

Success in Rural Savings: How One Donor Led the Way

by Ruth Goodwin-Groen

A case study of German Technical Cooperation (GTZ) in collaboration with the Bank for Agriculture and Agricultural Cooperatives in Thailand.

Overview

As of December 31, 2002, more than 2.3 million rural Thais held average savings deposits of 83 euros. These savers were attracted by a new financial product called “Save and Get a Chance” (Om Sap Thawi Choke). The program rewards savers who open and maintain savings accounts with prize drawings and parties that celebrate saving. Six years earlier, when the Bank for Agriculture and Agricultural Cooperatives (BAAC) launched the product, there were almost no small savers. “Save and Get a Chance” had such phenomenal success because it was designed specifically for low-income clients. Technical support from Deutsche Gesellschaft für Zusammenarbeit (GTZ) significantly contributed to this success.

For the 24 months it took to develop the product, the German government, through GTZ, paid the salary of one international financial expert and one local expert, and contributed 50,000 euros in technical cooperation. The 191 million euros held by rural Thais in savings at BAAC yielded an impressive return on investment for GTZ and provided BAAC with a sustainable source of refinance. This case demonstrates good donor practice for developing savings services in nearly every respect, showing that savings products for the poor benefit both institution and client.

Setting the Stage

Economic reform and financial sector liberalization in Thailand between 1988 and 2001 encouraged increased competition. Interest-rate controls were relaxed and the requirement that commercial banks hold deposits with BAAC was removed. As one of their responses to these reforms, BAAC made deposit mobilization a major focus of its banking operations. Deposits from rural areas evolved into the single most important source of funds for BAAC.

BAAC is a government-owned bank. Decision making is decentralized and structured to foster transparency and accountability. Although the government does not interfere in day-to-day operations, BAAC must implement mandated government credit programs. These often have poor results, although the government covers the losses.

BAAC’s strengths include an extensive branch network strategically located in rural areas. These branches have become profit centers for BAAC, and savings mobilization is one of the major criteria for evaluating branch performance.

“Through technical cooperation with GTZ, we became convinced that small-income earners are able and willing to save with BAAC, as long as we respond to their needs.”

Luck Wajananawat, Executive Vice President, BAAC, from a discussion about GTZ’s contribution to the project

GTZ, a government-controlled corporation, provides technical services to the governments of developing economies on behalf of the German Ministry for Economic Cooperation and Development (BMZ). GTZ is committed to developing financial systems for the poor and supports projects around the globe, including the BAAC initiative.

Keys for Project Success

1. **Be sure the institution can provide safe and secure savings services.** BAAC was a sound financial institution with adequate capital to withstand external shocks, such as inflation and devaluation. It also had robust internal controls supported by a detailed and reliable management information system. BAAC was demonstrably well-managed with good oversight of credit, liquidity, and interest-rate risk. Proper supervision was undertaken by the Ministry of Finance, and BAAC was rated by the Thai Rating and Information Service.

Although government-controlled banks like BAAC often offer credit programs that perform poorly, they still have great potential for scale of outreach and savings security. The “Save and Get a Chance” initiative gave BAAC an opportunity to realize this potential.

2. Design products that match customer requirements using careful market research.

BAAC discovered that micro- and small savers in Thailand, particularly women, had specific wants:

- *Security:* Clients perceive BAAC to be a safe bank because the government is behind it.
- *Convenience:* The bank’s large branch network means there is usually a branch nearby.
- *Low minimum balance:* The minimum amount required to open and maintain an account is Baht 50, or 1.10 euros.
- *Liquidity:* Clients can withdraw any amount at any time, as long as they maintain the minimum balance.
- *Yield:* The product offers an interest rate of 0.75 percent plus a chance in the drawings.

Save and Get a Chance

Regular savers are automatically entered in bank drawings to win desirable prizes. All branch banks regularly organize parties with food, drink, and dancing during which the drawing is made and prizes given out. The branch also takes advantage of the client gatherings to let people know about savings continuity and other services.



Prize drawing, Nan Province, Thailand. (BAAC Photo Archive.)

Regular savers felt that they had an incentive to save because their savings made them eligible for a chance in the prize drawings as a reward. New savers were drawn in because they wanted to participate in the drawings and parties.

3. Find ways for the donor and local institution to share costs.

GTZ funded only technical services, specifically, one international expert on financial system development and one local expert to work for two years with BAAC. It did not disburse any funds directly to BAAC. GTZ and BAAC shared the costs of sending staff to look at other projects in Indonesia, to take specialized courses in Germany, and to make promotional tours throughout Thailand.

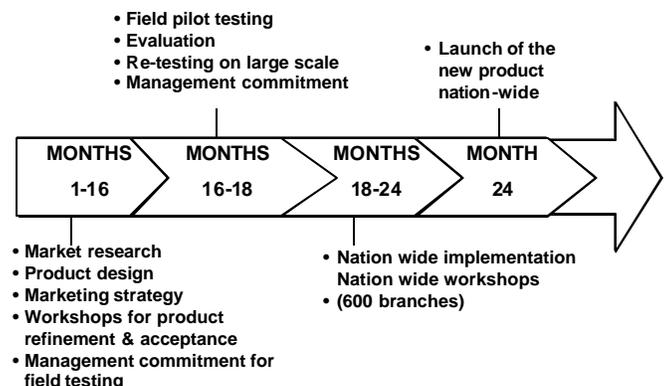
GTZ non-staff project costs, including overhead, were 50,000 euros. BAAC direct costs during the design phase included two professional staff, 20 branch staff, as well as local travel costs, workshops, and promotional tours.

BAAC went on to design another successful savings product, a direct return on its investment in training.

4. Allow sufficient time to do it right.

BAAC, backed by GTZ technical assistance, took two years from project start to product launch (see box below). Like any large organization, BAAC does not move quickly and such a significant change in its mode of operation took time to research and absorb. Cognizant of this, GTZ spent a year designing and refining the project before it was finally approved.

Timeline for a Savings Product Launch



Internal Preconditions for Donor Success

Several institutional factors account for the success of GTZ.

Vision. GTZ has a clear vision of the importance of financial system development, which drives its decision making on these projects. Dirk Steinwand, head of the GTZ financial systems development unit, notes that “GTZ always looks at how the entire financial system in a client country works for the poor. It does not just focus on the sustainability and viability of individual institutions. It believes that local financial intermediation is central to the development of a financial system for the poor.”

GTZ recognized that BAAC was capable of providing a significant scale of sustainable financial services to rural Thais, and was, therefore, critical to the project and the development of the financial system.

Results, not money. GTZ has a culture focused on long-term results, not disbursement. The BAAC investment was modest in terms of money and moved at a pace driven by BAAC, not GTZ. GTZ culture is patient when it comes to results, and there is no pressure to spend large amounts of money. Dirk Steinwand advises other donors on savings products: “Do not set up a credit line and try to spend a lot of money. Do not spoil cooperatives with outside funding (especially not subsidized funding). Do not expect immediate results in terms of clients and impact.”

Timing. The process of a project should move at a speed suitable for the partner institution. BAAC’s priority was to increase deposit mobilization, but it was unsure whether low-income earners were able or willing to save. It took time for BAAC to convince itself that, given the opportunity, poor people would save; to learn how similar institutions approached savings services for the poor; and to design its own product.

GTZ facilitated this process and gave BAAC confidence that it could be successful, but BAAC led the way. GTZ always sets project targets together with its partners, so BAAC had fully agreed to them. If at any point BAAC had not wanted to proceed, the project would have been redesigned.

Champion. The BAAC project had an experienced and trusted internal GTZ champion. GTZ project team leader and financial systems development specialist Marie Luise

Haberberger originally went to BAAC to run a project linking self-help groups to banking services. Soon after she arrived, she realized that this project was not what BAAC needed. She requested that the project design be adjusted—a project design that had been approved by the two countries. She was able to recognize what BAAC needed because she was an experienced financial systems specialist. She also had the authority to request project change because she was accountable for the success of the project under the decentralized GTZ system.

Project Benefits for BAAC and its Clients

BAAC benefits

- *Two savings products for small savers are a sustainable source of refinance for BAAC.* BAAC’s core savings products (half of which focus on low-income clients) generate 75 percent of its deposits, and customer deposits refinance 98 percent of its total outstanding credit. This successful deposit mobilization reduced the cost of funds and increased BAAC’s profitability.

“Saving deposits from small-income earners have become a sustainable source of refinance for BAAC.”

Luck Wajananawat, Executive Vice President, BAAC

- *BAAC has an increased client base.* The bank now has better financial information about savers who also want loans, which adds to the profitability of lending to the poor.

“Nowadays, when I meet with borrowers, we do not discuss the credit application only, but we also speak about how much they want to save. Some years ago, this was completely different; we only talked about credit.”

BAAC business development staff member

- *BAAC reduced its currency risk* by reducing its external debt and *reduced its liquidity risk* by diversifying its source of funds.
- *BAAC increased its autonomy* from the government by becoming less dependent on government funds for lending.
- *BAAC has a much better public image with rural Thais.* Thanks to the success of the unconventional

marketing of its savings product and its attractiveness to clients, BAAC is now recognized by rural Thais as offering products that fit their needs.

Client Benefits

- *Low-income rural savers have a safe place to save.* BAAC savings accounts offer clients liquidity and generate a small return. A client-satisfaction survey conducted in July 2002 found that clients like saving. Their first priority was to save for old age and their children, then for emergencies, and third, to balance income and expenditures.
- *Women in particular benefit from a secure place to save their cash.* Women comprise 60 percent of BAAC rural clients.

Conclusions

GTZ's modest but strategic investment in technical assistance achieved its mission of developing and delivering savings services to 2.3 million rural poor Thais, and the numbers are still rising. BAAC's "Save and Get a Chance" program succeeded in attracting and keeping these new savers through its unorthodox combination of savings, prize drawings, and parties.

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Contacts and Websites

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GTZ web site about the project:

www.gtz.de/fsd/products/saving_mobilization_details.htm

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