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Scaling Up Micro Savings: A Matter of More Branches or Busier Branches?

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The microfinance industry is increasingly focused on deposit mobilization. On the demand side, there is a growing sense that poor people should have a broader range of financial instruments available to them rather than only credit. On the supply side, institutions are increasingly keen to build a more stable, low-cost funding base from local deposits, especially in the aftermath of the global financial crisis. This renewed interest in deposit mobilization by microfinance institutions (MFIs) is also fuelled by the high-profile successes of certain deposit mobilizing institutions, including Bank Rakyat Indonesia (21 million savers), Grameen Bank and ASA in Bangladesh (together, 14 million savers), Equity Bank in Kenya (3.9 million savers) and Banco Azteca in Mexico (4.5 million savers).

Yet despite these notorious successes, the bulk of MFIs remain relatively small scale in terms of deposit mobilization. This prompts us to look into the growth strategies pursued by MFIs, large and small. Do the larger deposit-taking MFIs exhibit a more intensive utilization of their distribution network in terms of savers per branch (giving rise to what we term *intensive* growth), or do they simply have many more branches (which we term *extensive* or distribution-driven growth)? In this respect, we compare the behavior of MFIs against commercial banks, to see whether their growth dynamics are different. We also compare the relationship between intensity of use of branches and the total number of customers served by the institution between the savings and lending sides.

Data sources and methodology

Our primary dataset is based on MIX Market, an online database of financial and operational data from MFIs

around the globe. From this database we selected all the MFIs with more than 10,000 savers reported for 2007. This gave us information on the number of savers and borrowers, the value of the corresponding deposit and loan portfolios, as well as the number of branches, for 165 MFIs. MIX Market defines savers as individuals who currently have funds on deposit with an MFI, which the MFI is liable to repay. This excludes involuntary savings linked to loans.

We compare this sample with another one based on a multi-country survey of the largest five commercial banks by assets compiled by the World Bank and reported in *Banking the Poor* (BTP).² This database contains, for each institution, the number and value of savings and loan accounts, as well as the number of branches. The sample covers 235 banks in 54 countries for the year 2007. Some banks did not participate in the survey, and in some countries there were fewer than five commercial banks. We took the number of savers to be the larger of the reported number of checking and savings accounts, in order to avoid double-counting. We excluded institutions with fewer than 10,000 savers, or those with obviously deficient information. The resulting sample consists of 149 commercial banks from 53 countries.

This data has certain limitations. The mapping between number of savings (loan) accounts and the number of savers (borrowers) is imperfect. On the MFI data set, we are relying on the institutions' reporting of customer numbers. On the commercial bank data set, if for a particular institution some customers had only a checking account and others had only a savings account, the inferred number of savers would be underestimated given that we take the maximum of the two. Also, there is self-selection in the MFIs and banks that are part of the sample. MFIs that are very successful at deposit mobilization have less incentive to report to MIX Market, since it is seen primarily as a vehicle for demonstrating transparency for MFIs who are reliant on external sources of funding. Equally, commercial banks' responses to and participation in the World Bank survey may have depended on various

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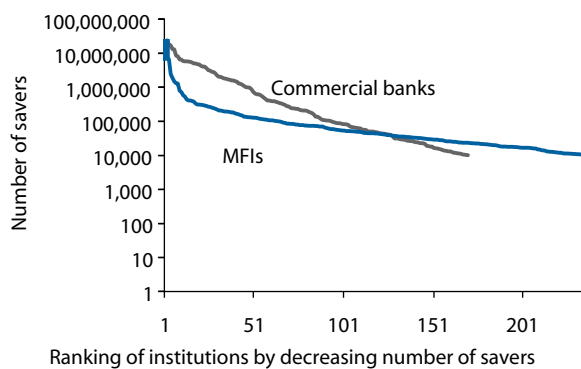
² "Banking the Poor: Measuring banking access in 54 Economies", World Bank, Washington DC.

incentives, such as whether they participate in World Bank-funded lines of credit.

Throughout this paper we refer to the institutions in the two data sets as being MFIs and commercial banks. This is purely short-hand to distinguish the data sets (MIX Market and BTP, respectively), and may not truly reflect the legal status of the specific institutions in each data set. Some institutions in MIX Market are indeed licensed as commercial banks, and a couple in fact appear in both data sets.³

Figures 1 and 2 show the distribution of institutions in the two samples by size, as measured by the number of savers per institution. Both figures are shown on a log scale, which underscores the very large variation in size of institutions as measured by the number of savers. **Figure 1**, which depicts the size ranking of institutions separately for the two data sets, shows that MFIs decay in size faster than commercial banks. This reinforces the earlier point that while there are some spectacularly successful MFIs, these are relatively few: only 12 MFIs in our sample have more than half a million depositors versus 50 in the sample of commercial banks. **Figure 2**, which shows the combined size rankings across both data sets, suggests that commercial banks and MFIs as a whole are roughly of comparable sizes. This is because the MFI data set selects the bigger MFIs globally, while the commercial bank data set is based on the largest ones per country. Thus, while in our sample commercial banks are typically larger than MFIs, there is a proportionately higher representation of institutions from small countries in the commercial bank data set.

Figure 1: Ranking of Institutions by Number of Savers



³ The reason is that an institution can be an MFI according to the MIX Market classification and at the same time happens to be one of the largest financial institutions in a country, which makes it eligible for the BTP dataset.

Scale in deposit mobilization

Figures 3 and 4 depict the relationship between the overall number of savers per institution and the number of savers per branch, separately for each of the two samples. Note that the horizontal axis is mapped on a logarithmic scale in order to show a tighter distribution of the points.

The median number of savers per branch is more than double for commercial banks than for MFIs: 5,400 versus 2,300, respectively. Of course, the relative size of the median institution is different in both cases, with 44,600 savers for MFIs and 116,000 for commercial banks. For an institution of half a million depositors, the trend lines on **Figures 3 and 4** would suggest that an average MFI would have 5,300 savers per branch while an average commercial bank would have 6,400 savers per branch. Thus, at that scale (as measured by number of savers), MFIs typically operate 20 percent smaller branches on average than the equivalent-sized commercial bank.

We can also observe that the number of savers per branch is higher the larger the number of savers, suggesting that larger deposit mobilizing institutions—whether MFIs or banks—are able to make more effective use of their branches. But there is a much stronger correlation between the number of savers and the number of savers per branch for banks than for MFIs (0.26 vs. 0.09, and only significant for commercial banks). Conversely, the total number of savers shows a higher correlation with the number of branches for MFIs than for banks (0.86 vs. 0.76, respectively).

One hypothesis for this difference is that MFIs are less able to realize inter-branch economies of scale (extensive growth). This might be because commercial banks incur larger bank-wide fixed

Figure 2: Joint Ranking of Institutions by Number of Savers

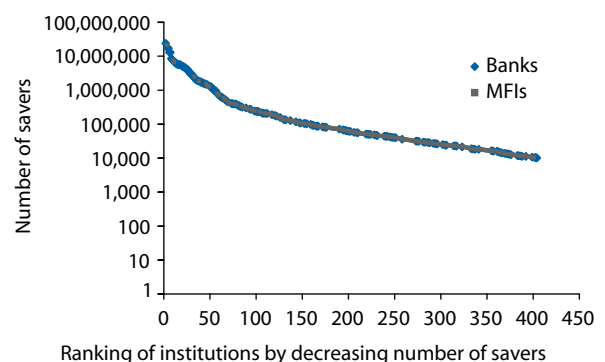


Figure 3: Savers per Branch (MFIs)

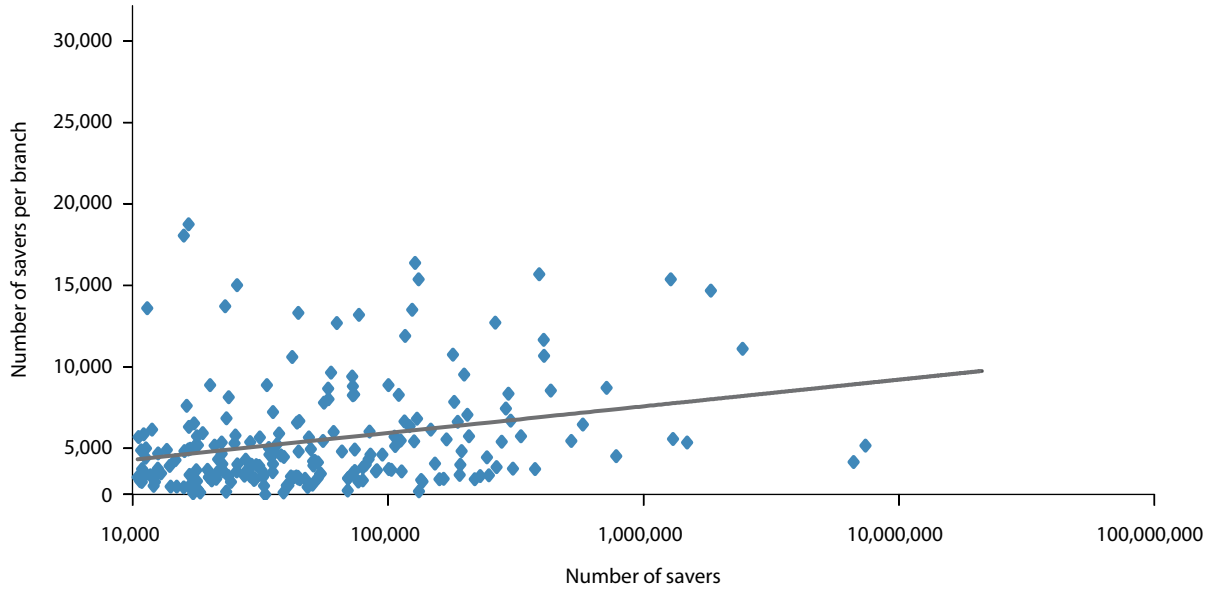
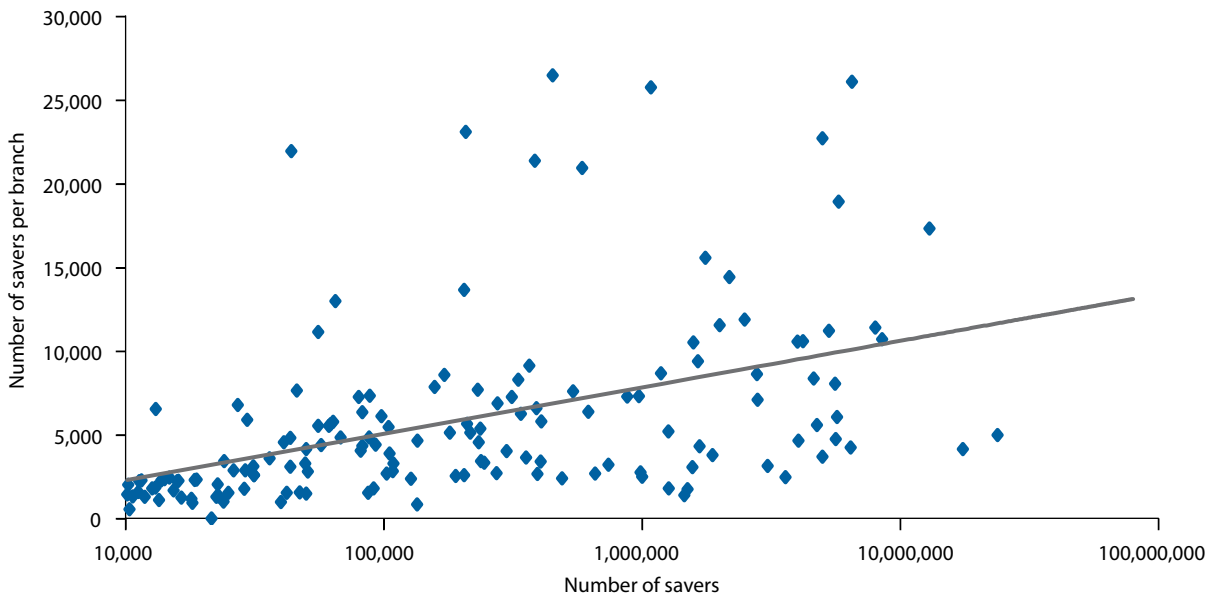


Figure 4: Savers per Branch (Commercial Banks)



costs in the form of centralized investments in brand building, product development and information technology, to the benefit of all branches. Amortizing these costs over more customers and branches allows individual branches of commercial banks to be more competitive and hence acquire more customers per branch (intensive growth). On the other hand, branch-level growth at MFIs may be more constrained due to underinvestment in IT or less streamlined processes. It is also possible that MFIs operate in smaller towns, and hence have less room for intensive growth

at the branch level. This might be true for BRI and Grameen Bank, for example. However, most MFIs in the sample operate largely in urban environments and hence should face similar market size limitations as commercial banks.

Next we look at how the customer mix varies with size of institution, focusing specifically on the MFI data set, for possible explanations for the different growth dynamics of large versus small MFIs. Size of MFI does not seem to have a significant bearing on the size of

accounts and the mix between savers and borrowers. **Figure 5** shows that the average savings balance per depositor (expressed as a percent of gross national income per capita) is not at all correlated with the size of the MFI. It seems like MFIs do not move upmarket as they expand their base of savers, which runs counter to the often lamented “mission drift” view. It is likely that as MFIs grow they simply need to cater to broader market segments, both richer and poorer, without a noticeable effect in the average customer size.

Figure 6 shows that larger MFIs have a slight proclivity to grow the number of savers faster than the number of borrowers (correlation is 0.03 and not statistically significant). This may be because, for a given location, the addressable market of savers is larger than the addressable market of creditworthy borrowers. Thus, as an institution grows its penetration in a market, it reaches saturation faster in its lending than in its deposit-taking activities. This effect may also be driven by the fact that larger institutions have a bigger

Figure 5: Average Savings Account Balance as % of Gross National Income per Capita (MFIs)

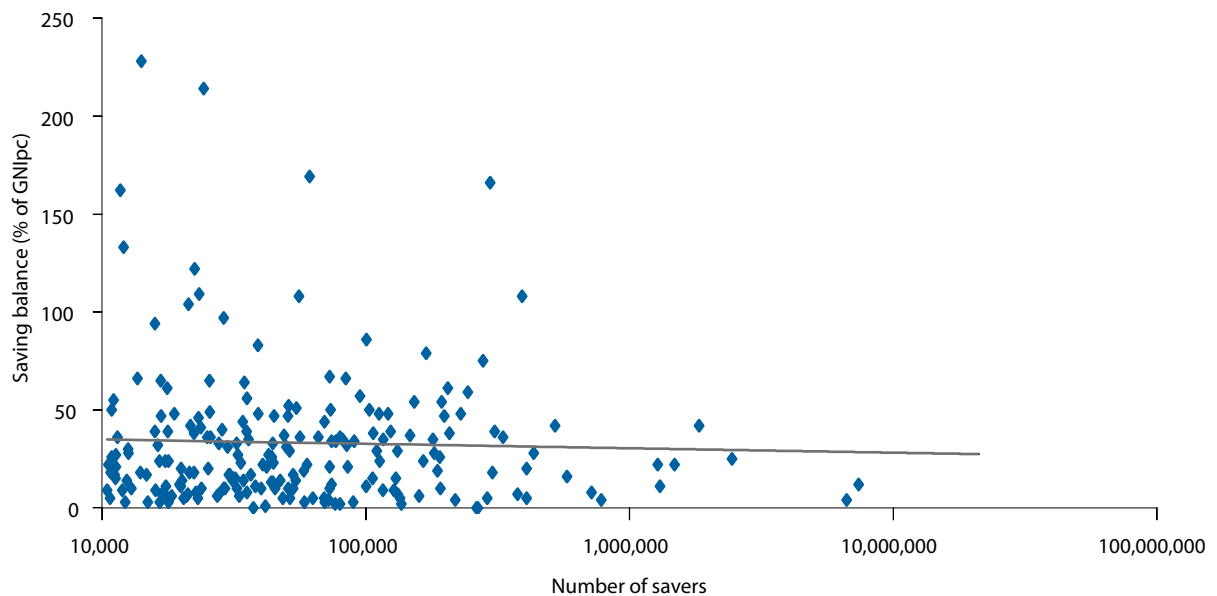
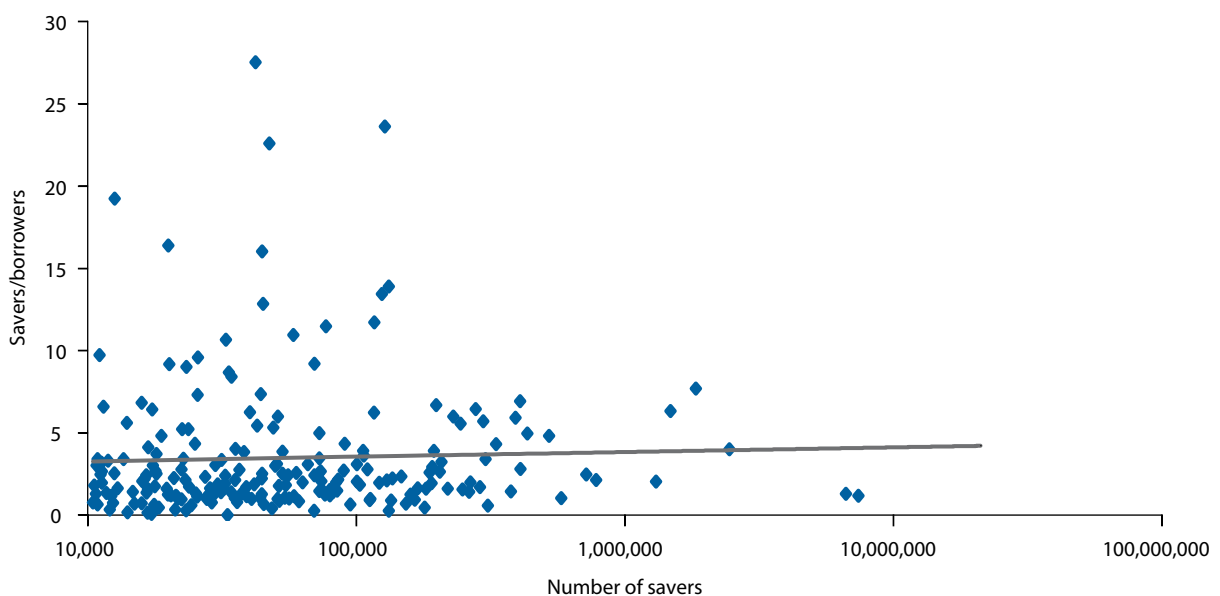


Figure 6: Ratio of Savers to Borrowers (MFIs)



need to self-fund their lending activities in order to drive growth, and hence they may put more effort in building a healthy deposit base.

Scale in lending operations

Figures 7 and 8 show the relation between the number of borrowers per branch and the overall number of savers per institution, separately for each of the two samples. It is again apparent that MFIs used their branches less

intensively than commercial banks in terms of lending operations as well. In other words, as banks grow larger in the overall number of savers, their branches cater to more borrowers per branch than MFIs. In the case of MFIs, growth in total number of borrowers is largely driven by growth in number of branches rather than in the number of borrowers per branch.

It is also interesting to compare between the savers and borrowers graphs. For both MFIs and commercial

Figure 7: Borrowers per Branch (MFIs)

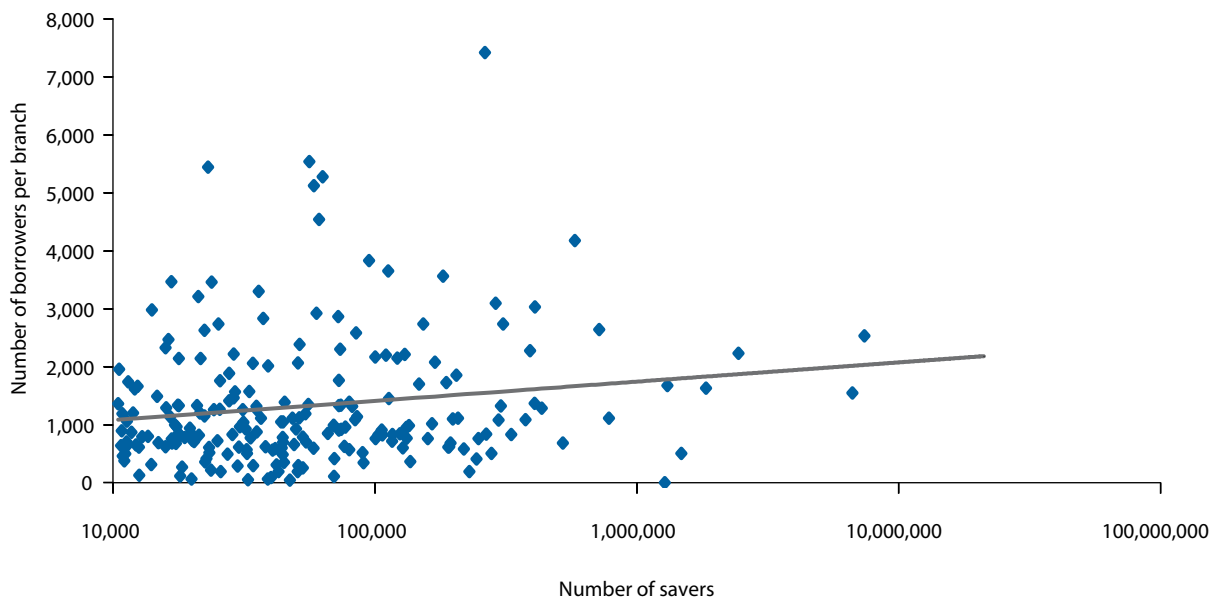
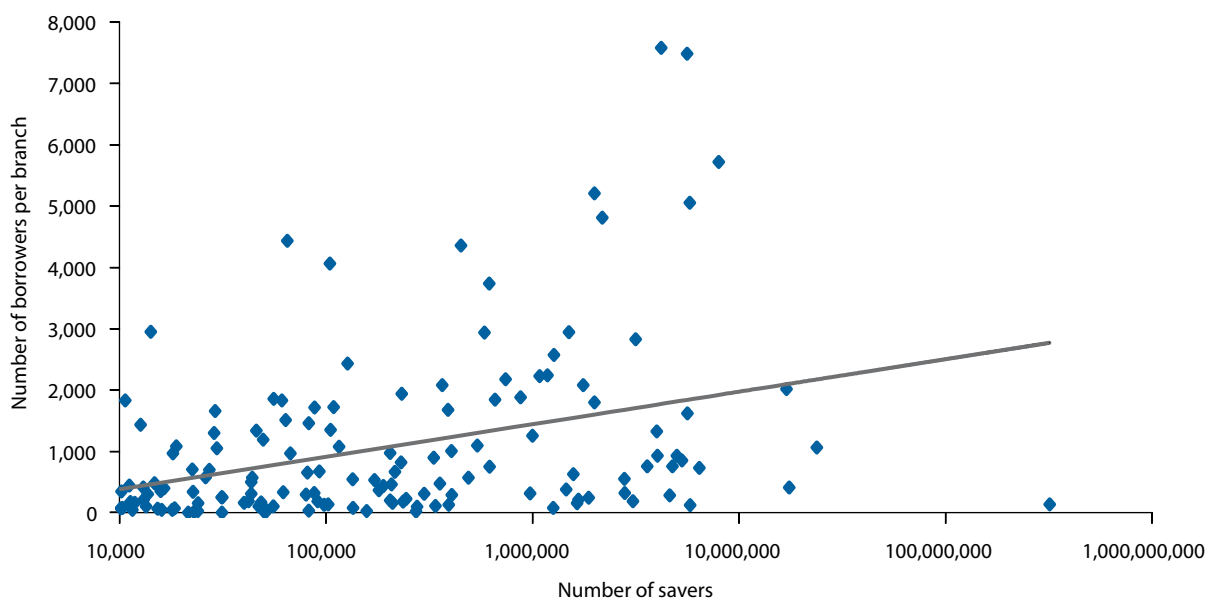


Figure 8: Borrowers per Branch (Commercial Banks)



banks, the slope and correlation coefficients between per branch intensity (both for savers and borrowers) and total savers numbers are significantly weaker for borrowers than for savers. This suggests that less intensity of branch use exist on the lending side than on the deposit-taking side. This makes sense: corporate-level branding and centralized treasury and risk management operations are more important for savers (since the institution needs to build the trust of depositors), while lending requires more local staff to screen, monitor and collect from borrowers.

Conclusions

The evidence presented in this paper points to the fact that MFIs are on average less able to grow intensively than commercial banks. MFIs' growth is largely dependent on greater distribution (more branches)

rather than at leveraging the use of branches. The evidence also supports the well established notion that the potential for intensive use is larger on the deposit mobilization than the lending side. On the other hand, we do not see a significant relationship between the size of an MFI (as measured by number of clients) and either the average savings balance or the ratio of savers to borrowers. It seems that MFIs do not move upmarket as they expand their base of savers, which runs counter to the argument that those institutions experience a "mission drift" over time.

If distribution (extensive growth) is the key growth driver for MFIs, it is important to find lower-cost ways for MFIs to deploy their physical presence. Lower-cost branches and branchless banking channels would seem to offer large opportunities for MFIs to grow scalably.