



**Case Study no. 3**

**January 2007**

*This case study was undertaken in the framework of an SDC programme through which Master students from Swiss Universities were given the opportunity to do their final degree thesis on a topic related to SDC's financial sector development programme in transition and developing countries. The programme, implemented by Intercooperation, was part of SDC's contribution to the United Nations' Year of Microfinance in 2005.*

## Mobilizing Savings in Rural Albania

### An example from the Albanian Savings and Credit Union

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The Albanian Savings and Credit Union (ASCU), Albania's most important rural credit provider for over 10 years, introduced savings services in 2001. Since then, deposits from its members have steadily increased, showing the important need and demand for such services in rural areas.

In late 2005, two students from the University of Bern, Switzerland investigated the savings behaviour of Albania's rural households in the operation area of the ASCU, and assessed the potential to diversify the offer of savings products. For this purpose, they randomly selected and interviewed 96 rural households from the ASCU operation area. The study sample included members as well as non-members of the ASCU.

The field research focused on two main questions: First, why and how do households in rural Albania save? Second, what kind of alternative savings products could better meet the rural population's demand in order to mobilize more savings?

#### The Albanian Savings and Credit Union (ASCU)

The history of the ASCU dates back to

1993, when the Albanian Government and the World Bank launched a system of Village Credit Funds to provide the rural population with access to small loans. In order to institutionalize the credit activity, the Village Credit Funds were transformed into member-based Savings and Credit Associations (SCAs) in 1999. In 2002, the network of existing SCAs created and joined the Albanian Savings and Credit Union. This network functions as a cooperative system and the SCAs' activities are based on the Albanian law for "Savings and Credit Associations and their Unions".



*The first Savings and Credit Association Office in Kuqan*

The ASCU currently represents 93 SCAs, located in eight out of the 36 districts of

the country. The Union's functions are to 1. refinance the SCAs with internal and external funds; 2. represent the SCAs' interests; 3. provide training and information to the SCA staff; and 4. perform the internal control and audits.

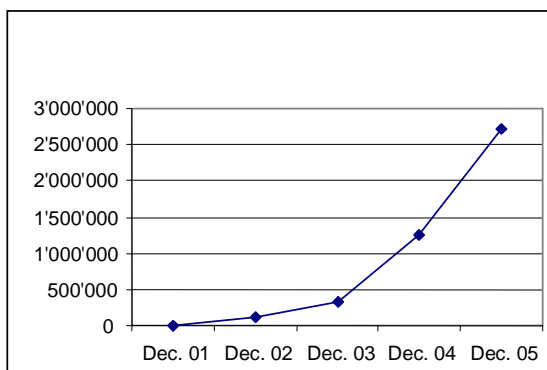
**Table 1: The ASCU: facts and figures (December 2005)**

Date of creation	1993
Number of clients	8'652
Savings portfolio	CHF 2'713'971
Loan portfolio	CHF 21'144'678
Average loan size	CHF 2'444
Number of employees of the Union	45
Number of SCAs	93

In this institution, clients have to become members of an SCA, which operates according to the three principles of self-establishment, self-responsibility and self-management. The main task of the SCA is to provide members with financial services, in particular credit and savings.

The SCAs have been very successful in providing a constantly increasing number of loans, with the consolidated loan portfolio reaching over CHF 20 million and a portfolio at risk of 30 days of only 0.6 percent in December 2005.

**Graph 1: The ASCU's total deposits (CHF)**



The SCAs began offering deposit accounts in 2001. So far, the only kind of saving product available is a fixed term deposit, ranging from 6 to 24 months and bearing interest rates of 7 to 8 percent per annum. Although the deposits have steadily increased since then (see graph 1), the service offer should be diversified in order to mobilize substantially more savings and thus become more independent from external credit lines.

### Relationship between the ASCU and SDC

The Swiss Agency for Development and Cooperation (SDC) views the lack of access to financial services as a major impediment to economic development, particularly in rural areas.<sup>1</sup> Already in 1994, SDC began supporting the project (which later became the ASCU) by providing capacity building and training to the staff of the Village Credit Funds (VCF). During the process of evolution from VCFs into SCAs in 1999, SDC promoted the creation of several SCAs, providing grants for IT equipment and for legal registration. Since the set up of the Union, SDC has financed an annual external audit. More recently, SDC has provided a small grant to the Union in order to cover the excess cost of a loan from a commercial bank (compared to an international development co-operation loan). SDC thus promotes the integration of the ASCU into the local financial market.

### Why do Albania's rural households save?

Saving is the action of keeping part of the current income in order to consume it later, instead of consuming it immediately. In order to learn why households save, the authors interviewed the person in the household who controls the finances.<sup>2</sup>

<sup>1</sup> More information on SDC financial sector projects is given under [http://www.sdc-employment-income.ch/en/Home/Financial\\_Sector](http://www.sdc-employment-income.ch/en/Home/Financial_Sector)

<sup>2</sup> In 93 percent of the cases the person in charge is male. The average household size is close to five, typically including three generations living together under the same roof. The average annual household income is about CHF 9,950 and typically comes from two or three different sources.

Respondents were asked in an open questionnaire about their motives for saving, which were grouped into four main categories: 1. reduce vulnerability; 2. accumulate lumps sums (and be able to make significant expenses at one time); 3. bequeath relatives and friends; 4. obtain or repay a credit.<sup>3</sup> (see table 2)

Obviously, reducing vulnerability is the most frequent reason for saving amongst households in rural Albania. In particular, savings allow households to cope with emergency situations.

Accumulating lump sums is the second most important motive for saving, in particular with the objective of investing in a private business. Finally, securing children's future is another oft-cited motive for saving.

**Table 2: Reasons given for savings by Albanian rural households**

What are the main reasons for you to save?	Frequency of answers	Percent
<b>1. Decrease vulnerability</b>	<b>81</b>	<b>44.3%</b>
emergencies	39	21.3%
security/insurance	15	8.2%
to cover family expenses	9	4.9%
to increase family welfare	18	9.8%
<b>2. Accumulate lump sums</b>	<b>63</b>	<b>34.4%</b>
to invest in private business	29	15.8%
children's education	8	4.4%
to marry children	5	2.7%
to build/repair house	14	7.7%
to buy durable goods	7	3.8%
<b>3. Bequeath relatives and friends</b>	<b>24</b>	<b>13.1%</b>
children's future	22	12.0%
social obligations	2	1.1%
<b>4. Obtain or repay a credit</b>	<b>6</b>	<b>3.3%</b>
to pay back a loan	6	3.3%
<b>5. Others</b>	<b>9</b>	<b>4.9%</b>
<b>Total</b>	<b>183</b>	<b>100%</b>

## How do Albania's rural households save?

When saving, people have to decide between immediate and later benefits, and might suffer an internal conflict. To explore households' saving strategies, respondents were asked how they manage to overcome the temptation to spend the money immediately instead of saving it. About 20% of the respondents claimed not to be tempted, whereas 80 % named at least one strategy they use in order to avoid immediately spending all their earnings.

One of the most cited strategies is to plan the amounts of future consumption and savings. Another strategy consists of imposing rules, which help to control the expenses and avoid unnecessary spending. Some respondents even go further and impose an access restriction on their money. For instance, they lock it in a cupboard or bring it to relatives in order to keep it safe for them (see examples in box 1).

### Box 1: How to save?

#### The self-imposition of rules

A 41 year-old shopkeeper described how he manages not to spend excessively:

*"I just stay away from bars and thus avoid spending too much. This helps me not to spend more than the planned expenses. Sometimes I suffer, but then I see that it is worth it."*

#### The self-restriction of access to money

A 33 year-old woman explained her strategy as follows:

*"Every time I can sell milk from our cow I take the extra money and bring it to my mother-in-law who stores the money for me. Although I could go to her place at any time and take the money with me, I don't do it because I am too ashamed to go there and ask for my money."*

<sup>3</sup> Categories taken from Dauner (2004)

### What determines household's saving rates?

In order to analyze which factors influence household saving rates (ratio of monthly savings to monthly income), the authors performed a statistical regression with the method of ordinary least squares (OLS). Seven variables have a statistically significant impact on saving rates: four positive ones and three negative ones. Positive impacts on savings rates are:

- Households that earn more than the minimum consumption level have higher saving rates than households earning less.
- Those with a substantially varying monthly income (for example those living mainly from agriculture) have higher saving rates. This is in line with the fact that one of the main savings motives is to reduce vulnerability.
- Households in which the family head has temporarily emigrated to work abroad (mostly to Italy and Greece) have higher savings rates. Presumably, the family head plans to return to his family in Albania and start a business activity or build a house with the accumulated savings.

- Households that already have a bank account (either with ASCU or a regular commercial bank) tend to have higher saving rates. The explanation for this may be two-fold: the security and the interest rate of the account make people save more; or people who save more are those who open a bank account.

On the negative influences, the regression results show that pensioners who only earn money from a very low pension, and households with many non-earning members (small children) cannot afford high saving rates. Finally, when remittances are not sent by the household head, they seem to be used immediately for consumption or investment, rather than being saved. The irregular flow of remittances does to some extent replace the function of savings.

### Testing new saving products

In order to test which savings products – in addition to the term deposit currently offered by the ASCU - could contribute to increased deposits in the SCAs and serve the needs of their members, the authors presented five products to the interviewees and asked them to rate their acceptance (see table 3).

**Table 3: Savings products tested for acceptance**

Type of product	Approval rate
<b>Lock-Box:</b> Client deposits money in a box at home, whose key is kept at the SCA. Client needs to bring the box to the SCA to open it and deposit the savings on a term deposit.	51%
<b>Commitment Saving Account:</b> Client commits her/himself to deposit each month a fixed amount of money whose level is chosen by her/him. If the monthly commitment is violated, withdrawals are limited and the interest rate is lowered	44%
<b>Child-Education Account:</b> Money can only be withdrawn after the owner has turned 18.	37%
<b>Consumption Smoothing Account:</b> a significant amount of money is deposited in the account once, and monthly withdrawals are limited to a fixed amount. This can help to transform money from a period of high income (e.g. harvest) into a steady monthly income in the following months.	36%
<b>Retirement Account:</b> Money can only be withdrawn after the owner has turned 65.	17%

These five account types were inspired from microfinance institutions around the world. They all have specific features that support the accumulation of savings and help to overcome temptation problems in the saving process.

The results of the interviews show that among the five accounts presented, the Lock-Box and the Commitment Saving Account were particularly popular. This reflects the fact that households in rural Albania like the idea of being “forced” to save regularly. The Lock-Box is particularly practical because people do not have to go to the bank each time they have a little amount of money to save.

Finally, all respondents were asked to

state the main reasons for their approval and disapproval of each type of account. A statistical regression (logit) was then used to show which factors influence positive or negative appreciation of the account (see table 4). The Lock-Box seems to be particularly popular among households with many children, which might reflect the commitment of a whole family to save and/or the impediment to go to the bank with many children at home. People with many children also appreciate the retirement account relatively more than others, showing their commitment to secure the future of their children. Finally, the Commitment Saving Account is more appreciated by people with higher income (who have higher savings rates), higher education or more patience.

**Table 4: Factors influencing the approval of different types of savings accounts**

Account	Lock-box	Commitment Saving	Child-Education	Consumption Smoothing	Retirement
<b>Factors influencing approval</b>	+ number of children	+ income + education + patience	-----	+ education - member of local SCA	+ number of children + member of local SCA
<b>Main reasons for approval</b>	helps to save more, prevents from spending	Yield of interest, commitment helps to save more	to have money when children need it	prevents from spending more than fixed amount	complements social security system
<b>Main reasons for disapproval</b>	cannot afford, prefers to invest	cannot afford, prefers to invest	cannot afford	prefers to invest, no lump-sum to deposit	pays social contribution, which is enough

## Conclusions

The rapid increase of the ASCU's volume of deposits since the introduction of the term deposit in 2001 shows that rural households in Albania are highly interested in savings services.

The results of the survey show that there is a large demand for new savings products. Accounts that support the accumulation process of saving and provide commitment features that help to overcome temptations to spend are very popular. The accounts with the highest

popularity are the Commitment Saving Account and the Lock-Box. The easy to introduce Commitment Saving Account seems to be a particularly valuable potential complement to the currently offered term deposits. While the term deposits are good to store savings, the Commitment Saving Account actively supports the accumulation process.

Being able to cope with emergency situations is the most important motive for saving among rural Albanians, followed by the accumulation of money to invest in a business, and the securing of the

children's future. The analysis of the determinants of saving rates also shows that people's capacity and willingness to save varies between different households.

Microfinance institutions that wish to promote savings as their main activity must consider their clients' different saving needs and capacities.



*A cabinet maker is being interviewed*

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