%
> 4,999.99	0.6%	53.0%	0.6%	54.0%
Total	100	100	100	100

Source: Own calculations based on data provided by the MSBs in Trujillo and Sullana.

As can be seen from Table 1, no fewer than half of the accounts at both institutions show a balance of less than US\$ 10, and more than 75% of the accounts have deposit volumes of less than US\$ 100. Almost all balances are under US\$ 5,000. At both savings banks there is thus a surprising number of accounts with very low deposit volumes. The large number of accounts with balances of less than US\$ 10 contribute only one-half of one percent of total savings. On the other hand, the few depositors with balances of US\$ 5,000 or more account for more than half of the deposits mobilized by both MSBs. As a consequence of the fact that many savers have only negligible balances, control over a large share of the total volume of deposits is concentrated in the hands of a few clients.

The fact that there are so many savers in the very lowest deposit range might be attributable to the presence of a large number of "lost customers" among the MSBs' savings clients. And, indeed, among the clients of almost every financial institution there will be a sizeable percentage who have stopped making use of their account(s). If we consider an MSB customer who has not carried out at least one transaction on his or her savings account(s) during the past six months, and whose balance does not exceed US\$ 10, to be a "lost customer", 25% of the customers who took part in the survey in Trujillo, and 18% of those in Sullana, could be defined as "lost". Given that a number of accounts of this general type - namely, a portion of those regarded as "inactive" by the MSBs, which apply criteria that differ slightly from those used here to define "lost customers" - had already been automatically closed by the institutions,³ the percentage of customers who

3. The MSBs consider a savings account to be "inactive" if there have been no deposits or withdrawals made on it during the past six months. These accounts are subject to a charge which automatically leads to their closure when the balance becomes less than the amount of the fee.

may be regarded as "lost" is quite high in both towns. On the other hand, bearing in mind that the share of all customers at both institutions who had deposits of less than US\$ 10 was about one-half - which is a considerably larger proportion of the total than that accounted for by "lost" customers - we can see that there is also an appreciable percentage of "non-lost customers" who have only very small deposits. We will have to ascertain the reasons for the very large number of low balances even among clients who have not been "lost" by the MSBs.

As to the few large depositors, they are mainly institutions. In August and September of 1994, legal entities (institutional clients as well as some private businesses) held only 3% of the total number of accounts maintained at both institutions but contributed 44% of the deposit volume at the Trujillo MSB, and 58% at the Sullana MSB (see Bredenbeck, 1995). As these deposits cannot be considered as savings in the true sense, they will be excluded when examining the savings patterns of the customers. Consequently, only about US\$ 2.3 million of the well over US\$ 4 million deposited at the Trujillo MSB, and only around US\$ 0.7 million of the roughly US\$ 1.6 million held at the Sullana MSB, were genuine household savings. However, it goes without saying that the large volume held by institutional depositors cannot be ignored, and we will return to this point later.

4.2 Savings Patterns of the MSBs' Customers

Via their strategy of mobilizing savings not only from low-income persons but also from middle- and high-income strata of the population, the MSBs try to take advantage of a higher savings capacity that is assumed to exist (in absolute terms, though not necessarily in relative terms) within the middle and upper classes compared with the lower-income population. Thus, the MSBs' possible lack of success in attracting higher-income savings customers might partly explain the predominance of very small deposits. In order to determine whether the MSBs actually meet their objective of reaching all segments of the population in their deposit business, the distribution of individual incomes⁴ among the "non-lost clients" who were interviewed was compared with the distribution of individual incomes in Lima.

The income distribution in the Peruvian capital (see Fernandez/Webb, 1992), rather

4. A total of 324 customers in Trujillo - including 79 "lost customers" - and 268 in Sullana - including 43 "lost customers" - were able or willing to give this information. Thus, the income data shown in the following tables were drawn from a smaller sample than that used to obtain the information on savings customers that has been presented so far.

than in Trujillo and Sullana, had to be used as the standard of comparison. Obviously, it would have been preferable to utilize the corresponding statistics for the two towns in question, but the requisite data were unavailable. The income distribution patterns among the clients of both MSBs who actually make use of their deposit account(s) do not differ substantially from the income distribution among the population of Lima (see Bredenbeck, 1995). Insofar as this comparison involves data for Lima rather than Trujillo and Sullana, it is clear that we should exercise caution when drawing conclusions from it. Nonetheless, it seems fair to say that both MSBs have been able to attract savers from both the lower income strata and the more affluent segments of the population.

However, when compared with the distribution pattern for the general population, the income distribution among the clients of other financial institutions is likely to reveal a lower proportion of poor people and a higher proportion of better-off people. Traditionally, financial institutions in developing countries (and not only there) try to satisfy the demand for financial services on the part of the middle and upper classes, and they normally tend to discriminate against people with low incomes - or at least do not try to attract their business. As the income distribution of the MSBs' clients corresponds to that of the general population, it is likely that, on the one hand, the MSBs have attracted a higher percentage of low-income people than their competitors, and that, on the other hand, people with higher incomes tend to prefer financial institutions other than the MSBs. Thus, the MSBs would appear to be attractive financial institutions for savers with low incomes - persons for whom even US\$ 10 might be a sizeable amount of money - and at the same time, they seem to have less appeal for better-off segments of the population. The apparent negative correlation between (potential) savers' income levels and their propensity to put their savings in an MBS might also be a reflection of the differences between the income distribution for "non-lost" and "lost" clients, based on our definition of "lost" (see Table 2).

Table 2: Breakdown of the sample according to monthly income of savers' households

Monthly Income of the Household in US\$	Trujillo MSB		Sullana MSB	
	"Non-lost" Clients	"Lost" Customers	"Non-lost" Clients	"Lost" Customers
< 200	21.1%	32.9%	16.5%	23.8%
200 - 499.99	42.1%	41.8%	41.1%	42.9%
500 - 999.99	24.7%	15.2%	31.2%	26.2%
1,000 - 1,499.99	8.1%	2.5%	7.6%	2.4%
> 1,499.99	4.0%	7.6%	3.7%	4.8%
Total	100%	100%	100%	100%

Source: Own calculations based on data obtained in the survey.

Contrary to what one would expect, both MSBs lost a particularly large proportion of their clients in the lowest income range, whereas the share of "lost" customers is almost invariably lower than that of "non-lost" clients as one moves up the income scale - at least in the middle three brackets. That this relationship was reversed in the highest income range did not, however, prove to be significant. At the least, one can say that once the MSBs had succeeded in attracting the savings business of middle-income clients, they were not lost to the savings banks as frequently as were poor clients. This might be due to the greater experience of the more affluent segments of the population in dealing with (other) financial institutions. The percentage of clients who switched financial institutions when they opened their account(s) with the MSB was probably greater among higher-income depositors than among poor savings customers. Compared to merely opening an account, a switch implies a far stronger identification with the institution chosen and, consequently, is likely to result in a more durable relationship.

Table 3³: Average balances held by "non-lost" savings customers. Breakdown by monthly income of client's household - Trujillo MSB

"Average Balance" in US\$	Household's Monthly Income in US\$				
	Total ⁶ (in %)	< 200 (in %)	200 - 499.99 (in %)	500 - 999.99 (in %)	1,000 or more (in %)
< 100	48.5%	46.2%	56.3%	45.7%	25.0%
100 - 499.99	31.7%	46.2%	28.1%	20.0%	50.0%
> 500	19.8%	7.7%	15.6%	34.3%	25.0%
Total	100%	100%	100%	100%	100%

Source: Own calculations based on data obtained in the survey.

A breakdown of the "average balance"⁷ held over a period of two months by "non-lost clients" who had been clustered according to their household's monthly income⁸ demonstrates that the "average balances" of the MSB's savers do not necessarily increase as incomes rise. As was to be expected, the "average balances" of the two groups with the lowest incomes tend to be the smallest (see Table 3⁹). This may be an indication of the low savings capacity of these customers. A sharp increase in the volume of the "average balances" takes place only when we move from the second lowest income group to the next highest one. Moving up again, going from this group to the highest income group, does not lead to an across-the-board rise in "average balances". Given their high household income levels, this group of clients has rather small deposits. They might prefer other assets to a deposit at the MSB. Thus, the great majority of the large group of low-income savers with accounts at the MSBs do not maintain large balances in their deposit accounts, and most of the savers with medium or high incomes also do not keep much

5. As there were no major differences to be observed between the two MSBs, only the data collected for the Trujillo MSB are presented.

6. Included clients who did not reveal their household's monthly income.

7. The "average balance" is defined as the average of the daily average balances calculated for a two-month period (September - October 1994). These data were compiled for 222 cases (including 55 "lost customers") in Trujillo and for 268 cases (including 46 "lost customers") in Sullana. Preference was given to the "average balance" over the balance on a certain cutoff date because it was thought to be a more suitable basis for classifying the clients.

8. In Trujillo the sample consisted of 140 of the 167 active clients, and in Sullana it comprised 160 of the 222 clients in this category.

9. The two highest income groups were combined to form a single group due to the small number of clients belonging to each of these groups. Additionally, all "average balances" of less than US\$ 100 were put into a single group. Moreover, there was not a single client with an "average balance" of US\$ 5,000 or more, so that this group of savings volumes could be omitted.

money in their accounts.

Although the fact that the household's monthly income exceeds its expenditures for basic consumption¹⁰ by a given amount does not mean that it will have a surplus of this amount - or any surplus at all, for that matter - at the end of a typical month, it does represent the portion of the household's income which is, theoretically at least, available for savings accumulation. For the purposes of the present analysis, the difference between monthly income and spending for basic consumption was used as an indicator of a household's savings capacity. However, as the underlying data, not only income but also every item on the expenditure side, are based on estimates of the respondents, our "savings capacity" figure provides only a rough guide to what a household will be able to save.

Table 4¹¹: Breakdown of "non-lost clients" of Trujillo MSB: "savings capacity" for group as a whole and for various household income ranges.

"Savings Capacity" in US\$	Household's Monthly Income in US\$				
	Total ^a (in %)	< 200 (in %)	200 - 499.99 (in %)	500 - 999.99 (in %)	1,000 or more (in %)
< 0	25.4%	73.5%	21.1%	3.5%	—
0 - 99.99	13.2%	26.5%	16.8%	1.7%	—
100 - 499.99	43.4%	—	62.1%	66.7%	7.4%
> 500	18.0%	—	—	28.1%	92.6%
Total	100%	100%	100%	100%	100%

Source: Own calculations based on data obtained in the survey.

We can see that about a quarter of the customers have a negative "savings capacity", which means that they depend on financial aid from relatives or friends. On the other hand, several clients exhibit a "savings capacity" of up to US\$ 100 per month, and a large group of clients would theoretically be able to save US\$ 100 - 500 a month. There are even many clients who would potentially be able to put aside US\$ 500 or more in the space of a single month.

In the poorest group of clients, people who are able to save are the exception. If we turn to the higher income groups, we can see that "savings capacity" rises rapidly, and thus

10. All outlays for food and toiletries, clothing, personal transport, electricity, water, lodging, telephone service and education were regarded as expenditures for basic consumption.

11. See footnote 5.

the ratio between the "average balance" (Table 3) and "savings capacity" decreases continuously as incomes rise. Thus, to a great extent, the very small size of the bulk of the deposits held at the MSBs can be attributed to the low capacity of poor customers to save and to the fact that better-off customers obviously choose to invest in other assets and/or to entrust their funds to other financial institutions. The latter point is also illustrated by the relative distribution of accumulated savings among different financial assets for each of the four income groups (see Tables 5a and 5b).¹²

Table 5a: Distribution of financial assets for all savings customers of Trujillo MSB. Breakdown for group as a whole and for various household income ranges.

Financial Asset	Household's Monthly Income in US\$				
	Total ¹³ (in %)	< 200 (in %)	200 - 499.99 (in %)	500 - 999.99 (in %)	1,000 or more (in %)
Loans Granted	44.2%	40.2%	18.1%	36.3%	59.5%
Deposit(s) at MSB	29.8%	46.6%	47.8%	26.0%	18.5%
Other FIs ¹⁴	17.6%	5.0%	10.2%	32.1%	15.6%
Cash	4.9%	4.1%	16.0%	2.9%	3.4%
RoSCAs ¹⁵	3.6%	4.1%	8.0%	2.9%	3.1%
Other	-	-	-	-	-
Total	100%	100%	100%	100%	100%

Source: Own calculations based on data obtained in the survey.

12. The author has refrained from including fixed assets because of the difficulty of assessing their value in monetary terms.

13. See footnote 6.

14. Financial institutions.

15. Rotating Savings and Credit Associations.

Table 5 b: Distribution of financial assets for all savings customers of Sullana MSB: Breakdown by group as a whole and for various household income ranges.

Financial Asset	Household's Monthly Income in US\$				
	Total ¹⁶ (in %)	< 200 (in %)	200 - 499.99 (in %)	500 - 999.99 (in %)	1,000 or more (in %)
Loans Granted	50.7%	23.9%	57.3%	58.9%	30.4%
Deposit(s) at MSB	18.7%	40.4%	16.5%	24.1%	6.6%
Other FIs ¹⁷	16.7%	5.5%	10.1%	2.7%	54.4%
Cash	9.6%	24.1%	10.5%	11.6%	5.7%
RoSCAs ¹⁸	4.0%	6.0%	5.1%	2.7%	2.9%
Other	0.3%	—	0.5%	—	—
Total	100%	100%	100%	100%	100%

Source: Own calculations based on data obtained in the survey.

Overall, a deposit at the MSB ranks only second among the various savings/investment options in both samples. In Trujillo, less than one-third of the savings customers' assets are deposited at the MSB, and in Sullana they have less than one-fifth in an account at the savings bank, with loans accounting for the largest share of assets in both samples. This is not surprising, given that 40% of the clients in Trujillo and 60% in Sullana have family-owned enterprises, which are usually an integral part of the owners' households, and that there is a strong tradition of mutual assistance among low-income families in particular (see Table 4). Furthermore, deposits at other financial institutions rank directly below a deposit at the MSB. The attractiveness of other financial institutions for the MSBs' clients is surprisingly high in both towns, but especially in Sullana, where the value of assets held at competing financial institutions nearly equals the amount on deposit at the MSB. Nevertheless, in Trujillo as well, assets held at other financial institutions account for a relatively high share of the total. In both towns, other types of assets play only a subordinate role.

Looking at the breakdown by monthly household income level, we can see that poor clients hold the largest proportion of their assets at the MSBs, and that, generally speaking, the proportion of assets held at the MSBs decreases as incomes rise. Conversely, the share of deposits in other financial institutions generally increases as incomes rise, as

16. See footnote 6.

17. See footnote 14.

18. See footnote 15.

shown most clearly by the figures for the highest income group in Sullana.

Our data thus show that, on the one hand, there is a large group of lower-income customers who prefer to hold a large portion of their assets in the MSBs, and appear to "invest" a sizeable share in direct lending, but overall have a low savings capacity. On the other hand, insofar as deposit accounts at the MSBs are concerned, there is a lack of "savings enthusiasm" on the part of the clientele with higher incomes; they assign a subordinate role to the MSBs within their portfolios. And it is precisely this combination that leads to the prevalence of very small deposits. At the same time, these two phenomena provide a plausible explanation for the high percentage of "lost customers": A deficient "savings capacity" - or the complete loss of the ability to save - could very well induce customers to stop using their accounts, as could a preference for other financial institutions.

4.3 A Strategy for Attracting Middle- and Upper-Class Savings Customers

As long as savers with higher incomes prefer competing institutions over the MSBs, the savings banks will have to constantly forgo resources which could otherwise be used to fund lending on a larger scale to the target group. It would appear that with their range of deposit products, the MSBs can meet the requirements of low-income people better than those of people with higher incomes. However, as yields on deposits are higher at the MSBs than at other financial institutions, and as the significance of yields as an incentive to save is assumed to increase with income, higher-income clients must have an important motivation other than yields to hold their deposits in other financial institutions. In fact, as regards incentives to save, yields turned out to be only a secondary consideration for the customers at both MSBs (see Bredenbeck, 1995). The MSB's clients stressed the importance of putting aside emergency money or accumulating savings for specific consumption purposes, as well as the desire to use their accounts for business transactions. As had been assumed for people with low incomes, "saving for a rainy day" was the decisive motivation for having an account. By contrast, clients with high incomes placed most emphasis on their desire to conduct payment transactions. These clients also proved to be motivated to a relatively great extent to open an account because they hoped that this would be helpful in obtaining credit, preferably an "unbureaucratic" overdraft.

Consequently, it appears that the MSBs are able to satisfy the demand for savings facilities driven by the desire for "insurance" as well as that for "security". On the other hand, the product range of the MSBs is not as well suited for payment transactions, so that a (current) account at another financial institution might be exactly the right choice for this

purpose. Consequently, those clients of the MSBs who had an account with another financial institution¹⁹ were asked to give the reason for maintaining their additional account (see Table 6).

Table 6: Motivation for the customers of the MSBs to maintain a deposit account at another financial institution

Motivation	Trujillo MSB	Sullana MSB
Part of interconnected national network	18.2%	12.3%
Giro transfer system	13.0%	12.3%
(overdraft) loan facilities	11.7%	15.8%
Other additional services	6.5%	8.8%
More confidence	13.0%	21.1%
Loyalty to the former institution	10.4%	5.3%
Transaction costs are lower	4.0%	1.8%
Interest rates are higher	—	5.3%
I don't know / no specific reason given	23.4%	17.5%
Total	100%	100%

Source: Own calculations based on data obtained in the survey.

Obviously, clients have accounts with other financial institutions in order to use services which are not offered by the MSBs, namely those that can be provided when a financial institution is part of an inter-connected national network, the opportunity to use a giro transfer system and the possibility of access to (overdraft) loan facilities. The desire for additional services was cited as a motive for having an account at another financial institution by approximately half of the clients at both MSBs. Another important reason given for having an account with a financial institution other than the MSB is the better reputation of older, more established financial institutions in comparison with the savings banks. This might apply not only to those clients who expressed greater confidence in other financial institutions, but also to some of those who cited their "loyalty to the former institution". Other factors such as the level of transaction costs or of interest rates were mentioned as the key reason for having an account with another financial institution by only a small percentage of the clients. This is not surprising, because in these areas the MSBs measure up to their competitors.

Thus, it is fair to say that the main reason for the attractiveness of competing financial institutions is their wide range of products. Middle- and upper-class users of financial

19. 19% of the respondents in Trujillo and 16 % in Sullana had deposit accounts at other financial institutions.

services obviously expect their financial institutions to be able to meet a complex set of requirements when it comes to handling their payment transactions - requirements which cannot all be satisfied by the range of products offered by the MSBs. Accordingly, the MSBs could broaden their range of services in order to meet these requirements, with a view to persuading better-off clients to place their money in the MSBs instead of entrusting it to other financial institutions. In addition to the establishment of an interconnected, nationwide network and a giro transfer system, special importance would have to be assigned to broadening the access of this clientele to (overdraft) loan facilities: An analysis of the frequency of account transactions (see Bredenbeck, 1995) established that better-off clients use their savings accounts at the MSBs to conduct part of their business transactions even though they may have an account with another financial institution which was opened specifically for this purpose; and thus incur additional transaction costs because they make their payments through two different institutions. These clients can only be assumed to be acting in a rational manner if they are motivated to do so by their hope of obtaining a loan.²⁰ Such behavior by clients with high incomes is evidence of the fact that, in general, they consider access to credit to be important - as they often said in the interviews - and that such access is a key factor in their decision to open an account with an MSB. Consequently, efforts by the MSBs to attract savings deposits from the middle and upper classes will not succeed to any appreciable extent unless the savings banks are willing to cater to the credit demand of this clientele by offering current-account services.

Thus, the attempt to attract depositors from the middle and upper classes could potentially have an adverse effect on the institutions' lending activities directed at the target group.²¹ Moreover, once overdraft loan facilities are established, calling in these credit lines in order to deal with a liquidity squeeze will cause the institution's reputation to suffer greatly if borrowers have proved to be creditworthy. It is much easier to enforce restrictions on credits for micro entrepreneurs because these credits require an evaluation

20. In the case of one special kind of credit, clients are indeed more likely to be accommodated with a loan if they conduct frequent transactions on their savings accounts.

21. This is also illustrated by the situation of the Trujillo MSB. More aggressively than the Sullana MSB, it has tried to attract savers from the middle and upper classes by offering credit lines to them which are extended for a limited period. This is the reason why its clients in fact hold a lower proportion of their assets at competing financial institutions than those of the Sullana MSB (see Tables 5a and 5b). On the other hand, the size of all types of loans granted by the MSB tends in any case to be larger in Trujillo than in Sullana" (see Bredenbeck, 1995). This indicates that the clientele served by the Trujillo savings bank is more affluent than that of the Sullana MSB.

directly before they are granted. Thus, even though in the short term the benefits of having additional deposits from better-off clients might more than make up for the drawbacks of lending to them on an increased scale, it is rather likely that, in the long term, the new services would have a detrimental effect on the target group.

Moreover, the lack of confidence in the institution which was expressed by a number of MSB customers who maintain a deposit account at another financial institution (see Table 6) could cause them - or other potential deposit customers in the higher income groups - to remain loyal to the financial institutions they have traditionally dealt with, conducting only a few transactions on the current accounts which they would set up at the MSBs, but not depositing sizeable amounts in these accounts, so as to be eligible for credits. If this were to happen, the only effects of a change of strategy would be a rise in administrative costs and a weakening of the institution's target-group orientation.

4.4 The MSBs' Institutional Depositors

As has already been pointed out, a high percentage of the deposits in both institutions stem from only a few institutional depositors. In August and September of 1994, the biggest depositor at both MSBs was the respective municipality. It contributed more than 20% of the deposits at both savings banks. The municipalities see their deposits as an indirect form of support for the local MSB; they are thus politically motivated to entrust funds to the institutions. However, the extremely large size of their deposits enables them to exert political pressure on the MSBs by threatening to withdraw their funds. The municipality is thus in a position to exploit its deposits as a means of undermining the autonomy of the management and of influencing executive decisions.

The MSBs are therefore forced to hold a large stock of free liquid reserves. As the individual savings banks tend to hold these reserves in accounts at other MSBs, there is the additional risk of large MSBs gaining influence over smaller ones as an indirect result of the size of the municipalities' deposits. In August 1994, the Trujillo MSB, for example, accounted for nearly as large a share of the Sullana MSB's deposits as the Sullana municipal government itself. Consequently, two institutional depositors alone contributed more than 40% of the Sullana MSB's deposits - a degree of concentration which might pose a danger to the institution.

5. Conclusions

The analysis of the savings customers of the MSBs in Trujillo and Sullana shows that

most of the deposit accounts at both institutions are held by households, and that the balances in these "household accounts" are relatively small, with the bulk of the deposits of any size stemming from a handful of institutional depositors. The fact that institutional customers contribute such a large share of total deposits is attributable in part to the political considerations which motivate the entities in question to place their funds in the MSBs. However, it is also obviously an outgrowth of the small size of the balances maintained in the accounts of the great mass of savings customers, who cannot serve as a counterweight to large-scale depositors.

There are two main reasons for the low level of household savings: On the one hand, households with small family incomes often do not have any appreciable savings capacity, and it appears that what little money they are able to spare goes into direct loans to relatives and friends and, probably, into investments in fixed assets. On the other hand, the willingness of customers to deposit funds in the MSBs decreases as incomes rise.

As for savers with low incomes, they emphasized their need to put aside money as a reserve for emergencies. A savings account at the MSB was their preferred form of financial asset. The MSBs thus acted appropriately when they decided to offer highly liquid savings products in order to attract poor savers. Although the savings of these people are very small, they need "proper" savings accounts, i.e. the deposit facilities offered by financial institutions. But, obviously, if a formal target group-oriented financial institution were to rely exclusively on the savings deposits of these clients to fund its lending operations, it would not have sufficient resources available to meet the demand for loans on the part of its credit clientele.

As it turns out, the initial expectations regarding a dual funding strategy for target group-oriented financial institutions involving "complementary" savings mobilization efforts directed at customers with higher incomes must be regarded as overly optimistic. Such customers do indeed have a higher savings capacity than poor savers. But contrary to what had been expected, more affluent persons do not hold assets in financial institutions primarily because of the yields offered, which means that it is not possible to attract them by paying high interest rates, nor even by conducting lotteries with attractive prizes, as was attempted by the GTZ project. Indeed, the survey showed that, for higher income persons, the easy execution of payment transactions, access to credit, and the reputation of a financial institution are the decisive considerations when it comes to choosing a financial intermediary. A prerequisite for successful savings mobilization among members of higher-income segments of the population is thus the availability of a broad product range comprising current accounts and the kinds of funds transfer and

payment services offered by an institution which operates on a nationwide basis as well as (overdraft) loan facilities. As the latter seems to be a particularly important "selling point" for better-off customers, target group-oriented financial institutions which are determined to attract more affluent customers, and provide such credit facilities in an effort to do so, run the risk of losing their target-group orientation. "Intersectoral" financial intermediation involving the mobilization of deposits from members of the middle and upper classes in order to fund lending to the target group of such institutions is thus only feasible on a limited scale. Target group-oriented financial institutions should therefore be skeptical about making concessions to better-off clients in order to attract their business, and they would probably be better off in the long run if they stopped making a special effort to court them.

If a target group-oriented financial institution rejects a policy of attracting savers from the middle and upper classes because it is aware of the risks it would incur by pursuing this strategy, it must rely on other depositors, such as institutions, to provide the funds needed for its lending activities. The investigation showed that deposits held by institutions in the MSBs are so large that they expose the savings banks to an enormous liquidity risk and make the institutions susceptible to political interference as well. Obviously, this is the price a target group-oriented financial institution has to pay if it is to avoid the risk of losing its target-group orientation by courting better-off customers. This is the dilemma faced by target group-oriented financial institutions which fund their lending activities via savings mobilization. Thus, each of the funding options available to target group-oriented financial institutions - namely, "competitive" savings mobilization, the acquisition of deposits from local and national institutions, and reliance on the resources of external donor organizations - has its own inherent pitfalls: The first might lead to a detrimental bias towards a "banking logic" if concessions are made to the middle and upper classes. The second might lead to a politically motivated allocation of funds, if this were in the interests of an influential large-scale depositor. And the third might create a "beneficiary mentality" and a dependence on the "drug" of foreign aid.

Target group-oriented financial institutions might be able to avoid these pitfalls if they rely on a judicious "mix" of funding sources and if they are willing to cooperate and establish a second-tier institution which can be entrusted with the task of achieving a balanced distribution of liquidity among the participating institutions. To this end, the local institutions would deposit their surplus liquidity in accounts at the second-tier institution which would then lend these resources to the participating institutions and thus bear part of the liquidity risk to which individual institutions are exposed. By establishing such an institution (in the case of the MSBs, a suitable entity - namely, FOCMAC - has already been created), the

participating institutions can take advantage of the fact that the relative importance, and influence, of individual large-scale depositors is weakened by the expanded volume of resources that are available to the individual intermediaries as a result of cooperation. If FOCMAC, or a similar entity patterned after it, served as the second-tier institution for the MSBs, acquisition of donor resources as a complement to savings mobilization by individual institutions would also be feasible without running the risk that the latter would lose their incentives to follow a "banking logic", the reason for this being the institutional separation of these two tasks. Donor resources could thus be used in order to expand lending to the target group, while at the same time the availability of increased liquidity would shield the individual institutions from the hazards of relying on institutional deposits and savings mobilization efforts directed at middle- and upper-class clients. But there is a snag here: The more an individual institution is exposed to liquidity risks, the more it will be interested in cooperation with other financial institutions in order to manage these risks. This could in turn lead to adverse selection, which means that internal supervision within the system - including mutual monitoring by the member institutions - would be essential.

To sum up: The mobilization of household savings turns out to be not the "forgotten half", but only the "forgotten quarter", of development finance. If one looks only at poorer households, it might even be appropriate to call it the "forgotten tenth". And while this sobering insight gained from the experience of the Peruvian MSBs does not mean that the watchword of savings institutions the world over - "every penny counts" - is suddenly no longer valid, it could help to avoid over-heroic attempts to build the lending business of target group-oriented institutions exclusively on a foundation of savings.

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Abstract

The objective of this article is to evaluate the characteristics of savings mobilization as an alternative to financial assistance as a means of funding the lending activities of target group-oriented financial institutions in developing countries. The analysis is based on a survey of savings customers of Municipal Savings Banks (MSBs) in Peru.

The data yielded by the field research demonstrate that households with low family incomes often do not have any appreciable savings capacity, which means that a financial institution cannot rely primarily on the savings of low-income households to obtain its loan resources. This is the reason why the MSBs attempt to attract more affluent savers. However, higher-income persons show relatively little interest in using the deposit facilities offered by the MSBs. These customers expect their financial institutions to be able to meet a complex set of requirements when it comes to handling their payment transactions - requirements which cannot all be satisfied by the products offered by the MSBs. As an unwelcome consequence of a lack of savings capacity on the part of the one group, and a lack of "savings enthusiasm" on the part of the other, the deposits of influential institutional customers, and - of late - resources provided by foreign donors, account for a large proportion of the loanable funds available to the MSBs. A strategy to remedy this problem is identified and the drawbacks of the strategy are discussed.

LA MOBILISATION DE L'ÉPARGNE: LEÇONS DE DEUX CAISSES MUNICIPALES D'ÉPARGNE AU PÉROU

Résumé

L'objectif de cet article est d'évaluer les caractéristiques de la mobilisation de l'épargne comme une alternative à l'assistance financière pour refinancer les activités créditices des institutions financières orientées à la population économiquement faible dans les pays en voie de développement. L'analyse s'appuie sur une enquête des clients d'épargne de deux Caisses Municipales d'Épargne au Pérou.

Les données obtenues par l'enquête prouvent que les ménages ayant des revenus faibles n'ont pas une capacité d'épargne appréciable, c'est-à-dire qu'une institution financière, pour obtenir des fonds à créditer, ne peut pas se baser en premier lieu sur les épargnes des ménages pauvres. Pour cette raison, les Caisses Municipales d'Épargne au Pérou essaient d'attirer des épargnants économiquement plus forts. Pourtant, les

personnes à hauts et à moyens revenus ont relativement peu d'intérêt à utiliser les facilités de dépôt qu'offrent les Caisses Municipales d'Épargne. Ces clients exigent qu'une institution financière soit capable de satisfaire des exigences complexes en ce qui concerne le règlement des services de paiement - des exigences qui ne peuvent pas être satisfaites entièrement par les produits qu'offrent des Caisses Municipales d'Épargne. Donc, il y a un manque de capacité d'épargne d'un groupe d'épargnants et un manque «d'enthousiasme d'épargne» d'un autre groupe. La conséquence désagréable est le fait que des dépôts d'institutions influentes et - depuis peu - des ressources mises à la disposition des Caisses Municipales d'Épargne par des donateurs étrangers constituent une grande part des fonds à créditer disponibles aux Caisses Municipales d'Épargne. Une stratégie à résoudre ce problème sera identifiée et les désavantages de cette stratégie seront discutés.

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Summary

The crucial aspect to focus upon in evaluating Africa's experience in financial sector development is its savings effort, the level and quality of financial intermediation and the efficiency in resource use. On all these scores, the African financial sector has performed very badly. Upon acceding to political independence, African governments decided to remodel their financial infrastructure by the establishment of a diversified set of financial institutions - viz - commercial banks, development banks, savings banks, co-operative banks, housing finance and postal savings banks, etc. Unfortunately, the ensuing benefits have not been commensurate with the enormous costs incurred. A great deal of effort was geared towards the provision of credit rather than the mobilization of resources. The official attitude to resource mobilization has been extremely lax partly due to foreign resource inflows and partly due to the inexpensive rediscounting terms and facilities provided by the central bank.

Commercial bank branches have not yet been sufficiently diffused in the rural hinterland with the result that Africa's resource potential in the rural areas still remains untapped. Development and Co-operative banks have literally become mere retailers of foreign loans and government funds even though many were empowered to mobilize resources in their statutes of establishment. The operations of specialised financial institutions are generally insulated from competition by various legislations, and are even provided with generous subsidies. Instead of undertaking much wider and more demanding tasks, (eg. bringing in financial innovation, developing money and capital markets, broadening the monetized sector of the economy, improving the unorganized segment), central banks

in developing Africa are confined to the narrow contours of a regulator, and are circumventing financial deepening through the provision of generous accommodation to the commercial banks and the government.

Bank credit still remains a financial appendage of certain enclaves: large-scale mineral exporters, highly protected manufacturing, foreign owned undertakings, and the parastatal sector. In contrast, small farmers and indigenous small-scale enterprises remain financially repressed although they possess quite a large share of the deposit resources on which bank credit is based. These repressive influences of the formal banking system are perpetuating the enlargement of the informal sector.

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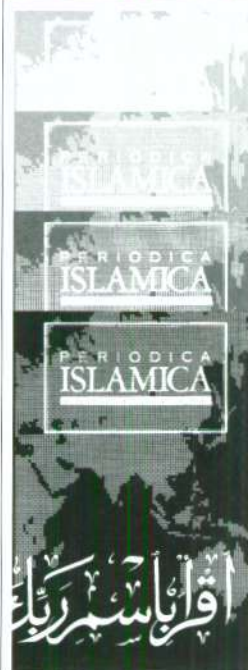
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