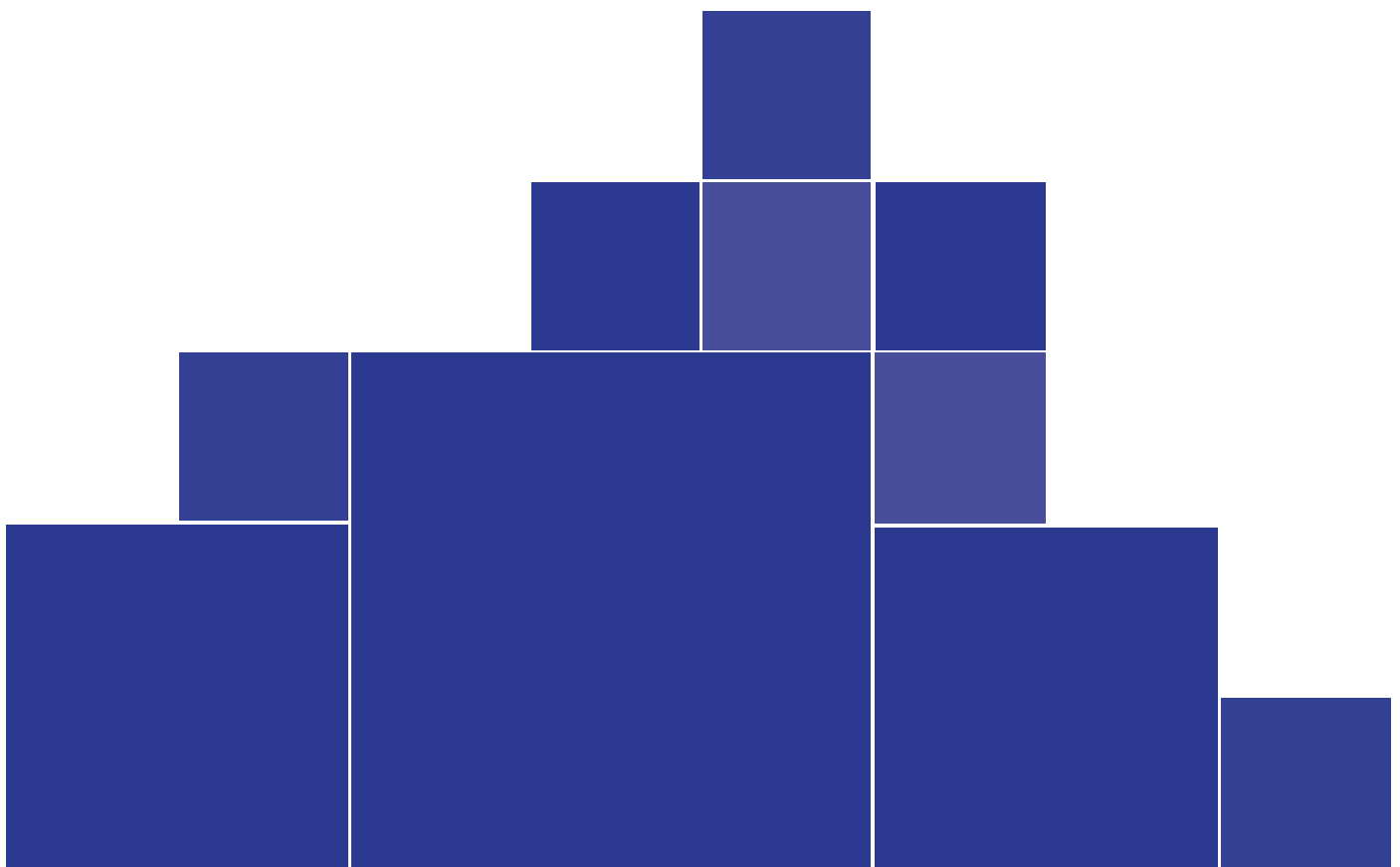


Pulling Levers Toward Sustainability



A Framework for Small-Balance Deposit Mobilization

November 2017

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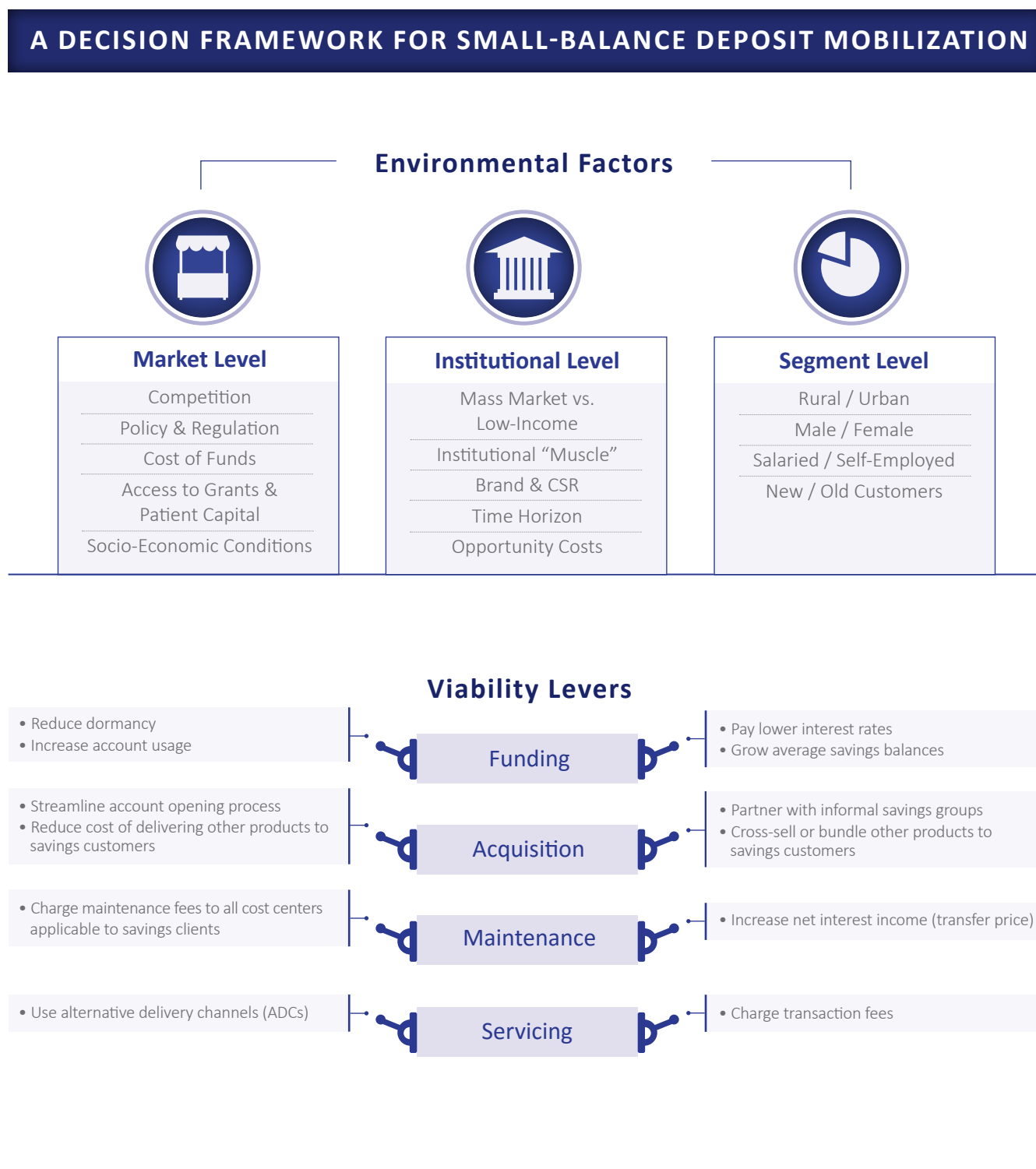
We would like to thank the management and staff at the MicroLead partner institutions for sharing their experiences and informing the development of this framework. We thank them for their time and for sharing their information, lessons learned and recommendations, to enable other financial service providers to succeed in mobilizing small-balance deposits.

We would like to thank in particular Kwaku Acheampong at Sinapi Aba Savings & Loans in Ghana, Nathan Barigye at UGAFODE in Uganda, Ntaja Ntandaza at NBS Bank in Malawi and William Derban at Fidelity Bank in Ghana for their time and effort to help prepare detailed case studies about their institutions' journeys in assessing the business case for small-balance deposit mobilization. We would also like to thank partners at the organizations that provided technical assistance to the MicroLead programme, especially Jean Thiboutot at the World Council of Credit Unions.

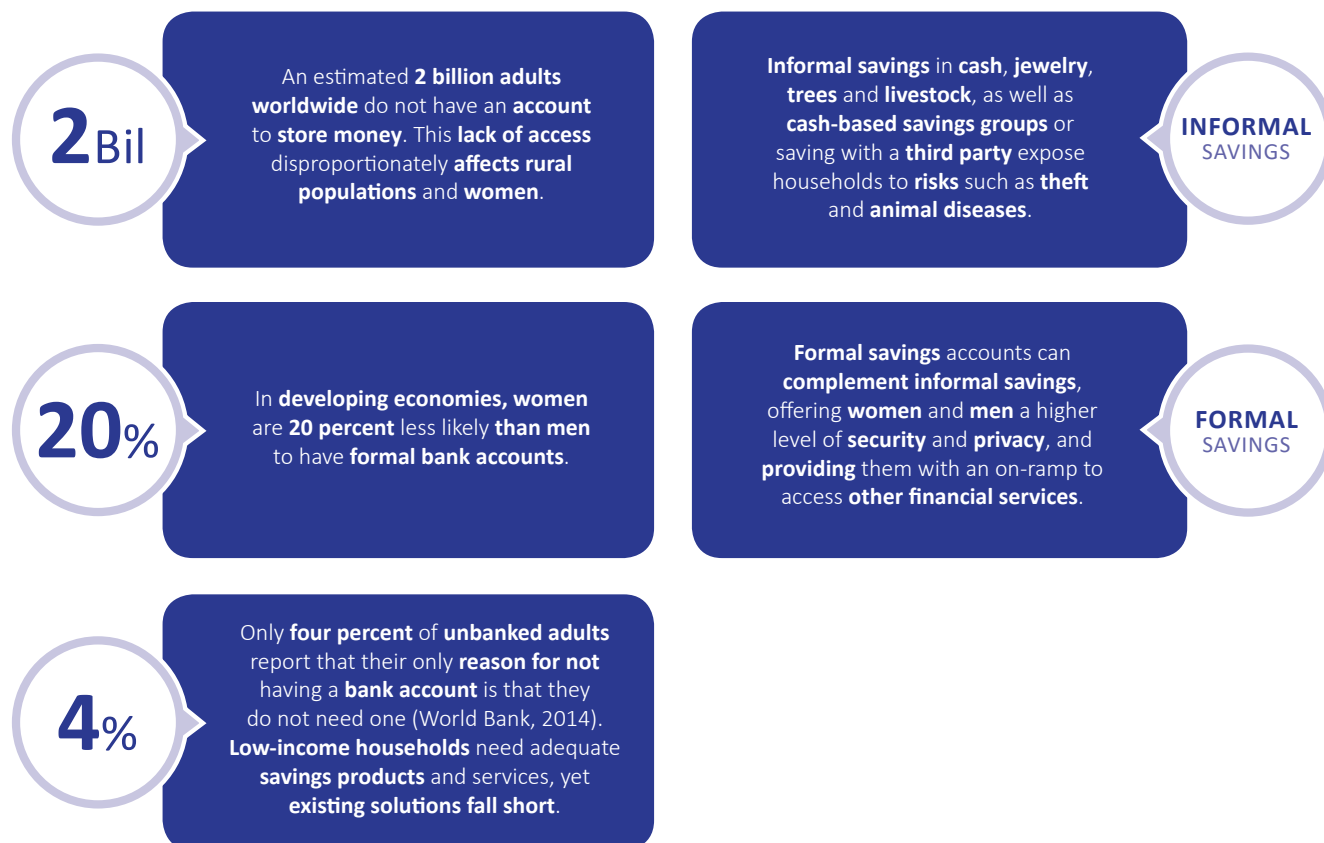
LIST OF ACRONYMS

| | |
|---------|---|
| ADC | Alternative Delivery Channel |
| CapEx | Capital Expenditure |
| CFA | West African franc |
| CSR | Corporate Social Responsibility |
| FAMS | Funding-Acquisition-Maintenance-Service Model |
| FSP | Financial Services Provider |
| GHS | Ghanaian new cedi |
| KYC | Know Your Customer |
| MCBL | Mwanga Community Bank Ltd. |
| MFI | Microfinance Institution |
| MNO | Mobile Network Operator |
| MTN | Mobile Telephone Network, a South Africa-based multinational |
| MWK | Malawian kwacha |
| NGO | Non-Governmental Organization |
| OpEx | Operational Expenditure |
| P2P | Person to person transfer |
| POS | Point of Sale |
| SACCO | Savings and Credit Cooperative Organization |
| SASL | Sinapi Aba Savings and Loans |
| SBDM | Small Balance Deposit Mobilization |
| SMS | Short Message Service (text messages) |
| UGX | Ugandan shilling |
| UNCDF | United Nations Capital Development Fund |
| U-SACCO | Umurenge Savings and Credit Cooperative Organization (Rwanda) |
| VSLA | Village Savings and Loan Association |

Figure 1
Decision Framework for Small-Balance Deposit Mobilization



EXECUTIVE SUMMARY



Yet, financial service providers (FSPs) are often reluctant to engage in mobilizing the savings of low-income populations, which disproportionately excludes women, whose incomes are often smaller and more irregular than men's. The economics of small-balance accounts presents challenges that make it difficult for providers to make a profit from these accounts. High upfront costs, high transaction frequencies, and distance from traditional banking outlets are among the main deterrents. Despite these challenges, the sheer size of the unbanked population suggests that small-balance deposit mobilization represents an opportunity—albeit one that requires hard work and patience—for FSPs to advance financial inclusion while accessing a relatively untapped market.

THE MOTIVATION to develop this framework was to share the experience of financial services providers (FSPs) that participated in the UNCDF MicroLead Expansion Programme. This paper highlights small-balance deposit mobilization (SBDM) business models used by the MicroLead partner FSPs, many of which are in the process of finding a path to profitability.

THE PURPOSE OF THE FRAMEWORK is to help guide any provider to make a “Go/No Go” decision about engaging in SBDM and, if the provider chooses to proceed, it outlines the set of levers that can make it viable. The framework can be applied to providers considering SBDM for the first time, as well as those considering making significant up-front investments to scale or deepen their current small-balance savings offering. For those FSPs struggling with an existing SBDM initiative, it can also help determine whether to continue or exit this initiative.

OUR METHODOLOGY to develop the framework combined a literature review on the business case for SBDM, deep-dive interviews with MicroLead programme participants, and analysis of client outreach and financial performance of 13 institutions participating in the MicroLead Programme. Each institution defines “small balance” in its own way, with deposit values ranging widely from USD 40 to USD 2,000, but with many clustered around USD 100. Thus, rather than defining a specific value threshold for “small,” the framework enables FSPs to analyze the business case for a consistent focus on a target market that includes low-income and rural households, many of which have been previously excluded from formal savings.

A Business Decision Framework¹

This paper lays out a Framework for small balance deposit mobilization (SBDM) among low-income populations (see Figure i). The Framework illustrates different pathways FSPs can take to achieve viability. The paper was developed for UNCDF and is based on the experience of the financial institutions that participated in its MicroLead Expansion Programme. It highlights examples of SBDM business models used by the MicroLead partner FSPs, many of which are in the process of finding a path to profitability. The framework is designed to help guide FSPs to make a “Go/No Go” decision about engaging in SBDM and, if the provider chooses to proceed, it outlines the set of levers that can make SBDM viable. The framework can be applied to providers considering SBDM for the first time, as well as those considering making significant up-front investments to scale or deepen their current small-balance savings offering. For those FSPs struggling with an existing SBDM initiative, it can also help determine whether to continue or exit this initiative.

Our methodology combined a thorough literature review on the business case for SBDM, complementing this with deep-dive interviews and data analysis conducted with 13 institutions participating in the UNCDF/MicroLead Expansion Programme. We also considered the financial performance of SBDM efforts.

Our findings indicate that none of the FSPs in the MicroLead programme have achieved profitability in their efforts. But, they have a much clearer understanding of how to get there. The Framework reflects that we cannot identify a single pathway to making SBDM viable, but rather can provide a set of *environmental conditions* under which the business case will be stronger, as well as *viability levers* that institutions can pull to move closer to profitability.

¹ The framework presented in this paper is adapted from a framework outlined in CGAP (2014), “The Business Case for Youth Savings: A Framework. Focus Note 96,” by Tanaya Kilara, Barbara Magnoni and Emily Zimmerman. <http://www.cgap.org/sites/default/files/Focus-Note-Business-Case-for-Youth-Savings-A-Framework-Jul-2014.pdf>

Environmental Factors

The environmental conditions in which an FSP operates are usually the main driver of a decision to venture into SBDM. We divide these into three levels: Market, Institutional and Segment level considerations.



Viability Levers

Once a provider has determined that it will target small deposit balances from low-income segments, it has several cost and revenue levers at its disposal to improve the viability of SBDM. FSPs can “pull” a set of viability levers depending on their market, resources, and capacity to strengthen the business case. Scale is often mentioned as a key lever to achieve viability for SBDM. However, when operating costs are higher than operating revenues, which is often the case with scale plays, scale will only increase financial losses. Instead, there is a larger set of levers that need to be pulled in combination, if SBDM is to be viable.

Our Framework highlights 12 viability levers that can help tip this balance, divided into four categories, which we call “FAMS”.

Key lessons from MicroLead Partners on pulling SBDM “Viability Levers”

Of the 12 viability levers we identify in these categories, some aspect of customer demand directly impacts six levers. This suggests that speeding up the path toward a business case will require FSPs to focus more extensively on satisfying client needs and demands to deepen customer engagement. So far, although many FSPs have strived to make SBDM financially sustainable, few of these investments have broken even. Yet this is a needed innovation. For example, our research shows that many FSPs have struggled to increase client savings balances in the short term, and when this happens they often feel pressure to shift their focus to other levers instead. In doing so, they may either drift away entirely from their poorest customers or even mis-sell products—through cross-selling—in an attempt to “make up” revenues. Women, in particular, may be more vulnerable than men to take up mis-sold products as they are often less experienced with formal financial services. Instead, developing useful products for the target market and designing cost-effective strategies that deepen customer engagement and increase average savings balances is essential.

Our Framework highlights 12 viability levers that can help tip the balance to profitability. These levers are divided into four categories: funding, acquisition, maintenance and servicing or “FAMS.”



Funding:

The costs and revenue of using savings to fund a loan portfolio, which hinges on increasing customers’ savings balances and reducing dormancy



Acquisition:

The costs of acquiring new customers and deepening customer engagement, and revenue that can support this



Maintenance:

The costs and potential revenue from maintaining accounts



Servicing:

The costs and potential revenue from servicing client accounts

Increasing customers' average savings balances—rather than just increasing scale or cross-selling additional products—is particularly important for the financial inclusion of women. If an FSP drifts up to higher-income customers to “make up” revenue without making a concerted customer-centric effort to increase the average balances of existing low-income customers, it can have the unintended consequence of drifting away from its female clients as well as other more excluded communities with low or irregular incomes.

Innovations in the financial inclusion landscape have created opportunities to overcome some critical demand-side challenges. Targeted product designs, such as commitment savings, can help address some of the psychological biases that often constrain savings (ProSavings, 2013). MicroLead FSPs have also shown creative approaches to reduce their overall funding costs by taking deposits from higher-income clients without losing focus on low-income clients, showing that serving a diversity of low-income and higher-income clients can help make a case for the inclusion of less profitable accounts. MicroLead FSPs have also made strong headway in testing the use of savings group linkages with FSPs. These groups have been instrumental in advancing financial inclusion in rural areas (CARE, 2016; IFAD, 2010) and establishing links between informal savings groups and formal financial institutions has been a strategy that MicroLead FSPs have found useful.

Alternative delivery channels (ADCs), including agency banking networks and mobile money platforms, as well as partnerships with other digital FSPs (such as mobile network operators)², can provide convenience to customers and may help reduce the high costs of distribution. Regulations permitting low-KYC or simplified accounts have enabled account opening through these channels. MicroLead FSPs have made strong headway in efforts to use third party channels or even build their own channels in the hopes of reducing the cost of serving low-income customers compared to brick and mortar branches. This strategy may lead to trade-offs, however. If customer contact is lessened, customer engagement may deteriorate and the viability of SBDM, which relies on active and growing account balances, may not be realized. Thus, when using ADCs, it is important to include strategies that bridge the “gap” in human contact that may arise.

While small-balance deposit accounts in isolation might not generate much profit, the client segment as a whole can be profitable, when clients' other products and services are considered. Once a client opens an account, if they are engaged with the institution, they may take up loans, insurance, or other products that will generate more revenue for the financial institution. Research has shown that a segment-level approach to costing analysis, that considers income from adjacent revenue streams such as cross-selling loans, can make up the costs of serving small balance savings accounts (CGAP 2012a). Different levers can be combined to become profitable, such as cross-selling, adequate pricing structure, and the use of technology as a way to reduce costs and attract and retain clients. In the long run, small-balance deposit account balances may also grow, and servicing today's small savers might be a wise and relatively low-cost investment for the future.

² There is a growing set of non-bank providers who are leveraging mobile phones and point-of-sale devices, along with agents affiliated with the network, to offer basic financial services as part of a “digital” finance ecosystem that brings customers greater convenience than traditional brick-and-mortar infrastructure. This emerging set of players includes mobile operators, agent network managers, payments aggregators, and others.

1 INTRODUCTION

Savings allow households to accumulate the resources needed to smooth consumption during seasonal dips in income, to deal with emergencies or other unexpected expenses, make lump-sum purchases for planned needs, and take advantage of investment opportunities. Despite these benefits, worldwide, approximately two billion adults are unbanked. This lack of access disproportionately affects women; in developing economies, women are 20 percent less likely than men to have formal bank accounts. Poor households do save, however. They hold cash, jewelry, trees or livestock (Barrientos, Hulme, 2016), or save through informal savings groups or use third party individuals to keep their money at arm's length (World Bank, 2014). Women, in particular, are good savers; they save a larger portion of their income than men and are more likely to use informal savings strategies. Informal strategies expose households to a number of risks, including theft, loss of value, and animal diseases. Formal savings accounts can provide a higher level of security and privacy, and may also help on-ramp customers to other financial services. Furthermore, there is evidence that demand for formal savings exists. According to the World Bank's latest Global Findex data, only four percent of the unbanked report that the only reason for not having a bank account is that they do not need one (World Bank, 2014). An important challenge to financial inclusion in the next decade will be to ensure that the unmet demand for savings accounts is filled.

The constraints to formalizing the savings of low-income households reflect both demand and supply side bottlenecks. On the demand-side, sluggish take-up suggests that available savings products continue to fall short of client needs. Barriers such as travel distance, legal hurdles, or prohibitive product pricing often hinder a low-income household's participation in the formal financial system (World Bank, 2014a). Furthermore, poor households are heterogeneous, where one solution alone is not likely to suffice. Women, in particular, disproportionately face barriers that prevent them from accessing formal financial services (see **Box 1: Measuring Data on Women's Financial Inclusion**). Restrictions such as requirements for a male family member's permission to open a bank account are still prevalent in many countries (World Bank, 2014b). They also often have lower income, are more likely than men to work in the informal sector, and generally work in less lucrative sectors (IMF, 2012). Additionally, in developing economies, the unbanked live predominantly in rural areas and thus have specific needs that call for customized approaches. Due to the nature of agricultural work, rural incomes are often unstable and irregular. Climate conditions and agricultural markets also greatly affect the savings capacity of rural populations and have an impact on usage patterns (CGAP, 2011). Even when institutions are able to open small deposit accounts for low-income individuals, the prevalence of high dormancy rates in these accounts reflects a need to refine the customer value proposition (CGAP, 2012a).

On the supply side, financial institutions are often reluctant to engage in SBDM. Indeed, the economics of small-balance accounts present challenges that make it difficult for FSPs to make a profit from these accounts. High upfront costs, low transaction frequencies, and distance from traditional banking outlets, are among the main deterrents from a financial institution's perspective (Cook, 2010). Despite these challenges, the size of the unbanked market suggests that SBDM represents an opportunity, albeit one that requires hard work and patience, for FSPs to advance financial inclusion while accessing a relatively untapped market. Innovations in alternative delivery channels (ADCs) such as agency banking, digital financial services, and bank linkages with savings groups are transforming the way financial institutions operate, and opening new opportunities to increase outreach among low-income populations, and especially among women and rural

populations. While these ADCs often require costly up-front investment and active ongoing management, they present an opportunity to contain some of the costs associated with brick and mortar branches. This paper was developed for UNCDF and included an in-depth review of its MicroLead programme partners' endeavors that have sought to offer viable and profitable low balance accounts to rural populations. The Framework aims to identify different pathways to viability for FSPs, and highlights examples of business models that are moving toward profitability and viability.



Community member

Box 1:

Measuring Data on Women's Financial Inclusion

According to the latest Global Findex data, although the percentage of women owning a bank account is increasing, the gender gap is not narrowing. Today, 58 percent of women worldwide own a bank account, against 65 percent for men. This represents a gap of 7 percentage points, which has been persistent since 2011. In developing countries, this gap has remained steady at 9 percentage points (Global Findex, 2014).

Despite growing awareness of the need to bridge this gap, several legal, cultural and technical barriers still constrain access to financial products and services among women. In Malawi, the MicroLead Programme grantee NBS Bank made an important effort to design a savings product targeted at women: the Pafupi Savings Account. However, today only 30 percent of Pafupi customers are women. *"In our communities, we have strong resistance that is still affecting decision-making among women and empowering them to make their own financial decisions"*, says Mercus Chicoga, Head of Personal and Business Banking at NBS Bank Malawi (Reserve Bank of Malawi et. al, 2017). *"Often, women understand the benefits of financial products and services, but they need to consult with their husbands to open a bank account. This is one of the biggest barriers that we have seen, and it will take time for mentalities to change"* (Ibid). To address these and other challenges, NBS Bank is trying to provide incentives linked to women's enrollment to its sales team.

Understanding women's unique needs and constraints is key to better serving this market and increasing outreach. However, FSPs seldom collect and track detailed data segmented by gender, which would allow them to establish baselines, set objectives, track performance and use this to inform the design of adequate products and incentive programmes. Although many FSPs are able to segment data related to the number of customers by gender, information such as product use, average balances, or profitability is often unavailable.

Gender-disaggregated data collection and reporting can be challenging and costly for financial institutions, as it may require important changes to existing systems and processes. Moreover, a number of barriers may affect the quality and reliability of the data collected. In some contexts, for instance, an account may be in a woman's name, but she may not have control over it. Joint accounts are also particularly difficult to classify. But despite challenges, generating this data can be powerful. In Rwanda, for example, disaggregating supply-side data by gender enabled the Central Bank to implement policies that doubled the formal financial inclusion of women, from 21 percent in 2008 to 42 percent in 2012 (Global Banking Alliance for Women et. al, 2015).

Data is also essential to demonstrate a business case for serving women (CGAP, 2016b). When it is available, it proves that women tend to be good customers: a study by the Global Alliance for Women shows that women are 16 percent more likely than men to save for future expenses; the average profit margin for small and medium-sized enterprise (SME) loans to women is 15 percent higher than that of loans to men; and they are more loyal than men to individual service providers (The Global Alliance for Women, 2017). From the FSPs' perspective, gender-disaggregated data collection is an important step toward identifying, reaching and serving this market.

2 METHODOLOGY

Case-based methodology

Our methodology combined a thorough literature review on the business case for SBDM, complementing this with deep-dive interviews and data analysis conducted with 13 institutions participating in the UNCDF/MicroLead programme. We conducted semi-structured interviews between November and December 2016 with FSP staff that was directly involved in the execution of the MicroLead programme. FSP staff walked us through their decision-making process to invest in SBDM, and recalled their journey toward financial sustainability as it evolved over the course of the programme. We asked: What factors make small-balance savings an attractive business case for a provider? (see [Box 2: What do we mean by “business case”?](#)) What “levers” can a provider pull to make the proposition more attractive, particularly when the goal is to serve low-income women and rural populations? We also considered the financial performance of SBDM efforts. Where data was available, we gathered data on programme costs and revenues to better understand the journey toward sustainability.

We analyzed the initial interview data to develop an analytical framework to better understand the levers that can determine the success or failure of SBDM. By comparing and contrasting models and experiences, we considered the lessons that were applied toward a sustainability path in some institutions, as well as lessons from institutions that encountered serious challenges, to define a decision framework. Using an iterative analytical process, we then reviewed the 13 cases and selected four of these that would illustrate different approaches to this framework and enrich the overall understanding of the drivers of sustainability of SBDM business models. We worked more closely with the four institutions (Sinapi Aba Savings & Loans in Ghana, Fidelity Bank in Ghana, NBS Bank in Malawi and UGAFODE microfinance deposit-taking institution in Uganda) to develop more in-depth case studies that illustrate the framework.

Box 2:

What do we mean by “business case”?

In this paper, the “business case” refers to the ability of FSPs to generate profits from small-balance deposit mobilization (SBDM).

A first level of analysis focuses on a comparison of revenues and costs over a discrete period of time, and how different influencers or “levers” can be pulled to drive costs down and increase revenues.

However, mobilizing small savings often brings indirect benefits to FSPs, and a business case for SBDM requires a broader analysis. Impacts such as brand value, reduced costs of funding, and cross-selling opportunities are also key in the FSPs’ decisions to engage in SBDM or not. SBDM may require important upfront costs, and time horizon matters to assess the overall profitability of mobilizing small-balance savings.

In the decision-making process, a customer lifetime value approach is crucial. The benefits of acquiring new previously excluded customers who may grow with the FSP and demand more financial services may cover the initial investment. For the FSP, access to patient capital and grant funding may also tip the balance in favor of SBDM.

Defining small-balance deposits: How small is small?

There is no specific definition of the size of a “small-balance” deposit. Among MicroLead FSPs, small deposits ranged widely from USD 40 to USD 2,000, with many clustered around the USD 100 range. Benchmarking a balance size to Gross National Income per capita would exclude many accounts that are growing over time (CGAP, 2009).³ It would also include a large number of dormant accounts that might belong to any type of client, including the well-off, who are not well served by the product. An alternative definition is based on the target market or income level of the account holder rather than the balance of the account (Ibid). This metric is difficult, however, as it requires the collection of customers’ demographic data, something that most institutions are not currently collecting on savings account holders.⁴

This study analyzes different business models for SBDM, whereby each programme might define “small” in its own way. There is no value threshold, but rather a consistent focus on a target market that includes low-income and rural households, many of which might have been previously excluded from formal savings. The institutions included in this study all participated in the MicroLead programme, which aims to increase access to savings services to underserved populations, with a specific focus on women and those living in rural areas. Yet we recognize that there is variation in terms of income and savings capacity within this heterogeneous group. As such, rather than defining “small” deposits, the focus of this study is on the success of different approaches and strategies rather than the profitability of a specific customer segment.

³ In the CGAP research paper: Is there a Business Case for Small Savers, the authors modified this approach to meet the needs of the study, focusing on the half of all savings clients with the smallest deposit balances, for each institution (CGAP, 2010a). This definition was in line with the objective of the study, which was to examine the cost and profitability of savings clients with small-deposit balances.

⁴ An even more consistent approach might be to measure client socio-economic status with methodologies such as the Progress out of Poverty Index, yet even fewer institutions collect this information.

3 DECISION FRAMEWORK FOR SMALL-BALANCE DEPOSIT MOBILIZATION

Introduction to the Framework

FSPs face a critical dilemma when mobilizing deposits: should they attract large-balance savings from upper-middle class and wealthy clients, with high interest rates paid on savings deposits but at lower operating costs? Or, should they mobilize small-balance savings, at lower interest rates, but higher operating costs? Most institutions require some mix of large and small deposits to have a viable business model for deposit mobilization, but there are specific reasons for institutions to focus on efforts to attract small balances.

FSPs assessing the business case for mobilizing savings among low-income populations understand that this segment's account balances are likely to be lower and involve servicing a greater number of transactions than wealthier customer segments. (see **Box 2: What do we mean by "business case"?**) Yet many FSPs are motivated by excessive competition in middle and high income segments, and see opportunities to acquire and grow with households and specific underserved segments at the base of the pyramid. Serving low-income women, for example, could provide a new revenue opportunity—research has shown that women typically save 10 to 15 percent of their monthly earnings. As the gender gap is closing in many countries, FSPs that provide women with superior products and services could reap the benefits of a growing customer segment (US Chamber of Commerce Foundation, 2014).

This is a long-term wager, and often is predicated on a customer lifetime value approach. In the short term, additional benefits to the institution—such as brand recognition, lower funding costs, and cross-selling opportunities—are important drivers of the business case. Our findings indicate that none of the FSPs in the MicroLead programme have achieved profitability in their efforts. But, they have a much clearer understanding of how to get there. Our Framework illustrates that there isn't a single pathway to making SBDM viable, but there are a set of conditions under which the business case will be stronger, as well as "levers" institutions can "pull" to make it more viable. Despite important challenges, innovative business models can have a catalytic effect on SBDM and help FSPs find a pathway to financial sustainability.

For providers assessing a SBDM programme, the Framework is meant to help guide a "Go/No Go" decision regarding SBDM and, if they choose to go forward, it can inform the approach and strategies that can increase the viability of the business model. The framework can be applied to FSPs considering SBDM for the first time, as well as those considering making significant up-front investments to scale or deepen their current small-balance savings offering. For those FSPs struggling with an existing SBDM initiative, it can also help determine whether to continue or exit this initiative.

Figure 1 outlines the Framework. It begins with a set of *Environmental Factors* at the **market**, **institutional** and customer **segment** levels that are pertinent considerations for providers assessing the business case for SBDM. The external and internal context in which an FSP operates is critical when assessing whether to mobilize small-balance deposits or not. Some environmental factors, like competition and an FSP's funding sources and costs, may motivate an institution to undertake SBDM. Other factors, like an institution's brand, size and mission, influence what path they take to do it. These market and institutional contexts, in turn, influence which customer segments an FSP chooses to target—such as rural or urban customers, men or women, salaried or self-employed workers, and new or existing customers—and, coupled with demand-side factors, influence how strong the business case is for serving different segments.

At the next level, the Framework outlines a set of **12 Viability Levers**—strategies to boost revenue or minimize costs—that institutions have found help improve the business case for SBDM. These viability levers are divided into four categories of costs and revenue streams that we call "FAMS": **Funding**, **Acquisition**, **Maintenance**, and **Servicing**. The more an institution is positioned to effectively "pull" a combination of these 12 levers, the stronger the business case for SBDM will be. For simplicity, we have placed each of the 12 levers into a

single category in the FAMS framework, based on the type of costs and revenues each lever most influences. But, a few of the levers could be placed in multiple categories, as we note throughout the paper.

Smaller savings balances often mean less revenue with which an institution can cover its costs. Although options for generating additional direct revenue from savings mobilization exist, they are rather limited. FSPs can notably charge higher account maintenance fees to customers to cover the extra costs of managing a large number of small-balance accounts. However, this option is often unpopular among customers and may hinder an FSP's ability to expand its outreach. (Thus, account maintenance fees charged to customers is not included as one of our viability levers). Instead, FSPs often shift to strategies to reduce deposit mobilization costs. Rolling out alternative delivery channels for customer acquisition and servicing savings accounts, simplifying the process for acquiring new clients, or redesigning the savings product portfolio, are just some of the options financial institutions often explore as they build a business model for SBDM that works for them. Beyond this, generating adjacent revenue streams from savings customers, such as by cross-selling additional products and services like loans, payments, and insurance, is another way that institutions can bring in revenue to off-set the cost of customer acquisition and make SBDM more viable. Strategies to scale up to serve more customers and to boost customers' average savings balances are also critical levers to make SBDM viable. Increasing scale is often accompanied by high levels of account dormancy, however, suggesting that opening accounts is not sufficient in the quest for viability. A strong business case will only be feasible if an institution is able to pull multiple levers in this framework.

Using the Framework: Should my institution mobilize small-balance deposits?

Environmental Factors

The environment in which an FSP operates will be the main driver of a decision to venture into SBDM. We divide these into three levels: Market, Institutional and Segment level considerations.

Market Level

Market level conditions influence whether a country's financial sector environment is conducive to SBDM. Countries with nascent financial systems, monopolistic practices or weak regulation may not be attractive environments for FSPs to venture into SBDM. Some key factors to consider include the funding costs, the competitive environment, government regulation and financial inclusion policy, and the availability of grant funding or patient investment capital. Broader economic, political and social conditions can also make or break the success of SBDM. Each factor can be an important consideration for decision making around SBDM as described below.



Market Level

Decision Point 1:

Will SBDM reduce my cost of funds vis-à-vis alternatives in my market?

Many FSPs that choose to scale up their savings product offering do so in a bid to mobilize a larger deposit base, a source of funding they believe will reduce their average cost of funds for lending activities. This is particularly true for credit-focused microfinance institutions that rely on borrowing from costlier local and international sources to fund their loan portfolio. At the market level, the cost of external funding—such as rates on national or international commercial borrowing or issuing equity shares—affects how attractive deposits are in general as an alternative source of funds. When the cost of commercial borrowing is particularly high and when access to local and international equity investment and capital markets is scarce and fickle, as is common in developing countries, deposits become more attractive. Most of the MicroLead FSPs are located in countries with thin capital markets and relatively high domestic interest rates. As such, they cited increasing costs of borrowing as a key motivating factor to ramp up their deposit mobilization efforts.

The cost of funds motivation encourages deposit taking, but not always in low-income segments. Small-balance savings accounts have typically funded only a small percentage overall of MicroLead FSP loan portfolios. In the case of UGAFODE in Uganda, for example, 95% of its savings accounts fund less than 5% of its loan portfolio. The degree to which savings deposits from different customer segments will decrease a provider's average cost of funds depends on the costs and revenues associated with serving those customers: that is the focus of the rest of this paper.

Sinapi Aba in Ghana reduced its cost of funds through SBDM

In 2011, 58% of Ghanaian microfinance institution Sinapi Aba's funding came from either commercial bank loans or loans from global microfinance funds, at a high cost. By 2015, after converting to a deposit-taking Savings & Loans institution, only 25% of Sinapi Aba's funding came from commercial banks and global microfinance funds, with the rest from customer deposits. SBDM allowed Sinapi Aba to achieve a stable and cheaper funding base, to grow its loan portfolio at a lower interest rate. For example, its new Susu Savings Account product pays 0% interest to depositors, compared to its commercial cost of funds of 26.5%. A doorstep service to collect small-balance savings at people's homes, a common service in Ghana, was at the heart of Sinapi Aba's strategy (see [Box 3: Using Doorstep Delivery of Savings Services](#)), yet its high operating costs offset much of the cost savings from achieving a lower interest rate. Read more about **Sinapi Aba's** assessment of the business case for mobilizing small-balance deposits in this [case study](#).

Box 3:

Using Doorstep Delivery of Savings Services

Some of the biggest obstacles to low-income populations' ability to save money in formal accounts is distance from branches, irregular income, and lack of incentives to save formally. To address some of these challenges, many financial institutions worldwide deliver financial services right at customers' doorsteps, either through employees or agents. In doing so, FSPs bring savings services closer to the client, and can also embed basic financial education into the doorstep service, encourage customers to save regularly, and overcome language and cultural barriers through careful assignment of staff or agents to different customer communities.

An experiment conducted in rural Sri Lanka showed that door-to-door collection services not only increased customers' average savings deposits, but also their household income; after being offered a free, safe and user-friendly way to save without leaving home, individuals increased their working hours and consequently increased their income (Callen and al., 2015).

Doorstep delivery of savings services is most common in West Africa. In Ghana, for example, many banks and informal service providers offer this service through individual "susu" collectors, who collect daily savings from customers at their doorstep. Traditional "susu" collectors generally return the accumulated amount at the end of the month, minus a deposit fee (IMF, 2013), whereas financial institutions allow customers to accumulate larger balances. In 2012, CGAP estimated there were between 3,000 and 5,000 susu collectors in Ghana, serving over half a million customers (CGAP, 2012b).

For FSPs, the doorstep delivery model is costly. In Ghana, Sinapi Aba was able to mobilize nearly USD 5 million in deposits through its team of doorstep collectors called "Mobile Bankers," mainly among women customers and with a large percentage in rural areas. However, salaries and transportation costs paid to the Mobile Bankers are higher than the revenue that these accounts have generated so far. To achieve break even, Sinapi Aba is focusing on increasing Mobile Banker productivity (more clients served per employee), cross-selling a more profitable credit product to savings account holders, and encouraging larger savings balances. A costing analysis study recently conducted with the support of UNCDF's MicroLead programme showed that Sinapi Aba's doorstep delivery channel could be profitable in two years' time, five years after launch.

Read more about Sinapi Aba's journey with doorstep delivery in this [case study](#).



Market Level

Decision Point 2:

How competitive is the financial services marketplace?

For many FSPs, increased competition and squeezed margins in their traditional product lines and customer segments are the “push” that moves institutions to consider SBDM among low-income customers. The nature and intensity of an FSP’s competition influences whether or not small-balance deposits are an attractive proposition. For traditional retail banks operating in saturated markets among middle-income customers, there is often a strong case for going down-market into lower-income segments or rural areas, where fewer people have formal savings accounts. For many FSPs, such as microfinance institutions that already operate in low-income markets, the more saturated credit markets are, the more attractive a savings product line becomes, either as a way to build customer loyalty with additional services or to lower the provider’s cost of funds amid tight margins on lending. Competition from new players such as mobile network operators offering mobile money, as well as a host of new digital FSPs, is also encouraging traditional banks and MFIs to innovate and provide new savings products and channels.

Mwanga Community Bank in Tanzania feels the pressure to go down-market

Competition was a main reason that Mwanga Community Bank Ltd. (MCBL), a small local bank in northern Tanzania that traditionally served middle-income urban clients in Mwanga, made the decision to offer small-balance savings products among low-income rural populations, by linking with informal savings groups facilitated by the NGO CARE (see **Box 4: Linking Informal Savings Groups to Accounts**). By 2010, despite its strong brand recognition and ties to the local community, “we were competing with banks with bigger muscle,” explains Hamisi Chimwaga, Operations Manager at MCBL.

CEC in Cameroon differentiates itself with SBDM

CEC, a savings and credit cooperative in Cameroon, had built up a solid customer base in low-income urban markets during its more than 20 years in operation. But, by 2014, with over 400 viable savings and credit institutions operating in the country, it faced increasing competition for these customers. According to CEC, this competition spurred them to expand their credit and savings services into rural markets, where there was more room to grow. Although CEC’s SBDM programme has not broken even yet, the competitive landscape it faces motivates it to continue building out savings services in rural areas.

U-SACCOs in Rwanda leverage their rural expertise to consolidate client relationships

A lack of competition in rural Rwanda was one reason the Umurenge SACCOs (U-SACCOs) were able to expand so rapidly after their establishment by the government in 2009. The 90 U-SACCOs that participated in the MicroLead programme collectively had more than 393,000 active depositor accounts by mid-2015. (Of these, over 31,000 accounts are held by savings groups, which are composed of multiple individuals, ranging from five to hundreds, meaning the number of people with access to an account is even higher.) The U-SACCOs were instrumental in helping Rwanda increase its level of financial inclusion⁵, where the percentage of adults with an account at a financial institution rose from 32% to 38% between 2011 and 2014 (World Bank Findex). But, new players such as mobile money providers are beginning to deploy alternative delivery channels in the rural areas where U-SACCOs operate, a new level of competition that is motivating the U-SACCOs to leverage their know-how in serving rural populations and work to establish an Apex institution that can deploy its own alternative delivery channel.

⁵ <http://finclusionlab.org/blog/rwanda-country-finding-its-path-financial-inclusion>



Market Level

Decision Point 3:

Does the provider have access to grants or “patient capital” from investors?

A donor or social investor can help kick start a SBDM programme by generating internal support and reducing some of the risks of embarking upon SBDM. When donors subsidize key capital expenditures—investment in market research, technology, and staff training—providers tend to see these as sunk investments that will get the savings business off the ground faster and shorten the payback period. Having access to investors who can deploy “patient capital” with a longer-term time horizon, can also convince providers to invest in SBDM, knowing the investor is willing to wait for a business case to develop. In the absence of donor funding or patient capital, some of the MicroLead partner FSPs said they either would not have embarked on SBDM or they would not have gone so far down-market or rural.

CEC in Cameroon leveraged a MicroLead grant to reach rural areas

When executives at CEC, the cooperative in Cameroon, decided to expand their credit and savings services to rural areas, they were concerned about high operating costs and the need for a new type of risk management expertise. Rural populations were older, unemployment was pervasive, and customers faced high costs traveling to branches. In the hopes of reducing costs, CEC is building out an agency banking network, where customers can receive loan disbursements, repay loans, and make savings deposits and withdrawals more conveniently. To finance this rural expansion, CEC’s executives calculated that their urban customer portfolio would need to help subsidize the investment for many years. But, when MicroLead came along with a 3-year grant for USD 156,000, offering to support the development of an agency banking network for rural areas, CEC received the impetus it needed to expand savings and credit services to rural areas.

Ghana’s Fidelity Bank leverages donor grants to link NGO-facilitated savings groups to bank accounts

Fidelity Bank, a large locally owned bank in Ghana, would not have expanded its savings services so soon into rural areas without donor support. “It was a huge challenge logistically to go to far-out rural areas, talk to people, encourage them to open accounts,” says Dr William Derban, Director of Inclusive Banking & CSR at Fidelity Bank, who oversees the bank’s collaboration with the international NGO CARE. The collaboration provides bank accounts to savings groups facilitated by CARE (see **Box 4: Linking Savings Groups to Accounts**). “Savings groups in Ghana aren’t as prevalent [as some countries], so NGOs need to teach the model. The price for linkage is mostly borne by the NGO, which allows us to get to scale quickly,” Derban explained. Without grants to CARE, which provided education to prepare groups for linkage, Fidelity Bank would have faced prohibitive customer acquisition costs in the rural north. By linking with savings groups in the north, Fidelity Bank was able to expand its outreach primarily to women, who represented 82% of members in savings groups linked to the SMART Account⁶: a big departure from its urban customer base that is predominantly male (only 40% of total SMART Account customers are women). At the same time, Fidelity Bank is investing in upgrading technology for its proprietary agent network, to enable it to expand deeper into rural areas in the future. But, “it will take us five to six years. We are doing it anyway, but we could do it faster with donor support for CapEx,” Derban explains. Read more about **Fidelity Bank’s** assessment of the business case for linking to savings groups in this **case study**.

⁶ As of June 2016. A SMART account is a current account that is provided by Fidelity Bank with lower KYC. It comes with a smart card and can be operated across Fidelity Bank agents. The SMART account is also integrated with MTN mobile money wallet.

Box 4:

Linking Informal Savings Groups to Accounts

A growing number of financial institutions are providing bank accounts to savings groups. Many of these groups are composed primarily of women, making savings group linkage a powerful strategy to expand access to formal bank accounts among women. Traditional rotating savings and credit associations (ROSCAs) or accumulating savings and credit associations (ASCAs) exist around the globe, and in the past decade, efforts by a number of NGOs have expanded these types of informal savings groups, with a focus on women in rural areas located far from banking services. In rural areas, savings groups offer an alternative to traditional bank branches which often require clients to travel long distances (CGAP, 2016a). In a common savings group model, members contribute a specified amount of money to the group. In return, the group uses this money to make loans to individual members for different needs. Once a year, the entire amount accumulated plus interest is divided among the members of the group (GDAE, 2014). While this model is tremendously useful, over time members may have additional financial services needs that the groups cannot meet, such as larger loans or insurance. These unmet needs can be provided by an FSP (CARE, 2013). From the savings group perspective, being linked to a bank account has other advantages as well, including the security of funds, access to larger loans and better governance and risk management systems.

FSPs with a social mission and a patient investment outlook will find linking savings groups to accounts to be a win-win for savings group members and the FSP. Today, the potential amount of annual savings generated by the two billion people who are still unbanked is estimated to be USD 116 billion (CARE, 2016). For FSPs, savings groups are an opportunity to reach a vast untapped market. As savings group members are familiar with savings and credits products, they may also be more likely to use their savings accounts on a regular basis. Leveraging existing savings groups to deliver formal financial services is also an attractive customer acquisition strategy, where the FSP can sign up a large group of customers in a single visit.

However, for FSPs, linking savings groups to accounts can be costly. Reaching these groups often involves relatively high costs for transportation, financial education, and salaries or commissions paid to (bank and/or mobile money) agents. When FSPs use new technologies such as mobile money, upfront costs to implement these technologies may be high. Developing a product that meets the needs of savings groups members, marketing it, and promoting it adequately may also be expensive.

Customizing existing products to meet the needs of savings groups members can be a successful strategy to foster account uptake and usage while containing costs. Fidelity Bank in Ghana has adapted its SMART Account product, launching a VSLA (village savings and loan association) SMART Account. UGAFODE MDI in Uganda has developed specific products for already-established informal savings groups that have excess liquidity, and see formal savings as an opportunity to mitigate the risks of managing their extra cash. In Burkina Faso, SOFIPE has developed a model that minimizes the costs of financial education. After obtaining the approval from local populations to organize savings groups, SOFIPE appoints a person from the community to become an intermediary agent who will be trained, and later deliver financial literacy trainings. Savings group members pay a small stipend directly to this community agent for the trainings, without channeling it through the FSP.

To become a competitive alternative to informal savings groups, many FSPs have found they must combine targeted savings products with mobile money channels. This is the case of UGAFODE which, in addition to developing a specific savings product for informal groups (GroupSave), has launched a mobile money platform (AirSave) to facilitate access to the accounts.

While savings groups can potentially serve as convenient access points for lowering the costs of customer acquisition, and offer a large and stable deposit base, they are complex partnerships to implement and most pilot programmes have experienced limited account usage. Formal savings are often best viewed as a complement, rather than a substitute, to informal savings strategies. The more that formal financial services can fill a gap that informal strategies do not fill, the more successful they are likely to be from a customer value proposition perspective.



Market Level

Decision Point 4:

Is the policy & regulatory environment supportive?

The business case for savings services for low-income segments is often influenced by government regulation and financial inclusion policy. Often, regulators have played a role encouraging microfinance institutions to mobilize savings by requiring them to be licensed and, under certain licenses, allowing them to accept deposits, as was the case with the Ghanaian savings and loan institution Sinapi Aba mentioned above. Regulators can enable SBDM by allowing FSPs to open small-balance accounts with minimal Know Your Customer requirements (see [Box 5: SBDM and KYC Rules](#)). Once the sunk cost of regulatory compliance is covered, an institution can take deposits as a strategy to reduce its cost of funds.

Government promotion of competition and interoperability across payment platforms can also help make SBDM more viable, by leveling the playing field for incumbents and new entrants in the financial services sector. Regulations prohibiting exclusivity, for example, so that a single agent can deliver services on behalf of multiple providers, can bring down the cost of deploying an agent network. In countries like India, government regulations require that a certain portion of a bank's lending portfolio go to low-income customers. For some banks, this has provided the impetus to launch alternative delivery channels that also support savings services.

The enabling environment for digital payments can encourage SBDM innovation. India's new "payment banks" license category has spurred several new banks to register, in partnership with mobile network operators, to provide digital savings services for the mass market. In East Africa, enabled by relatively "light" regulation, mobile network operators have become big players in delivering financial services to low-income households.

Box 5:

SBDM and KYC Rules

The regulatory environment can influence the customer segments a provider chooses to serve, to the support or detriment of SBDM. For example, tiered Know Your Customer (KYC) regulations enable providers to use simplified account opening procedures for small-balance accounts, which significantly brings down the cost of customer acquisition in alternative delivery channels outside branches and can make accounts accessible to low-income customers who don't have the documentation often required for larger-balance accounts. This is particularly helpful for women, who are more likely than men, to lack documentation. However, if these customers are to graduate to higher balance accounts, they will need support to obtain the needed documentation.



Market Level

Decision Point 4

U-SACCOs benefitted from direct government support in cost-sharing infrastructure for rural branches

In Rwanda, the government led the creation of U-SACCOs, a massive endeavor to formalize locally based savings and credit organizations. Here, the Rwandan government played a direct role in facilitating small-balance savings services, which was particularly important for customers in rural areas where few private sector players were providing services to low-income populations. One-quarter of U-SACCOs' branches were located in government offices, which significantly reduced the fixed costs of delivering savings and loans to low-income customers.

Central Bank requirements for licensing discouraged UGAFODE from deposit-taking early on

As of 2003, the Bank of Uganda issued the Microfinance Deposit Institution Act, requiring microfinance institutions to have a license prior to taking deposits in an effort to protect the deposits of the public and manage systemic risk. For microfinance institutions, including UGAFODE, that were not previously taking deposits, this reduced the immediate incentive to take deposits because of the high cost and technical complexity of becoming regulated. It was not until 2011 that UGAFODE obtained a Tier III Microfinance-Deposit-Institution license.

NBS Bank Malawi faces KYC challenges when incentivizing larger savings balances

NBS Bank obtained permission from the regulator to use minimal KYC requirements for Pafupi clients, who were small savers in rural areas. As clients began to deposit more frequently into their accounts, however, balances began to creep close to the regulatory limit (which was set with no allowance for currency depreciation) for low-KYC requirements. Today, NBS Bank is seeking authorization to increase balance limits on Pafupi accounts, so clients can deposit more money.



Market Level

Decision Point 5:

Is the socio-economic environment favorable?

The political, economic and social conditions in which an FSP operates can influence an investment in SBDM. On the one hand, financial inclusion is positively correlated with GDP growth, suggesting that the more stable and dynamic the economy, the more likely that even lower-income depositors participate in the financial sector. Likewise, in times of economic upheaval, high inflation or political crises, depositors might withdraw their savings from accounts because of distrust or fear due to the unstable environment.

Yet there is also evidence that people might shift out of riskier ventures and into formal deposits when crises are less severe. In Liberia, a SBDM effort funded by UNCDF, which aimed to create a network of four regional credit unions, encountered huge setbacks due to the Ebola outbreak that began in 2014. In Ghana, an economic downturn, currency devaluation, and constant power outages affected both Sinapi Aba Savings & Loan and Fidelity Bank in their SBDM projects. In Burundi, when the country plunged into political turmoil and violence in 2015 following the reelection of President Pierre Nkurunziza, CRDB Bank encountered serious challenges to its SBDM programme; the crisis has led many of the bank's clients to migrate away from home, leading to high levels of non-performing loans and a depleted deposit portfolio.

The bank decided to connect with clients who remain in Burundi on a daily basis to ensure repayment, leading to high operational costs to contain its portfolio at risk.

Institutional Level

SBDM is not for every institution, even if market conditions are conducive. At the institutional level, existing business models, resources, capacity, cost/revenue structures, and the institution's traditional target market can make or break the case for SBDM.



Institutional Level

Decision Point 6:

Are you moving up or down-market?

FSPs moving into SBDM can be broadly grouped into two institutional categories: mass market providers and dedicated low-income providers. Which of these types of institutions an FSP is significantly influences how it views the business case for SBDM.

Among MicroLead FSPs, Fidelity Bank, NBS Bank and Mwanga Community Bank are examples of mass-market providers

Mass Market providers: These are providers, such as commercial and retail banks as well as mobile network operators, that have traditionally served an upper, middle-income and salaried clientele. For these providers, a SBDM strategy involves moving further down-market to cover a broader range of “mass” market customers.

Mass-market players are often motivated to take small balance deposits to boost their revenue side. Low-income customers might provide opportunities for cross-selling other products to them or their networks of friends and family. Small balance deposits themselves can help increase market share and acquire a new customer base. Yet these investments require a commitment to the strategy for the long term. In the short-term, new customers are not typically profitable. They begin to be profitable in the long terms as their lifetime value matures. For these banks, a downscaling strategy is a way to make a long-term bet on the low-income market.

Among the MicroLead FSPs, Sinapi Aba Savings & Loan, CEC, and UGAFODE are examples of dedicated low-income providers

Dedicated low-income providers: These include microfinance institutions and cooperatives, which have a long history of serving low-income populations, and typically have a strong social mission to serve informal sector workers, microentrepreneurs, women, and/or rural populations.

For these providers, SBDM can promise a large reduction in funding costs as many of these are funded primarily through domestic and international commercial loans. Dedicated providers may choose to begin serving their traditional credit customers with savings for the first time, and/or scale up their existing savings services to a broader range of savers, to grow their balance sheets more quickly.



Institutional Level

Decision Point 7:

How much “muscle” can the provider put behind SBDM?

The size of an institution significantly influences its options in how to make SBDM viable. Large institutions might have more resources to deploy towards complex regulatory processes or the development of new products and processes. Banks such as Fidelity Bank and NBS Bank have been able to leverage their widespread geographic footprints as “hubs” for alternative delivery channels, such as a proprietary or shared agent network (see [Box 6: Building an Agency Banking Network](#)). Sinapi Aba, the savings and loan institution in Ghana, also has a substantial footprint and is creating a hub and spoke branch model, which will facilitate its plans to deploy agency banking soon. When FSPs do not have enough “muscle” to develop an agent network of their own, they may opt for a different strategy. A series of toolkits⁷ developed by MicroLead shows that financial institutions generally do not specialize in managing large-scale distribution networks, and may prefer to partner with a mobile money provider or other digital FSP to leverage an existing robust network, while limiting the costs of agent network management (UNCDF, 2017a). Here again, size matters: larger institutions can also use their bargaining power to negotiate favorable partnerships with other payment system players, such as Fidelity Bank’s partnership with the MNO MTN in Ghana. On the other hand, many smaller institutions struggle to develop beneficial partnerships with MNOs, and may be left with no choice but to create their own proprietary agent networks.

CEC Cameroon struggled to develop viable channels both directly and through partnerships due to its size

In Cameroon, microfinance institution CEC wanted to deploy a mobile money solution with a large mobile network operator such as Orange or MTN, to offer its loan and savings clients an alternative channel to perform transactions. But CEC quickly learned that these MNOs weren’t partnering with small institutions.

Orange’s only partner in Cameroon is Ecobank, a multinational bank. (see [Box 7: Leveraging Mobile Money Networks on partnerships with mobile money providers](#)).

Without an MNO partner, CEC instead incurred capital expenditures to develop its own proprietary network of agents, who use a mobile application CEC created and require significant training and management. (see [Box 6: Building an Agency Banking Network](#)).

⁷ <http://www.uncdf.org/microlead/download-the-dfs-toolkits-from-microlead>

Box 6:

Building an Agency Banking Network

In order to reach people who live far from traditional banking outlets, expanding “brick and mortar” bank branches is typically too costly for FSPs. In the last decade, financial institutions have developed innovative delivery models such as agency banking in the hopes of reducing the costs of physical expansion and serving populations previously left out of the market (IFC, 2016).

Agency banking or “branchless banking” can be defined as the delivery of financial services outside conventional bank branches, often using retail shops and other locations equipped with technology to transmit transaction details (CGAP, 2010b). Although successful initiatives have demonstrated the potential of these channels, many projects worldwide have not been able to achieve financial sustainability. One of the key success factors of agency banking is having a robust channel strategy that improves, rather than weakens, customer engagement. Agents play an essential role at many stages of the customer journey; they may need to acquire new customers, verify customers’ identities, keep adequate stocks of cash to enable transactions, explain products and services, receive customer complaints, and keep clients satisfied. In recent years, there have been efforts to embed basic financial education into agents’ contacts with customers. As a result, agents become not so different from brick-and-mortar bank personnel, except for the cost of the brick and mortar.

Agents incur important costs, such as the upfront capital needed to start operating as an agent and transportation costs related to client servicing and liquidity management. They also must spend time engaging with customers about financial products and conducting transactions, which means time spent away from tending to other customers and tasks. Moreover, they face risks of fraud and theft, and their activity can be affected by system interruptions (CGAP, 2009b). To remain an attractive proposition against other opportunities agents may have, FSPs need to compensate and train agents accordingly. Due to the importance and complexity of agent network management, many FSPs outsource some or all of this management function. This involves additional costs for the financial institution, as it needs to remunerate multiple players.

Fidelity Bank in Ghana and NBS Bank in Malawi implemented agency banking strategies to expand their outreach and reduce their costs. In their models, a broad network of agents carries out cash transactions. The approach requires significant upfront investment, and there are large operating costs associated with agent network management. The model relies heavily on transaction fees to compensate agents for their work. Although these fees are an important potential source of revenue to compensate agents, they are often not sufficient to compensate the multiple players in the supply chain. As such, FSPs often invest in efforts that aim to reduce costs and generate more revenue, such as intensifying the use of the agency banking delivery channel, launching new products through the channel to boost cross-selling, encouraging new usage such as automatic deposits, or charging merchant fees.

An important success factor is sometimes the ability to scale and generate a large volume of transaction revenue, which can support every actor (CGAP, 2009b). However, in trying to achieve scale, FSPs often face a “chicken and egg trap”: agents will be interested in offering services only if there are enough customers, while customers will be willing to use agent-based services only if there are enough locations they can use (Mas, 2013). As a result, timing is a critical issue when building an agent network. Safaricom’s M-Pesa mobile money success in Kenya is a good lesson for FSPs considering building an agent network; its success was partly due to the decision to grow the agent network at the same pace as the customer base, maintaining a steady number of transactions per agent. This kept the service convenient and easily accessible for clients, while ensuring that agents would have enough business to cover the costs of managing their e-cash and cash liquidity.

Box 7: Leveraging Mobile Money Networks

In the last decade, mobile money or “m-money,” has seen tremendous growth, especially in developing countries. Now available in 93 countries, mobile money providers—be they mobile network operators (MNOs), financial institutions, or other licensed institutions—process an average of 33 million transactions per day, including cash-in and cash-out through agents as well as entirely digital transactions. In 2015, the number of mobile money accounts grew by 31% from the prior year, to reach a total of 411 million registered accounts worldwide, of which 133 million were active accounts—with at least one transaction in the previous 90 days (GSMA, 2015). In contexts where access to financial services is low, mobile money has often been customers’ first experience with an account of any kind. In Sub-Saharan Africa, for example, mobile money accounts drove the growth in overall bank and non-bank account penetration from 24 percent in 2011 to 34 percent in 2014. In East Africa, where mobile money accounts are most common, they increased account penetration by 9 percentage points to 35 percent, while the share of adults with a bank account at a financial institution remained flat at 26 percent (Global Findex, 2014).

Mobile money agent networks have penetrated deeper into rural areas than traditional financial institutions and have facilitated access for low-income populations, while lowering transaction costs for a range of payment services. However, they present limitations when it comes to offering a broader range of financial services (Goss, 2011). Since mobile money has essentially been built around payments, it has often not been associated with the notions of storing value and budgeting for future payments (Mas, 2011). Most of the time, mobile wallets do not earn interest, and many customers perceive them primarily as a vehicle for payments, rather than savings. Mobilizing savings through mobile money agent networks is not easy, and requires a customer-centric approach, where services are tailored to clients’ needs to onboard them to the experience of saving money through a mobile phone. Older people, for example, may require additional training on new technologies. Women lack standard KYC documentation required to open an account more often than men (GSMA, 2015). They also usually have less money, and may require products that are adapted to small amounts. Understanding customer’s needs, offering them a broad savings proposition, and investing in customer engagement, is key to leveraging the potential of mobile money.

Depending on local contexts and regulations, a number of commercial models have emerged, characterized by the relationships between the different actors. At one end of the spectrum, an MNO assumes most of the function in the value chain, with a bank only providing a single “escrow” account to store the combined value of all mobile money wallets. This is the dominant model in East Africa, with successful examples like Safaricom’s M-Pesa in Kenya. At the other end of the spectrum, banks drive mobile money schemes, and may even acquire virtual network operators to become fully independent of MNOs (GSMA, 2015). In the middle are a range of partnership models, where MNOs and banks work together.

FSPs face an important strategic choice when assessing which delivery channels to use to deliver savings; while rolling out a partnership with an MNO may provide customers with new types of convenience and may eventually reduce the costs of servicing accounts, a partnership also implies sharing revenues with the MNO. For smaller financial institutions, achieving favorable terms in negotiations with large MNOs can be a challenge. As a result, many small FSPs decide to operate independently from MNOs, creating their own mobile banking applications and building their own agency banking networks (see **Box 6: Building an Agency Banking Network**). CEC Cameroon, for example, developed a proprietary mobile banking application and created its own agency banking network, after it proved impossible to negotiate a favorable partnership with the large MNOs in the country. Sinapi Aba in Ghana faced similar challenges, and also chose to develop its own mobile banking application and now plans to launch a proprietary agency banking network.

Read more about FSP partnerships with mobile money providers in this [case study](#) on NBS Bank in Malawi.



Institutional Level

Decision Point 7

UGAFODE wishes to build a proprietary agent network

In Uganda, UGAFODE signed a partnership with two of the prominent MNOs in the country, Airtel and MTN. These partnerships allowed UGAFODE to leverage the MNOs' existing agent networks as an alternative delivery channel for its products and services, including a small-balance deposit account. Under the partnership agreements, Airtel and MTN collect commissions when clients of UGAFODE transact with the MNO agents. The commissions are then split between UGAFODE and the respective MNO and the agents themselves. However, UGAFODE could not negotiate to receive commissions for sending customers to the MNOs. As a result, UGAFODE wishes to build its own agent network, hoping that the costs of developing and managing its own agency banking network will be partially offset by revenue from transaction fees (UNCDF, 2017b), which is feasible but challenging (see [**Box 6: Building an Agency Banking Network**](#)).

Smaller cooperatives seek “muscle” through Apex institutions and networks

Knowing the value of institutional size and footprint to generate economies of scale, the MicroLead projects in Rwanda and Liberia are both aiming to create Apex institutions or networks that unite multiple smaller institutions (U-SACCOs in Rwanda and cooperatives in Liberia). Apex institutions and networks can utilize common software platforms, build shared agent networks, and deploy similar savings products, cost-sharing strategies that can help improve an institution's willingness to invest in alternative delivery channels for SBDM.



Institutional Level

Decision Point 8:

Over what time horizon does a provider expect (or require) profitability?

Most providers interviewed for this research are taking a long-term view of the business case and do not expect profits from SBDM immediately. Savings mobilization among low-income segments is most attractive to providers when viewed over a relatively long time horizon (five years or more), and more so when viewed through an even longer customer lifetime value lens (CGAP 2014). When providers engage in SBDM expecting to turn a profit in the short term, or when they aren't willing to make the investment necessary to achieve scale or depth, they may neglect investment in "levers" that will make it more viable in the long-term, most notably the capital expenditure and operational expenditure associated with deploying customer-centric alternative delivery channels at scale and deepening customer engagement to mobilize larger savings balances, increase transactional usage, and capture adjacent revenue streams such as cross-selling other products (see Part C: Viability Levers below).

One study by the Bill & Melinda Gates Foundation (2013) finds that acquisition costs on current accounts at FSPs serving low-income clients can decline from USD 22 to USD 5 when amortizing these across the entire lifetime of the customer. Despite having a clear sense of the potential benefits of SBDM over time, few providers interviewed for this research have been able to conduct the costing analysis that would allow them to track how the business case develops for specific products, channels or customer segments. MicroLead provided funding for two institutions, Sinapi Aba Savings & Loans in Ghana and NBS Bank in Malawi, to do this. They conducted costing and profitability studies on their savings portfolios, revealing that their SBDM efforts could break even if they pulled a combination of levers to increase revenues or reduce costs (read [case studies on Sinapi Aba](#) and [NBS Bank](#)).

Sinapi Aba and CEC: Measuring profitability in years, not months

Sinapi Aba's financial model for the Susu savings account is based on a five-year period. CEC also expects its SBDM to be profitable five years after its launch.

Fidelity Bank's Smart Account—on a five-year road to break even

Fidelity Bank launched its low-KYC savings product, the Fidelity Bank Smart Account, two and a half years ago. In the bank's analysis, the product can break even in two more years if it scales up the number of accounts and encourage each customer to do more transactions that generate fee income for the bank. Read more about Fidelity Bank's assessment of the business case for SBDM in this [case study](#).



Institutional Level

Decision Point 9:

What are the opportunity costs versus investing in other ventures?

The opportunity costs to FSPs of investing in SBDM can be substantial, especially for new institutions or those in growing markets. For many FSPs, there are other investment opportunities that can offer positive return on investment sooner. For example, developing a consumer loan portfolio, SME loans, or making technological investments aimed at reducing transaction costs for existing products and customer segments may all be more profitable ventures than mobilizing small-balance savings (CGAP 2014). Larger FSPs and those who have reached a greater level of maturity may be less distracted by alternatives and pursue SBDM with greater interest.

Can SBDM take attention from lucrative investment banking opportunities in Ghana?

Fidelity Bank in Ghana saw going down-market into SBDM as a good investment opportunity for its retail banking unit. But outside that division, one of the bank's opportunity costs was the substantial room for growth in Ghana in corporate and investment banking. The retail banking division argued that it could mitigate these opportunity costs by partnering with CARE to offer accounts to savings groups, leveraging its existing low-KYC savings product (the Fidelity Bank SMART Account).

Mwanga Community Bank goes down-market because geographic expansion limited by license

Mwanga Community Bank Ltd (MCBL) had only one branch and considered expanding nationally to increase its footprint. However, its license only allowed it to operate in the Kilimanjaro region of Tanzania, limiting its opportunity for geographic expansion. This constraint on investment opportunities outside of Kilimanjaro motivated it to consider going down-market to serve lower-income customers within the Kilimanjaro region. It expanded to the nearby medium-sized city of Moshi to launch a new microfinance programme there. It also launched its savings group linkage programme, starting with rural areas near Mwanga, and has been deepening its reach throughout Kilimanjaro through three service centers or "mini branches." It is also developing plans to pilot an alternative delivery channel in partnership with a third-party service provider that will allow MCBL's customers to perform cash-in, cash-out, bill payment and person-to-person remittance (P2P) transactions at the agent locations of multiple mobile money providers, using funds from one's MCBL savings account.



Institutional Level

Decision Point 10:

Does the institution see SBDM as an opportunity to strengthen its mission, brand or corporate social responsibility?

Some of the institutions interviewed for this research cited social mission and a commitment to financial inclusion as one motivator that may have convinced them to invest in SBDM, knowing it would take years to break even. Some had a mandate to focus on financial inclusion for women and other populations traditionally excluded from access to financial services.

SOFIPE: building a brand for future profitability

SOFIPE, a microfinance institution owned by Ecobank in Burkina Faso, explains that the SBDM project with MicroLead has been consistent with its mission: supporting the development of low-income populations. Mobilizing small-balance deposits meant reaching more underserved people, and providing them with safe and reliable financial services. With the support of MicroLead technical assistance provider Freedom From Hunger, it has trained 1,000 savings groups, with 27,000 members, in just over two years. The combined savings held within these groups amounts to about USD 250,000. While SG accounts have been manually linked to the institution, SOFIPE has not yet established the digital linkages by integrating the SG accounts with the MNO mobile money wallets. The MFI is committed to the project, expecting that linking savings groups to SOFIPE accounts will help improve its competitive position and build its brand image.

Segment Level

Not all low-income households are alike and different segments may offer different revenue opportunities or costs. The FSPs that participated in the MicroLead programme received technical assistance to mobilize savings among low-income populations, with specific targets for hard-to-reach excluded rural customers and women. These segments may require higher acquisition costs early on but over time might save more often or be less likely to switch to another FSP. Salaried workers may be a more attractive target in the short term, as they have more predictable incomes and might access salaries directly from their accounts. However, this does not necessarily make them better savers. They are likely to be already banked, or more apt to switch between providers since they live in areas with greater financial institution presence. Informal and self-employed workers might be harder to convince to save, but offer opportunities for cross-selling business loans.



Segment Level

Decision Point 11:

Which customer segment(s) are most viable?

A market analysis of customer segments and the costs and revenues associated with serving these segments is critical to a strategy to mobilize small deposit balances. Combined with other “levers,” segmentation can help increase revenues from cross-selling, target more loyal customers, or increase savings balances. A segmentation strategy does not necessarily lead to exclusion of certain groups. For example, in some cases, targeting urban customers might allow an FSP to cross-subsidize the cost of reaching rural households. Fidelity Bank’s approach to rural savings groups is an example of this cross-subsidy approach, where the bank expects its urban small savers will be profitable sooner than rural ones (see [Fidelity Bank case study](#)). Similarly, Eric Kenkolla, Director of Information Technology at CEC Cameroon, notes that: *“If activity were only in rural areas, for now it would not be profitable. Which is why it needs to be coupled with profitable segment, [like our urban customers].”* Segment-level considerations can also differentiate new from existing customers. It may be easier to cross-sell a savings account to existing credit customers who know and trust a provider’s brand.

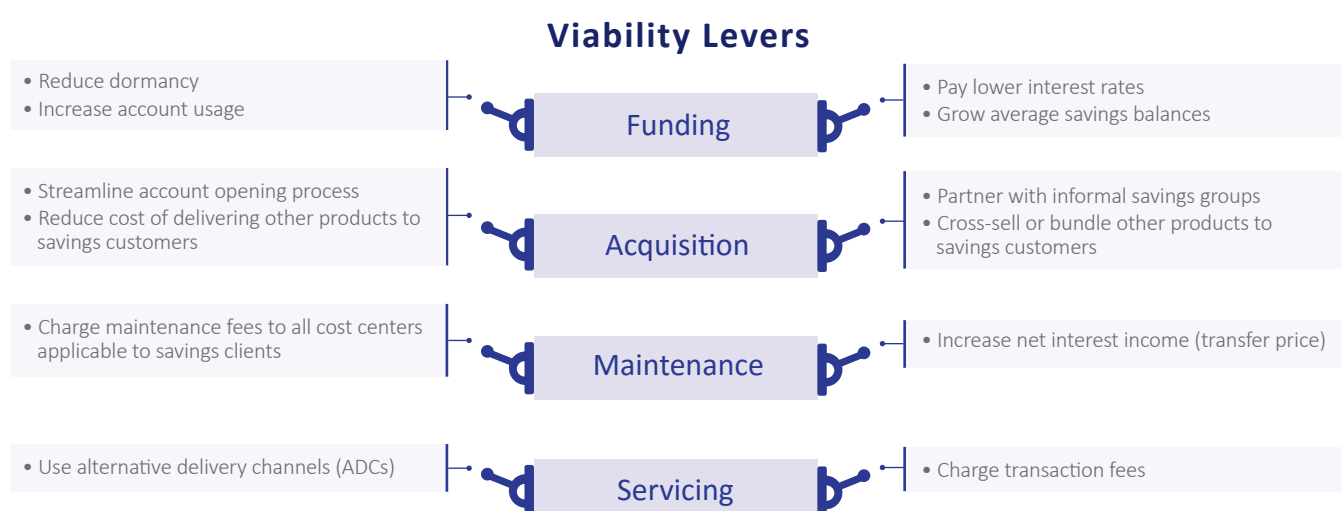
Careful segmentation analysis is important to support the inclusion of certain groups in a SBDM strategy. For example, tracking gender data on customers can help institutions understand the different revenue and cost drivers for men and women, and pull levers to make each group more viable customers. If an institution’s goal is to serve women, gender-disaggregated data can help build a strong business case around investing in SBDM for women (as discussed earlier in [Box 1: Measuring Data on Women’s Financial Inclusion](#)).

Viability Levers that drive cost savings and revenue

Once a provider has determined that it will target small deposit balances of low-income segments, based on the Environmental Factors discussed above, it has several cost and revenue levers at its disposal to improve the viability of SBDM. Providing low-income populations with a convenient place and process for saving money is a challenging endeavor for most financial institutions. Low-income households tend to maintain small balances, and the smaller the balance, the more difficult it is for a financial institution to cover the costs associated with deposit mobilization. An FSP must aspire to have streamlined and automated processes and seamless information technologies to contribute to overall efficiencies for SBDM (Bill & Melinda Gates Foundation, 2013). FSPs can “pull” a set of “viability levers” depending on their market, resources, and capacity to strengthen the business case. We have grouped viability levers into four categories of strategies: Funding, Acquisition, Maintenance and Servicing or “FAMS.” For simplicity, we have placed each of the 12 levers into a single category in the FAMS framework, based on the type of costs and revenues each lever most influences. But, a few of the levers could be placed in multiple categories, as we note throughout the following sections.

- 1. Funding:** The costs and revenue of using savings to fund a loan portfolio, which hinges on increasing customers’ savings balances and reducing dormancy.
- 2. Acquisition:** The costs of acquiring new customers and deepening customer engagement, and revenue that can support this.
- 3. Maintenance:** The costs and potential revenue from maintaining accounts.
- 4. Servicing:** The costs and potential revenue from servicing client accounts.

The following discussion reviews these strategies in detail, and provides examples of how institutions funded under the MicroLead programme have used these strategies.



Funding

For many microfinance institutions, reducing the cost of funds is a primary motivator to mobilize deposits. But, even when the cost of funds is not the primary motivator to enter the SBDM market, the costs and revenues associated with funding are crucial elements in assessing whether SBDM is financially sustainable. If SBDM is to help reduce an institution's funding costs, FSPs need to ensure significant account balances and reduce dormancy of accounts. Many of the MicroLead FSPs used human-centered design to develop products, processes, behavioral interventions, and customer engagement strategies with the expectation to see increased account balances and usage.



Cost Cutting Viability

Lever 1:

Pay lower interest rates on small-balance deposits

The financial costs that an FSP would incur when offering high interest rates on small-balance deposits can be significant. However, small savers, who see access to a safe and convenient place to save as a service, are not always as concerned with interest rates as other client segments. Karlan and Zinman (2014) find that there is low demand/price sensitivity for the yield offered on savings products that are designed for low-income populations.

The research in *Portfolios of the Poor* (Collins & Morduch 2009) illustrates that low-income populations will frequently pay to have a safe and convenient place to save, which is effectively a negative yield on their deposit. A deep understanding of customers' needs and preferences is essential to get the pricing right on accounts.

Sinapi Aba pays lower interest rates on small balance deposits than on larger deposits

Sinapi Aba in Ghana pays 0% interest on its Susu Savings Account product, compared to 8-15% on its other current accounts and 27.5% on fixed-term deposits. The Susu Savings Account product was launched under the MicroLead programme and is available to customers as part of the institution's doorstep deposit collection service. This lower interest rate is partly intended to offset the cost of the susu doorstep collection service, and is in line with Sinapi Aba's research on customers' willingness to pay for the convenience of doorstep collection.

Mwanga Community Bank scaled down-market to reduce cost of funds

Mwanga Community Bank in Tanzania was already involved in the retail deposit business, and in fact funded 70% of its loan portfolio with customer deposits. But, it was paying high interest rates to savings account holders and wanted to mobilize cheaper funds. It knew it could pay lower interest on small-balance savings than on its other savings products. MCBL worked with MicroLead to reach out to new segments of savers, including low-income and rural populations through linkage with savings groups facilitated by the NGO CARE.



Cost Cutting Viability

Lever 2:

Reduce dormancy rates and increase account usage

Dormant or little-used accounts are an important element that institutions involved in SBDM should consider when looking at the costs and revenues of savings as an alternative funding source for their loan portfolio. Although the length of time without transactions after which an account is considered dormant varies from country to country, it is always important that financial institutions have indicators in place to track account activity.

Dormant accounts represent a cost for financial institutions as they usually come with requirements to keep records of accounts and send statements. While these costs may seem small, they can add up when there are thousands of accounts. For example, a study by the Bill & Melinda Gates Foundation found that on average, the cost of servicing a dormant account was USD 11 per annum. Multiplied by the thousands of accounts that lie dormant in many institutions, this can quickly erode any of the benefits of mobilizing small balance deposits.

Dormant accounts can represent an important percentage of the total number of accounts, which can distort the analysis of the viability of small balance savings mobilization. The World Council of Credit Unions (WOCCU), for instance, has detected that in Rwanda some of the U-SACCOs have dormancy rates that can oscillate between 40% and 80% of the total number of accounts reported. Similarly, UGAFODE in Uganda, which opens a new savings account for each borrower in order to facilitate loan payments, has experienced dormancy rates of 50%. Requirements for loan customers to save in order to access a loan did not help — many clients withdrew funds as soon as their loan was paid back.

UGAFODE tackles dormancy with a public campaign and improved product design

Under the MicroLead programme, UGAFODE launched the GroupSave product for informal savings groups in rural areas as well as the AirSave digital delivery channel, both of which were a result of human-centered research conducted by Ideo.org, designed to target low-income, remote clients. However, the results of the pilot phase of the roll-out revealed important challenges, including high dormancy rates. To address these challenges, UGAFODE created a customer engagement strategy, identified new customer segments and defined a new customer value proposition for each of them. In addition to the work performed on product design, UGAFODE rolled out a dormant account activation campaign to make groups aware of the value proposition for the GroupSave account. The campaign was also used as a way to collect customer feedback and helped refine the customer value proposition. The use of alternative delivery channels, as we will discuss, can also play an important role in promoting account usage.



Revenue Enhancing Viability

Lever 3:

Adopt strategies that motivate clients to increase their savings balances

Capturing larger balances from middle and upper income households have proven to be easier strategies for FSPs seeking to grow their balance sheets. Yet, convincing low-income households to increase balances might prove an attractive “lever” to enhance the business case for serving this target group. This is easier said than done. Research suggests that high interest rates alone will not encourage low-income households to increase savings balances. Clients may seek convenience and reliable service before revenue. They use savings for multiple purposes and value liquidity. Beyond interest rates, other incentives to promote savings and motivate clients to maintain larger balances include: (1) promoting commitment savings products, (2) giving preferred access to credit to active savings account holders, (3) offering preferential deposit desks at bank branches to periodic savers, and (4) providing symbolic incentives after each deposit. A focus on increasing account balances was not effectively explored by MicroLead FSPs. While many undertook efforts to use human-centered design or behavioral research, few were able to “crack the nut” on increasing savings balances. Facing high levels of dormancy and low account balances, many of the FSPs engaged in account reactivation drives with marketing campaigns and special events hosted by their salesforces, but these were not cost-effective. Only a few implemented formal commitment savings devices as part of the programme. While the internal savings generated in savings groups certainly have the features of a commitment device (as savings groups bylaws and meetings are a commitment to save in cash within the group), none of the MicroLead FSPs offered a commitment savings product to the groups to motivate them to deposit funds with the FSP. A recent report, *The State of Linkage* (CARE, 2016), identified 106 active savings group linkage programmes worldwide. Of these, only three included commitment accounts.

Sinapi Aba shied from increasing balances of existing customers and instead moved to new markets

A study performed by Bankable Frontier Associates noted that Sinapi Aba’s average deposit balances would need to double from USD 28 to USD 60 for it to reach break-even in two years. Rather than focus on working with existing loan clients to increase balances, however, Sinapi Aba began to reach out to new urban client segments with larger deposit balances.

Acquisition

Customer acquisition is a significant cost for all deposits, but small balances result in a longer timeframe to cover these costs. To make the business case for SBDM more viable, institutions must consider strategies that either (a) reduce the direct costs of customer acquisition or (b) leverage these costs by investing in strategies that deepen customer engagement and improve the lifetime value of each newly acquired customer, such as by cross-selling or bundling other products and services.



Cost Cutting Viability

Lever 4:

Streamline the account opening process and related documentation requirements

Simplifying the account opening process and identifying creative customer acquisition approaches via partnerships are some of the strategies that MicroLead partners have tried to reduce customer acquisition costs. Many countries' regulators now allow institutions to open low-balance accounts for customers with limited Know

Your Customer (KYC) documentation. This has enabled providers to scale up the number of accounts through remote sales drives and lower-cost channels such as agent networks. However, for these customers to graduate to larger-balance accounts, they must provide the extra documentation required.

Fidelity Bank cuts the red KYC tape to sign up 300,000 small deposit accounts

Fidelity Bank's SMART Account targets low-income populations who frequently do not have all the documentation required to open a bank account. The Bank of Ghana has granted Fidelity Bank permission to use reduced KYC and open accounts with just one form of national ID and no additional documentation. Fidelity Bank customers can open accounts remotely, at agent locations, in about five minutes, which has contributed to rapid uptake of the product, and to the control of acquisition costs. Fidelity Bank reached more than 300,000 SMART Account holders in just over a year, the majority of whom were new bank clients (40% of them were women). The average balance of these savings accounts is USD 12.

With NBS Bank Malawi's Pafupi Savings Account: No official ID—No Problem

Other MicroLead partners, like NBS Bank in Malawi, have also been granted exemptions by the regulator on KYC procedures. It has also been permitted to allow clients to open new accounts without physically visiting a bank branch. NBS Bank's Pafupi Savings Account targets low-income customers with a minimum account balance of only USD 0.28. The account has no monthly fees. To open an account, customers provide any identification, including a voter registration card, stamped letter from an employer, or a letter from a District Commissioner.



Cost Cutting Viability

Lever 5:

Reduce the cost of delivering other products to savings customers

Customer acquisition in low-income segments can be costly across a broad product range, not only for small balance deposits. In some cases, FSPs can reduce the cost of client acquisition in new loans, for example, by leveraging the sunk acquisition cost from SBDM, and vice versa. Comparisons have rarely been made between FSPs that lend to depositors and those that do not, but there has been some analysis of lenders that accept deposits as compared to those that do not. The performance of lenders that accept deposits appears to be significantly better than those that do not in terms of transaction costs for both lenders and borrowers (Cuevas and Graham, 1982 and 1984) and also in terms of loan delinquency and default (Bourne and Graham, 1984; Vogel, 1984; Christen and Vogel, 1984).

Mwanga Community Bank leverages groups to cut cross-selling costs

There can be cost efficiencies in providing loans to a savings group, which in turn disburses the wholesale loan among its members, as opposed to the FSP providing individual loans directly to members. For example, MCBL launched its microfinance unit (using a solidarity lending model) just one year after launching its small-balance savings product for savings groups. It also developed a loan product for savings groups (adapted from their solidarity loan product). While this is MCBL's first foray into this type of lending, thus far the results of the savings group linkage programme appear positive: MCBL's portfolio at risk (PAR30) is just 0.3% for credit to savings groups, versus a PAR30 of 5.0% of its solidarity loan portfolio, which MCBL credits to the training CARE provides to the savings groups to prepare them, unlike the solidarity groups which receive limited training.

CPEC in Benin collects client data with smartphones to save costs and improve data quality

CPEC in Benin uses smartphones to capture data in the field and to collect savings. POS and mobile devices can replace forms, reduce errors, and speed the process of capturing information in the field, which can improve staff productivity and reduce operational costs. These systems are usually integrated with the core system of the financial institution, which makes it easy to upload information captured in the field, and helps to automatize related processes.

Sinapi Aba empowers 200 Susu collectors with POS devices

Sinapi Aba has equipped almost half of its 400 susu collectors with point-of-sale (POS) devices, to mobilize savings through an innovative door-step collection service. The POS devices allow susu collectors to print receipts that document client transactions and the current balance of savings accounts. The POS devices cost Sinapi Aba around USD 500 each⁸, far lower than the costs of opening a new brick and mortar branch to serve new customers, but still a significant cost. To reduce costs further, Sinapi Aba built an SMS banking platform that enabled Mobile Bankers to conduct transactions using much cheaper mobile phones. However, the Mobile Bankers' salaries have a formidable cost, with Sinapi Aba working hard to increase each Banker's efficiency to improve the viability of SBDM. (For more about Sinapi Aba's journey developing mobile tools, see MicroLead's Digital Financial Services toolkit series, specifically Toolkit #1, Part 2: Case Study. For more about Sinapi Aba's decision-making about the business case for small balance savings, read this [case study](#).)

⁸ The cost per unit of the POS purchased was USD 480. Adding accessories (leather cases to protect the devices in the field) and freight increased the cost to USD 514 each.



Cost Cutting Viability

Lever 6:

Partner with savings groups to scale outreach to low-income customers

Various MicroLead FSPs leveraged the access that NGOs had to low income and rural communities to avoid building their own costly distribution channels for small deposits. As William Derban, Director of Inclusive Banking & CSR at Fidelity Bank explained, *“It was a huge challenge logistically to go to far-out rural areas, talk to people, encourage them to open accounts ... The reason savings groups were attractive to us, is that you can go once and meet 30 people, rather than one person.”*

Other institutions, such as MCBL in Tanzania, UGAFODE in Uganda, SOFIPE in Burkina Faso, and Alide in Benin, have also experimented with using savings groups as way to acquire new clients. To operationalize its down-market strategy, MCBL established its first microcredit programme in 2010. Then, in 2012 it began providing savings accounts to rural savings groups, also known as VSLAs, facilitated by CARE, the international NGO. (see [Box 4: Linking Informal Savings Groups to Accounts](#)).



Revenue Enhancing Viability

Lever 7:

Cross-sell or bundle other products to savings customers

To make a viable business case for SBDM, institutions should consider revenue earned, not only on savings deposits, but also in terms of customer lifetime value. Over a customer's lifetime with an institution, the FSP can earn revenue from other sources, such as through cross-selling or bundling of products including loans, payment services, insurance and others. These additional revenue streams can help cover the initial investment required to bring a new savings client to an institution. A CGAP study (2010) examining two MFIs with large microsavings portfolios found that small savers were a profitable segment if the overall profitability of savings and loans were evaluated together. Lending to the same clientele from which deposits are mobilized is a definitive path to absorbing some of the large operating costs involved in SBDM. In cases where small balance deposit clients are also borrowers, it makes more sense to analyze the overall profitability of the client segment itself, because here savings are seen as an integral part of the lending business. But, for banks that downscaled into the low-income market for the first time with small-balance deposit mobilization, and don't have products, processes, physical presence or institutional mission to offer appropriate products for this segment, cross-selling loans to low-income clients may be an entirely new and perhaps more challenging proposition.

The viability of Susu loans and small deposits are interrelated at Sinapi Aba

Cross-selling of products such as loans and savings collection to leverage customer acquisition costs is a strategy that Sinapi Aba has successfully followed to promote both their susu loan product and the susu savings account. On one hand, the viability of the susu collections savings account would have been quite different if the revenues and costs generated from the susu loans were not included in the analysis (see [Box 8: Pulling Levers to Make SBDM Viable at Sinapi Aba](#)). On the other hand, the lending business generated with clients of the susu savings account would not have been possible without offering doorstep collection savings services.

Fidelity Bank considers cross-selling a new loan product to small depositors

Fidelity Bank in Ghana, a national bank that did not traditionally focus on the low-income market, doesn't have a lending product specifically designed for its new low-income savers. Today, given the scale achieved in mobilizing small deposits (averaging 12 USD), it is considering cross-selling loans to these new clients so that interest income can help make small savings mobilization viable. Fidelity Bank's traditional consumer loans are too large for the target market and too costly to service however. It is considering digital lending models to cross-sell loans at a lower operational cost, without congesting its branches.

U-SACCOs in Rwanda run into cross-selling challenges

For the U-SACCO programme in Rwanda, cross-selling loans to its new savings customers has proved to be a significant challenge. The WOCCU provided technical assistance to the U-SACCOs under the MicroLead programme to develop new savings and loan products for low-income and rural populations. The U-SACCOs have been very successful in opening accounts for low-income and rural women with these changes. But, U-SACCOs struggle to contain operational costs for the small loan portfolio. Managers at many of the U-SACCOs say they find it "easier" to invest mobilized deposits in commercial banks than to make loans to the same customers who deposited their small savings. Given the U-SACCOs' current high lending OpEx, the spread on lending is not very attractive compared to depositing mobilized funds in a local commercial bank.

Box 8:

Pulling Levers to Make SBDM Viable at Sinapi Aba

When Sinapi Aba, a savings and loans institution in Ghana, launched a doorstep deposit collection service as part of its effort to mobilize savings, it hired a team of “Mobile Bankers” armed with POS devices and developed a Susu Savings Account for the channel. So far, the Susu Savings Account portfolio has not broken even, in part due to the expense of the Mobile Banker salaries. The average account has a balance of USD 28 and generates just USD 0.67 in revenue per month. If Sinapi Aba adds up the cost of the Mobile Banker salaries, transport, and connectivity for their point-of-sale (POS) devices, an average account loses USD 3.70 per month (see “status quo” in **Figure 2**).

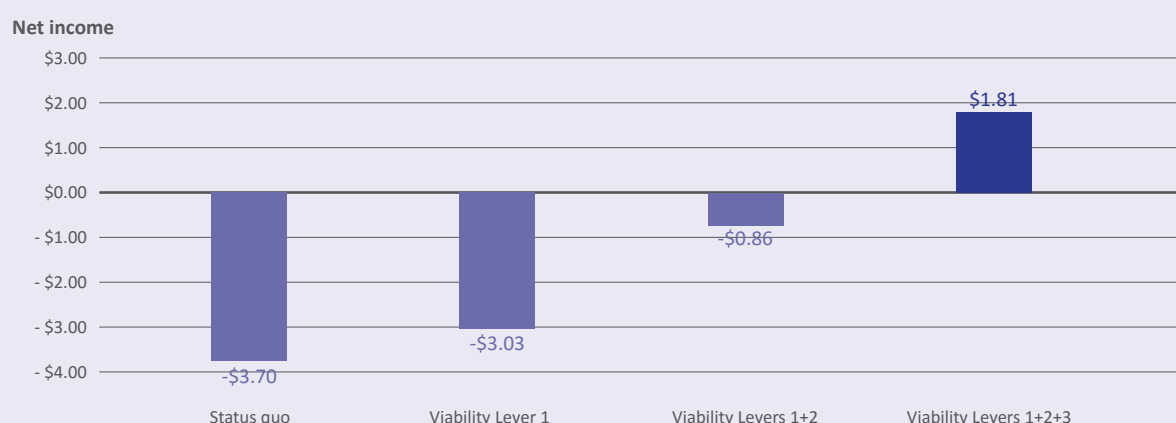
Sinapi Aba realized that if a portion of the Mobile Bankers’ salaries could be amortized over time as the cost of customer acquisition, the business case would be stronger. However, much of the Mobile Bankers’ salaries was related to account servicing and facilitating cash in/cash out transactions, not one-time acquisition. Instead, Sinapi Aba would need to explore other ways to increase revenue.

In Figure 2, a simplified analysis shows a series of three Viability Levers that can help make an average Susu Savings Account break even. A key Viability Lever the MFI could pull would be to double average account balances to USD 60 by incentivizing existing customers to increase their account balances while also targeting higher-income customers with larger savings capacity (see **Viability Lever 1 in Figure 2**). If it could do this while also doubling the productivity of its current Mobile Banker team (by serving double the number of customers in the same time), the combination of two Viability Levers would bring the account close to profitability (see **Viability Levers 1+2 in Figure 2**).

Sinapi Aba also introduced a new loan product, called the Susu Loan, through its Mobile Banker channel. By cross-selling a USD 35 Susu Loan to some savings account holders, in combination with the other two Viability Levers, these customers would generate enough income from interest on their loan to tip their savings account into profitability (see **Viability Levers 1+2+3 in Figure 2**).

For more about Sinapi Aba’s journey and decision-making on the business case for SBDM, read this [case study](#).

Figure 2
Net income on a Susu Savings Account, by number of Viability Levers pulled



Number of Viability Levers

Status quo: USD 30 account balance
 Viability Lever 1: Double account balance to USD 60
 Viability Lever 2: Double Mobile Banker productivity
 Viability Lever 3: Cross-sell USD 35 Susu Loan

Maintenance

In addition to acquisition and servicing costs, financial institutions incur maintenance costs of which most customers are not aware, making them difficult costs to cover using fees. Closing dormant accounts, updating accounts, managing cash, and data reconciliation are all costly activities for financial institutions. Charging maintenance or ledger fees directly to customers is a revenue-enhancing viability lever that is traditionally associated with offsetting the cost of maintaining savings accounts. However, these are not popular, and thus they are not part of the set of levers included in the Framework proposed in this report.

MCBL Tanzania, NBS Bank Malawi, and CEC Cameroon listen to clients' preferences and eliminate maintenance fees

MCBL in Tanzania decided to remove monthly maintenance ledger fees from its savings group product after listening to its clients. CEC in Cameroon also waives monthly maintenance fees for savings accounts that maintain a minimum balance of CFA 10,000 (USD 16). NBS Bank in Malawi does not charge ledger fees for its Pafupi savings account.

This Framework for SBDM presents two key Viability Levers associated with account maintenance. Both are related to an institution's internal cost accounting, and can help make the business case for SBDM stronger.



Cost Cutting Viability

Lever 8:

Charge “maintenance fees” to all internal cost centers applicable to savings customers

The maintenance costs of keeping a savings account open depend on the approach that a financial institution takes to cost allocation. Because regulators rarely intervene to establish cost accounting norms, different approaches and assumptions are used for costing savings products, making it difficult to compare small-balance deposit maintenance costs between different institutions. *Which portion of a CEO's salary should be allocated to small-deposit balance accounts? How are IT costs distributed among different products? Which direct and indirect costs should be allocated to each delivery channel, or absorbed centrally?* Understanding the nature of certain costs is not always straightforward; different product costing practices in different institutions can make similar products seem profitable in one and unprofitable in another.

In the case of MicroLead FSPs, cost allocation had not been explored formally as a cost cutting measure, except in the case of Sinapi Aba and NBS Bank, which undertook detailed costing exercises with the support of MicroLead and technical assistance provider Bankable Frontier Associates. One reason cost allocation has not been explored formally across many FSPs is the absence of activity based costing at these institutions.

In other cases, when SBDM products are a small part of an FSP's overall deposit portfolio, the revenues earned and marginal costs of engaging in SBDM have little impact on the consolidated bottom line, and thus don't demand such attention from executives to require expenditure on a detailed costing analysis. In the case of Sinapi Aba and NBS Bank, BFA used a full cost allocation approach; allocating all of an institution's costs proportionally across the number of accounts, it showed that these institution's small-balance savings products are not yet profitable. However, our **case studies about Sinapi Aba** and **NBS Bank** show that they are still compelled by the business case and are pulling levers to make SBDM viable.



Cost Cutting Viability

Lever 8

An alternative to the full cost allocation approach is a marginal cost approach, where indirect costs that are not clearly increasing due to a new product are not allocated to that product (for example, none of the CEO's salary would be allocated to a new product). A marginal cost approach makes it easier to make the business case for a small-balance savings product. For example, a study of two microfinance institutions, using a marginal cost approach, found that these institutions' small-balance savers were profitable when revenue from cross-selling other products to these customers was included in the analysis (CGAP, 2010a). Similarly, the Gateway Financial Innovations for Savings (GAFIS project), which worked closely with five large banks around the world over several years, found that adjusting costing methodology to product and channel specifications can make the business case for SBDM stronger. For example, the GAFIS project posited that it doesn't make sense to load up branch costs into customer acquisition if the product is mostly mobile-phone based, or mostly serviced through doorstep collection. Changes to internal costing methodologies helped some of the GAFIS banks make a stronger business case for SBDM (GAFIS, 2013).

Choosing to make the investment in activity based costing, to enable a segment-based approach to analyze the viability of SBDM, may be one of the most powerful ways to make the case for SBDM and help identify strategies to improve viability. A customer lifetime value approach to measuring revenue, along with a marginal cost approach, can highlight how much progress needs to be made to tip the balance toward profitability, and identify which levers will move the needle the most.



Revenue Enhancing Viability

Lever 9:

Increase net interest income (transfer price)

Similar to the allocation of costs noted above in Lever 8, FSPs can modify the accrual or allocation of interest income as a way to increase revenues from small balance deposits. Once again, MicroLead FSPs did not explore this accounting mechanism, most likely because of its perceived lack of impact on the consolidated bottom line.

Servicing

Once a customer has opened a savings account, servicing this account by providing deposit and withdrawal services, as well as facilitating payments and transfers to and from the account, can be costly, especially if customers are queuing to conduct transactions with a teller at a brick-and-mortar branch. Innovations in information and communications technology have provided FSPs' staff with more tools and more flexibility to serve clients beyond the reach of branches, through alternative delivery channels (ADCs) such as mobile money and agent network banking. But these tools are not always more cost-effective in mobilizing small-balance deposits, and they are certainly not a "quick win" viability lever in the short term.

In theory, ADCs can bring down the cost of serving customers who were previously unreachable, such as rural populations and women who have been historically excluded from financial services. But, the experience of the MicroLead FSPs and other FSPs around the globe has shown that finding a cost-effective way to service small-balance savings accounts is not easy, despite advances in technology. These tools require creative strategies and some level of up-front and recurring expenditure. For example, servicing small-balance accounts through ADCs requires new approaches to bridge the "gap" in human contact with customers—such as embedded financial education, call center support, and strategic agent network management—which can be costly. The following section looks at levers the MicroLead FSPs have pulled with the expectation to make servicing small-balance accounts more viable.



Cost Cutting Viability

Lever 10:

Find low-cost ways to deepen customer engagement when using Alternative Delivery Channels (ADCs)

Investing in ADCs was one of the most common strategies the MicroLead FSPs employed in their attempt to lower the cost of delivery. ADCs, broadly defined as those channels that expand the reach of services beyond traditional brick-and-mortar FSP branches, have emerged as a popular strategy to serve small balance deposit customers. ADCs can take many forms, from mobile branches on vans, agent networks, mobile money platforms, and partnerships with organizations that have already deployed their own networks. Offering customer self-service channels through mobile money platforms is another option that some MicroLead partners have explored. Developing a mobile platform allows clients to carry out many transactions by themselves, 24/7, which translates into fewer transactions taking place in branches. But, although mobile banking solutions may be adequate to carry out non-cash transactions, they require agent networks or other infrastructure for cashing-in and cashing-out.



Cost Cutting Viability

Lever 10

This kind of solution can require expensive investment in technology and agent network management.

Although the costs of equipping agents with mobile devices is only a fraction of the cost of opening a new branch—on average, transaction costs at branches vary from 0.90 to 1.20 USD per transaction, while transactions using mobile devices cost between 0.10 and 0.20 USD per transaction—not all customers are ready to use mobile for their financial transactions. Human-centered design is essential to ensure that mobile-based tools are easy to understand, useful, trustworthy, and help customers build larger savings balances and use their account. Well-researched design is especially important for populations that may have only used their mobile phone for over-the-counter mobile money transactions, but not to store value. **UNCDF’s Digital Financial Services toolkit “Use mobile as a Tool”** shows that mobile devices can bring multiple benefits to FSPs, including productivity gains, larger average savings balances, reduced cost of funding and greater outreach in rural areas (UNCDF, 2016). But, the challenge is to ensure that the entire customer experience, or “touch,” isn’t diminished with these tools. To do this, costly investments and recurring expenses for marketing, agent training, agent network management, and customer care are required, which can make ADCs expensive in the short-term. Finding the most cost-effective ways to improve customer experience, striking the right balance between high and low “touch,” is essential if ADCs are to live up to their hype as a cost-cutting viability lever that can make SBDM financially sustainable.

UGAFODE’s AirSave lets clients transact on their mobile phones

UGAFODE developed a mobile banking platform, AirSave, which allows individuals in remote areas to access their UGAFODE accounts via mobile phone. Clients can check their balances, pay bills, and deposit or withdraw money using their MTN or Airtel mobile wallet. UGAFODE’s principal objective was the launch of a mobile money platform that would improve convenience for clients (see **Box 9: Saving Clients Time and Money with UGAFODE’s AirSave**), potentially increase savings by allowing customers to make small, frequent transactions, and help maintain a competitive edge in the rapidly developing financial services market in Uganda.

Mobile branches expand access in Malawi and Uganda

Both NBS Bank in Malawi and UGAFODE in Uganda use mobile branches, based in traveling vans, to increase their outreach into remote areas, and to promote their savings products. Mobile branches allow them to extend services to clients in areas that have neither branches nor agents, and at the same time, they often serve to develop markets for new branches. However, the cost of mobile branches is by no means low. UGAFODE’s “banks on wheels” play an important role in product promotion, but the channel involves large investments and high operational costs. This makes mobile branches difficult to develop as a profitable channel.

Fidelity Bank in Ghana and NBS Bank in Malawi launch agency banking

Fidelity Bank in Ghana and NBS Bank in Malawi have developed agency banking strategies that have allowed them to remove some cash transactions from branches and to expand their outreach. (see **Box 6 : Building an Agency Banking Network** and read **UNCDF’s Digital Financial Services toolkits**) In both cases, their success was partially due to a favorable agency banking regulation, allowing simplified KYC requirements for opening savings accounts through agents. NBS Bank, which began piloting its agent network in 2014, today has more than 250 agents. It has also invested in embedding financial education into its agents’ interactions with customers (read more about the business case for SBDM at **NBS Bank** in this **case study**). However, the small-balance savings products that both institutions launched through these agency networks have not broken even yet. Both institutions are looking for levers to pull to make SBDM through the agency banking channel viable.

Box 9:

Saving Clients Time and Money with UGAFODE's AirSave

AirSave operates mainly through a USSD platform for moving money between the client's mobile wallet and the client's UGAFODE account. The client pays about UGX 700 for a transfer between UGX 5,000 and 60,000 (or about USD 0.25 to move between USD 2 and 20).

In addition to this commission, clients pay a fee to take money from the mobile wallet, which can range from 1-3% depending on the amount withdrawn. One of UGAFODE's aims is to help clients reduce the time and money spent on transportation to and from a UGAFODE branch when they need to make a transaction. Insofar as agents are closer to clients' homes or businesses, AirSave can reduce these costs. Clients can also conduct some transactions entirely digitally. This may reduce barriers for women and rural populations, such as time constraints and the opportunity costs associated with travelling to a branch.

Read more about UGAFODE's journey exploring the business case for SBDM in this [case study](#).



Revenue Enhancing Viability

Lever 11:

Charge transaction fees

Many institutions traditionally charge monthly maintenance (ledger) fees to keep an account open and compensate for the costs. Along with revenue from net interest income, ledger fees tend to be one of the main sources of revenue for financial institutions. But, monthly maintenance fees tend to be very unpopular among clients. For this reason some financial institutions waive these fees for clients that meet certain thresholds (reaching minimum balances, contracting additional services, etc.).



Revenue Enhancing Viability

Lever 11

Challenges to getting the agency banking fee structure right

To earn revenue through its agency banking network, NBS Bank charges transaction fees to customers. Transaction fees often play an important role in agency banking models, and they are the main source of revenue FSPs usually focus on to make the model viable, both for agents and the FSP. In the case of NBS Bank, agents receive a fixed commission of MWK 37.5 (USD 0.05) for both deposits and withdrawals. For customers, deposits are free and withdrawals have an associated fee of MWK 100 (USD 0.14). Managing agents' liquidity is challenging, and institutions usually limit the maximum and minimum deposit amount which clients can make at agent locations (in the case of NBS Bank, there is a maximum MWK 30,000 deposit and a maximum MWK 15,000 withdrawal per day per client). With an average number of nine transactions per day, and a revenue of USD 0.05 per transaction, the value proposition for agents as an additional source of revenue is still weak, which partially explains the high percentage of inactive agents. It is challenging to get the pricing right so agents are sufficiently remunerated but customers aren't put off by high fees. At Fidelity Bank in Ghana, revenue from the Fidelity Bank SMART Account is mainly generated through net interest income, as customers do not engage in many fee-generating transactions. But, Fidelity Bank knows that transaction fee income will be essential to make this channel viable. It is investing in upgrading its agent network technology platform, which will enable it to handle a larger volume of transactions, charge transaction-based revenue and add new products and services to the channel to capture adjacent revenue streams.

Read more about **the business case for SBDM at Fidelity Bank in this [case study](#)**, and read more about **agency banking networks in [UNCDF's Digital Financial Services toolkits](#)**.

The experience to date has shown that an ADC is never such a low-cost channel that it constitutes a single lever that makes SBDM viable. A singular focus on managing the channel's technology and agent network will never suffice to make SBDM viable. But, institutions often find it difficult to focus on other levers, given the complexity of ADC management. When an FSP's strategy is to acquire customers and/or service accounts through an ADC, it cannot ignore other cost-cutting and revenue-enhancing levers. ADCs will not live up to their potential as viable channels for SBDM if FSPs don't also reduce account dormancy rates and increase account usage, cross-sell or bundle other products and services for savings customers, and adopt products and strategies that motivate clients to increase their savings balances, among other levers presented in this paper.

4 CONCLUSION: SBDM VIABILITY IS CLOSELY LINKED TO CLIENT DEMAND

The environment in which an FSP operates can motivate it to mobilize small balance deposits, depending on the institution type and the specific segment of clients targeted. But, no matter how strong the environmental push, SBDM can be challenging to implement. Low-income households tend to maintain small balances, and the smaller the balance, the more difficult it is for a financial institution to cover the costs associated with deposit mobilization. Scale is often mentioned as a key lever to achieve viability for SDBM. However, when operating costs are higher than operating revenues, which is often the case with scale plays, scale will only increase financial losses. Instead, there is a larger set of levers that need to be pulled in combination, if SBDM is to be viable.



Community member pushing a market cart

Based on 13 projects funded by UNCDF's MicroLead Programme, this paper illustrates that FSPs can "pull" a set of viability levers depending on their market, resources, and capacity to strengthen the business case. We should take these examples with caution, however. Our findings suggest that the FSPs in the MicroLead programme have not yet achieved profitability, though many have pulled multiple levers to get closer to this goal.

Of the 12 viability levers we identified in this study, client demand has a direct impact on at least six, and an indirect impact on several others (see **Box 10: What influences client demand for savings services?**). This suggests that making SBDM a viable and compelling business case will require FSPs to focus more extensively on satisfying client needs and demand to deepen customer engagement.

So far, few successful solutions to incentivize savings account balance growth and reduce dormancy have been found. Yet this is a needed innovation. When FSPs struggle to increase client savings balances in the short term, they often feel pressure to shift their focus to other levers instead. In doing so, they may either drift away from their poorest customers or even mis-sell products—through cross-selling—in an attempt to "make up" revenues. Women, in particular, may be more vulnerable than men to take up mis-sold products as they are often less experienced with formal financial services. Instead, developing useful products for the target market and designing cost-effective strategies that deepen customer engagement and increase average savings balances is essential.

Increasing customers' average savings balances—rather than increasing scale or cross-selling additional products—is particularly important for the financial inclusion of women. If an FSP drifts up to higher-income customers to "make up" revenue without making a concerted effort to increase the average balances of existing low-income customers, it can have the unintended consequence of drifting away from its female clients as well as other more excluded communities with low or irregular incomes, such as rural populations.

To crack the demand-side challenges, a heavy emphasis on clients' needs must be taken into account. The idea that low-income populations are "too poor to save" has been repeatedly debunked. Projects such as Financial Diaries in India, Bangladesh and South Africa, for example, have documented savings practices among the poor (CGAP, 2006b). These and other studies highlight the importance of human-centered design to understand and respond to clients' unique needs. Savings products need to be convenient and attractive enough to compete with and complement the informal savings mechanisms available to people (ProSavings, 2013). They also must match the opportunity costs of saving cash in a financial institution rather than investing it in productive activities or assets such as a small enterprise, livestock or crops. Finally, human behavioral tendencies to overvalue the present and succumb to short-term temptation, for example, can create gaps between savings plans and savings behaviors (ProSavings, 2013). While FSPs and other stakeholders are well-aware of these constraints to demand, their challenge is to address these needs with effective design and customer engagement without undermining financial sustainability.

Box 10:

What influences client demand for savings services?

Client demand for savings services—whether “formal” or “informal” services, or strategies like saving cash under the mattress—is influenced by a very long list of factors, among them:

- Appropriateness of the service for client’s cash flow (volatility) and income level, and client’s current stock of savings, savings capacity, and frequency of savings
- Numerous behavioral factors, such as overvaluing the present, which influence savings habits
- Accessibility of funds: In some cases, clients want quick access; in other cases they don’t want easy access (to avoid temptation to spend)
- Convenience and speed of the service, which includes travel distance, proximity to other services, and hours open for business
- Simplicity of the service, including ease of use, speed of use, comprehension of benefits, costs, exclusions, penalties, etc.
- Friendliness, respect and responsiveness (sufficient attention) from the service provider
- Reputation and trust in the service provider and the service itself
- Perceived safety of the service, which includes consideration of risks to the funds themselves (theft, fire) as well as to one’s self (assault, etc.)
- Financial return or loss, including interest earned in an account, dividends on an investment, asset growth and appreciation (e.g. a cow or other animal, real estate), currency exchange rate and inflation
- Monetary costs, such as ledger fees, penalties, transaction fees, etc.
- Related transaction costs, including transportation to access the service, food while traveling, and the costs of leaving a business or children behind
- Speed, convenience, friendliness, reliability, and access to recourse mechanisms
- Availability and access to other, related financial products and services (payments, loans, insurance, etc.) as well as non-financial products and services
- Opportunity costs related to many of the factors above

These factors, among others, influence whether or not (and how) people choose to use the savings strategies and services available to them. In most cases, the choice is usually not *which* strategy or service to use, but which combination of strategies and services to use, and how to use them.

Recent innovations in the financial inclusion landscape have created opportunities to overcome some critical demand-side challenges. Agency banking, mobile money platforms and partnerships combined with low-KYC or simplified accounts, for example, are often touted as a solution to increase convenience for customers while containing the costs of reaching low-income clients for the financial institution. A number of MicroLead FSPs have made use of third party channels or even built their own channels expecting to reduce the cost of serving low-income customers through brick and mortar branches. However, building and managing these networks has proved to be costly and challenging, and results so far in terms of mobilizing savings balances have been limited. This strategy often leads to trade-offs as well; if customer contact is lessened, customer engagement may deteriorate and the viability of SBDM, which relies on active and growing account balances, may not be realized. Institutions will need to engage customers and address their barriers to saving in these accounts if they are to grow their savings balances. When deploying ADCs, it is important to include strategies that bridge the human touch “gap” that may arise.

MicroLead FSPs have also made strong headway in testing the use of savings group linkages with FSPs. These groups have been instrumental in advancing financial inclusion in rural areas (IFAD, 2010) and establishing links between informal savings groups and formal financial institutions has been a strategy that MicroLead FSPs have found useful. Targeted product designs, such as commitment savings, can help address some of the psychological biases that often constrain savings (ProSavings, 2013). While few MicroLead FSPs tested commitment savings directly, there are some interesting examples worldwide. In Colombia, for example, Financiera Comultrasan has over 70,000 commitment savings accounts. The use of call centers with a friendly structured script to motivate clients increased compliance to savings goals from 65% to 80% over one year (ProSavings 2013).

Understanding the specificities and differences among different customer segments is key to defining a set of products and services that meet the needs of poor individuals. Farmers may save in large blocks and make use of funds gradually throughout the year whereas young people may save in small amounts (USAID, 2006). Gender differences also need to be considered. In many countries, for example, women still need the authorization of their husbands to open a bank account (World Bank, 2012). Understanding these differences and implementing a segmented product and marketing strategy can be costly, but new technologies offer opportunities that allow FSPs to target client segments separately with lower costs.

While it is important that FSPs carefully cater to the needs of low-income clients and avoid drifting away to higher-income clients entirely, this does not mean FSPs cannot serve both segments simultaneously. MicroLead FSPs have shown creative approaches to diversifying deposit clients, showing that taking deposits from low-income households exclusively is not necessary. If anything, the inclusion of a diverse group of both low-income and higher-income clients in a savings mobilization programme can help make a case for the inclusion of less profitable accounts. In effect, these higher-income clients are lower-hanging fruit that can subsidize the cost of serving poorer clients.

While small-balance deposit accounts in isolation might not generate much profit, the low-income client segment as a whole can be profitable (CGAP 2012a). Once a client opens an account, if they are engaged with the institution, they may take up loans or other products that will generate more revenue for the financial institution. Different levers can be combined to move towards profitability, such as cross-selling, adequate pricing structure and the use of technology as a way to reduce costs and attract and retain clients. In the long run, small-balance deposit account balances may also grow, and servicing today's small savers might be a wise and relatively low-cost investment for the future.

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ABOUT UNCDF

UNCDF makes public and private finance work for the poor in the world's 47 least developed countries. With its capital mandate and instruments, UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's financing models work through two channels: financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localized investments — through fiscal decentralization, innovative municipal finance, and structured project finance — can drive public and private funding that underpins local economic expansion and sustainable development. By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a number of different SDGs.

ABOUT MICROLEAD

MicroLead, a UNCDF global initiative which challenges financial service providers to develop, pilot and scale deposit services for low income, rural populations, particularly women, was initiated in 2008 with support from the Bill & Melinda Gates Foundation and expanded in 2011 with support from Mastercard Foundation and LIFT Myanmar. It contributes to the UN's Sustainable Development Goals, particularly SDG 1 (end poverty), SDG 2 (end hunger, achieve food security and promote sustainable agriculture) and SDG 5 (achieve gender equality and economic empowerment of women), as well as the Addis-Abeba Financing for Development Agenda (domestic resource mobilization).

MicroLead works with a variety of FSPs and Technical Service Providers (TSPs) to reach into previously untapped rural markets with demand-driven, responsibly priced products offered via alternative delivery channels such as rural agents, mobile phones, roving agents, point of sales devices and informal group linkages. The products are offered in conjunction with financial education so that customers not only have access but actually use quality services.

With a specific emphasis on savings, women, rural markets, and technology, MicroLead is a performance-based programme that supports partnerships which build the capacity of financial institutions to pilot and roll out sustainable financial services, particularly savings. As UNCDF rolls out the next phase of MicroLead, it will continue to focus on facilitating innovative partnerships that encourage FSPs to reach into rural remote populations, build on existing digital financial infrastructure and emphasize customer-centric product design. For more information, please visit www.uncdf.org/microlead. Follow UNCDF MicroLead on Twitter at @UNCDFMicroLead.

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EA Consultants is a consulting firm dedicated to ensuring that financial inclusion is a shared value proposition for all stakeholders and, in particular, for the customer. We have over 10 years of experience working with households worldwide to ensure that their voices and their needs are incorporated into products, delivery, and policies. We combine research and practice to ensure that our work is informed by an analysis and understanding of markets and customer needs. Our goal is that our work lead to new ways of thinking and new practice that are transformative to benefit all segments of society. We draw upon the vast knowledge and expertise of a diverse team of advisors to provide innovative consulting services and research to governments, financial institutions, other privately-held firms, non-profit organizations, and international institutions. Our team of forward thinking professionals is adaptive to the market's changing needs. Our clients value our analysis and recommendations because they are pragmatic, sustainable and economically viable.

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