



ASSESSING THE DEMAND FOR SAVINGS SERVICES AMONG MICROFINANCE CLIENTS IN AFGHANISTAN

Research and Report
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Executive Summary

Assessing the Demand for Savings Services among Microfinance Clients in Afghanistan

Financial services in general and Microfinance in particular have been growing steadily in Afghanistan over the past six years¹. Microfinance Institutions (MFIs) have about 12 times more credit clients than all commercial banks combined; however, unlike banks, they do not have depositors. In clear contrast, banks have about 23 depositors for every borrower². The disproportion in the number of borrowers and savers in the banking system is a clear indication that MFIs could provide a valued service to their current clients and perhaps gain new savings clients.

This study investigated the demand for savings services among microfinance clients in urban and peri-urban areas of Kabul and Mazar-e-Sharif. Primarily the study focused on the ability and willingness of clients to save formally. Formal savings were defined as deposits in a financial institution. Additionally, it was important to explore the habits, perceptions, and attitudes that influence savings. Thirdly, the study wanted to understand how widely savings is spread among microfinance clients through equivalent informal practices such as purchasing inventory or gold.

The research used mixed methods including limited literature review, focus group discussions (FGDs), and structured interviews with a questionnaire. Data collected through FGDs was analyzed individually for each focus group. Questionnaires were applied to a client sample selected randomly. Data obtained through questionnaires was analyzed using descriptive inferential statistics and a regression model.

The key finding of the study is that 14% of MFI clients save formally and, if given the opportunity, more of them would save. About 80% of the clients produce enough income to cover their expenses and have a surplus that they either put aside (save) or reinvest in their business. Saving is considered a good habit and people understand that monetary savings are the best option to cope with unexpected situations. Most people consider a bank a safe and accessible place to make deposits but they would definitely go to an MFI if they needed a loan quickly. The study also showed that the perception of not having enough money to save is the largest impediment to save. Thus, the point that needs attention is how to address the perception of what is an appropriate savings amount.

¹ The Taliban was ousted in 2002 and some microfinance activity started immediately. Most banking activity started in 2003 after the promulgation of the banking law.

² "Condition and Performance of the Banking System as of Hoot 1387, March 2009," Da Afghanistan Bank, Supervision Department, 2009

The study offered several lessons for the design of savings products. For example, people value convenience more than safety; therefore, a mobile banking scheme would be welcome. Moreover, this study showed that women are by far less informed about financial services and they could greatly benefit from savings.

ASSESSING THE DEMAND FOR SAVINGS SERVICES AMONG MICROFINANCE CLIENTS IN AFGHANISTAN MAIN REPORT

1. PURPOSE OF THE STUDY

1.1. Background

Financial services in general and Microfinance in particular have been growing steadily in Afghanistan over the past few years. Central Bank data shows that as of December 2008, there are more than 23 savers for every borrower³. Equally, deposits in banks have been growing at a much higher rate than loans underwritten by these financial institutions. In clear contrast, Microfinance Institutions (MFIs) have about 12 times more credit clients than all commercial banks combined; however, unlike banks, they do not have savers. The disparity in the number of borrowers and savers in the banking system is a clear indication that MFIs could provide a valued service to their current clients and perhaps gain new savings clients. Thus, the key question is whether MFI clients are willing and able to save.

In an attempt to answer this question, MISFA, the Investment Support Facility for Afghanistan, made a call for proposals for a Savings Mobilization Feasibility and Assessment Study. This report presents the results of the demand study carried out in Afghanistan during May 2009. The report includes the demand identification, which explains the market, the methodology used, and how information was obtained, followed by the key findings and an analysis of the demand through the data obtained. Lastly, the lessons learned from the study were used to provide guidance on product design.

1.2. Objective of the Study and characterization of Demand

The objective of the Feasibility and Assessment Study for Savings Mobilization was to identify and estimate the demand for savings services among MFIs. A secondary objective was to

³ "Condition and Performance of the Banking System as of Hoot 1387, March 2009," Da Afghanistan Bank, Supervision Department, 2009

capture the opinions and perceptions that MFI clients have about savings. A third objective was to gain some deeper knowledge of MFI clientele in general.

Within the scope of the study, demand for savings was understood as the effective use of savings services at MFIs. Additionally, savings were understood to be monetary savings; in other words, deposits.

1.3. Identification of the Demand

In order to identify the demand for saving services among MFI clients the research included an overview of the savings market to obtain a general perspective using available published data (secondary research). To gain better understanding of the potential clients, primary research was performed using questionnaires and focus group discussions (FGDs). No literature about savings in Afghanistan was found.

1.3.1. The Market

Afghanistan is a country with 39 million people of whom 53%⁴ live in poverty (under the poverty line). Most Afghan people would not qualify as traditional banking clients. However, they could become microfinance clients. Around the world, microfinance has shown that the poor make excellent *bankable* clients who borrow and repay their loans and, if given the opportunity and convenience, also save.

As of May 2009, MFIs in Afghanistan had over 450,000 clients⁵. These clients were distributed across the country but the majority of them (around 60%) are in an area that stretches from Kabul to Mazar-e-Sherif.

Savings at banks have had a tremendous growth. Deposits at commercial banks increased close to six times from \$US 394 to \$US 2,285 million⁶ from March 2006 to March 2009. The number of savers as of December 2008 was almost one million, while at that same date there were less than 43,000 borrowers. According to Da Afghanistan Bank there are 147 full-service commercial bank branches spread across 27 provinces in the country, but no information was found regarding their specific location. Presumably, most banks also have their branches spread in the corridor between Kabul and Mazar-e-Sherif and in other major Afghan cities like Herat and Jalalabad. In spite of the amazing growth among bank depositors, the number of people not covered by these financial institutions is staggering. Only 2.6% of the Afghan population has a savings account. The market has been barely tapped.

⁴ CIA The World Fact Book, 2009; <https://www.cia.gov/library/publications/the-world-factbook/geos/af.html>

⁵ This figure represents the aggregate number of clients of institutions reporting to MISFA. Other microfinance programs may exist but those clients are not accounted for in this figure.

⁶ "Condition and Performance of the Banking System" 2009

1.3.2. Key Questions guiding the study

The study sought to find both quantitative aspects such as demographic data and actual facts, such as income and expenditures and qualitative information such as perceptions and opinions. The questions that guided the field study were organized in sections as follows⁷.

General Information: This section included variables to characterize the age, sex, level of literacy and education, household size, and working individuals within the household.

Your Work: These questions were about the personal work status (employed or unemployed) and the occupation (salaried, self-employed, family worker, etc.). Questions on personal income and household income were also included.

Expenditures: This section focused on global expenditure items in order to estimate the savings (Income – Expenditures = Disposable income ≈ savings).

Your Loan: Variables in this section were supposed to inquire about the loan experience in general, but particularly about the satisfaction with the institution providing this service. The questions about the loan balance and loan payment were also used to verify if the interviewees considered the loan obligation part of their usual expenditure stream.

Your Savings: This section, the longest of the questionnaire, was aimed at gaining factual information (e.g.; do you have deposits?), intentions (what do you do with your “extra” money? What is your dream? e.g.; have my own house), perception/opinion (where is it safe/easy to save) and perceptions (who pays more for savings?).

Remittances: Because remittances can be the initial link for additional financial services, consultants included a number of variables covering this topic (e.g.; do you receive money from a family member working outside your city/town?)

The FGDs used indirect participatory techniques (role playing) and direct questions on opinions, perceptions, and customs (as a child, did you save and how?). The FGD Guide can be found in Annex 2.

2. PREPARING AND EXECUTING THE STUDY

The research methods included focus group discussions (FGDs) and individual interviews with the aid of a questionnaire.

2.1. Sample

The sample was designed to obtain statistically significant indicators to assess the demand for savings at four microfinance institutions. The participants in the study included clients of three

⁷ A copy of the questionnaire can be found in Annex 1.

MFIs (BRAC, OXUS, and AFS) and one bank (FMFB)⁸. Additionally, Non clients were selected based on criteria such as size of business and location in urban areas of Kabul and Mazar-e-Sherif ().

Following known stratified sampling methods a statistically significant sample size of 307 clients was calculated. This sample size was increased by about 21% to have a more robust sample in case of non-response (people who refuse to take the survey). To avoid any bias in the original sample, the cases of non-response were considered a separate group called “Non-clients”. The total sample was augmented by 65 Non-clients. These were people who supposedly were not current MFI clients. This group was not part of a random selection process;⁹ they were picked based on simple criteria such as business size. Once the final sample size was finalized the participants were selected in a random manner and the sample distribution per province was obtained (see Table 1).

Table 1 – Sampling Framework by Province (Interviews with Questionnaire)

Institution	Province		Total
	Kabul	Balkh	
AFS	91	0	91
BRAC	65	33	98
OXUS	63	34	97
FMFB	21	0	21
Non-clients	45	20	65
TOTAL	285	87	372

The Focus Groups used a discussion guide developed using proven Microsave¹⁰ methodologies. This guide ensured a systematic flow of the discussion and avoided omission of key points. Because of local norms and customs the FGD had to be divided by gender. All FGDs were conducted in Dari given the predominance of this language in the geographic area of the sample. Pashto speakers were also considered as long as they felt comfortable communicating in Dari.

Participants were selected based on their socioeconomic level; the target group belonged to the two lower socio-economic quintiles. It was assumed that clients classified as micro-entrepreneurs or business owners (those who receive individual loans as opposed to group loans) were of a slightly higher socio-economic level. Unfortunately, all clients in this category

⁸ For the sampling exercise, FMFB was considered a MFI. The consultants decided to include FMFB clients among the interviewees for comparative purposes.

⁹ Due to the size of the study per MISFA’s budget, only a limited number of non-clients could be interviewed. In spite of this constraint, the number of non-clients interviewed has statistical significance in reference to the sample of clients. Annex 3 has a detailed methodological explanation of the sampling process.

¹⁰ MicroSave is a company specialized in market research and product development based in Nairobi, Kenya. See: www.microsave.org

are male, thus no females could participate. The discriminatory variable used to assert the socio-economic level of clients was the literacy level. All FGD participants from the lower socio-economic level were illiterate and also female. Additionally, the consultants relied on the MFI to select the *right* client because it has important information such as location of home and business and size of loan, all of which are correlated to the level of poverty.

Table 2 – Sampling Framework by Socio-economic level (Focus Group Discussions)

Institution	Number of Participants	Social level	Literacy level	Average Age
BRAC (all male participants)	6	Low socioeconomic level - Microenterprise (Food store, 1; shop keeper, 1; hotel worker, 1; tailor, 1; tin man, 1; dairy owner 1)	Literate	31
BRAC	6	Lower socioeconomic class (5 housewives; 1 Carpet weaver)	Illiterate	36
OXUS	7	Lower socioeconomic class (1 housewife, 2 carpet weavers, 2 sweater sewers, 1 tailor and 1 beauty parlor owner)	Illiterate	31
ARIANA	8	Lower socioeconomic class (4 housewives, 2 quilt sewer, 1 beauty parlor owner and 1 tailor)	Illiterate	34
Total	27			

2.2. Location of the Study

MISFA made a strategic decision to limit the study to those areas where the majority of current MFI clients are located. This early decision was important because extending the study to areas



Source: University of Texas, Library Maps, Afghanistan

of high security risk (e.g., Southern Afghanistan) or areas with very few MFI clients would have increased the difficulty and cost of the study exponentially. This is why the study was done in the provinces of Kabul and Balkh, including the cities of Kabul and Mazar-e-Sharif and some peri-urban areas.

In Kabul, non-clients were interviewed in the following districts:

- Kote Sangi,
- Qalai Wahed,
- Zorabad,
- Khair Khana.

2.3. Secondary Information

Secondary information regarding financial services in Afghanistan is extremely scarce. The consultants were able to obtain copies of one Quarterly Economic and Statistical Bulletin published by DAB, Second quarter 1387 (June – September 2008) and a report of the banking system (Summary Analysis - Condition and Performance of the Banking System as of Hoot 1387-March 2009). The consultants also reviewed existing literature on savings for the poor, studies done in countries in conflict and other pertinent literature. Annex 6 contains the bibliography reviewed.

2.4. Data collection

Data collection with the questionnaire was done between 20 May and 11 June, 2009. . FGDs took place from 20 May to 25 May 2009.

2.5. Overcoming Difficulties Encountered

Gender differences were noticeable. During FGDs, females took longer to provide answers than their male counterparts, once they warmed up, their participation became lively. Although the duration of the FGD was carefully monitored to avoid delays, it was clear that females felt more pressed to finish on time or even earlier since many of them had to be picked up by their husbands. Men, on the other hand, did not show any pressure to leave the FGD.

Age of interviewers mattered. In general, but especially in peri-urban areas the interviewer could not appear to be too young (younger than the interviewees) because women would not trust younger subjects with sensitive information such as income or expenditures. When non-clients were interviewed, some female entrepreneurs mentioned that they did not have permission (from their husbands) to talk to strangers; thus the interviewer had to spend additional time looking for target subjects.

Questions on income and expenditure presented the most problems. This was actually verified during the analysis stage because answers showed high variance and what appeared to be atypical data. To overcome the problem caused by outlier data, two forms of analysis were performed; one, using straight data and the second, dividing income data into quintiles that represent the commonly accepted economic division of households in UN data.

Language posed a barrier. The translation and validation of the questionnaire took longer as it was developed in English, had to be translated into Dari and Pashto and, for verification purposes, had to be translated back into English. During the analysis, answers that had an open-ended option (“other”) were not broken down because answers were written in Dari or Pashto. Translation of these responses would have increased the cost of the study and processing time.

2.6. Data Analysis

The questionnaire was pre-coded to facilitate its application and subsequent analysis. A program using *EpiData v.3.1* was developed to collect and organize data from the questionnaire. This program had security features such as limited number of options, limits on digits, and others¹¹. Random data quality verification was performed using 100 questionnaires. This verification showed a couple of transcription errors and some outliers that were double-checked (e.g., client aged 80). Statistical analysis was performed using *Stata Special Edition 8.0*.

The FGDs were transcribed and recorded for a subsequent translation into English. The transcripts were analyzed using the thematic structure of the FGD Guide¹².

3. KEY FINDINGS

The main finding was that some microfinance clients already save formally (have deposits) with a financial institution and a majority would gladly save if they had more “extra money.” Additionally, the research showed that conservatively, one third or 33% of current MFI clients could be regular savers. Most clients interpreted saving as either putting money aside for emergencies or for a specific purpose. People choose to put money aside in different ways including reinvesting in their own business; however, they realize that having cash is the easiest way to resolve unexpected economic problems. MFI clients also showed a preference for a bank as the safest place where one can save, but also see the MFI as a the primary resource for a loan. This showed that their perception can be expanded to include savings services.

Through secondary research, it can be concluded that the market for monetary savings in Afghanistan is growing and that people are eager to save. The average savings balance of approximately \$US943¹³ (as of December 2008) however, indicates that the majority of banks' depositors are not representative of the average microfinance client, since the average loan outstanding as of January 2009 was about \$US300¹⁴.

4. DISCUSSION: INTERPRETING THE DATA

For interpretation data was broken down in two broad categories of variables: i) questions that helped make inferences about the ability and willingness to save, and customs (habits, perceptions and attitudes towards saving), in particular, whether MFI clients made monetary savings, and ii) general questions that facilitated the understanding of demographic characteristics of the MFIs' clientele. All data obtained during the research, including testimonials from the FGDs, was used in this discussion.

¹¹ A copy of the EpiData control screens can be seen in Annex 4.

¹² A copy of the guide can be found in Annex 2.

¹³ Condition and Performance of the Banking System as of Hoot 1387 (March 2009).

¹⁴ Number obtained from MISFA's Microfinance Sector Update, January 2009.

4.1. Inferences on the ability to save

In general, the ability to save refers to the ability of a person to postpone consumption now to face future expenses. The research conducted among MFI clients hinged on this concept to test several angles of whether MFI clients could put some money aside to save formally.

4.1.1. Do clients have the possibility to save?

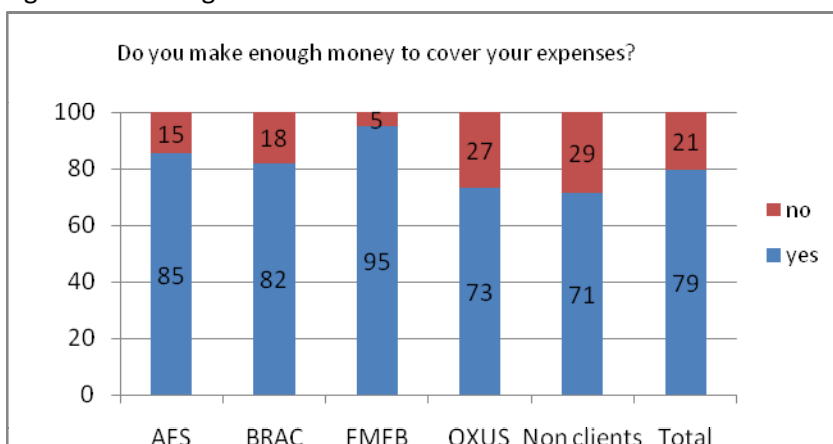
Based strictly on surplus -money left over after covering expenses, all interviewees, including non-borrowers, could save.

Table 3 – Income, expenditure, and surplus (average; in Afghani)

Institution	household income (per week)	household expenditure (per week)	household surplus (per week)
AFS	6,440	3,313	3,127
BRAC	4,658	2,529	2,129
OXUS	5,894	5,475	419
FMFB	12,407	5,200	7,207
Non borrowers	4,983	3,178	1,805
Total	5,923	3,753	2,170

Two additional conclusions were drawn from the household surplus analysis. First, as expected, bank clients have higher income and higher surplus. Second, no conclusive inference about the relative wealth of the clients or their ability to save can be made based on the surplus alone. When asked if they were able to cover their expenses, 21% of respondents claimed that they do not make enough money to cover their expenses, a statement that contradicts the surplus information. Thus, income and expenditure data could be used mainly as a broad guideline not as precise indicators of the capacity to save. In addition to the inability to have enough money to pay for their basic needs, almost one third of the interviewees declared not having worked in the past 7 days. This response indicated that about one third of the clients may not work consistently thus their income is irregular.

Figure 1 – Making ends meet



Assuming that those who declared having enough to pay for their basic expenses at the end of any given week could save, 79% of MFI clients could become savers. However, a more granular look at income and expenditures yielded a more realistic result. A distribution in quintiles for income was created in order to mirror a commonly used economic indicator to characterize the income distribution of a group or people.

Table 4 – Income and Expenditure (Quintile distribution, in percentages)

		Expenditure					Total
		q1 (poorest)	q2	q3	q4	q5 (richest)	
Income	q1 (poorest)	11	8	5	2	2	28
	q2	3	3	7	4	2	19
	q3	2	4	3	5	1	14
	q4	3	2	4	5	6	19
	q5 (richest)	2	3	2	4	8	19
Total		20	19	21	20	20	100

If the distribution above is examined with a conservative lens, at least 29% of clients could save (shaded area) and this number could increase to 37% if the richest group by income and expenditure is taken into consideration. This is a conservative estimate since it completely excludes the “poorest” group.

When participants in the group discussions (FGDs) were asked if they had a surplus all answered positively. In fact, many said that they are actually saving.

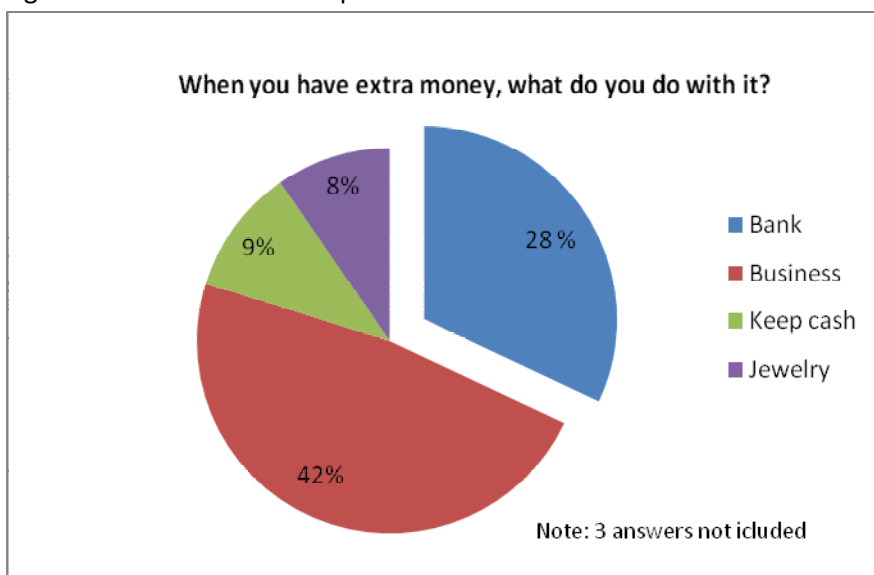
FGD – Do you have money that you could save?

- **My husband has earnings**
*“My husband has a shop and he sometimes earns Afs.100 and sometimes Afs.5000”
 (Zahra ARIANA’s client)*
- **I save**
“I am saving 200 to 25 Afs daily” (Parwana - OXUS’s client)
“I can absolutely save net amount of Afs. 100 after paying all my daily expenses, shop rent, house expenses, etc.” (Ali Hassan – BRAC’s client)

4.1.2. What do clients do with their surplus?

Another way of looking at the ability to save was to find out what “non-savers” (people who don’t have deposits at financial institutions) do with their surplus or “extra money”.

Figure 2 – Destination of surplus



As it normally happens among microfinance clients, the majority (42%) would reinvest their “extra money” into their own business. Most microentrepreneurs around the world realize that their return on investment grows as they grow their business. Microbusinesses have very rapid turnover. This short business cycle makes the return on investment (ROI) higher even when the profit and/or the profit margin may not be very high.

However, microentrepreneurs also realize that when faced with an emergency their business will not provide for rapid cash. This is one reason Afghan people save either formally at the bank or informally stashing their cash at home. Respondents who claimed no formal deposits showed a favorable inclination to deposit their money in a bank (28%). This positive disposition to saving is much more prevalent than keeping cash at home or investing surplus in jewelry. Jewelry/gold can be a good way of saving money if the market for gold is liquid and accessible.

The in-depth discussions with the Focus Groups went a step further and asked how savings, even if the person doesn't have any, can be useful. Most respondents found legitimate and practical reasons for saving.

FGD – When are savings useful?

- **To solve an unexpected problem**

“Saving will definitely solve our economic problems and every one must have savings” (Hamida, – ARIANA’s client).

“Saving is 100% useful. Because if we face with any problem, saving can help us”. (Arifa - BRAC’s client)

“When we need money urgently, we can use from our savings”. (Mahbooba – BRAC’s client)

FGD – When are savings useful? (Continued from previous page)

- **For Health emergencies**

“Having saving helps you to solve your financial problems and you won’t need to beg others for money especially with incidents like death, wedding and so on”. (Mehra Gul – ARIANA’s client.,

“We all may have problems in life such as, sickness, and other events, also your father won’t have money, and thus, saving helps us to overcome all these problems”. (Gul Jan – BRAC’s client).

4.2. Inferences on the willingness to save

In addition to having the ability to save, a person must be willing to save at a financial institution for the institution to consider this person a probable client. Thus, to obtain a more accurate picture of the demand for savings services, the research focused on several variables that foretold the willingness to save.

4.2.1. Are you willing to save?

Finding peoples’ perceptions about saving was just as important as asking a direct question. Many times, a direct question such as “do you save?” may not yield good results, since the respondent may intuit that a positive answer is better. The FGDs discussed with clients why they would be willing to save given their present circumstances –no major changes expected in the near future.

FGD – I am willing to save...

- **For the future in general**

“Saving is future building, if one has savings, they will have a good future especially under the current circumstances”. (Atifa – OXUS’s client)

“Saving is very good because it insures our life, and not only money, but everything that you save will solve your problems one day”. (Nazanen – OXUS’s client)

“Saving means building your future”. (Zahra – AFS client)

“The only supporter of a human being after The Almighty Allah is savings”. (Mehra Gul, – AFS client)

- **For specific occasions**

“I have money and I keep it for my son’s wedding.” (Aziz Gul - BRAC’s client)

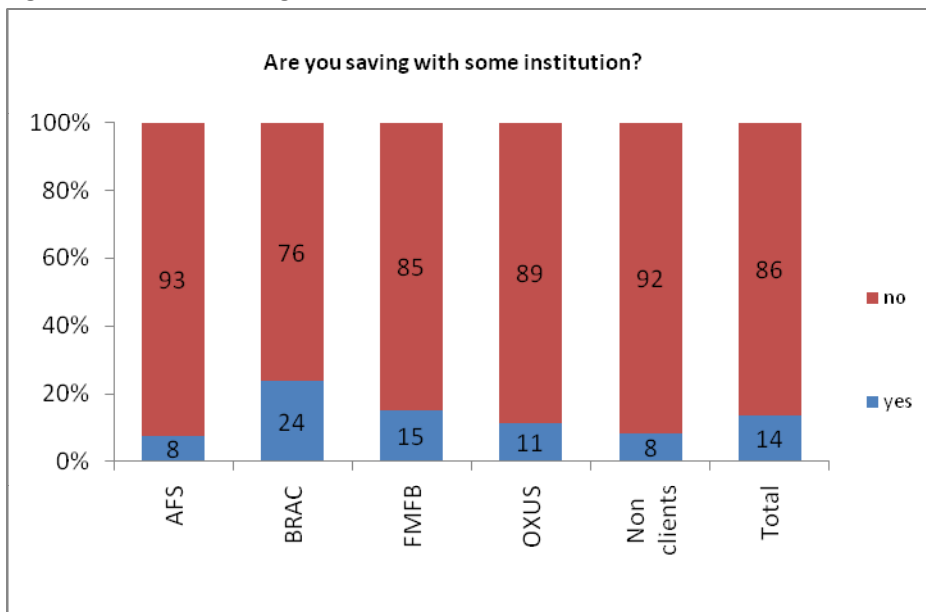
- **For my business**

“If I had money, I would definitely buy more material for my shop and increase my income.” (Ali Hassan – BRAC’s client).

4.2.2. Are you saving already?

The willingness to save was evidenced by the fact that there were interviewees who were saving formally (at an institution), although the number of people who declared formal savings was small (14%).

Figure 3 – Formal savings



The surprising fact in Figure 2 is that BRAC’s clients claim not to save but the BRAC model has a savings component; these savings are not an option for the client but rather compulsory.¹⁵ This result could be rooted in one of the following reasons: i) clients did not want to inform the interviewer that they had savings; ii) BRAC’s clients do not consider their compulsory savings true savings; or iii) clients did not understand the BRAC model and did not realize they have savings. This result ratified the notion that forced savings do not help the client but they help the MFI since they are essentially cash collateral.¹⁶

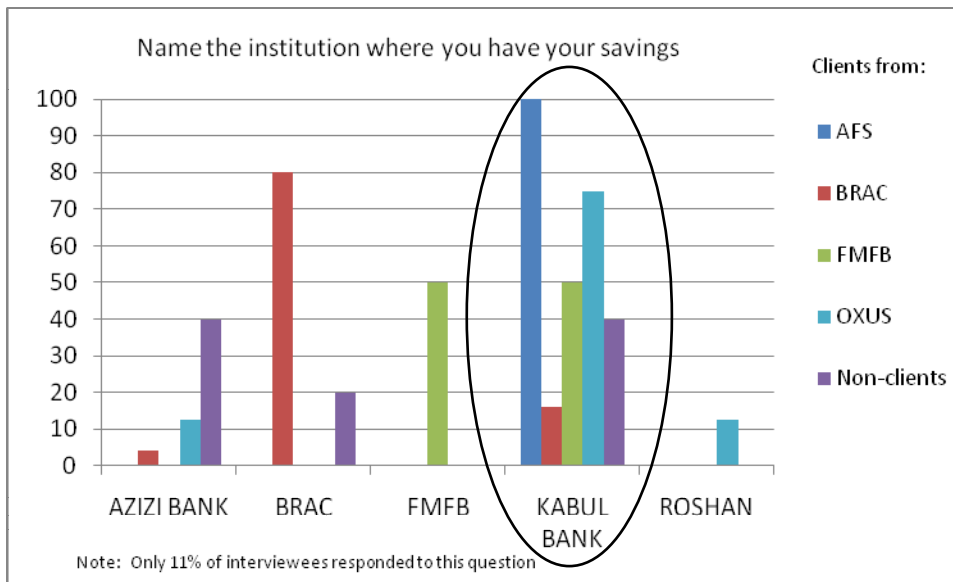
AFS’ clients and Non-clients showed the lowest savings rate among all interviewees. Because some Non-clients also had loans it was not possible to make any statements about how the absence of a loan may influence the willingness to save. However, a deeper evaluation using a regression model showed indeed that being a borrower does not bear on the willingness to save.¹⁷ Although this conclusion may seem intuitive it was important to corroborate statistically, since exposure to borrowing at an MFI may be automatically be considered an introduction to savings, but this clearly not the case in Afghanistan.

¹⁵ Most micro-loans use some model of forced savings. The author is not trying to make a value judgment about this practice but simply stating its use. The model has more elements and may be quite sophisticated depending on the institution, the competition, and the legal structure of the country where the MFI operates. Equally, this is not a complete description of BRAC’s forced savings model in Afghanistan.

¹⁶ This is a notion defended and sustained by many authors, among them Claudio Gonzales-Vega and Marguerite S. Robinson.

¹⁷ Section 5 elaborates further on the model; Annex 5 explains the model.

Figure 4 – Location of Savings



A further inquiry into where savers placed their deposits showed a very low response rate; only 11% of interviewees responded this question. However, this question allowed one inference, which is that Kabul Bank was the institution of choice for depositors. Figure 4 shows that clients and Non-clients alike favored Kabul Bank for deposit placement. According to several opinions collected by the consultants, Kabul Bank was able to attract many depositors through a lottery-type marketing strategy¹⁸. The hope to win a car or a house has undoubtedly attracted large numbers of depositors and this research showed that basically all of them (98%) were satisfied with the services provided by the bank or other institution where they held their deposits.

The research did not ask clients why they were satisfied, however the marketing strategy probably has a bearing. In Afghanistan opportunities to win big prizes are nigh impossible. Moreover, in Islamic culture games of chance (*Maisir* or *Qimār*), including lotteries, are banned. So, the opportunity to participate in a legal lottery scheme was unique.

It was surprising to find Roshan, the mobile phone company among those institutions that collect savings. Because this was an open-ended question where the interviewee was free to provide the answer this response was clearly an error.

4.2.3. Expenditures and savings

Another evidence of the willingness to save could be seen in the number of respondents who mentioned that one of their usual expenditures included setting money aside for savings (36% of respondents claim to destine 22% of their income to savings). The allocation of expenditures also showed that about 44% of income was destined to food. High expenditure in food is a hallmark of poverty; thus MFI clients interviewed in Afghanistan are in all likelihood poor.

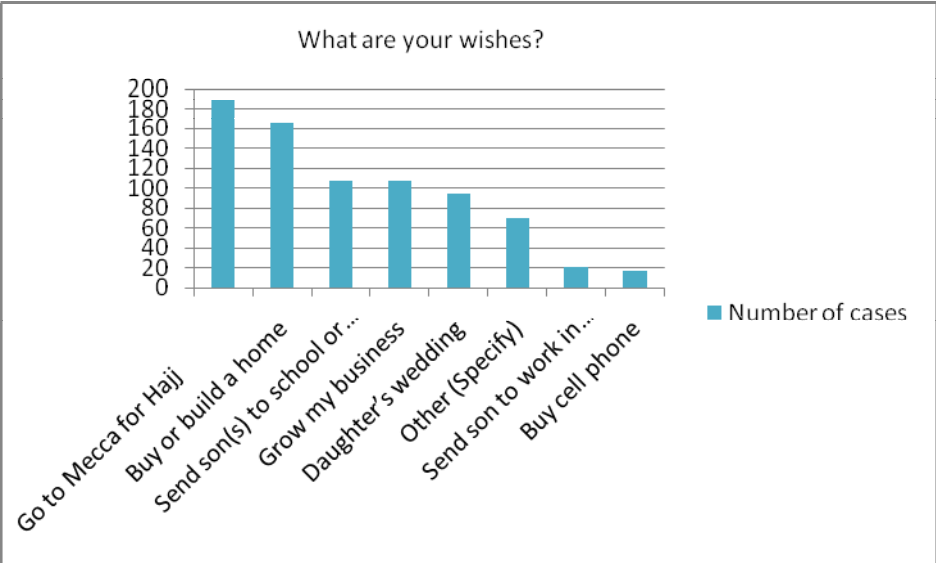
¹⁸ This information was obtained through interviews with key informants. No contact was made directly with Kabul Bank.

While 22% of income was destined to savings, only 4% was destined to loan repayment. This is a good sign because it indicates that clients are not overwhelmed by debt. A comparison of savings and subsistence expenditures (housing, food, basic services and transportation) showed that savings represented about one third of subsistence expenditures. This is a fairly high savings rate that demonstrated a favorable savings behavior.

4.2.4. Fulfilling dreams

Another indicator of willingness to save was having specific objectives or dreams that give savings a clear purpose. One of the survey questions provided a *wish list* from which interviewees could choose as many as three options.

Figure 5 – Saving for a dream



Most people clearly wished to fulfill one of the highest obligations in the life of a muslim: to visit Mecca. The wish that is a very close second is to build a home. The need for adequate shelter ranks as a high priority among the poor all over the world, but in this case the question referred to owning a home. The number of housing loans outstanding among banks is negligible thus there is little competition for housing loans. The majority of the people was not interested in saving for a mobile phone. The reason may be because this is a small-ticket item and no major savings are involved in acquiring one. However, it could also be because most interviewees already had a mobile phone -a good sign in terms of the communication divide since it showed that poor people, such as MFI clients, indeed gained access to a communications device.

The question on fulfilling wishes had a corollary, which was the price tag of the wish. Contrary to what one may expect, the most expensive wish was not building a house or a pilgrimage to Mecca, but it was to send a son to work abroad (see Table 5). The information should be taken with caution since it showed an extremely high price tag. People could simply be misinformed or exaggerating because they perceive this option as far-fetched. In contrast, the price assigned to a trip to Mecca seems more realistic.

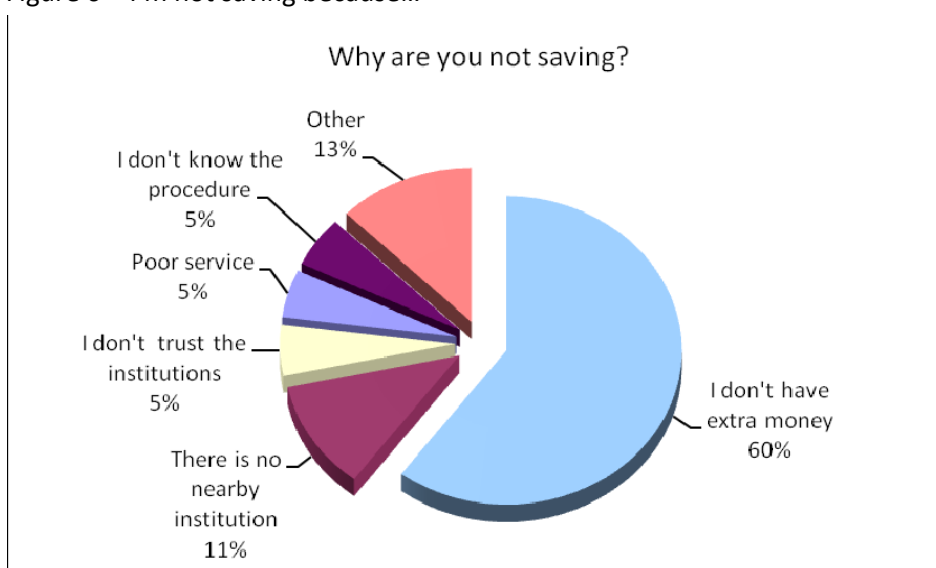
Table 5 – Dreams and their price tag

	Average Price mentioned	
	in Afs	1 USD =
Send son to work in Dubai or Riyadh	2,619,524	52,390
Buy or build a home	714,736	14,295
Daughter's wedding	585,372	11,707
Grow my business	548,458	10,969
Other (Specify)	433,643	8,673
Go to Mecca for Hajj	229,299	4,586
Send son(s) to school or university	33,009	660
Buy cell phone	17,088	342

4.2.5. Inability or unwillingness to save

In order to fully understand why some people are willing to save yet others are not the research asked people why they were not saving.

Figure 6 – I'm not saving because...



Having extra money to put aside is a relative notion and people may feel that putting a very small amount such as 10 Afs aside does not qualify as savings. According to the research, 21% of the people cannot save since they claimed not being able to cover their expenses. Although objective indicators such as income and expenditures showed that all interviewees could save citing the lack of “extra money” as a justification for not saving implied an attitude or idea rather than a fact. These interviewees viewed saving as an act that could happen only if there is a noticeable surplus (*extra money*).

The good news was that very few people mistrust the institutions or believe they provide poor service. However, the absence of a nearby institution as a reason for not saving, is a factor that should not be overlooked by MFIs since they can change it. Having a nearby facility for savings is especially important for women since in Afghan society they have very limited mobility.

4.3. Inferences about habits, perceptions, and attitudes

Habits, perceptions, and attitudes are factors that influence purchase decisions. The act of making a deposit in one institution over another is basically a purchase decision. Afghan banks cleverly used perceptions to attract a large and varied number of depositors. The perception in this case was that saving could make you an instant winner and, perhaps, an instant millionaire.

4.3.1. Saving as a habit

The research showed that MFI clients have the habit of saving and this habit may start in childhood.

FGD –Saving as a habit

- **I save as a habit**

“I just put some money in the box¹⁹, and this money becomes a large amount at the end of the month”. (Mah Jan - OXUS’s client)

“I save Afs.10 to Afs.100 per month, and I keep it in a small box called dalkhak”. (Gul Jan – BRAC’s client)

“I keep most of my money at the small box. Because no one can pull the money out. Only I can use when I need it”. (Fatima– BRAC’s client)

- **I instill the habit of saving**

“I have bought one small dalkhak) for each child and told them to keep all of their money that they get from their father or someone else so that they can buy when they need school equipment or some new garment for special ceremonies. So my children listened to my advice and I could make them understand the value of money and savings”. (Adela – ARIANA’s client)

“Usually, parents give Af.5 to Afs.10 to their children. When they leave for a job, in this case children must have a place to save. For example, if his father gives Afs.5 to him, he must spend Afs.2 and save Afs.3. This way, the children will get used to saving over time” (M. Hassan Dad – BRAC’s client)

“It is the responsibility of the parents to explain the importance of savings and to tell their children what saving is? How does it impact life? And what role does it play? “(M. Azim – BRAC’s client)

4.3.2. Economize and the Perception of Saving

Saving at a bank is outside the realm of a poor person’s regular activities. In spite of the growth of deposits in Afghanistan, only a small minority of people are part of the formal economic system (one million depositors out of thirty-four million inhabitants or 3% of the population). This is why

¹⁹ Participants in the FGD called the “piggy bank” a Dalkhak, which is usually a small box with a lock. The consultants were not able to verify the validity of this term or how widespread is its use.

the research investigated the wider notion of saving, including the perception of saving, not only the act of making deposits at a financial institution. One important perception about saving was finding the local synonym for this term. People equated savings with economizing or not wasting money.

FGD – Economizing

“During the past periods, people were using their money to support others, but in the current situation, people either do business on their money or save it at a bank. They also divide their expenses into three parts: 1- House expenses 2- Shop expenses 3-Savings”. (M. Naeem BRAC’s client)

“If a friend asks me, I will advise him that economize from your family expenses and do have savings”. (Zahra – ARIANA’s client)

“Saving is the guarantor of family and children. If a family does not have savings, they cannot do anything as if their hands are closed. But one should always be prepared for the challenges of life well in advance.” (M. Azim BRAC’s client)

“Saving is [a] means [for] building a future and a good life for our children. We must economize from our existing expenses and keep moving. In the event that we face any problems n future, we can immediately make a good use of our money.” (Samia ARIANA’S client)

When asked about what skills a person should have in order to save the answers included notions of budgeting and having a spending plan, in addition to making a habit of saving.

FGD – Skills to be a good saver (Identified by MFI clients)

- *Do not waste your money*
- *Never overspend*
- *Have a budget*
- *Have a schedule and a specific program [for savings]*
- *Accumulate money every night*
- *Economize from your family expense*

FGD – What advice would you give to a friend who needs to save?

“I will explain to him: do not misspend or waste your money. Wasting money is not the pride of generosity”. (M.Siddiq, - BRAC’s client)

“One should spend as much as necessary for something, never overspend”. (Faridullah - BRAC’s client)

“Do not misspend and not to waste the money”. [Zahra – ARIANA’s client]

“Spend as much as she can afford, never overspend”. (Adela – ARIANA’s client)

“No competition with others in spending more. Never use from your saving budget until you have an urgent obligation and strong reasons to spend”. (Abida, – ARIANA’s client)

“Having a schedule and specific program is the way of success, but the one who does not have a schedule and plan will never gain happiness like Mahmud although he works very hard”. (M.Siddiq BRAC’s client)

“If some spend his/ her money carelessly, she will be like Laila. But if someone spends based on a plan, would be like Fatima, very successful” (Parwana – OXUS’s client)

“To spend less than the income” (Atifa – OXUS’s client)

4.3.2. Having a loan

Asking MFI clients if they have a loan may have appeared redundant –after all, they were clients because they had borrowed from the MFI. However, this question was the preamble to probing clients’ feelings about the MFI, including customer service and accessibility. In total, 86% of interviewees declared having a loan and the vast majority of them are satisfied with the service (99%). It was interesting to find out that 23% of non-clients also had a loan. However, as mentioned earlier, non-clients were not part of a random sampling process, thus no inferences can be made about this group.

The research showed that a majority of respondents (53%) showed confidence in an MFI if they need to borrow money quickly. The second most common source for a loan was friends (27%), followed by family (9%). Although the research did not delve into why the MFI is the preferred place for a loan it can be assumed that the procedures and the established customer service make it relatively easy and/or clear for the client to secure a loan. In contrast, getting a loan from friends or family can be hap-hazard and very time consuming.

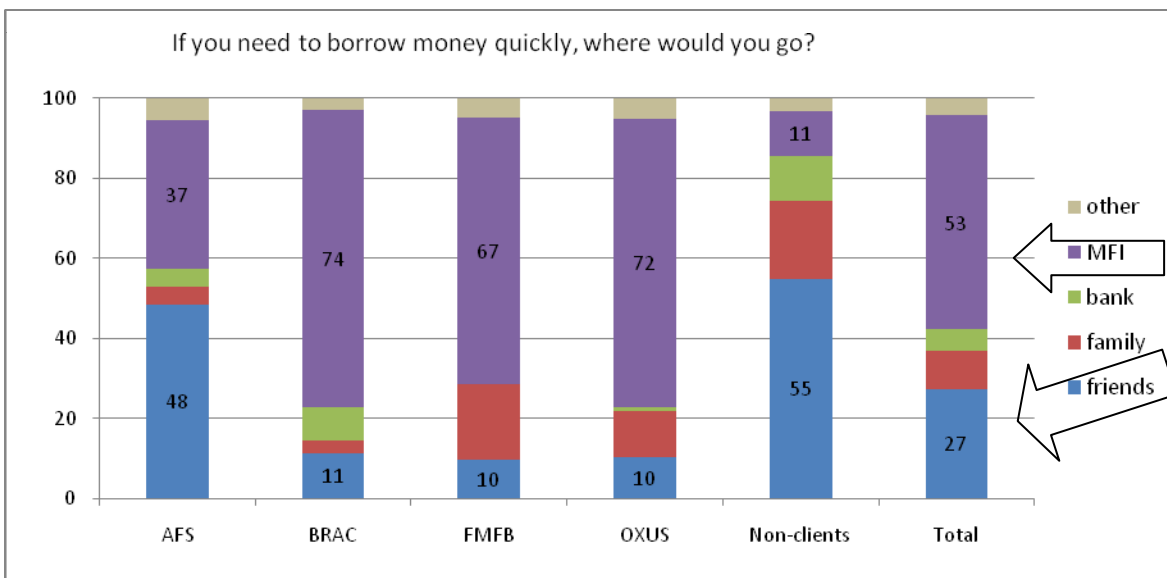
Only AFS’ clients would go to their friends if they needed a quick loan instead of going to the MFI (37% vs. 48% respectively). AFS could benefit from learning more about its clients since the reason could have a negative root, such as lack of confidence in AFS. However, the reason could also be positive, because clients may understand that according to AFS’ rules overlapping loans are not allowed or AFS loans are strictly for planned business.

The most unexpected result was that the participating bank’s clients would also go to an MFI if they needed money quickly. Again, it was not possible to tell why they chose this response but it could be because they either know or perceive that it is much easier and thus quicker to get a loan with an MFI. It is also possible that they used to be MFI clients and they can compare the procedures between institutions. MFI clients do not see a bank as an accessible place for loans, but as presented earlier, a bank is the preferred place for deposits.

About 11% of Non-clients, however, would look for a loan at a bank. This choice may reflect the lack of familiarity with financial institutions among some of the Non-clients because at the same time, they clearly favored friends as a quick source for a loan (55%).

Women, however, showed a higher preference for MFIs over men (57% vs. 45%, respectively). Men were almost as likely to turn to friends for a loan (40%) as to go to an MFI (45%), but women clearly preferred the MFI since friends were a distant second choice (21%). This was a favorable result since it shows that women who have experience with MFIs feel comfortable requesting a loan.

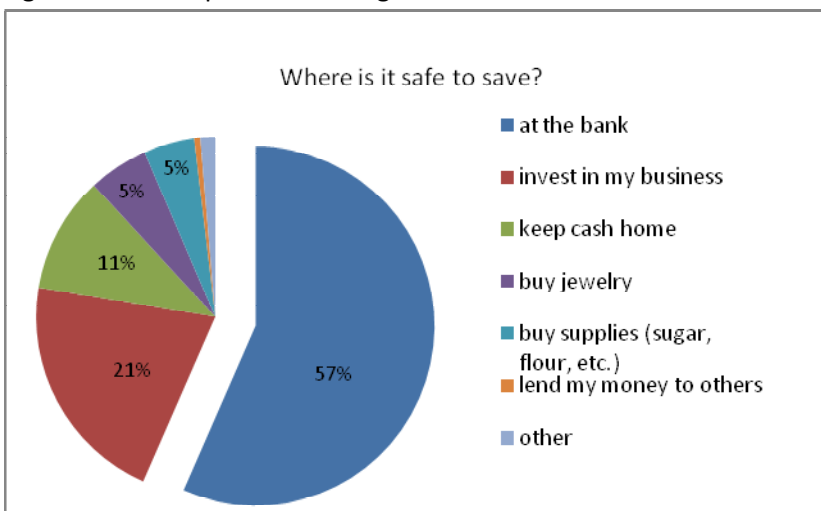
Figure 7 – Quick source of funding



4.3.3. Perception of safety

Safety is one of the most important characteristics of formal savings services, so much so that authorities center their regulatory activities on the safety of deposits and the safety of the whole financial system. In this particular case, the research requested the interviewees to express a preference about a safe place for savings.

Figure 8 – A safe place for savings



A majority of respondents (almost 60%) ranked the bank as the safest place to save. The next favored option does not involve saving but investment. The wording of this answer was carefully chosen to provide the interviewees with the alternative of using any surplus in their business; an

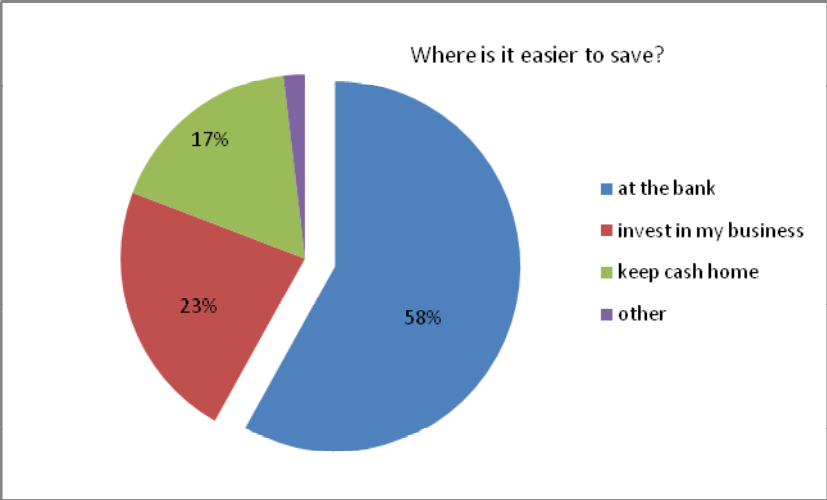
alternative with which the client is quite familiar. Reinvestment in a micro-business is definitely more risky than making a deposit. Thus, the fact that the majority of interviewees chose the bank shows understanding of the function of formal savings (to have money secured and readily available when required) and the benefits (safety, receive an interest, flexibility of locations where money can be retrieved, etc.).

Only a negligible number of MFI clients found lending to others a safe option (1% of respondents). This may have a practical as well as a cultural explanation, since Islam does not forbid lending, but it provides strict principles about how to engage in this practice. In non-Islamic countries and cultures, micro-entrepreneurs find this an interesting option. Some MFIs that practice primarily group lending using the Village Banking Methodology²⁰ or a variation thereof, encourage intra-group lending. The Village Savings & Loan model (used by CRS, PLAN, and other organizations) is strictly based on the principle of intra-group lending using group members' funds.

4.3.4. Perception of ease

Around the world, making the process of saving easier has turned more people to it. Some known cases with high saving rates such as Spain and Japan, where banking systems had to be build after WWII, showed that if provided with easy-to-access savings facilities people would indeed save more. The Postal Service of Japan was one of the largest depository institutions in the world until its relatively recent privatization in late 2007, because postal carriers accepted savings making it easy for rural folk to save. Japan had the highest savings rate among all nations with approximately 28% of GNP that proceeded from savings. By contrast the United States savings rate hovered around 14% of GNP until 2005, when it fell to negative territory (-0.5%)²¹.

Figure 9 – Saving made easier



²⁰ For more information on this methodology, visit FINCA's website www.villagebanking.org

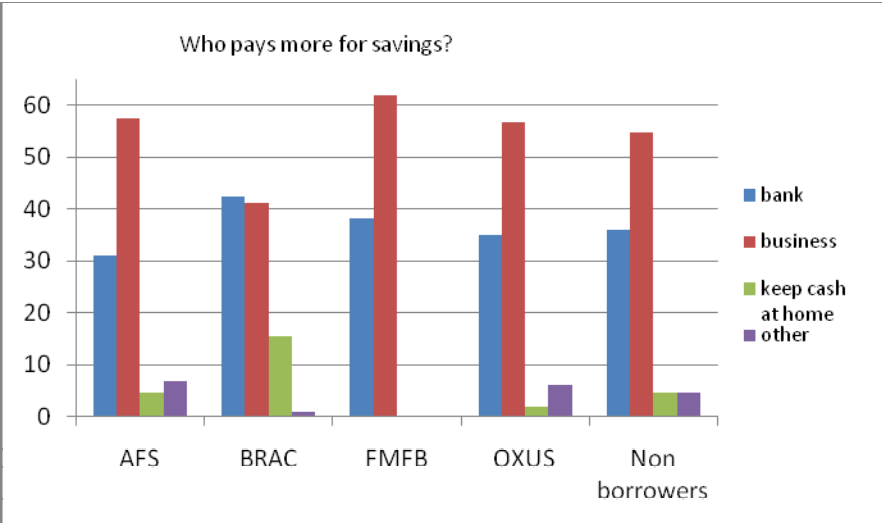
²¹ Associated Press, "U.S. hits lowest savings rate since 1933," January 30, 2006. (<http://www.msnbc.msn.com/id/11098797/>)

The research showed that a clear majority of MFI clients perceived the bank as the place that makes it easier to save. This question was similar to the previous one (see Figure 8) in that it provided an alternative to savings, namely, investing in one’s business. In terms of safety and ease, saving at the bank and investing in one’s business, appealed to approximately the same number of people. Almost 20% of respondents considered easier to stash money at home but only 11% considered this option safe, which again showed an understanding of the benefits of formal savings. One of the reasons the poor request saving services around the world is for safety²².

4.3.5. Perception of return on investment

Micro-entrepreneurs around the world can understand that investing in their own business produces a specific yield; this is particularly visible for those in agriculture. Because this is a familiar concept the research included a question about who/what pays more for savings. Most certainly, there is a difference between saving at a bank or other financial institution and investing in a business, but for those who have little to no financial literacy this difference may be a nuance instead of a true distinction.

Figure 10 – Higher yield for savings



The research showed that almost all MFI clients understood that they would get a higher yield for reinvesting their surplus in their business. Only clients at BRAC believed that a bank would provide higher returns. This could be because BRAC’s clients belong to the poorer groups, thus their business may be too small to produce noticeable returns. Interestingly, BRAC showed a higher number of clients (as compared with the other institutions) that believed that cash at home produces some yield. This belief may also point to a poorer and less educated client. Since the research did not ask about socioeconomic status, the way to verify if BRAC’s clients were among the poorest was using loan size as a proxy (as shown in Table 6).

²² Robert Vogel, 1984.

Table 6 – Size of Loan and Loan balance (in Afghani, average)

	Loan	Balance (as of 04/2009)
BRAC	23,039	13,428
OXUS	25,412	16,184
AFS	32,969	22,902
Non-borrowers	58,567	31,049
FMFB	79,762	41,108
Average (whole sample)	31,915	19,688

BRAC clients showed the lowest loan amount borrowed and the lowest outstanding balance of all interviewees supporting the notion that BRAC has the poorer clients among these MFIs. As expected, the bank's clients are the "richest" among this group. The loan amounts and balances for Non-borrowers who had a loan (23% of them) were also higher than the average.

4.4. General information – demographics and more

The research showed the following general profile for MFI clients:

- Over two thirds (67%) of the interviewees were women. This number is representative of the gender breakdown at the MFIs (e.g.; BRAC has 86% and OXUS has 48% female clientele).
- On average, the reported number of family members living in the same household was 7, and there were two income earners per household.
- The majority (62%) were between 21 and 40 years old. Females showed an average age of 34 years while male clients were only slightly older, 36. This age profile shows that MFI clients are stable and likely better off than the average Afghan since life expectancy for both sexes is not quite 45 years, while the median age in the country is 17.6 years. Only 2.4% of the population is 65 years or older.²³
- Over half of all of interviewees were illiterate (57%), while 14% reported reading with difficulty. General statistics about Afghanistan show a literacy rate of 28%.²⁴ MFI clients showed the same literacy characteristics as the whole population.
- About 80% of the interviewees categorized themselves as independent workers, while 17% claimed to be salaried. In addition, 22% declared having a second activity that generates extra income. Around the world, microfinance clients, especially the most successful ones, have two or more activities. Business diversification, whether in sequential or parallel forms, is the best way to avoid income gaps. The working poor practice diversification often and with amazing flexibility.

4.4.1. What institution gave you a loan?

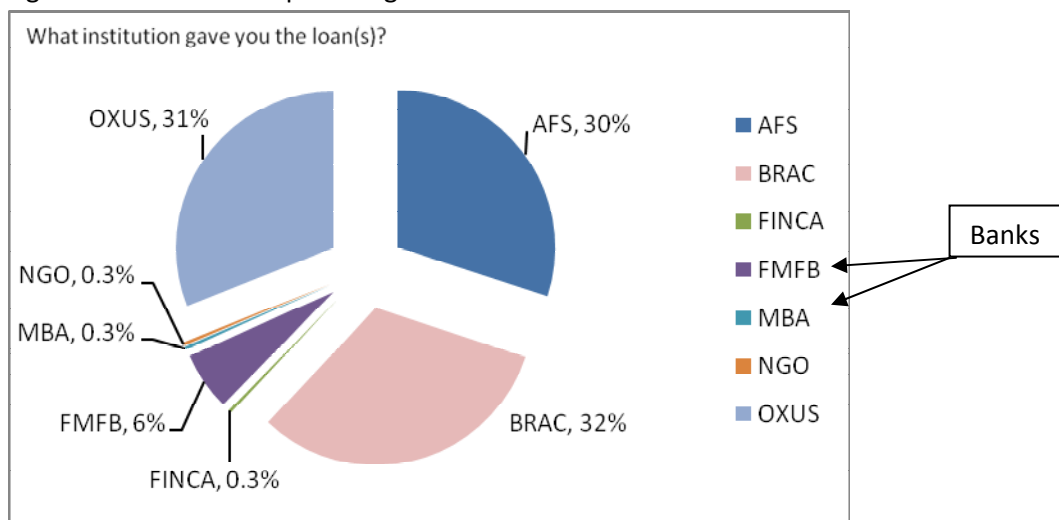
Most interviewees, including those classified as Non-clients had a loan²⁵. Although the number of clients who reported two loans was still very small as of May 2009 (less than 1%), MFIs should

²³ CIA, The World Fact Book, 2009.

²⁴ Ibid.

consider that they may eventually deal with clients with multiple loans and over-indebtedness. The introduction of a credit bureau would be of great help in avoiding over-indebtedness. Geographic expansion to other parts of the country, such as the South, would be ideal for MFIs once the security situation improves.

Figure 11 – Institutions providing micro-loans



4.4.2. Remittances

The research included questions on remittances because this service is a good entry point for a client who may not immediately qualify for a loan; the financial relationship between MFI and client can grow from this service. The first study on remittances in Afghanistan done by IFAD and the Inter-American Development Bank (IDB) in 2007 showed that during 2006 Afghanistan received \$US2.5 billion²⁶, mainly from Afghans living in Germany, The Netherlands, Canada, and Australia. All these countries accepted Afghan refugees during the '90s and 2000s²⁷. According to this report, Afghanistan received \$US2485 million that made up almost 30% of GDP in 2006.

The present research however did not shed any particular light on remittances since 90% of interviewees declared that they do not receive remittances. It is possible that the sample was not representative of those that have relatives living abroad, although the sample showed characteristics of the Afghan population, such as literacy rate and age. The people who were able to obtain a refugee status may be of a higher socio-economic class than the typical current MFI client. There were about 200,000 Afghans who were granted asylum in the fore mentioned countries during the Soviet invasion, yet by some accounts some 6 million Afghans moved to bordering countries. These refugees have been slowly returning to their country; in 2002 the UNHCR started a massive repatriation program that moved over 1.3 million Afghans from Pakistan

²⁵ As mentioned in Section 2.1., the group Non-clients was added to the sample for illustrative comparative purposes and was not part of the random sampling process.

²⁶ Sending Money Home, IFAD, 2007.

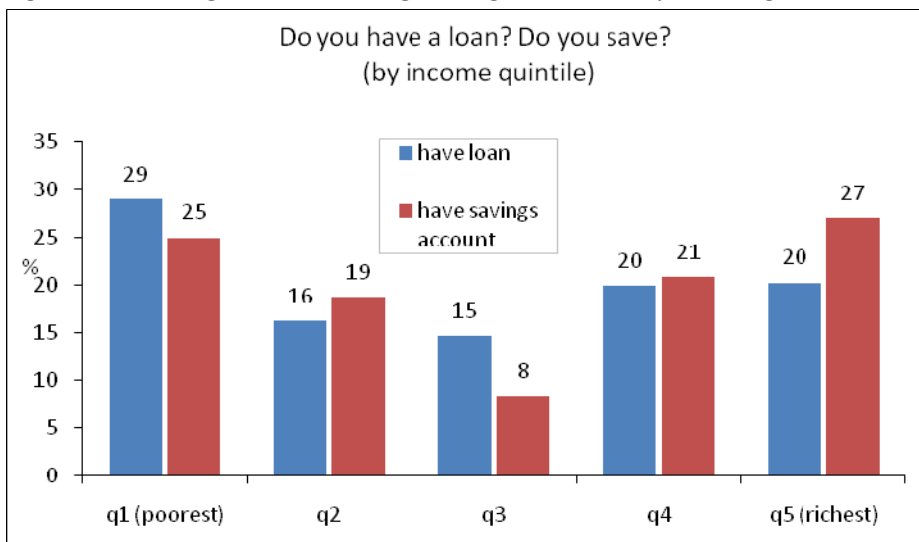
²⁷ Afghanistan Country Report, World Bank, 2005.

and Iran²⁸. However, many Afghans still remain in these two countries while others have moved to Arab states in search of work. Most of these people still use the informal networks (e.g., Hawallah) to send money from other countries to Afghanistan. Interviewees in this research may have perceived that money received through Hawallah is not a remittance.

4.4.3. Information in the context of socio-economic group

The lack of current and reliable information for Afghanistan made it impossible to make wide comparisons of the sample with the general population in variables such as income or expenditures. However, as presented in Section 4.1., an effort was made to produce more granular information to better understand MFI clients. Income data was used to create a distribution in quintiles, which allowed comparisons within the sample.

Figure 12 – Savings and Borrowing among MFI Clients (percentage)



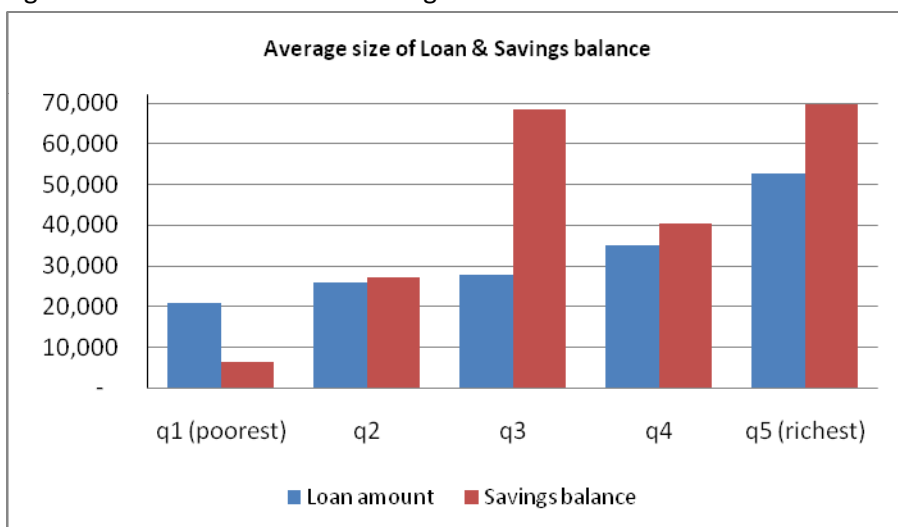
The quintile distribution²⁹ shows that the groups with the lowest and the highest income levels are more prone to having loans and savings accounts. This information is valuable for designing adequate products (savings and loan products). For example, the *richest* group may have a higher balance thus may require more customer service. However, more people at the bottom (*poorest*) may be more inclined to become a client. The MFI has to find out what each subgroup of their clientele prefers, convenience or flexibility, or something else.

Group q3 seems an interesting target for MFIs. People in group q3 have the lowest savings and borrowing rate. Considering that this is the “middle class” of MFI clients, it would interesting to find out their real needs to provide adequate financial services; both, savings and credit.

²⁸ Castles, Stephen, Mark Miller, 2009.

²⁹ The quintile distribution refers to dividing the population in 5 groups of equal number. In this case, the income was used as the distribution function to create the 5 groups. The research did not analyze the relative richness or poverty of the sample, since no comparable data on Afghanistan was found.

Figure 13 – Loan Amount and Savings Balance



The most attractive group for savings services were q3 and q5, since they kept the highest savings balance. Normally, accounts with higher balances tend to be less volatile, which means are less costly for the institution. A savings account is attractive for the institution as long as it does not create losses. This is the reason why commercial banks in developed economies provide incentives for maintaining a certain balance in a savings as well as a current account. Unlike the loan amount that clearly increases with a higher income level, savings showed a different behavior. Savings depend on the client, while the loan depends on the institution – a higher income translates into better ability to pay back a loan.

5. LESSONS LEARNED FOR THE DESIGN OF SAVINGS PRODUCTS

MFIs can greatly benefit from deeper knowledge of their clients for the design of appropriate savings products.

5.1. General Lessons

- ❖ MFI clients are not homogenous. Clients should not only be segmented by gender or by activity. This research shows that there are differences in how groups of different income level behave vis-à-vis savings and borrowing.
- ❖ The concept of saving is clear to everyone. Confusion arises when savings imply deposits. Some clients consider investment an alternative to deposits. These two alternatives are very different because a deposit has very different characteristics and risks. But in the mind of the micro-entrepreneur, investing in the business may have little risk.
- ❖ Marketing gimmicks work. Banks have proved that the use of marketing tools can be excellent to attract new clients to a financial product.

5.2. Lessons about the ability to save

Potentially, between 15%³⁰ and 79% of MFI clients could save formally. Most likely about 38% of MFI clients could become savers. This is equivalent to approximately 171,000 clients using data as of April 2009. However, taking into consideration the growth of savings in the banking sector, this figure could grow by at least 15% annually for the next 5 years. This number was derived by only taking one fifth of the growth of deposits in banks for the last 2 years.

People in urban and peri-urban areas have a surplus, albeit small. MFIs have to educate people that any surplus, as small as it may be can be put away as a deposit. MFIs have to provide the flexibility and opportunity for people to save formally. Further research should be done in rural areas to provide more wide-spread financial services once they are safe enough to mobilize MFI employees and money.

5.3. Lessons about the willingness to save

Clients in general, but especially women may be more willing to save with MFIs. People are willing to save for a specific purpose, but also for general emergencies. MFI may thus design several savings products. The technical aspects of differentiating the savings products are not very complicated given the current technology.

However, it is not clear that MFIs have the adequate MIS to correctly control savings products, much less a variety of them. The first step for MFIs should be to define the product characteristics and subsequently adapt their systems to these new products.

5.4. Lessons about habits, perceptions, and attitudes

Afghan people have the habit to save and as such it is promoted since childhood. Although there is no specific data on how ingrained or wide spread the habit is, most people would revive the habit if presented with the right product (e.g., save for your dream to go to Mecca for Hajj). Taking customs into consideration, MFIs learn more about their clients. The research showed that people dream to build a house.

It is important for MFIs to capitalize on this knowledge and begin designing adequate products, especially because banks provide a negligible number of housing loans. Arguably there are no successful housing lending schemes for the poor around the world, but because the structure of the Afghan financial sector is being shaped, MFIs could try to introduce innovative products with support from the Afghan government and the international community.

MFIs need to learn to communicate with clients in their own language. Clients use synonyms for savings and MFIs have to start capturing this information. Perceptions about ease and safety are very important, but according to this research making it easier to save is more important than

³⁰ This lower limit starts at 15% because the research showed that 14% of clients already save formally.

safety considerations. The Afghan government acted as implicit depositor insurer during a bank failure in 2008 and that provided some level of safety for depositors.

Additionally, after living without formal financial services for a couple of decades, Afghans may automatically view a formal institution as safe.

Experience with a bank, especially having savings at a bank, makes people very likely to save (about 50% probability³¹). This is the reason why MFIs have to educate clients about the benefits of saving formally and preferably save with them.

Another lesson about perception refers to the effective use of marketing campaigns by banks. MFIs can create their own campaigns and win over depositors. MFIs have a comparative advantage with banks in terms of number of outlets. They can use this advantage to provide savings to more people in areas where banks are not present.

³¹ See Appendix 7 to learn more about how this probability was calculated.

Annex 1 – Questionnaire – English version

MISFA

Microfinance Demand Assessment

June, 2009

Code: _____ Supervisor _____ Concerned Province _____
 Name of Interviewer _____ Code _____
 Date of interview _____ Year of Translator _____
 Interview starting time _____ Interview completion time _____
 Duration of interview in minutes _____
 Serial number of the questionnaire _____
 Serial number of the interview _____
 Name of the interviewee _____

Section 1. General Information

(Interviewer: Circle the answer)

Q11. Sex of informant

1. Male 2. Female

Q12. Age of informant

--	--

Q13. Can you read the newspaper?

1. Yes, easily 2. Yes, with difficulty 3. No

Q14. Can you write a personal letter?

1. Yes, easily 2. Yes, with difficulty 3. No

Q15. What is the highest level of education that you have completed?
 Which grade?

Level	Grade
1. None	
2. Primary	
3. Secondary
4. University	
5. Post-graduate	
6. Other (Specify) _____	

Interviewer: Choose (one option) and the write the number of level

Q16. How many family members live with you?

1 2 3 4 5 6 7 8 9 10 11 12

Q17. How many of them are working now?

1 2 3 4 5 6 7 8 9 10 11 12

Section 2. Your Work

Q21. During the past 7 days have you worked (for a public or private enterprise, or on your own account, or at your business)?

1. Yes 2. No → Go to Q23

Q22. When you work you are ...

1. Self employed?
 2. A salaried employee?
 3. A business owner with at least one employee?
 4. Working in the family business?
 5. Member of producer's cooperative?

ACTIVITY (Specify) _____

Q23. Do you have some other activity that gives you income?

1. Yes 2. No

Q24. How much is your wage or net income per week? (In local currency. If you have two jobs put the income for each separately.)

\$ _____
 \$ _____

Q25. How often do you get paid? (In local currency.)

1. At the end of the day
 2. At the end of the week
 3. Every two weeks
 5. Once per month

Q26. How much is the total household income per week (you and your spouse or children)? (In local currency)

\$ _____

98 I don't know

99 Refusal

Section 3. Expenditures

Q31. Do you make enough money to cover your expenses?

1. Yes 2. No

Q32. How much money do you and your family spend per month?

Item	\$ spend by month	How do you get the money? (indicate: business, work, odd job)
Food		
Education		
Transportation		
Basic services (energy, water)		
Housing (rent)		
Religious obligations		
Health		
Savings		
Loan		

Section 4. Your Loan

Q41. Do you have a loan with an institution?

1. Yes 2. No → Go to Q47

98 I don't know

99 Refusal

Q42. How much did you borrow?

\$ _____

Q43. What is your current balance? (In local currency.)

\$ _____

Q44. How much is your loan payment and how often do you repay?

\$ _____	1. Once per month 2. Every two weeks 3. Every week
----------	--

Q45. What institution gave you the loan or loans?

Specify _____

- 4. Poor service / I don't feel good
- 5. I don't know the procedure to open a savings account
- 6. Other (Specify)

Q46. Are you satisfied with the service provided by the institution/s where you obtained the loan/s?

1. Yes 2. No

Q47. If you need to borrow money quickly where do you go to find it?

- 1. Friends
- 2. Family
- 3. Bank
- 4. Microfinance institution
- 5. Other (Specify) _____

Q59. What do you want? (select 3) How much will they cost to realize?

- | | |
|--|-------------|
| 1. Go to Mecca for Hajj | 1. \$ _____ |
| 2. Grow my business | 2. \$ _____ |
| 3. Buy or build a home | 3. \$ _____ |
| 4. Daughter's wedding | 4. \$ _____ |
| 5. Send son(s) to school or university | 5. \$ _____ |
| 6. Send son to work in Dubai or Riyadh | 6. \$ _____ |
| 7. Buy cell phone | 7. \$ _____ |
| 8. Other (Specify) _____ | 8. \$ _____ |

Section 5. Savings

Q50. Are you saving with some institution?

1. Yes 2. No → Go to Q54

Q51. How much money is in your savings account?

\$ _____

Q52. Name the institution where you have your savings?

Specify _____

Q53. Are you satisfied with the service provided by the institution where you save?

1. Yes 2. No

Q54. When you have extra money, what do you do with it?

- 1. Deposit in bank
- 2. Invest in business
- 3. Keep cash at home
- 4. I get some jewelry (gold)
- 5. I get some supplies in large quantity (rice, sugar, etc)
- 6. Lend to relatives or friends
- 7. Other (Specify) _____

Q55. Where is it safe to save?

- 1. Bank
- 2. Invest in business
- 3. Keep cash at home because I know where my money is
- 4. I get some jewels
- 5. I get some supplies in large quantity (rice, sugar, etc)
- 6. Lend to relatives or friends
- 7. Other (Specify) _____

Q56. Where is it easier to save?

- 1. Bank
- 2. Invest in business
- 3. Keep cash at home because I know where my money is
- 4. Other (Specify) _____

Q57. Who pays me more for my savings?

- 1. Bank
- 2. Invest in business
- 3. I keep cash at home because I know where my money is.
- 4. Other (Specify) _____

Q58. Why are you not saving? (mark as many as needed)

- 1. I don't have extra money to save
- 2. There is no institution close to where I live
- 3. I don't trust the institutions

Section 6. Remittances

Q60. Do you receive money from a family member residing outside Kabul?

1. Yes 2. No → End

Q61. How do you get that money?.

- 1. Bank transfer
- 2. Post office
- 3. Transfer office (MoneyGram, Western Union, Dolex)
- 4. Other (Specify) _____

Q62. How much money do you receive? (In local currency)

\$ _____

Q63. How often do you receive that money?

- | | |
|---------------------------|--------------------------|
| 1. Weekly | 5. Quarterly |
| 2. Every 15 days | 6. Biannual |
| 3. Monthly | 7. Annual |
| 4. After every two months | 8. Other (Specify) _____ |

Was this interview selected for checking

1. Yes 2. No

- Method of re-checking and evaluation
- 1. Accompanying the interviewer during the interview
 - 2. Checked by the supervisor personally
 - 3. Checking from the Central Office
 - 4. Not applicable

Name of controller _____

Annex 2 – Focus Group Discussion Guide

Welcome and Introduction

1. Thank the participants for attending this meeting .Explain that the clients will benefit with this investigation and that the MFI will obtain important information that will allow them to improve the quality of offered financial services.
Make the participants feel comfortable and relaxed (this is internal; we need to be coordinated, smiling, welcoming)
2. Break the ice and talk about several topics (we need some tips for this: ask about their families and activities? What else?)
3. Tell them that we are consultants hired by MISFA, who are very happy to be in Afghanistan to carry out a research of savings services.
4. .Mention that we are here to learn about how they feel about savings (perception), their needs (why they would want to save) and which specific savings products (demand deposits like savings accounts, medium and long term, such as Certificates of Deposit) they need for themselves and for their business
5. Explain that we need to record these discussions because it helps us to remember all the details so that we don't forget their opinions or ideas that they share with us. Their names will stay confidential. They should feel free to express what they feel and think.
6. There is no correct or wrong answer. We only need to know their opinions.
7. As first step we should introduce ourselves. We request the clients begin first and then we follow. [here we need your opinion, perhaps we should tell about ourselves and then they will feel more comfortable to talk about themselves]

Questions

USAGE AND KNOWLEDGE OF SAVINGS SERVICES

To begin we want you to tell us about your families.

GENERAL

How many people live at your home?

How old are they?

What do they do?

What kind of business do you have?

What kind of business does your husband (brother, son) have?

Who contributes to the family income?

Please describe the current economic situation of your family?

Would you say that your current situation is better or worse than one year ago? Please tell us why your situation is better/worse?

Imagine it is the end of the year. Do you believe that the economic situation of your families will be the same, better or worse? Why do you believe that?

SAVINGS

How would you define savings?

What does it mean to save?

Imagine that you have to explain to your children why it is important to save. What would you tell them?

Imagine now that a friend requests you advice on how to save. How would you explain to her/him the method that you use to save?

Please tell us about the different types of savings that you know about.

When you have some extra money, where do you keep your money? (for one day, for a few months, for more than one year?)

Where do you keep the money you save (in a bank, with a relative? you hide it)?

Why do you keep your money in two or three different places?

If you keep your money at a bank and at home (or some other place). How much do you keep in the bank and how much in the other place? Where to you keep most of your money?

If you save how much do you save per month? (between 10 and 50 AFS, 51-100 Afs, more than 100 Afs)

Why do you prefer to: hide the money, or keep it in my mother house? (these are the options they mention)

What advantages and disadvantages do you find in your way of saving money?

Imagine you have saved 500 Afs. What should happen in order for you to take this money to the bank? Would you prefer to take this money to the MFI? (here we use the name of the MFI they work with: BRAC, Ariana, OXUS)

Do you know what the banks offer if you save your money with them?

What are the difficulties or obstacles to start saving at a bank?

What are the saving services that you consider necessary in order to improve your business?

Which would be your favorite place to put your savings?

EXERCISE

Materials needed: white board or flip chart, cards and markers

Now I want you to imagine two people. One named X = Fatima (Mohammad) and the other Y = Layla (Karim). These two people are the same age, they live in the same neighborhood with their husband (wife) and their children. They earn the same money, which means their family revenue is the same.

One of them (X) has saved Afs 2,000 and saves an additional Afs 100 each month, and the other person (Y) has Afs 500 saved and very seldom saves an additional amount.

In your opinion, why are there differences between these two people?

In your own words, what is it necessary to be a successful saver?

What should a financial institution offer in order to save there?

(write the attributes in cards)

Example:

- Non minimum amount for the deposit
- No maintenance fee
- Proximity
- Interest
- Few Requirements
- Others: Fast service, Good Attention, Personalized Service

Later: Make the participants to classify the cards for order of importance (prioritize). The most important on the head and the less important at the end.

Next: investigate: (example questions)

- Why is this so important?
- Why is this more important than that?
- How this is a relatively important topic?

Annex 3 – Sample Design

The sample was designed to be representative of MFI clients since the objective of the study was to find if there is a demand for savings services among them. The use of probability sampling techniques increased the validity of the study.

Adopted Criteria and Assumptions

The objective of the study to find the demand for savings services among MFI clients informed the following considerations:

- The population (or universe) was defined as clients of three MFIs (AFS, BRAC, OXUS) and one Bank (FMFB) located in the provinces of Kabul and Balkh.
- A proportion of clients were interested in saving, although there was no information about the size of this proportion or any other characteristic.
- It was important to have a group of persons who were not part of the universe. These persons were classified as *non-clients*. They were not included in a random sampling process because they would be used for comparative purposes only. The additional expense of creating a random sample of non-clients was too high in terms of time and costs.
- A proportion of clients was added to the sample to account for the *no-response cases* (when the clients refuse to answer at the beginning of the interview or if the selected client does not qualify for the study).

Population Characteristics

The sampling frame for the population consisted of the client lists in Kabul and Balkh. This sampling frame was considered homogeneous in one aspect: they were all microfinance clients and all were known to be living in Kabul and Balkh at the time the sample was taken.

Individuals in the sample frame have a perception and an understanding of saving that were formed by individual characteristics related to their age, gender, access to formal savings, but most importantly, by the MFI (or Bank) where they were clients. This is why each institution was considered a different stratum in the population and a stratified sampling methodology was used.

Sampling Methodology

The stratified sampling methodology was adopted with each MFI as a stratum. This method was appropriate because the sampling frame was complete and available (each MFI had a list of their clients that could be produced easily and accurately).

The type of allocation that was used to calculate the sample for each stratum was a *proportional allocation*.

If N is the total population with k strata, then:

$$N = \sum_{j=1}^k N_j$$

and if n is the sample size, n_k are the samples in each stratum such that:

$$\sum_{j=1}^k n_j$$

The proportional allocation in the study was related to four strata, then:

$$\frac{n_1}{N_1} = \frac{n_2}{N_2} = \frac{n_3}{N_3} = \frac{n_4}{N_4} = \frac{n}{N}$$

Thus, to arrive at the appropriate sample size the formula used was:

$$n = \left(\frac{Z_{\alpha/2} \sigma}{e} \right)^2$$

where: $Z_{\alpha/2}$ is the x-axis of the normal distribution for a probability of 95% (and a probabilistic error $\alpha = 5\%$).

σ is the standard error, and

e is the absolute sampling error.

The values adopted were:

$$\sigma = 0.4899 \text{ and}$$

$$e = 0.0548$$

This yields

$$n = \left(\frac{1.96 * 0.4899}{0.0548} \right)^2 = 307$$

Sample size: 307 clients

The sample size of each stratum was obtained through proportional estimations instead of using the straight formulaic allocation. This choice was made based on the objective of the study that called for finding the demand for savings among microfinance clients. As mentioned earlier, the bank, FMFB, was included in the study because it is a microfinance institution but its clientele was of less interest for the study objectives, thus the sample for this stratum had to be smaller. The proportional allocation of the stratified sample is shown below.

Table 1 – Sample size per institution (proportional allocation)

MFI	Proportion of total sample (%)	Sample size
AFS	29,6	91
BRAC	31,9	98
OXUS	31,5	97
FMFB *	6,8	21
Total	99.8	307

Note: FMFB had less importance for the study objective, thus, there are proportionally fewer bank clients in the sample.

Following sampling best practice, a 10% of the sample size was added to cover no-response cases, and an additional 11% was added for the comparison group designated non-clients.

Defining the sample by Province

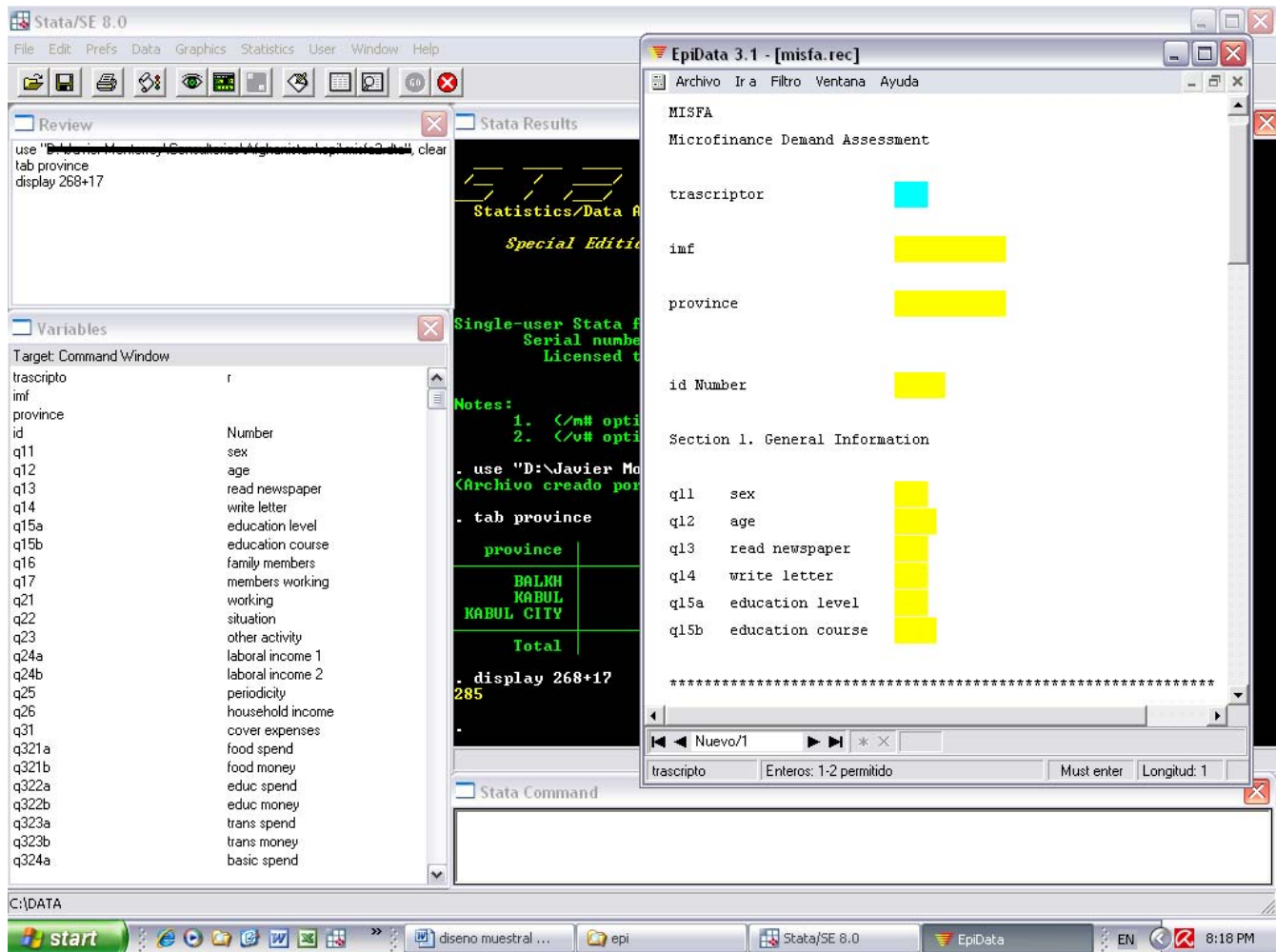
The study design limited the area of interest and the population to the Northern provinces of Kabul and Balkh. Using the client lists from each institution (sample frame) interviewees were selected randomly (and each of the clients in the list had an equal chance of being selected). Applying the proportional allocation and a random selection process the resulting sample in the two provinces for each MFI and for the group of Non-clients is shown in the table below.

Table 2 – Sample per province after random selection of clients

MFI	Province		Total
	Kabul	Balkh	
AFS	91	0	91
BRAC	65	33	98
OXUS	63	34	97
FMFB	21	0	21
Non-clients	45	20	65
TOTAL	285	87	372

Annex 4 – Transcript Program Screens

The image shows a transcription screen in EpiData and also the structure of the database in Stata format.



Annex 5 – Decision to save (an approximation with a Logit Model)

In order to find out the number of people who could become savers at an MFI a proxy consisting of the percentage of people who actually save at a bank. This proxy indicator is the result of a decision process made by each person since they have alternative uses for their money, such as invest in their business, keep cash at home, buy jewelry, etc.

When a person deposits his or her savings at a bank the act implies that they demanded those services and the services were offered. Getting to know the decision process of the person should inform the design of new and/or better services.

Hypothesis

The experience as a bank client and the opinion about the service motivate potential clients to demand savings services.

Methodology

A binary election logit model was used to study the probability of deciding to save at a bank (*deposit your extra money in the bank*) as a proxy for saving at MFIs. The occurrence of this event –save at a bank, is determined by observable variables (6 variables taken from the questionnaire). These variables directly correlate to the event:

- Are you saving with some institution?
- Where is it safe to save?
- Where is it easier to save?
- Who pays more for savings?
- Do you have a loan with an institution?
- Province (where person resides)

A latent variable was assumed, since the process of making a decision is not directly observable. This latent variable –the decision to save, is directly related to the observed variables. The relationship between the two is defined by the following equation:

$$y_i^* = \alpha + \beta x_i + \varepsilon_i$$

This equation is identical to a linear regression model. The fundamental difference in this case is that the dependent variable in the model is the latent variable or, in other words, the variable that is assumed and not observed. The relationship between the observed binary variable(s) and the latent variable is defined by the following relationship:

$$y_i = \begin{cases} 1 & \text{if } y_i^* > 0 \\ 0 & \text{if } y_i^* \leq 0 \end{cases}$$

The latent equation (y_i^*) was used because there is the assumption that an underlying tendency to save at a bank generates an observable value (y_i), this value is the demand for saving services at an MFI (or the proxy indicator of *depositing your extra money at a bank*).

The model estimates the probability that a person will demand saving services. This probability is conditioned by independent variables. The probability model is:

$$\Pr(y = 1 | x) = \Pr(y^* > 0 | x)$$

Model Specifications and validity

The model uses six statistically significant variables for the decision to deposit extra money at a bank. The model uses an estimation method of maximum likelihood. The results of the logit model as an output table from Stata software are shown in Table A.

Table A – Logit output table

Independent variables	Coefficients	Standard error	P>z	Marginal effect
Are you saving with some institution? ^{/a}	2.071	0.554	0.000	0.391
Where is it safe to save? ^{/a}	1.709	0.809	0.035	0.207
Where is it easier to save? ^{/a}	2.877	0.885	0.001	0.343
Who pays me more for my savings? ^{/a}	0.541	0.342	0.114	0.071
Province ^{/b}	-1.725	0.513	0.001	-0.284
Do you have a loan with an institution?	-1.644	0.466	0.000	-0.294
Constant	-2.107	0.485	0.000	

Note:

a: Bank = 1, Else = 0

b: Kabul = 1, Balkh = 0

The validity of the model was verified with statistical tests (Wald test and Likelihood Ratio test) that showed that the coefficients are valid and statistically significant. Thus, the variables used are statistically significant independently and as a group.

Conclusions

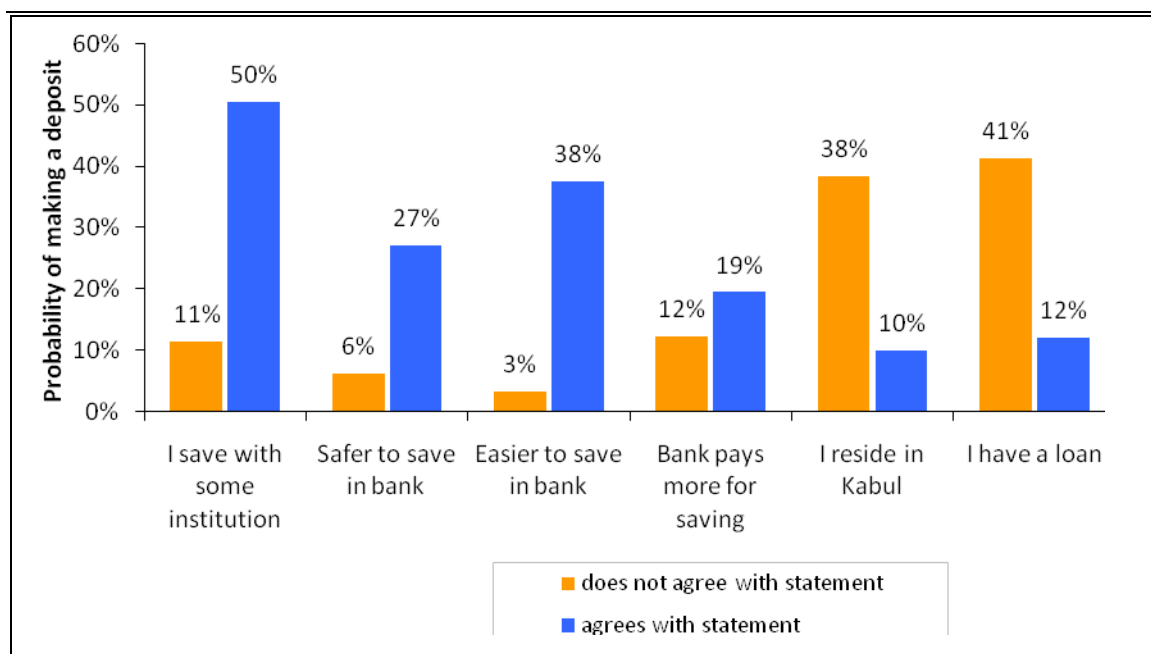
The model's main output is the prediction of the probability that a person will save at an MFI. This is basically the calculation of the odds that the event "will the person deposit their extra cash at an MFI" takes place given the different variables.

The probability that a person deposits his/her extra money at an MFI if he/she has a savings account at a bank is 50%, while the probability to do this is only 11% when the person does not have a savings account. Similarly, higher probability of depositing extra cash at an MFI exists among people who think it is safer or easier to save in a bank (27% and 38% respectively). Those clients who think a bank pays more (than other alternatives; e.g., business, storing cash at home, lending money to friends, etc.) have a higher likelihood of making a deposit at an MFI than those

who think otherwise, although this is not a very significant issue since the likelihood of the deposit is only 19%.

The model showed two circumstances (variables) that would lead to lower odds of people making deposits. If people live in Kabul or if they have a loan (with any institution) the probability of having them as depositors is much lower than if they live in Balkh (which is “the opposite” of living in Kabul) and if they do not have a loan. Not having a loan as a factor for making deposits is intuitively easier to recognize, because there may be more *extra money* when there is no loan to pay back.

Figure 1 – Probability of depositing extra cash



Some additional conclusions with product design implications are:

- The odds of people saving at MFIs are higher in Balkh. This is evidence that these two provinces are different markets with different characteristics. It would be incumbent upon MFIs to find the differences to create more appropriate savings products.
- Having a loan results in a lower probability of saving. Although the loan itself cannot be considered a disincentive, having the additional expense (the loan repayment is a liability for the client) clearly weighs in at the time of deciding where “the extra money” goes.
- The most important variable at the time of making a decision to deposit at an MFI is to have the experience of being a saver at a bank. When designing a product, MFIs could start by attracting current bank depositors. Considering that banks have about one million

depositors with an average outstanding balance of less than a \$1,000³² capturing about 35% of those clients would result in 35,000 savers that bring \$35 million with them. This would not include the richest bank clients that are probably corporate clients with much larger balances.

- The questionnaire included two opinion questions (variables); i.e., what is the safest place and the easiest place where to make a deposit. In both cases, the bank was the preferred answer. Further analysis was performed with the model to find if one of these factors would be more influential at the time of deciding to make a deposit. According to the model, convenience is more important than safety at the time the person decides to deposit extra money. Since the bank is the proxy for the MFI, the same conclusion is valid for the latter.
- The notion that a bank pays more for savings is not a very important consideration when the decision to deposit is made. The main reason behind is that interviewees understood that if the return is the consideration, the extra money should be reinvested in the business and not deposited in a bank. As micro-entrepreneurs and MFI clients interviewees know the value of money.

³² See Demand Study Section 3, Key Findings.

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