Innovations in Microfinance

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This series showcases innovative microfinance programs from the February 2000 "Advancing Microfinance in Rural West Africa" conference held in Bamako, Mali. The programs emphasize reaching new frontiers in rural areas, particularly in West Africa. These notes are an investigation of innovative practices working in specific environments, not a general endorsement of financial products. We recommend institutions utilize these technical notes as introductory information. To learn more about this topic and its applicability to your program, please consult the bibliography at the end of the piece.

The Microfinance Experience with Savings Mobilization

I. A Closer Look at the Savings Experience of Microfinance Institutions

Over the last decade, microfinance institutions (MFIs) have found that poor households are interested in a variety of savings services and products. Deposit services allow low-income households to save for large expenses like dowries or school fees, accumulate funds for future investment such as purchasing a cow, or prepare for periods such as the rainy season when they may have little or no income. Access to savings services can protect low-income households by making them less vulnerable and giving them the opportunity for a positive real return. This technical note provides a snapshot of savings' benefits.

Research has found that, for microfinance clients, savings products are as popular as working capital and credit for investments. In the microfinance movement, there has been a gradual shift since 1990 from poverty lending and obligatory savings products to a financial systems approach that recognizes the importance of savings for the poor. The challenge for MFIs is to design cost-effective savings mobilization strategies that respond to different client needs. These strategies can include developing individual voluntary savings products with different liquidity and return levels or differentiated interest rates, and promotional campaigns targeted to client demand.

II. Understanding How Savings Can Work For Microfinance Clients

Recent studies have highlighted the factors that affect savings. One study focused on the premise that individuals save mainly to smooth their consumption path over time, in accordance with their expected lifetime income. Using this assumption, both rich and poor will save in any given time and face a number of decisions regarding different savings options.

From the perspective of the microfinance client, the advantages of deposit facilities over informal savings include a combination of access to cash, security, rate of return, and divisibility of savings. Informal savings, such as gold or livestock, require time to be converted into cash. However, although cash holdings may offer a liquidity advantage, they do not provide a hedge against inflation and run the risk of being stolen or lost. Savings products designed for the microfinance market need to take into account the importance of insurance, safeguarding, and liquidity as important savings motives for the poor, especially in rural areas.

Research on MFIs' saving services found five key factors that influence the decision to save. These are:

1. **Savings products must be designed to respond to the characteristics of different market segments** and consider earnings, consumption habits, socio-cultural obligations, personal ambitions, and the surrounding geographic and economic conditions.
2. **Individual voluntary savings products attract a larger number of depositors and a higher savings volume than compulsory savings**. As a result, the voluntary savings market is not limited to those who save only as a precondition for gaining credit.
3. **Demand for deposit facilities by the poor also increases as the interest rate increases**. Even though it is assumed that the poor save even under negative real interest rates, evidence points to the importance of positive real interest rates.
4. **The transaction cost of transforming available surplus into specific savings options influences the depositor's decision.** The time factor—that is, the time spent to gain access to savings in formal institutions—is one such cost that leads small savers to prefer informal saving methods.

III. Understanding How MFIs Can Benefit from Savings Services

From an institutional perspective, if deposit services are appropriately priced, mobilizing micro and small savings can help MFIs reach financial self-sufficiency. In fact, introducing savings facilities may considerably improve an MFI's client outreach, while increasing demand and controlling costs in its operations. Through deposit activities, an MFI can lower their capital costs and build a sustainable base for expansion.

An institution will gain the confidence of potential depositors only if perceived risks are reduced by good operational performance that is both visible to and tangible for the client. One of the major challenges for MFIs in establishing effective savings programs is transforming their corporate culture and capabilities to support new services. Equally important is the involvement of governments in the regulation and supervision of institutions capturing savings from the public. Well-designed and well-delivered deposit services can lead to the successful intermediation of financial services by MFIs' reducing their dependency on external funding and generating a stable stream of capital to support financial operations.

By offering savings services, MFIs gain several important advantages. These include:

- **An attractive source of funds from deposits**, as their financial costs are normally lower than funds from the interbank market.
- **Lower liquidity risk from a small number of withdrawals** from small amounts on deposit. The financial institution is less exposed than it would be if larger withdrawals were made from larger savings accounts.

- **A more stable funding source than donor funds or discounted lines from central banks.** Small depositors, in general, do not intervene in the bank's day-to-day business as do most governments and donors that provide funding.

Apart from designing appropriate savings products, MFIs also need to understand that there are other elements—most beyond their control—that are critical to the successful delivery of savings products. These include:

- A sound macroeconomic and financial sector environment;
- Sound governance, ownership, and institutional structures for deposit-taking MFIs that ensure responsible financial intermediation between savers and borrowers;
- Sophisticated financial management capabilities that focus on liquidity and risk management capabilities;
- Regulatory frameworks and supervision mechanisms for deposit taking that focus on depositor safety; and
- Effective products and mechanisms that cover savings mobilization costs and create viable and sustainable financial institutions.

IV. How to Develop and Roll Out Savings Products

The new product development process[1] and rollout of saving products are illustrated in the graphic below. As the product life cycle indicates, there is a continuing need for new products to complement existing products or replace those that are at the end of their life cycle. Since most new products will fail, a large number of new products must be introduced to garner the few that will succeed. This "funnel" process works by generating a lot of new ideas, with few emerging at the end.

The New Product Development Process for the Rollout of Saving Products

A Idea Generation	B Design and Pilot Testing	C Monitoring and Evaluation	D Product Rollout/ Commercialization
Ideas from: • Market studies • Customers and employees • Competitors • Other markets • Middlemen	Design assessment: • Strengths and weaknesses • Fit with objectives • Market trends Pilot testing: • Develop product • Test marketing • Revise product design as needed • Rough return on investments estimate	• Reaction from customers • Rough estimates of cost, sales, and profits	• Finalize products and marketing plan • Start product and marketing rollout • Finalize pricing and yield

[1] The new product development process is based on the manuals and papers that the USAID-funded Microfinance Best Practices Project and UNDP MicroSave–Africa have published.

USING MARKET STUDIES TO DESIGN DEMAND-LED SAVINGS PRODUCTS

As MFIs begin to compete more aggressively in the deposit market, market studies are a useful tool to learn more about their strengths, customer base, and competitors' offerings. MFIs have used market studies to gain insight into client preferences and develop strategies to design cost-effective, targeted savings products that divert clients from the competition.

Market studies provide MFIs with a better understanding of the microfinance market's savings capacity and needs, so that they can design products with appropriate periods and terms in relation to client expense and investment patterns. Many MFIs, such as Taimako in Niger and Caisses Villageoises d'Epargne et de Credit Autogérées (CVECA) du Pays Dogon and Kafo Jiginew in Mali, used market studies to examine their existing client base, then analyzed the information collected on service usage, needs, and demographic trends to develop client-tailored products.

An in-depth market analysis underscored the microfinance market's preferences. It found several major characteristics that were important in designing successful savings facilities:

- Safety/security
- Convenience
- Liquidity
- Positive returns

DESIGNING AND PILOT-TESTING SAVINGS PRODUCTS

Once a number of savings products are designed, they undergo a thorough review to see which fit best with the MFI's objectives, existing product lines, and technical and financial capacities. At this stage, potential customers further evaluate a product model through a pilot test.

Once the deposit product design is finalized and initial pilot test results are positive, then the products are rolled out, usually in a limited area through selected branches. Feedback from pilot testing is used to refine the savings product design, and a revised version is often test-marketed. Finally, the product is launched in the targeted market. For example, the Bangladesh Rural Advancement Committee (BRAC) has relied on pilot testing as an important tool to develop and introduce new savings products. BRAC undertook extensive field-testing many times; this process often delays the nationwide launching of new savings products for a year or two, but the final product is usually well received in the marketplace.

As MFIs have become customer led and more sophisticated in their financial analyses, they have started to diversify product lines. Developing new products and focusing on financial viability have prompted many MFIs to assess more carefully each product line's cost and pricing structure. CVECA's strategy in Mali (see below), for example, was to carefully mainstream each new product into a branch's activities to assess cost implications.

As the trend for deposit products among MFIs increases, it has become imperative for institutions to carefully assess their products' cost structures to set an adequate pricing policy that reflects the true costs involved. The products' access levels, safety, convenience, and liquidity determine pricing and yields of savings products.

MONITORING AND EVALUATION

As branches experiment with launching new savings products, they will have to pay careful attention to the time and effort involved in their marketing, outreach, and back office management. This information will determine the new product line's financial and organizational costs. At this stage, the MFI will continue its market research to assess how clients perceive the new product. Research results will indicate the product's seasonality, market areas, and/or segments that offer the greatest growth potential.

MFIs use monitoring and evaluation to carefully review the results of the products they are introducing into the market, both in the short and medium term. MFIs such as Nyesigiso and Kafo Jiginew perform regular visits to their branches to examine their products' impact on staff workload in terms of number of clients, costs, liquidity, capital funds, and, ultimately, profitability.

As MFIs focus on each product line's profitability, their monitoring and evaluation indicators are likely to change over time. MFIs are becoming much more thorough in assessing cost structures and determining an adequate product cost. Because many

Advantages and Disadvantages for Savers of Informal Savings and Financial Savings

Reason for Saving	Primary Forms of Informal Savings	Appropriate Financial Instruments	Primary Advantages of Financial Products Relative to Informal Savings	Primary Disadvantages of Financial Products Relative to Informal savings
Emergencies and unexpected investment opportunities	• Cash • Gold and other valuables • Grain and cash crops	• Liquid accounts	• Security • Returns	• Real value of savings may decline due to inflation or currency devaluation • Transaction costs to the saver • Interest may be taxed • Savers with very small accounts may earn no returns • Risk of the institution's failure or bankruptcy
Managing irregular income streams	• Cash • Gold and other valuables • Animals • Grain and cash crops	• Liquid, semiliquid, and fixed deposit accounts	• Security • Useful for consumption smoothing • Returns provide income flows for low-income periods	
Long-term investments (land purchase, children's education, housing construction, purchase of machinery)	• Cash • Gold and other valuables • Animals • Construction materials • Land • Savings collectors	• Fixed deposit accounts; liquid and semiliquid accounts may also be used depending on the nature of the investment desired	• Security • Possibility of substantial returns over long periods	
Social and religious obligations (life crisis ceremonies, religious holidays and pilgrimages, contributions to local funds and functions)	• Cash • Gold and other vlauables • Grain and cash crops • Animals • ROSCAs • Reciprocal obligations • Savings collectors	• Fixed deposit accounts; semiliquid and liquid accounts may also be used	• Security • Through selection from a set of available instruments, financial savings can be customized to meet the needs of a wide variety of social and religious obligations	
Old age and disability	• Land • Gold and other valuables • Cash • Animals	• Fixed deposit accounts	• Security • Possibility of substantial returns over long periods	

Note: Table excludes savings in pastoral societies.

Source: The contents of the table have been extracted, with permission, from Robinson, M.S. *The Microfinance Revolution: Sustainable Finance for the Poor.* Washington, D.C.: World Bank, forthcoming.

branches are becoming automated and yielding important data on a product line's actual costs and profits, each new product undergoes heavier scrutiny of its cost structures.

THE COMMERCIALIZATION OF SAVING PRODUCTS

The large majority of MFIs involved in savings mobilization are offering traditional commercial banking deposit products—namely, current accounts, savings accounts, and fixed or time deposits. Unlike most traditional commercial banks, their services reach a clientele that has usually been denied access to these products. The advantages of savings and related products are listed in the chart on page 5 and explained in more detail in the text that follows.

To induce potential borrowers to bring in their savings, MFIs must meet local demand for savings instruments offering different mixes of liquidity and returns. Most important, MFIs should acknowledge the important role that long-term savings instruments have on their deposit stability. Generating a good mix among short- and long-term instruments will enable MFIs to reduce the costs of deposit mobilization and will enhance overall liquidity management, rendering a successful savings mobilization strategy.

V. Short-Term Savings Instruments

- **Passbook savings accounts:** With a passbook savings account, clients receive a record book where their deposits and withdrawals are entered, so they can keep track of their transactions. Passbook savings account holders can easily deposit money and earn interest income, but their access to their deposits is limited and they cannot use checks to reduce transaction costs. Access to savings in passbook accounts varies from no access to a limited number of withdrawals each month. Some institutions have enhanced this service by offering statement savings to preferred clients who then receive a statement that lists their withdrawals and deposits.

Advantages	Drawbacks
✓ Convenience	✓ Interest earnings tend to be minimal
✓ Small minimum	
✓ Liquidity	
✓ Security	
✓ Guarantees	

- **Sight deposits:** This savings product does not require a minimum or maximum amount. Withdrawals are possible without notice whenever the MFI is open. This account usually does not pay interest.

Advantages	Drawbacks
✓ Convenience	✓ Does not provide any hedging against inflation
✓ No minimum amounts	✓ Does not provide any interest
✓ Liquidity	
✓ Security	
✓ No administrative charges	

- **Current accounts:** These are non-interest-bearing accounts that are used mainly by legal entities (such as nongovernmental organizations and companies) that require banking and securitization services in locations not served by another bank. Accounts are charged for these services.

Advantages	Drawbacks
✓ Provides access to payment services (incoming or outgoing) ✓ Links the MFI with other banks and financial institutions ✓ Convenience ✓ Security	✓ Does not provide any hedging against inflation

VI. Longer Term Savings

Term deposits are extremely important to the microfinance industry in West Africa because these products tend to ensure stability within deposits and are essential components to any savings mobilization strategy.

- **Certificates of deposit:** Certificates of deposit (or CDs) are savings instruments that allow clients to lock in to an interest rate for a specific period of time (i.e., six months, one year, five years). Once clients have chosen their term, the MFI will generally require that clients keep their money in the account until the term ends, but it may allow clients to withdraw the interest they earn.

Because clients agree to leave their funds in the account for a specified period, the institution may pay a higher rate of interest than it would for a savings or other account. Typically, the longer the term, the higher the annual percentage rate paid. Penalties for early withdrawal vary among MFIs; in some cases, the penalty is as high as the interest earned.

Advantages	Drawbacks
✓ Longer term investments ✓ Flexibility in the terms and amounts of the deposit ✓ Earns interest, the rate of which can increase with the amount and terms of the deposit	✓ Penalties associated with early withdrawal

- **Savings plan:** Based on a rotating savings and credit association (ROSCA) or tontine methodology, a savings plan requires clients to deposit a fixed amount on a regular schedule to which the saver has previously committed. The savings plan earns interest, and deposits can be accessed when the plan ends. This product is aimed at women, who are unable to save large amounts but often save small amounts regularly.

Advantages	Drawbacks
✓ Regular savings plan ✓ Convenience ✓ Small minimum ✓ Security ✓ Earns a positive return on investment	✓ Does not offer any flexibility to the depositor

These savings products were defined using a demand-driven approach. The resulting mix of savings products responds to various market segments' characteristics and financial needs. These products' unique characteristics are:

- They can be branded with self-explanatory names that make it easier for depositors to find the products that best suit their needs.
- A sliding interest rate structure provides a financial incentive for depositors to increase their savings balance and discourages savings withdrawals.
- A broad array of savings products are offered with different levels of liquidity and return, so clients can choose the products that best suit their needs.
- Simple savings products can coexist with complex savings products; this creates the right balance for administrative staff who have the resources to manage both types of products.

LEARNING FROM THE WEST AFRICAN SAVINGS MOBILIZATION EXPERIENCE

MFIs in West Africa range from institutions providing forced savings to institutions offering voluntary deposits. Institutions such as *caisses villageoises* and credit unions, which practice voluntary savings, are creating deposit products and mechanisms to attract depositors. The wide array of deposit products introduced in this note reflect the high opportunity cost of funds in the microfinance sector. MFIs in Africa will have to continue their product innovation, offering depositors attractive interest rates and high quality services to generate a continuous and increasing flow of deposits to meet loan demand.

An In-Depth Look at the Deposit Outcomes of Selected MFIs in Mali

Indicators	Mali
Per capita GDP in 1996 (US$)	250
Average inflation rate (%)	5.8
Outstanding savings for the Réseaux des Caisses Mutuelles d'Epargne et de Crédit as of Dec. 31, 1999 (FCFA)	9,855,885
Outstanding savings for the Réseaux des Caisses Villageoises d'Epargne et de Crédit Autogérées as of Dec. 31, 1999 (FCFA)	980,144
Outstanding savings for the Systemes de Crédit Solidaires as of Dec. 31, 1999 (FCFA)	647,692

Source: Gonzales-Vega, C., D. Graham, and K. Ouattara. "Village Banks, Caisses Villageoises, and Credit Unions: Lessons from Client-Owned Microfinance Organizations in West Africa." Microenterprise Best Practices, 1999.

CVECA: PROVIDING A RANGE OF DEMAND-LED SAVINGS PRODUCTS

Established in 1986, Caisses Villageoises d'Epargne et de Crédit Autogérées (CVECA) began by providing financial services to villagers in Mali's Pays Dogon region. The bank grew out of banking reform measures begun by the Banque National de Développement (BNDA) to fund agricultural activities in rural areas. In designing CVECA, the emphasis was on ensuring the rural agricultural sector's development and fostering the participation of villagers who would be affected.

Today, CVECA is seen very much as a tool for local development and includes all villagers, not just CVECA network members or clients, in its many management decisions. A general assembly, composed of the entire village, governs each CVECA branch. During the annual general assembly meeting, bank managers present the bank's financial statements and other appropriate indicators. At that time, villagers address issues of concern and decide how CVECA should spend its profits. This includes considering new products.

Although CVECA is a credit-led institution, the bank saw the demand for savings facilities. Following its management structure, it depended heavily on the input and ideas of villagers, conducting detailed surveys to better understand the savings needs and capacity of both groups and individuals. Public reviews were then organized during village meetings to assess the results. Final decisions were reached collectively. Then CVECA began to develop the following types of savings products:

- **Sight deposits:** For this account, CVECA does not require a minimum or maximum deposit. The account does not earn interest, nor does the villager pay any administration fees. Clients can make withdrawals without notice any time the bank is open.
- **Term deposits:** This is a contractual account with a fixed term and withdrawal date. The term can be from three months to three years but under no circumstances can withdrawals be made prematurely. Term deposits earn a high interest rate—usually around 20 percent—that the village sets. Interest is paid at the term's end, when the deposit is withdrawn.
- **Savings plans:** With this account, savers develop a savings plan and commit to pay a fixed amount regularly for 24 to 48 weeks. The interest rate is typically around 10 percent per year.

CVECA's total savings portfolio has grown rapidly. Total deposits collected in 1996 were US$692,000, a 40 percent increase over 1995. Although CVECA's total deposits are not considered exceptional compared to the rest of the region, they are important for two reasons:

- They allowed the bank to mobilize savings deposits and therefore decreased its dependency on donors and increased its members' sense of ownership.
- The bank's savings portfolio plays an important role in protecting the livelihood of its members. Because the bank provides a safe, accessible opportunity to save in the Pays Dogon region, it can better equip households to deal with emergencies.

CITI SAVINGS AND LOAN COMPANY LTD., GHANA: WORKING THROUGH SUSUS TO REACH THOUSANDS OF SAVERS

Citi Savings and Loan Company is a savings-led institution that provides savings and loan services to microentrepreneurs in Ghana's Greater Accra region. By adopting a ROSCA methodology, known as *susu* in Ghana, Citi works through traditional susu providers to finance *susu* clubs and collectors. Citi sees itself as a "wholesaler" of funds and views the *susu* network as the microfinance "retailer."

Citi currently provides financial services to 15 *susu* clubs that meet at a regularly scheduled time and place throughout the 100-week cycle. The club, which usually has between 200 and 800 members for each cycle, saves between US$40,000 and US$800,000 per cycle. The accumulated savings are held on behalf of members and paid out to them over the 100-week cycle from each week's collection. Women typically join the clubs because they can gain access to the full amount of their weekly deposits before the end of the cycle. Citi helps provide liquidity to the club by providing the *susu* operator with a loan allowing her to make payouts as early as possible. The *susu* operator charges a small commission to all members that enable her to borrow the funds and reap a small profit for herself. The average weekly individual deposit to the *susu* clubs is between US$2 and US$90, for a total weekly collection of approximately US$3,333, which is used to make the weekly payout and to cover fees charged by the club operator. Some of this money is deposited at Citi. *Susu* clubs use Citi primarily for obtaining loans. By the end of 1997, Citi's Fadama branch had made loans from US$54,000 to US$125,000, for a total of US$390,000 to only four of the 12 clubs the branch served.

Microentrepreneurs also can save through a one of hundreds of *susu* collectors throughout Ghana. Each of the collectors has between 100 and 800 clients from whom he visits personally each day, taking an average deposit of US$1 six days a week for a total daily deposit of approximately US$460. Collectors can receive as much as US$10,000 a month in individual deposits, of which 50 percent is deposited with Citi in an interest-bearing account. The deposit cycle is 30 days at which time the collector pays back the amount collected less one day's savings as his commission. At the close of 1997, Citi's Kaneshie branch, which serves the majority of *susu* collectors, had 71 collectors with savings accounts totaling $120,000 in deposits.

Through the *susu* model, Citi provides traditional credit and passbook savings accounts that help with liquidity and safety concerns of *susu* operators. Citi also works closely with *susu* collectors and club operators, providing:

- An environment that enables *susus* to more effectively manage savings and credit activities by increasing liquidity; and
- Client screening and *susu* supervision and support.

Fierce competition has forced Citi to find innovative ways to attract new clients. To do this, Citi began a two-pronged approach to better understand its clients' needs. First, Citi distributed detailed customer satisfaction surveys to all clients and carefully analyzed the results. Second, Citi developed a relationship with the Greater Accra Susu Collectors Association, an organization that lobbies on the behalf of collectors. As a result, Citi:

- Extended its hours to include Saturdays;
- Sent a van to make collections on site instead of requiring collectors to come to the bank;
- Adjusted the interest rates on loans and deposits to make them more competitive;
- Waived some transaction fees; and
- Provided collectors with overdrafts rather than loans, so collectors can make loans to clients.

Citi also is enabling *susu* clubs and collectors to buy a meaningful stake in the company. In the short term, their Citi shares serve as collateral against Citi loans. In the longer term, the shares entitle the *susu* clubs and collectors to share in Citi's future profitability by earning dividends.

With this client-driven methodology, Citi was able to reach 10,000 customers, provide service out of three branches, and mobilize US$1.4 million in savings. Citi maintains a low overhead structure and preserves the *susu* network's flexible nature. By developing new benefits to attract and retain clients, Citi will continue to grow as the community's needs grow.

TAIMAKO: DEVELOPING STRATEGIES TO PROVIDE SAVINGS IN RURAL NIGER

Established in 1993, the Taimako Bank has sought to become an economically viable savings and loan institution in the face of a collapsing banking system and the failure of large-scale development projects. Taimako works primarily in Niamey's urban center, but it is developing a diversified and decentralized system that can provide sustainable financial services to the rural population as well.

Taimako's focus is on savings. The bank requires every loan client to save for six months before qualifying for a loan. Because urban areas provide a larger capital base, Taimako launched its three savings products—savings accounts, current accounts, and investment accounts—in an urban area. The goal was to master savings activities in Niamey and solidify the bank's financial foundation before moving into rural areas.

Once the bank had mastered savings products in the urban areas, it developed a two-track strategy to help move savings into the rural areas. This strategy required Taimako to develop:

- Autonomous operations with farmer groups supported and monitored by Taimako; and
- Partnerships with local development projects.

Taimako now successfully provides its three types of savings services in both urban and rural areas. At the end of 1997, Taimako had an average deposit of US$165, with a total savings portfolio of US$1 million. The three basic savings facilities are:

- **Savings accounts** that are accessible at all times;
- **Current accounts** that match the standard current account model but are only open to economic operators, associations, and groups; and
- **Investment accounts** that are designed for clients at the upper end of the economic scale. (This account requires a minimum deposit of FCFA $1 million [US$1,670] and pays an interest rate of 3 percent per year.)

Taimako clients can become full members of the institution by buying at least one participating share. Each member can then participate in the institution's decision-making process. To address concerns of conflict of interest, each member has only one vote in decision-making issues, whether he or she owns one or a thousand shares. All loans are disbursed by the solidarity group, so the client-owner must still apply for any loan products, just as non-members are required to do.

VII. CONCLUSION

The importance of savings in poor households is clearly evident. As illustrated by the experiences of CVECA, Taimako, and others, savings can help both clients and MFIs reach their financial goals. For clients, savings help smooth consumption patterns during difficult times by covering the cost of large expenses, such as school fees. For MFIs, savings can help them gain financial independence and increase profitability. By mobilizing savings, MFIs gain access to funds at a lower rate than is available from the commercial market and the potential to decrease their dependency on donor funds if the savings program is successful. The design of appropriate savings facilities can also increase the institution's outreach and help control costs.

Microsavers, however, are not a homogenous group and represent a number of different market segments with different saving needs. To meet a variety of needs, MFIs should provide a mix of short- and medium-term deposit products that offer a range of liquidity, different rates of return, convenience, and flexibility. From passbook savings to investment plans, MFIs can find a variety of products to increase their ability to reach clients who have historically been denied access to these products.

Through market studies, pilot-testing, and monitoring and evaluation, MFIs can develop a range of short- and medium-term products. Saving products that make it through these stages can then be tailored to meet client needs and create long-term growth and stability in MFIs. Monitoring and evaluating product lines are critical steps in developing an adequate pricing policy that reflects true product costs and pushes the MFI toward financial self-sufficiency. The MFI's commitment to microentrepreneurs is reflected in these product lines; they, in turn, promote a long-term financial relationship that contributes to strong and stable financial markets.

Although the benefits of savings are substantial, their success is not dependent solely on their design but also on the pricing and marketing process and an understanding of the market. For savings products to thrive in the marketplace, the MFI must have a sound management structure and an appropriate management information system to ensure that client deposits are not at risk.

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