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A Critical Review of Savings Services in Africa and Elsewhere

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Acronyms

AIG:	American International Group
ASA:	Association for Social Advancement
ASCA:	Accumulating Savings and Credit Associations
BRAC:	Bangladesh Rural Advancement Committee (now simply referred to as BRAC)
BRI:	Bank Rakyat Indonesia
BURO, Tangail:	Bangladesh Unemployed Rehabilitation Organisation, Tangail (now simply referred to as BURO, Tangail)
CGAP:	Consultative Group to Assist the Poorest
CLCAM:	*Caisse locale de credit agricole mutuel* (Local Rural Credit Union)
FECECAM:	*Federation des caisses d'epargne et credit agricole mutuel* (Federation of Rural Savings and Loans Cooperatives)
FINCA:	Foundation for International Community Assistance
GTZ:	(Deutsche) Gesellschaft fur Technische Zusammenarbeit
KCMDC:	Kiangan Community Multi-purpose Development Co-operative
KPOSB:	Kenya Post Office Savings Bank
MFI:	MicroFinance Institution
NGO	Non Government Organisation
RoSCAs:	Rotating Savings and Credit Associations
SACCOs:	Savings and Credit Co-operatives
UCB:	Urban Co-operative Bank
UMU:	Uganda Microfinance Union
UWFT :	Uganda Women Finance Trust
WEDCO:	Women's Economic Development Company

Local Terms

Alajos:	Peripatetic deposit takers (Nigeria)
Boda boda:	Motor-cycle or bi-cycle taxi – the fare-paying passenger rides pillion (Uganda)
Dashi:	Rotating Savings and Credit Association (Nigeria)
Esusu:	Rotating Savings and Credit Association (Nigeria)
Gawat:	Reciprocal (Philippines)
Harambee:	Reciprocal pooling of funds to meet (typically life cycle) expenses (Kenya)
Ibi:	Rotating Savings and Credit Association (Nigeria)
Iddirs:	Accumulating Savings and Credit Association with a life insurance component (Ethiopia)
Kkibati:	Rotating Savings and Credit Association (Tanzania)
Merana Fund:	Funeral cost fund (India)
Munno Mukabi:	A "Friend in Need" Association – self/mutual help group (Uganda)
Susu:	Daily deposit collector (Ghana)

A Critical Review of Savings Services in Africa and Elsewhere

Graham A.N. Wright[1]

Executive Summary

1. Background: Why Poor People Save

Throughout time, all around the world, households have saved: as insurance against emergencies, for social and religious obligations, for investment and for future consumption. The importance that poor people attach to savings is demonstrated by the many ingenious (but often costly) ways they find to save.

The objective of this paper is to review why and how poor people save cash, and how MicroFinance Institutions (MFIs) might assist, while still retaining the MFIs' focus on profitable operations and ultimately on sustainability.

The first section examines what motivates poor people to save and the implications for MFIs seeking to provide savings services to them. There is a brief review of traditional economists' perspectives on savings and the demand for money. Included are: Keynesian current/absolute income, Freidman's permanent income, Modigliani's consumption theory based on the permanent income over the life-cycle of a household, and Duesembery's relative income. It notes in passing Keynes' classic nine reasons why people to choose to save, before reviewing the evidence on the needs expressed by poor people themselves. Drawing on Rutherford's work, three categories of financial needs are identified:

- ***Life cycle needs***. Life cycle events that impose financial burdens include: births, deaths, marriages, education, home-making, widowhood, old age, and the need to leave something behind for one's heirs.
- ***Emergencies***. Impersonal emergencies are caused by floods, cyclones, and fires etc., while personal emergencies include illnesses, accidents, bereavement, desertion and divorce.
- ***Opportunities***. Financial and life-style opportunities can require large sums of money for starting or running businesses, acquiring productive assets (including land and housing), or buying life enhancing consumer durables (fans, radios etc.).

In addition to, and often in response to the aforementioned categories of needs, many poor people also set up reciprocal arrangements. These arrangements allow people to save by lending (as the money will be returned to them at a future date), or to save in order to borrow (for example, cooperatives or MFIs require a percentage of a loan on deposit).

2. How People Save: Savings Products and Services from a Saver's Perspective

2.1 Balancing Convenience, Risk and Returns

This section attempts to briefly review the variety of systems and mechanisms that poor people use to save, and discuss the issues that the poor face. These issues are reviewed in the context of the trade-offs between access, liquidity/duration, risk/security, and returns on deposits made.

It is clear that most poor people do not have *access*[2] to formal sector banks for reasons that include:

1. the geographic distance from the financial institution;
2. the terms and conditions governing the available financial services it offers;
3. the working hours of the institution;
4. the long time it takes to make a transaction at the institution;
5. the disrespectful manner in which the staff treat poor clients;
6. the intimidating appearance of the financial institution; and
7. the complexity of the paper work and the difficult process necessary to make a transaction.

1 With special thanks to Stuart Rutherford for his guidance and comments.

2 Access is defined as the ability/ease of people to undertake transactions with financial institutions.

The poor look for some system to provide the *security* and accessibility necessary to save. Acceptable degrees of security are relative, dependent on the available programs, and are never 100 per cent. Almost every poor person has been in, or knows of, a failed Rotating Savings and Credit Association [RoSCA] or crooked deposit collector, but the accessibility of a regular opportunity to save in a disciplined manner is what makes deposit collectors and RoSCAs so popular worldwide.

Access is markedly different from *liquidity*, and often considered more important by poor people who have little time to make their transactions. While many authors have stressed that "liquidity is the key to local savings mobilization", it is important to note that in many circumstances the poor have a strong "illiquidity preference". This "illiquidity preference" is in response to the poor's self-imposed need for structured and committed savings mechanisms that prohibit them from withdrawing in response to trivial needs or frivolous spending and allow them to fend off the demands of marauding relatives requesting "loans" or assistance.

With the exception of successful Accumulating Savings and Credit Associations (ASCAs) and auction RoSCAs, the *return* on savings in the informal sector is rarely above zero (real rate of return negative). Often the poor pay to save through a conveniently accessible system such a deposit collector who visits daily to collect savings.

2.2. Balancing Terms and Needs

RoSCAs are perfect systems for disciplined, goal oriented savings, particularly if that goal is cyclical or recurrent. Participants believe that they save more because of the discipline of having to meet regularly with the rest of the group to make a deposit. RoSCAs are particularly popular for restocking market trader's stalls on a regular (often weekly or fortnightly) basis. Similarly, longer-term RoSCAs are used to make monthly rental payments or to pay school fees. However, their rigid, cyclical and self-liquidating nature is also the drawback of typical shorter-term RoSCAs, for they are poorly equipped to respond to:

1. unpredicted emergency needs,
2. the need to build-up larger lump sums over time,
3. changes in the member's ability to save (either a reduction due to problems or an increased ability due to a windfall), and
4. the need to store money short term (for example, if the pay out or prize comes a month before school fees are due, the member is then forced to safeguard the money on his/her own).

This paper examines a variety of systems that have been developed to try to respond to these short-comings.

2.3. Managing Liquidity and Duration: A Spectrum of Needs

This section presents the continuum of products from the highly liquid current account, through contractual savings agreements and term deposits to what is possibly the most illiquid form of saving, life insurance, and discuss the aspirations/motivations of clients when they choose among the various possibilities.

All families require funds for different purposes that vary with respect to the amount that is needed and the immediacy with which the funds must be made available. Many emergencies or opportunities necessitate instant access to cash. This explains why almost all poor families keep some amount of emergency savings in the home, and why many do prefer highly liquid savings services. The "illiquidity" preference described above means that poor people have needs that require both liquid and illiquid services and those that save, often hold multiple accounts to do so. Similarly, poor people often use a strategy of "targeted savings", including some highly illiquid savings, (notably, in the absence of alternatives, MFIs' compulsory savings) which can be used to build-up large lump sums of money to purchase significant capital assets such as land and houses.

For these reasons, poor people often have a startling diversity of savings "accounts".

These accounts can include for example:

1. a current account in a bank which was opened at the urging, insistence and possibly the aid of an MFI (this is usually the MFI member's "compulsory savings" which has a minimum balance and growth requirement for the member to access loans from the MFI; thus it is used as a longer term savings account);
2. 2-3 different RoSCAs (of varying sizes and cycles, often one for re-stocking, another for school fees, and a third to finance household commodities/clothes; thus it is used as a medium term savings mechanism);
3. some emergency money secreted in the home (used for small, short term emergencies);
4. some "savings-in-kind" in livestock – typically goats and chickens; and
5. an indigenous insurance system used to spread the cost of life-cycle event costs such as those associated with birth, marriage and death.

2.4 Compulsory, Locked-In Savings

This section briefly reviews the attitudes of the poor towards the compulsory savings schemes favoured by MFIs. The poor require little compulsion to save. They simply want a reasonable mechanism to do so and the assurance that they will be able to access those savings as needed. Indeed, there is evidence that compulsory savings, particularly those that are deducted from the loans issued, are simply viewed by clients as part of the cost of the credit. Some clients use these compulsory savings systems to build up useful, long-term lump sums of money. However, it is possible that well designed open access savings accounts and contractual savings agreement schemes could give clients the *option* of setting these funds aside. Furthermore, such systems would not force the clients to leave the MFI or reduce their ability to access loans if they need to liquidate their savings.

3. Designing Savings Products and Services from an MFI's Perspective

3.1 Balancing Convenience and Returns

This section attempts to examine the issues facing MFIs as they design savings products and services. The issues are reviewed in the context of balancing the trade-offs between access, liquidity, pricing/returns for depositors, and the cost of providing the services. Also discussed are the indirect benefits of offering savings services including their effect on client retention, loan portfolio quality, etc.

As seen above, when deciding on the savings services, poor people look for a mix of accessibility, security, liquidity and (ideally but not crucially) returns. The financial institution's perspective is almost the mirror opposite of that of the client. Financial institutions would like to maintain a few branches in densely populated areas to maximise the number of clients per branch and facilitate branch security. They would prefer to limit opening hours to allow the opportunity to keep up with the complex accounting and internal control procedures necessary to run a financial institution effectively, and to facilitate physical security arrangements. They would like to see large deposits made for as long as possible with a minimum of withdrawals so that the transaction and liquidity management costs are kept to a minimum and the funds available for on-lending are maximised. And of course, the profit-maximising goal of a financial institution encourages the extension of as little interest as possible. On the face of it, the prospects for providing profitable, service oriented microsavings services seem bleak. But this pessimism requires careful thought. There are several opportunities that can (and indeed in many instances do) offer microsavings services on a profitable basis.

One of the chief fears voiced by MFIs revolves around the potential difficulties involved in dealing with the many small transactions often associated with the providing savings services to the poor. While this is indeed likely to be the case, several important observations should be made:

1. Generally, the majority of the transactions will be deposits. Indeed the poor are often remarkably unwilling to make withdrawals. However they do want to know that they <u>could</u> withdraw if a pressing need arose.
2. Periodically, even poor people have lump sums to deposit as a result of windfalls or sale of assets.
3. Poor people have a multiplicity of needs and are not always looking for a highly liquid account to use on a regular basis.

4. Savings accounts targeted for medium and long-term needs are particularly attractive to MFIs in search of capital for on-lending, and appropriately designed products can encourage these.

There are also important and often overlooked, additional benefits of offering savings services to the poor. In addition to providing capital for on-lending, savings services can:
1. develop the client base (of borrowers) for the future;
2. obtain information on the clients' abilities to save and (by implication) repay loans thus facilitating the assessment of credit-worthiness;
3. facilitate repayments when clients are unable to meet repayments out of current income; and
4. encourage repayments, as clients want to maintain a good reputation and their access to future services.

There are also many ways of minimising the costs of providing savings services, and possibly even deriving a profit from doing so. This can be done directly through the pricing structure in the form of interest rates paid and the charges levied on savings accounts. These should be carefully structured to encourage savers to maximise deposits and minimise withdrawals. Clearly, the interest paid on savings deposits should be determined by the stability of the deposits. Thus the MFI can elect to pay interest only on accounts with balances above a certain minimum. In view of the clear evidence that poor people are willing to pay for convenient savings services, in addition to ledger charges, MFIs could also experiment with charges for specific savings services. In order to reduce withdrawals, MFIs could limit the number of withdrawals per period, set minimum withdrawal amounts, require notice to withdraw or charge for withdrawals made. In addition to the pricing structure, the MFI can reduce costs through its organisational approaches and work methods.

3.2 Balancing Terms and Needs

This section reviews the continuum of products from the highly liquid current account to what is possibly the most illiquid form of saving, life insurance. Discussed are the implications of the varying levels of liquidity for MFIs seeking to manage (and maximise income from) those funds.

Carefully crafted savings products can meet the needs of the poor for a disciplined savings system that "forces" them to save regularly and satisfies the "illiquidity" preference. Even longer-term contractual savings agreements are extremely popular where they have been tailored exactly to meet typical clients' cashflows and needs for marriages, expensive higher education or any other predictable life-cycle need. Another approach to medium and longer term savings systems is the fixed term deposit, which typically offers the client an enhanced rate of interest in return for a commitment to leave the savings on deposit with the institution. There is a significant demand for insurance products amongst poor people, and it is important to note that several formal and semi-formal sector financial institutions have responded to this need in a variety of ingenious and profitable ways.

Given the diversity of the needs of poor people, it makes sense to have diverse savings products that meet the variety of needs. These can address short, medium and long term needs for saving through disciplined, small, regular or irregular savings; or irregular, larger, lump sum savings.

3.3 Compulsory, Locked-In Savings

The section looks at the issues of compulsory, "locked-in" (i. e. non-withdraw-able) savings and the role they play in securing loans and capitalising MFIs. While this approach seems attractive in the short-run, in the long term it presents forward-thinking MFIs, wishing to offer credit and savings services, a significant dilemma. Clients actually deposit less (gross and net) in institutions that offer only compulsory savings systems. Thus if the MFI wants to move to a more liberal open-access system, the small amount of funds that exist do not provide much cushion, and, in the short term, the outflow of funds can be debilitating.

3.4 Selling the Idea

This section briefly examines some of the marketing tools used by MFIs to promote their savings products beyond traditional forms of advertising (such as radio, posters, itinerant promoters using

microphones, etc.). These include creating a clear brand image, lottery draws and targeting specific groups (e.g. school children).

4. Synthesis and Conclusions

Two different strategies are pursued by outside agencies (be they development or private sector) and by poor people themselves as they seek to design and deliver financial services. The former tend to use a strategy of "permanence and growth" and look to create sustainable institutions that deliver financial services to an ever-increasing number of clients –such as MFIs, banks, and co-operatives. By contrast, poor people generally use a strategy of "replication and multiplication" and look to create many small self-contained, often self-liquidating, schemes –such as RoSCAs and Christmas clubs.

Permanence and growth institutions tend to encourage the long-term build-up of funds through relatively slow, but steady, saving, and are therefore extremely well suited for addressing longer-term savings needs. While replication and multiplication schemes tend to encourage the rapid accumulation and disbursement of funds and are therefore better suited to meeting shorter-term savings needs.

There is increasing evidence that providing client-responsive financial services can both serve the needs of poor people while maintaining or in fact improving the sustainability and profitability of the MFIs (see for example Hulme, 1999 and Wright, 2000).

There are no magic formulas for designing appropriate savings products for poor people. There is no substitute for intensive market research and careful product development. But the rewards for the MFIs that undertake these exercises in terms of profits and client loyalty can be remarkable, and well worth the investment.

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"For the poor savings are an asset, while credit is a liability"
(Hugh Allen, Development Finance Network, 1999).

1. Why Poor People Save

This section examines what motivates poor people to save and the implications for MicroFinance Institutions (MFIs) seeking to provide savings services to them. The diversity of motivating factors that promote saving have lead to a tremendous diversity of products, services and mechanisms in both the formal and in the informal sectors.

1.1. Background

Throughout time, all around the world, households have saved as insurance against emergencies, for religious and social obligations, for investment and for future consumption. The importance that poor people attach to savings is demonstrated by the many ingenious (but often costly) ways they find to save. These include investing in assets that can be sold in an emergency (for example corrugated iron sheets, livestock or jewelry), participating in local initiatives such as Rotating Savings and Credit Associations (RoSCAs) or funeral funds, lending between family and friends, and keeping small amounts of cash secreted in the house. But for a variety of reasons, including inflexible policies and structures, these mechanisms may not fully meet the needs of the poor in a convenient, cost-effective and secure manner. As a consequence, when poor households' desire and need to save meets a safe, easily accessible opportunity to do so, their capacity to save, their commitment to saving, and the amounts they manage to save, are remarkable.

The objective of this paper is to review why and how poor people save cash[3], and how MicroFinance Institutions (MFIs) might assist them, while still retaining the institutions' focus on profitable and ultimately sustainable operations. This paper will focus primarily on cash savings products and services by reviewing a wide variety of financial savings systems ranging from informal savings clubs to formal sector bank's term deposits, from funeral clubs to life insurance, from savings collectors to current accounts. The paper does not deal with the issue of the regulations governing MFIs' ability to offer savings services – this important topic is under discussion by central bankers and experts throughout the world. It is hoped that this paper might serve to remind policy-makers of the importance of savings to poor, and that the currently available options for saving are imperfect in terms of risk and duration of saving (see Wright, 1999 for a discussion of these issues in the Ugandan context).

[3] In-kind savings are not considered in the paper, not because they are unimportant, but simply since they are a topic in themselves, and one that has been explored at length elsewhere. Similarly, for the same reason, economists searching for another analysis of the implications of inflation will be disappointed.

Voices from the Villages
From Wright et al. 1997

Shamima, Rokeya and Anwora all agreed, they had always made savings by putting aside a few taka from the sale of eggs and fruit - after all "a good wife saves". The savings had been useful for school fees, clothes and other small-scale expenses. Before they had kept their savings in clay money banks - shaped like fish - but there was always the temptation not to put money in, or to take some out for little treats for the children or visiting guests.

But Rubia and Nurjahan disagreed, they had not saved before, Rubia because she "had no place to save", and Nurjahan, because she "did not think about saving". They all liked BURO, Tangail's savings account system, the ability to withdraw their savings and the discipline of having to save each week. "Now we save more, much more," they chorused.

1.2. The Theory: Why Economists Think People Save

This section briefly revisits savings and the demand for money from traditional economists' perspectives[4].

Most economists agree that income and/or wealth is the main driving force behind consumption and thus saving. However, they disagree on which income drives consumption/saving. The Keynesians used current/absolute income, Freidman applied permanent income, Modigliani developed his own consumption theory based on the permanent income over the life-cycle of a household, and Duesembery focused on relative income (Schmidt-Hebbel and Severn, 1996).

Keynes' *absolute income theory* is simple. As a household's income increases at any given time, it consumes and saves more.

Friedman's *permanent income theory* is based on two concepts, one involving transitory income and the permanent income. The transitory income, or windfall income, is a temporary income change, which leads to an increase in saving rather than consumption. The permanent income is the income the household feels sure of receiving. This permanent income increases a household's consumption without changing its saving level, and can even decrease the saving level.

Moddigliani and Brumber's *lifecycle income theory* holds that the consumption patterns of a household depend on the stage of its lifecycle. Over the lifecycle, income follows consumption with a hump or bell-shaped pattern, with the difference as "dis-saving". Consumption exceeds saving, thus creating dis-saving or probably borrowing when a household is younger. Saving reaches its peak, exceeding consumption, for a household in middle age, and then the household lives off of its accumulated wealth/saving during retirement. Thus the propensity to save depends on age and differs systematically across age-specific cohorts.

Dusembery's *relative income theory* is based on the inelasticity of consumption patterns relative to a change in income, and concludes that consumption is always relative to the income of an individual household, and that of their friends. Credit makes it possible for people to keep their consumption level up while their income goes down.

[4] Thanks to Noriko Osada for hr help with this section

Nine Key Reasons Why People Save

Keynes (1936)

1. *Precautionary Motive:* to build up a reserve against unforeseen contingencies.
2. *Life-cycle Motive:* to provide for an anticipated future relationship between the income and the needs of the individual.
3. *Intertemporal Substitution Motive:* to enjoy interest and appreciation.
4. *Improvement Motive:* to enjoy gradually increasing expenditure.
5. *Independence Motive:* to enjoy a sense of independence and the power to do things, though without a clear idea or definite intention of specific action.
6. *Enterprise Motive:* to carry out speculative or business projects.
7. *Bequest Motive:* to bequeath a fortune.
8. *Avarice Motive:* to satisfy pure miserliness (i.e. unreasonable but insistent inhibitions against spending money).
9. *Downpayment motive:* to accumulate deposits to buy houses, cars and other durables.

1.3 The Practice: Why Poor People Save

This section seeks to compare and contrast the economists' theories with how the poor themselves see the need for and use savings services.

While the theories presented above are interesting points of initiation, a more detailed and practical review of why the poor need to save and what would enable the poor to gain the most from their savings is necessary to develop appropriate savings products. Households save for future expenses for a number of reasons (Vogel 1984, Zeller et al. 1998). Savings help to even out income streams that are subject to seasonal variations. Seasonal variations are of particular concern to farm households whose cash flow depends on a few crops. In the absence of social security systems for the poor, savings can also serve as insurance substitutes in case of bad health, disability, sudden income losses and retirement. As a means of accumulating wealth, savings help to achieve the household's long-term goals including both social and religious obligations, and facilitating future investment and consumption (Hannig and Wisniwski, 1999).

Thinking About Needs

From Rutherford, 1999b

Throughout their lives, the poor experience many occasions when they need sums of money larger than what is immediately available to them. There are three categories of such occasions:

- ***Life cycle needs***. The poor need usefully large sums of money to deal with life cycle events such as birth, death and marriage, education and home-making, widowhood, old age and death, and the need to leave something behind for one's heirs.
- ***Emergencies***. In order to cope with impersonal emergencies such as floods, cyclones, and fires, and with personal emergencies such as illness, accident, bereavement, desertion and divorce, large sums of money are again required.
- ***Opportunities***. As well as needs, the poor have opportunities that require large sums of money, such as starting or running businesses, acquiring productive assets (including land and housing), or buying life enhancing consumer durables such as fans, televisions and refrigerators.

There is one other key reason why poor people save that is implicit in all of the above, but should be highlighted: that of reciprocity. Many poor people set up reciprocal arrangements whereby they save by lending. Lending to a neighbour today sets up a reciprocal arrangement under which the neighbour will then lend to in times of need (see box below). As Jean-Philippe Platteau (1997) argues, "when they [traditional rural communities] enter into such arrangements [informal risk-sharing arrangements] members of these communities are guided by a principle of balanced reciprocity (they expect a return from any contribution or payment they make) rather than by a true logic of mutual insurance."

Filipino "Gawat" Groups – Reciprocal Insurance or Saving by Lending
From Rutherford, 1997

Throughout the Cordillera in Northern Luzon, there is extensive informal lending between villagers. Most loans are taken for consumption and are from family friends and neighbours on a reciprocating basis (that is, both sides understand that the borrower is obliged to offer a loan back to the lender at some unspecified future date, but not of any fixed amount). Loans are typically given at no or very low interest, and the terms/length are varied and loose, with little use of guarantors or collateral, and rare inter-linking of credit with other factors. Borrowers and lenders know each other and each other's affairs well: they exchanged loans and gifts in the past, and will do so again. These arrangements are "Not so much a market as a network of relationships," and Lund (1996) surmises that they provide insurance and thus smooth consumption. Almost every household is involved: only 3 out of 206 households had not done it during the study's 9-month period, and nearly half of such loans are between first-degree relatives. Repayment is rapid - mostly 2 or 3 months, at the borrower's convenience. Repayment is very good (only 1 in the 1,142 studied by Lund were in default), enforced by threat (or fear) of exclusion from future deals. The average value of the loans studied by Lund was 1,170 pesos ($33.43).

This phenomenon is by no mean confined to Asia. Temu (1994) also notes the importance of non-monetised credit offered to friends, family and neighbours in Tanzania and explains the terms of the reciprocity element - the borrower will in the future lend to the lender - which is important in building trust.

This rationale is mirrored in the formal and semi-formal sectors in which savings are often deposited in order to gain access to loans. Indeed this is the primary reason for saving amongst many (and probably most) of the co-operatives and village banks in West Africa (Goldstein et al, 1999) and the world. Savings and Credit Co-operatives are generally primarily "Savings to get Credit Co-operatives"!

2. How People Save: Savings Products and Services[5] from a Saver's Perspective

"People (and not just the poor) may save money as it goes out (keeping a few coins back from the housekeeping money) as well as when it comes in (deducting savings at source from your wage or other income). Even the poorest have to spend money to buy basic items like food and clothing, and each time they do so there is the opportunity to save something, however tiny. Many poor housewives try to save in this way, even if their working husbands fail to save anything from their income" (Rutherford, 1999).

2.1 Balancing Convenience, Risk and Returns

*This section briefly reviews the many and varied systems and mechanisms that poor people use to save, and discusses the issues they face. These issues will be reviewed particularly in the context of trying to balance the trade-offs between access, liquidity/duration, risk/security, and returns on deposits made. For a detailed analysis of these issues in the context of savings systems in East Africa see **MicroSave**'s papers on the use and impact of savings services among the poor (Rutherford, 1999, Mugwanga, 1999, Mutesasira, 1999 and Mutesasira, 1999a).*

Rutherford, 1996 identifies six key factors sought after by the rural poor when they are considering where to entrust their savings. These are:

1. Safety. Will their savings be held safely by the bank or other deposit taker?;
2. Ease of withdrawal. Can savings be accessed when needed?;
3. Proximity to home or workplace. Are there nearby locations for making deposits and withdrawals?;
4. Prizes or bonuses for good saving. Can more be earned for diligent savers?;
5. High interest rates; and
6. Quality of services. Are small depositors treated with respect and appropriate assistance?

From a survey of 1,000 market women in the three cities of Ghana, Aryeetey and Gockel, 1991 note three major reasons why respondents would *not* save with banks. These were that:

1. The women's incomes were too low – suggesting that they expected only those with high incomes to deal with banks;
2. There were too many formalities at banks – there was too much paper work which led to unnecessarily extended transaction times; and
3. Banks were usually uninterested in small frequent deposits of torn notes and discouraged market women from making them.

MicroSave's recent work on the mechanisms and systems used by the poor to save reflect similar attitudes, but add two additional significant issues. Firstly, that the formal banking system screens out poor savers through their high opening and minimum balance requirements (often on the basis that it is not economical to serve them or that doing so creates lengthy queues that are likely to discourage their "higher value" customers). Secondly, banks are not typically located where poor people live or work: rural areas or poorer parts of the cities.

Most of these constraints can be summarised using the term "access" – and this is perhaps the most important issue for poor people. Access comprises:

1. *Physical Factors*:
   - the physical proximity of the financial institution (how far it is from poor people's homes or places of work determines the ease and cost of getting there);
   - the terms and conditions governing the financial services it offers (opening and minimum balances, fees and other direct transaction costs, and rules governing withdrawals often make access by the poor impossible);
   - the opening hours of the institution (typical banking hours are remarkably inconvenient for market traders);
   - the queues and how long it takes to make a transaction at the institution (which again determine how long the clients must be away from their businesses or homes and thus contribute to transaction costs);
   - the forms that must be filled out to make a transaction (the layout and design, the length, how much writing is required, and the language in which the forms are written, can prove to be intimidating, difficult, and outright impossible for the predominantly poorly educated community).

2. *Psychological Factors*:
   - how the bank staff treat poor clients (an intolerant, inconsiderate, non-helpful or corrupt environment can repulse many poorer clients);
   - the appearance of the financial institution (too much polish can be intimidating for poor clients, too little can make them fear for the viability of the institution and the security of their deposits); and
   - the complexity of comprehension of the paper work and the process necessary to make a transaction (again, complicated procedures coupled with intensive paperwork can be intimidating and even impossible for a largely illiterate group).

Accessibility and convenience of the financial services are the primary characteristics that determine whether poor people chose to use them. Clearly the most convenient and accessible form of savings is to save at home, in cash or possibly in-kind. But as Hannig and Wisniwski (1999) point out, "In-kind savings such as grain or animals can easily deteriorate when they are not looked after properly. [They are also "indivisible" – you cannot sell a leg of a cow to meet some minor expenses]. When assets are held as insurance, they generally have to be sold at a loss as a consequence of the quick sale at the moment when the crisis occurs. Where in-kind savings are visible [or where cash savings are known/discovered], they may stimulate claims from relatives or friends. Savings in cash at home are exposed to risks of theft or could get lost in case of fire or floods."

Thus poor people look for some form of system or other to provide the security and accessibility necessary to save. This security is (as we shall see below) only relative, but the accessibility of a regular opportunity to save (together with the discipline inherent in the systems) is what makes deposit collectors and RoSCAs so popular world-wide.

The Popularity of (Expensive) *Susu* Collectors in West Africa

"Savings collectors take regular deposits (usually on a daily basis) of an amount determined by each client and return the accumulated sum (typically at the end of each month) minus one day's deposit as commission. These mobile bankers form a symbiotic relationship with market traders, protecting daily earnings from competing claims and ensuring working capital to restock supplies at the end of the month" (from Aryeetey et al., 1997).

"People who save with informal agencies, especially single collector *susu* systems, often have diverse reasons for doing so. The fundamental, motivation for doing so is derived from the lump sum the facility permits them to accumulate at very little cost. Other important reasons may be listed as follows:

a) Easy access to the collector who comes regularly;
b) The fact that collectors accept small sums, often made up of torn notes and coins;
c) Easy access to credit facilities;
d) The personalized relationship between saver and banker which makes the collector understand her situation when she cannot afford to meet a day's payment on a bad day" (from Aryeetey and Gockel, 1991, p.21).

"Aryeety and Steel identify three principle reasons why depositors are willing to pay to save, even in inflationary environments (Aryeety and Steel 1994). First, contractual savings are a form of financial management that ensures the availability of working capital needed to restock supplies. Second, savings collectors provide security. The contractual nature of the system not only protects the funds from theft but also, which is more important, shields funds from other demands…. Third, the transaction costs of a collector who comes daily to the home or business are much lower than those of more formal savings and credit institutions, and depositors are therefore willing to pay a convenience fee" (Webster and Fidler, 1996).

Time spent away from tending to a business or a farm results in the loss of money. Lost productive time along with the cost of transport can make the transaction costs of relatively inaccessible financial services very high. Aryeety and Gockel (1991) estimate transaction time with banks: 15 minutes for deposits, and 20-30 minutes to make a withdrawal – compared with 30 seconds with a *susu* collector. Similarly, the Ohio School's analysis in the context of travelling to/waiting in a bank to secure a loan (summarised, for example, in Ahmed, 1983) indicates that the transaction costs of seeking financial services in a formal sector institution are often prohibitive for the poor.

Access is markedly different from liquidity, and is often considered more important by poor people who have little time to make their transactions. While Robinson (1994) and many authors have stressed that "liquidity is the key to local savings mobilization", it is important to note that in many circumstances the poor have a strong "illiquidity preference" (Shipton, 1990 and 1994). "Illiquidity preference" necessitates that the poor people identify savings mechanisms that prohibit them from withdrawing in response to trivial needs or frivolous spending, and fend off the demands of marauding relatives requesting "loans" or assistance.

Security of savings is, in the ideal world, a key criteria, but in reality often becomes of lesser importance to the poor since they rarely have secure options (see Mutesasira et al., 1999). Even when they have physical and psychological access to banks, these are often seen as unreliable and high risk. Given the recent history of bank failures in developing countries (and especially Africa), the concern is not without due cause. Thus poor people are prepared (or forced) to take the risk of saving with deposit collectors or RoSCAs even though they know these systems are risky. For example, Aryeety and

Gockel (1991), note that 40.3% of savers had lost money to a defaulting deposit collector and 79.6% knew of people who lost money in this way in Ghana. To counter this, the poor often diversify their savings systems. "Almost 20% of those saving with single collectors participate in a second scheme with a different collector. The market women maintain this helps them save more while not putting all their eggs in one basket". The alternative savings systems available to the poor are of even higher risk. Saving substantial sums at home is seen as close to impossible since if the money is not spent or taken by relatives, it is stolen or even lost in fire or eaten by insects (see Mutesasira, 1999 and Rutherford, 1999).

Saving Graces in Nepal

From Virtual Library on Microcredit

A rural woman from Torifoole Ghao went to the local bank to get a loan for Rps 10,000.

Banker: What are you going to use the loan for madam ?
Woman: I will buy some oranges from Thule ko Bari and sell it in Kathmandu for profit.
Banker: Madam, what do you have for collateral ?
Woman: What is "collateral"?
Bankers: Collateral is the security that you pledge to a lender when you want to use their money.
Woman: Here, I have some jewellery.

The woman surrendered her jewellery was given the loan and left. A month later she returned to the bank with a bundle of notes in her hand. She paid off her loan and was about to leave, when the banker asked her, "What are you going to do with all the rest of the money?". The woman shrugged and said, "I don't know yet, maybe save it in the box at home". The banker replied, "Madam, why don't you deposit the money in the bank? We will take care of it for you and when you need it you can take it out".

The woman paused before replying "Interesting idea, what do you have for collateral?"

With the exception of successful Accumulating Savings and Credit Associations (ASCAs) and auction RoSCAs, the return on savings in the informal sector is rarely above zero (real rate of return negative). Indeed the poor often pay to save through a conveniently accessible system such a deposit collector who visits daily to collect savings. Aryeety and Gockel (1991) note that 76.9% of savers pay a service charge to their deposit collector. This fee for service is common throughout West Africa, in some parts of East Africa (Miracle et al. 1980, Mutesasira, 1999), and in India (Rutherford and Arora, 1997).

Jyothi The Indian Deposit Collector

From Rutherford, 1996

Jyothi is a 'deposit collector' from Vijayawada in India. She makes money out of poor people's (mostly women's) need to save up for small expenditures like school fees, clothing or house repairs. Such women find it hard to save at home so they give small amounts regularly to Jyothi who calls every day (or every few days). The customers have a card with 220 cells on it. When they have paid a fixed amount (say 10 rupees - $0.22) for each cell they get back the value of 200 of the cells (2,000 rupees - $44.44) and the deposit collector keeps the rest (200 rupees - $4.44) as her fee for the service. This system illustrates that many poor people are willing to pay for an opportunity to save.

Similarly, the poor often pay money guards for their services – particularly when they offer a convenient and (relatively) safe service.

Zaire Association of Rickshaw Pullers: Paid Money Guards
From Virtual Library on Microcredit

The Association of Rickshaw Pullers, with some 54,000 members, took the initiative of encouraging the rickshaw pullers to save. In 1984, the Zaire Association of Rickshaw Pullers worked out a new saving system, known by the name of "papa-card" (in the event of a man) or "mama-card" (in the event of a woman). This system consists in depositing part of each day's income with a respected "father" or "mother" of the district or the market, well known for his or her honesty and who possesses land or many goods in the market. The amount deposited on the first day of the month is the same as the following days, until the end of the month. Each month the papa-card or mama-card may take one day's deposit as their commission from the total amount of the rickshaw puller's monthly savings. This savings system has now become common among the population of Kinshasa.

Nonetheless, where credible options are available, the poor are sensitive to interest rates (Wright et al., 1997 and Webster and Fidler, 1996), particularly as a counterbalance to the overall transaction costs (Aryeety and Gockel, 1991 and Hannig, 1999). In Mali, Pays Dogon, the Caisses Villegoises offer term deposits at 22% interest per annum, resulting in 94% of the deposit being term deposits in 1993 (Webster and Fidler, 1996).

2.2. Balancing Terms and Needs

The section examines how different savings products are designed to meet the variety of reasons why people save. For example, RoSCAs are often used to regularly re-stock market stalls or provide working capital for small businesses. Current accounts are generally more appropriate for responding to emergency-driven needs for finance. While contractual savings agreements or pension schemes are generally better suited for developing larger, long-term funds.

Apart from saving in the home, RoSCAs are probably the most prevalent and popular form of informal savings system in the world (see for example Ardener and Burman, 1995 for a delightful selection of RoSCAs from all over the globe). They are also remarkably elegant in their simplicity and effectiveness. RoSCAs are found in various forms and are found from Antigua to Zanzibar. The order in which members get the "prize" (i.e. the lump sum generated by the RoSCA) can be predetermined, determined at each meeting, as a result of a lottery or determined by auction (see Rutherford, 1999a, for a lucid description). RoSCAs are the most favoured savings system in East Africa (Rutherford, 1999) but ***MicroSave***'s recent work also suggests that reciprocal lending is also tremendously popular as a form of "saving through" and setting up an insurance mechanism that can be drawn upon in times of trouble or need.

RoSCAs/*Kibati* In Tanzania
From Lwoga, 1999

Like many women, Joy, a cleaner in one of the hotels in Dar-es-Salaam belongs to two RoSCAs. The first one involves four people and requires a daily contribution of Tsh. 200 ($0.29) per person. The daily contribution goes to one person for a whole month in rotation. The monthly aggregate "prize" is Tsh. 18,600 ($26.57).

The second RoSCA or *kibati* consists of four people and requires a Tsh. 2,000 ($2.90) weekly contribution per person resulting in Tsh. 6,000 ($8.57)"prize" per week. "I like the first one better because it forces me to look and put aside that Tsh. 200 everyday". She uses this money to make deposits on the desired item in some shops that offer that facility until it is fully paid for. "Every month, I am able to put aside over Tsh. 12,000 ($17.14) through the *kibati*" she says, "Other women save much more this way. I cannot use the banks because it is too much trouble collecting ones own money".

Despite the popularity of the deposit collector, RoSCAs are also common in West Africa.

***Esusu and Dashi*: RoSCAs in Nigeria**
From Bascom, 1952 and Geertz, 1962

In Yoruba, Nigeria, the *esusu* is a universal custom for the bringing together of a number of people to help one another financially. A fixed contribution is agreed upon, and is given by each participant at a fixed time and place. The total is then paid over to each member in rotation (although an attempt is usually made to pay the fund to a member who may need it during an emergency). This enables the poor to purchase an expensive capital good or pay off debts. *Esusu* usually have over 200 members with cycles that can last 4-5 years and are more formally organised than RoSCAs in East Africa. Large *Esusu* are divided into roads where the participants live, each with its own subhead. Collection for the group alternates among members and among roads. The overall head of the *Esusu* need not be acquainted with all its members, it is the sub-group head's responsibility to collect his road's donations. The overall head does have legal recourse should any member default however. Default is minimised by keeping back the first payment as security and splitting payments between group members so that each member receives the fund twice.

Nupe: Central Nigeria. Here the head (king) of the *dashi* decides the order of rotation. The “king” is a well-known reputable trader or head of a craft guild, who organises the *dashi* but does not contribute nor receive any money. He can however borrow from the fund for business purposes provided the members agree. Members can offer the king gifts in order to affect the rotation order and in cases of urgent need (e.g. death) the king is obliged to give the fund to the needy member.

RoSCAs are ideal systems for disciplined saving toward a specific goal, particularly if that goal is cyclical or recurrent. Miracle et al. (1980) noted that participants in informal banking arrangements seem to believe that they save more than they would if they saved in a solitary fashion because of the discipline of having to regularly meet with the rest of the group and make a deposit.

Thus RoSCAs are particularly popular for restocking market trader’s stalls on a regular (often weekly or fortnightly) basis. Similarly, longer-term RoSCAs are used to make monthly rental payments or to pay school fees. It is however, the rigid, cyclical and self-liquidating nature of RoSCAs that is also their draw back, for they are poorly equipped to respond to:

1. the need to store money for the short term (for example, if the pay out or prize comes a month before school fees are due the members must safeguard the money against family, friends and temptation for that month)
2. the need to build-up larger lump sums of money[6];
3. unpredicted emergency needs; and
4. changes in the ability of the member to save (either a reduced capital due to problems or an increased ability due to a windfall).

The problem of securing funds at home for a prolonged period of time has often lead RoSCA members to swap turns to receive the “prize” or pay-out in the event of an emergency; to the “king’s” role outlined in the box above; and to auction RoSCAs where members in need can pay a premium to access the prize. The other way that many (usually more established) RoSCAs have addressed this problem is by creating an emergency fund (essentially an ASCA) that runs in parallel with the RoSCA and provides loans to members facing emergency needs.

[6] Although there are examples of larger, longer-term RoSCAs being used to generate big lump sums (particularly in East Asian communities), these require a high degree of trust amongst the (many) members over many months and often years – they are therefore the exceptions rather than the norms.

Nigerian RoSCAs with Emergency Funds
From Rutherford, 1996 (based on a personal communication from Rick Davies)

A RoSCA (called an *ibi*) run by middle grade government employees in up-country Nigeria, has twenty members and they meet weekly. But they do not pay out all their contributions as the weekly "prize". Rather, a proportion is put into a second fund, from which members can borrow at an interest rate of 10% per month, or outsiders at 15%. At the end of the twenty week cycle the main RoSCA is renewed, and after every three cycles (sixty weeks) the second fund plus the interest income earned on it is distributed to the members … in the same way as an ASCA functions.

Throughout East Africa, ***MicroSave*** has found systems that are similar to the Nigerian RoSCAs described above (Rutherford, 1999). One of the key strengths of RoSCAs are their self-liquidating nature, which provides a regular "action-audit" (Rutherford, 1999a). This is a built-in termination that provides the benefit of having an automatic audit as the scheme closes. Either all the money is there and everyone has been paid, or it is not; and this is the fundamental basis for the members' decision as to whether to participate in the next "round" of the scheme, and if the RoSCA is to continue at all. In addition, regular pay-outs solve the problems that large, accumulating sums of money create in villages - onerous book-keeping, the envy and attention of those outside (and sometimes even inside) the scheme, the need to store and protect the capital and so on (Wright, 2000). Unless there is a very high degree of trust amongst members, RoSCAs' cycles are generally quite short, and serve as poor systems to build-up larger lump-sums over a longer period of time, say for buying a piece of land, building a house or setting aside a pension.

Some informal sector savings systems, such as the Annual Savings and Loan Club in the box below, seek to combine the features of an action audit, an emergency fund from which to borrow, an improved rate of return for savers, and a medium term duration system for saving.

Indian Annual Savings-And-Loan Clubs
From Rutherford, 1996

There are many savings clubs in Cochin in Kerala State (India) sharing the same format and rules. Savers deposit weekly, and always save the same amount, though different members choose different levels, or 'bands' - starting at 10 ($0.22) rupees and increasing in 5 rupee steps. The period is fixed at one year - 52 separate weekly deposits. For each 10 rupees per week deposited (a total deposit of 520 rupees), 600 rupees ($13.33) is returned in an end-of-the-year closing. The profit of 80 rupees ($1.78) represents a *nominal* interest earning of just over 15%[1] but an *annual* rate (or APR - annual percentage rate) of just over 30% pa[2]. The profits are paid for out of loans which members may take at a rate of 4% per month (48% pa). Loans must be repaid by the end of the year so loans taken later on in the cycle are of short duration. Loans are normally repaid in a lump sum (or 'balloon' payment) but borrowers may repay in smaller instalments if they choose. The clubs are run by social groups associated with places of worship, or youth or neighbourhood clubs. Excess interest earnings are used to cover any defaults, to pay for expenses, and sometimes to provide a small reward to the organisers.

[1] 520 divided by 80 multiplied by 100.

[2] The savings held in a member's account over the whole year starts at 0 and end ends at 520. The *average* holding for the year is therefore 260, on which 80 rupees is paid. The *annual* rate is therefore 260 divided by 80 multiplied by 100, or double the nominal rate.

Susu clubs in Ghana combine a RoSCA-type approach with a trusted deposit collector who manages large numbers of members and money to generate larger-lump sums for the participants.

Susu Clubs In Ghana

From William Steel (personal communication) and Rural Investment Overseas, 1998.

The members meet weekly at the organiser's residence to deposit their savings and receive their loans (or 'advances'). It's similar to individual savings because each member sets their own target amount. There's a 10% commission to the club operator. Saving is done on a 100 week cycle, so if you want to have a lump sum of $1,000, you must save $11 a week.

After a few weeks of accumulating savings, the operator starts calling a few individuals each week to receive their loan/advance (at which time they also pay a 5% call charge). There's also an up-front membership fee (to get your savings book). Weekly meetings can be large with 500 or more people present, bringing their money up to 6 bookkeepers; they can mobilise about $30,000 a week (from a total of 900 or so members). These meetings are also social occasions, with singing, announcements, funeral collections, and the organiser reaps a huge return in social prestige in the community.

These clubs have been around for some time (this one was organised in 1976), but are only now coming out in the open because Citi Savings & Loan is willing to lend to them. By taking a 3-month loan (at 53%p.a.), the club organiser can "call" people much earlier (otherwise, some would have to wait till the 90th week), and this makes her club much more attractive to potential members.

Members are required to provide a guarantor, should they fail to maintain their weekly contributions, but otherwise no form of security is required. Clubs have between 200 to 900 members, saving between Cedi 100 to 2,000 million ($40,000 to $800,000) over typical 100 week cycle. The Citi survey indicated an average size of 400 members and weekly collections of Cedi 8 million ($3,333) – and so don't know each other or meet face to face.

Other systems dispense with the discipline of making regular payments and create a fund that grows as people take loans from it (see box below). This not only reduces risk, but could also be run as an adjunct to a regular RoSCA as a way of building up a larger lump-sum over the longer term.

Jolowon Accumulating Credit Association – Saving by Borrowing in the Philippines

From Wright, 1997

In May 1995, Magdelena and eight of her trusted friends and immediate neighbours started a small scheme to help them save and meet the emergencies and opportunities that arise so regularly in their day-to-day life - in particular to help them deal with education costs for their children. Initially, they each deposited 100 pesos ($2.86) in the fund, and a month or so later they deposited another 100 pesos, bringing the capital of the fund to 1,800 pesos ($51.43). The rules agreed upon by the friends were as follows: members could borrow funds for a maximum of three months at the rate of 10% per calendar month, and all the profits would be retained in the fund until the group agreed to wrap-up the fund.

The members used their loans to meet emergency education and health needs and to finance trading opportunities, and (**even** at 10% per calendar month) found the credit facility a tremendously useful way of smoothing their uneven cashflows. Later they agreed that non-members could also borrow from the fund if a member acted as guarantor and was liable to make up any shortfall not repaid by the borrower. By October 1995, they had accumulated around 9,000 pesos ($257.14), and for the first time since they had started the scheme, not all the fund was out on loan. By June 1996, the fund had grown to more than 13,000 pesos ($371.43), and the group had a surplus of 5,000 pesos ($142.86) not on loan, stored in an account at the co-operative in Lamut. The group is now considering reducing the interest rate on loans to stimulate demand.

Other informal sector savings systems have been developed to meet specific longer-term needs not met by RoSCAs. These include Indian Marriage Funds and Ethiopian *Iddirs* which have evolved to include an ASCA-type emergency fund to help members in times of stress.

Indian Marriage Funds
From Rutherford, 1996

In southern India, it is common for social groups like churches to arrange marriage funds which allow members to save up over a long time for the marriage of their daughters (and in some cases sons too). Normally parents start saving a fixed sum each week (the lowest contribution band is now usually 5 rupees) from the time the girl is born. When she marries, she gets a pay-out of double the total contributions. For a girl who has an account from birth and marries at age 16, the pay out will represent a return of about 12.5% a year. These funds normally do not allow loans (although there are instances of this happening), and they store the cash in the bank. One group looked at by Rutherford had over 1.2 million rupees (about US$33,000) in the bank. The scheme is especially common among Christians (of whom there are many in southern India). It is said that in some cities as many as nine out of ten Christian girls are enrolled in such schemes.

Ethiopian *Iddirs:* A Funeral Fund combined with an ASCA
From Aredo, 1993

Iddirs (which were probably originally burial societies) are formed by groups of people who commit themselves to contributing a fixed amount every month into a pooled fund. This fund is then used to meet emergency needs (particularly medical and funeral expenses) and/or lend out to members. There are several types of *iddir: c*ommunity *iddirs* (usually the largest and the oldest) occupational *iddirs*, friends and family *iddirs*. When asked why they joined *iddir* the most common response for all income groups was financial and material assistance, and consolation in time of stress.

Some life-cycle events are so costly that poor people have developed informal systems as a type of insurance often through mutual support/reciprocity groups such as the *Munno Mukabi* in Uganda or *Harambee* in Kenya.

Ugandan *Munno Mukabi* – Indigenous Insurance System
From Wright et al. (1999)

A very popular type of self-help group is known as *Munno Mukabi* (which translates as Friend In Need Associations). At the inception, a budget is agreed and divided equally among the members. The proceeds are used to purchase assets required for most private social functions that draw large numbers of people. These items include large saucepans, dishes, lanterns, canvas, etc. The functions include burials, weddings, children's graduations, baptismal parties, etc. After the initial capital investment is made, members attend weekly or monthly meetings at which a collection is made. One group for example, collects Ush. 200 ($0.14) per head per sitting, others collect up to Ush. 5,000 ($3.44). This money is kept and lent out whenever a crisis strikes. Members also pledge to make a predetermined financial contribution and to make their labour available whenever a member faces a crisis or holds a celebration.

These systems effectively spread the cost of these life-cycle ceremonies over time, thus allowing participants in the schemes to contribute frequent, small and regular sums of money, as opposed to being faced with debilitating, infrequent and large and irregular, lump-sum requirements.

The poor also use informal systems that are more closely akin to formal sector insurance schemes that require regular financial deposits. These schemes are generally used (as with formal sector insurance) to spread the risk of high-cost events. Two such events are described in the two boxes below, funerals and the loss of business through fire or accident.

Indian Funeral Cost Funds
From Rutherford, 1996

In return for a subscription of two rupees per week into a Funeral Cost Fund (or *Merana Fund*), a household in Cochin can claim immediate funeral costs following the death of any of its members, at the rate of 1,000 rupees ($22.22) for each death (or 500 rupees [$11.11] for children). Funds run for a year at a time and any unused subscriptions are returned to members at the year end (though higher-than-average incidence of death in the early weeks of the scheme may oblige members to make extra subscriptions). We heard of sums of up to 30 rupees ($0.67) being returned, giving, for a six-adult household, an annual cost of 74 rupees (52 weeks at 2 rupees less 30 rupees rebate) for a 6,000 rupees ($133.33) insured sum, or 12.30 rupees per thousand per year. Although this figure may be more expensive than life insurance offered by the state-owned insurance corporations, subscribers to FCFs can rely on immediate access (often within an hour of the death) free of paperwork.

Popular actuarial experience seems to show that a membership of not less than 300 subscribers is needed to keep a scheme running without having to ask for frequent extra subscriptions, and we heard of schemes that have been running in this way for up to thirty years. At this size, not all members will know each other, and schemes may cover more than one neighbourhood. Some poorer members know little about who runs their particular scheme. Perhaps for this reason, we found considerable formality in the running of the schemes. There are printed pass-books for each member in which the rules are set out. There are set times for paying subscriptions, and set rules for Fund functionaries. For example, in a scheme we investigated in detail in Ward 18, the Secretary holds one sum of 1,000 rupees in cash at home, and the Treasurer two such sums, in order to guarantee instant pay-outs to bereaved families. The balance is banked.

Schemes we investigated are run on a voluntary basis by groups with some identity in the area, such as religious congregations. But schemes do not appear to limit membership to their own ‘kind’, and in any one neighbourhood there may be several schemes running at any one time, allowing those who can afford it to enrol in more than one scheme. FCFs appear to be extremely widespread. We heard about them from every respondent in every area of the city and poorer households appeared as likely to join as middle-income ones. Estimates of what percentage of poorer households join such schemes ranged up to 90%, and it was rare to find households that do not belong.

Similar schemes have been noted in Africa – for example see Pearson (1990).

Insurance Schemes For Small Shopkeepers in Bangladesh and Uganda
From Rutherford, 1996 and Mutesasira, 1999

The slums of Dhaka are subject to damage and destruction by floods, by fire (most construction is of inflammable material and open fires for cooking are the rule) and by the bulldozers of the City Corporation. In ‘BNP Bazaar’, a market street in one such slum, several hundred small tradesmen and shopkeepers set up an insurance fund about eight years ago. Everyone puts in 2 taka a day (about $0.04) and it is banked by an eleven-man committee. Three times they have drawn funds and used them to repair damaged shops and workshops - once by fire and twice by bulldozers.

Similar schemes are operating in Kampala amongst vendors. In one case, 15 soft drink vendors each contribute Ush.500 ($0.34) per day for a three months period. In the event of a loss due to fire or theft, the fund is used to re-capitalise the business to a certain level. If no one suffers a catastrophe within that period of time, the fund is re-distributed with a small profit - profits are made since the members can borrow from the fund.

Finally, the third short-coming of RoSCAs addresses the rigidity of the system the result being that most deposit collectors are unable to respond to changes in the clients’ ability to save (decreased ability due

to crises or increased ability due to windfalls). This is, in part, a trade-off with the disciplined, contractual nature of these mechanisms. Some systems do try to compensate for this, at least in part. Some deposit collectors attempt to maintain the disciplined nature of the arrangement, but temper it with understanding and a trusting relationship that allows clients to defer a few days of saving. Others have introduced flexible options to withdraw. This latter approach creates an opportunity to meet emergency needs and indeed, should he depositor not withdraw, to build up larger lump sums. However, this flexibility can be at the expense of the "action audit" inherent in the monthly pay out typical of deposit collectors.

A Flexible Deposit Taker In Nigeria
From Rutherford, 1996

Gemini News reports that one consequence of Nigeria's recent political difficulties is a drop in public confidence in formal banks. This has allowed an old tradition to flourish again - *alajos*, or peripatetic deposit takers. Idowu Alakpere uses a bicycle to go door-to-door round his outer suburb of Lagos where he has 500 customers who save about 10 or 15 naira each with him (about $0.50 to $0.75) on each daily visit. Customers withdraw whenever they like, and Idowu charges them one day's savings per month, which he deducts from the withdrawal. Since deposits are made evenly over the month, the negative interest rate for one-month deposits is 1/15, or 6.6% a month, an APR of 80%. Some *alajos*, including Idowu, store the cash in a reliable bank, others use it to make loans. The Gemini reporter found many local people telling her that they trusted these *alajos* more than banks. When it was pointed out that some *alajos* are dishonest, they retorted "So are many banks."

Others have addressed this problem by removing the disciplined element and offering an opportunity to save "what you can, when you can", often in preparation for a specific time-bound event, for example a religious festival, the day school fees are due or an up-coming marriage.

Saving-up for Christmas: Term Money-Guards
From Rutherford, 1996

In towns and villages in Mexico (and indeed throughout the world), neighbours place frequent but irregular savings with trusted shopkeepers. Just before Christmas, the cash is returned to the saver. No interest is paid, but the saver has a lump sum at her disposal, and the shopkeeper has had the use of the money over the year, and can now look forward to a good sales season.

2.3. Managing Liquidity and Duration: A Spectrum of Needs

This section looks at the continuum of savings products. Discussed are the aspirations/motivations of clients who choose among the highly liquid current accounts through contractual savings agreements and term deposits to, what is possibly the most illiquid form of saving, life insurance.

As discussed earlier, the poor often have an "illiquidity" preference. Shipton also notes that in Gambia most saving is in non-monetary forms – such as large livestock, grain, tools, household goods, machinery, jewellery, seasonal crop loan, share contracting, and delayed marriage payments, and that this saving strategy removes cash from the constant demands by relatives and friends. Bouman (1977) notes that the contractual savings element is what makes RoSCAs and some ASCAs appealing. Small amounts of money that would otherwise have been spent on trivialities are instead saved and accumulate into larger sums.

Similarly, Baden (1996) asserts that "Women's high level of participation in RoSCAs is partly explained by their forced savings function. Given their relatively weak bargaining power within the household , women may not be able to resist encroachment on their reserves where these are kept in a fungible cash form". This is not entirely gender specific Barnes (1996) notes that savings accounts introduced through the coffee co-operative union in Kisii District in Kenya were extremely popular with ***male*** farmers since they were better able to "hide" money from their families.

Nonetheless, many emergencies or opportunities necessitate instant access cash, and this explains why almost all poor families keep some small amount of emergency savings in the home, and why many do indeed often prefer highly liquid savings services. The "illiquidity" preference described above often results in people having multiple accounts so that they have some highly liquid savings and some illiquid ones. Similarly, poor people often use a strategy of "targeted savings" often including some high illiquid savings, (notably, in the absence of alternatives, MFIs' compulsory savings), to build-up large lump sums in order to purchase significant capital assets such as land and houses (Mutesasira, 1999).

Targeted Savings Accounts in Uganda
From Wright et al. (1999)

"I do not touch the savings with the Uganda Women's Finance Trust (UWFT) because that will ensure that next time I get a bigger loan. I also save with *Munno Mukabi* who will do all the work and provide all the food if I have a wedding, death or baptism in the family. I also contribute Ush. 1,000 ($0.69) weekly to an association within the UWFT group just in case I have any emergency and need quick cash".

Rutherford (personal communication) notes that the behaviour of *Safe*Save clients in Bangladesh also illustrates this point. Clients can repay their loans *either* by making repayments, *or* by saving and cutting loan debts from savings, *or* by a mix of both: and there is much variety in this choice both between clients and over time for any one client.

For the reasons described above, poor people often have a startling diversity of savings "accounts". In Uganda, we interviewed individuals who:

1. Had a bank account because of the compulsory savings program set up by an MFI. The balance of this account had to be maintained and enhanced to access loans from the MFI. Thus this is considered a longer term savings mechanism;
2. Participated in 2-3 different RoSCAs of varying sizes and cycles. Often one is often used for re-stocking, another for school fees and a third to finance household commodities/clothes. Thus this is considered a medium term savings mechanism;
3. Had some emergency money secreted in the home. This is for short term savings;
4. Maintained some "savings-in-kind" in livestock – typically goats and chickens; and
5. Participated in a *Munno Mukabi* (the indigenous insurance system used to spread the cost of life-cycle events).

It should not be a surprise that even poor people try to maintain a diversified financial portfolio. Many readers have several of the following: pension schemes, life insurance, housing and school/university fee savings schemes, savings deposit account (or possibly some shares) for medium term plans (car/household commodities purchase etc.) and health insurance and current accounts to meet emergencies.

Sukhwinder Arora's described saving mechanisms in terms of "sprints" and "marathons". He observed that many poor people push money through RoSCAs at a much faster rate than through any other type of savings club or financial service (quoted in Rutherford, 1999a). Thus he described RoSCAs as "sprints", comparing them to more sedate services such as a savings bank, which he calls "marathons". In an ordinary savings account at a bank or Post Office you build up your savings gradually, over the long term, and it does not matter much if you do not save for several weeks or even months on end. The "sprint" devices are generally used to finance cyclical short and medium-term needs, whereas the "marathons" are typically used to finance longer-term needs and aspirations.

2.4 Compulsory, Locked-In Savings

This section briefly reviews the attitudes of the poor towards the compulsory savings schemes favoured by MFIs.

Strike for Your Rights !
From Wright et al., 1997

In years up to 1996, Grameen and BRAC members in Bangladesh became increasingly vocal about their dissatisfaction with the denial of access to their savings, and many mature members were leaving the organisations in order to realise their (often substantial) compulsory savings. By the end of 1995, there was a widespread strike among Grameen Bank members in Tangail District in support of demands for access to their locked-in "Group Funds" (generated through compulsory savings). The financial consequences of this strike were profound. According to an unpublished Grameen Bank internal report (1996), in Tangail District there were nearly 60,000 general loanees with repayments more than 25 weeks overdue, and the cumulative un-repaid amount had climbed to over Tk. 82 million or $2 million.

In 1995, Khan and Chowdhury noted that nearly 57% of membership discontinuation in BRAC's programme is attributed to the lack of access to group savings during emergencies.

As we have seen, the poor require little compulsion to save. They simply want a reasonable mechanism for saving, and the assurance that they can access those savings when they need them (Wright et al., 1997, Rutherford, 1999a). In an effort to protect their interests and to ensure sustainable systems, MFIs generally require compulsory savings. These savings are used as collateral by the MFI and, as the savings grow, clients become eligible for larger loans. However, there is evidence that compulsory savings, particularly those that are deducted from the loans issued, are simply viewed by clients as part of the cost of the credit. Indeed, it seems clear that the common system of compulsory deduction of 4 or 5% from the loan at the source is almost universally disliked by clients in Bangladesh (PromPT, 1996) and likely to be the same elsewhere.

Nonetheless, until recently Grameen Bank, and many MFIs following its principles and modified versions of its *modus operandi*, assured everyone that members liked the compulsory savings schemes. The justification was that the schemes allow clients to set aside funds for long term aspirations, such as a provision for old age (Jackelen and Rhyne, 1990 and Lovell, 1992). Ironically, the client must often leave the MFI to gain access to these compulsory savings or the withdrawal will automatically reduce the amount which the client can borrow. As noted above, ***MicroSave***'s recent research reveals that some clients are indeed using these compulsory savings systems to build up useful long-term lump sums (Rutherford, 1999 and Goldstein et al., 1999). However, well designed open access savings accounts and contractual savings agreement schemes[7] could give those clients who are financially able the *option* of saving long-term funds. Furthermore, such systems would not force the clients to leave the MFI or reduce their ability to access loans when they need to liquidate their savings.

3. Designing Savings Products and Services from an MFI's Perspective

3.1 Balancing Convenience and Returns

This section examines the challenges faced by MFIs as they design savings products and services. The main concern is to balance the trade-offs among access, liquidity, pricing/returns for depositors and the cost of providing the services. Also discussed are the indirect benefits of offering savings services including their effect on client retention and loan portfolio quality.

As we have seen above, when deciding on savings services, poor people are looking for a mix of accessibility, security, liquidity and, ideally but not crucially, returns. The financial institution's perspective is often almost the mirror opposite of the client's. Financial institutions generally would prefer to maintain a few branches in densely populated areas to maximise the number of clients per branch and facilitate security systems. MFIs would prefer to limit working hours to allow more time to

[7] Contractual savings agreements (CSA), commit clients to save a specified amount, every specified period, for a specified number of periods in return for a pre-determined pay out on successful completion of the CSA. Thus for example a woman with a 14 year old daughter that she expects to marry off at 19 years of age might undertake a CSA to save 1,000 shillings a week for five years in return for a lump sum of 300,000 shillings on successful completion of the CSA.

maintain and manage the complex accounting and internal control procedures necessary to run a financial institution effectively, and to facilitate physical security arrangements. MFIs would like to see large deposits made for as long as possible with minimum withdrawals so that their transaction and liquidity management costs are kept to a minimum and the funds available for on-lending are maximised. Of course the profit-maximising financial institution also wants to pay as little interest as possible.

On the face of it, the prospects for providing profitable microsavings services seem bleak – a view endorsed by Schmidt and Zeitinger (1996) and shared by many MFIs. However, this pessimism requires careful thought. There are several opportunities that can, (and indeed in many instances are being), taken to offer savings services on a profitable basis. See Robinson (forthcoming) for a blow-by-blow dissection and refutation of Schmidt and Zeitinger's thesis that mobilising microsavings is highly expensive.

The convenience of doorstep financial services, such as those provided by deposit collectors, need not be the preserve solely of the informal sector. The potential of these type of services has been illustrated in Bangladesh (see appendix 1), as well as in India (see box below).

Formal Banks And Daily Savings Collections in India
From Rutherford, 1996

In Cuttack in the western Indian state of Orissa, the Urban Co-operative Bank (UCB) runs a daily savings collection scheme. Since 1981, UCB has employed a team of commission agents who go door-to-door throughout Cuttack collecting tiny deposits from registered savers who are not organised into groups. One branch had 2,500 such accounts, and the manager claimed most were active. The collectors receive no salary but keep 3% of everything they collect. Double-entry passbooks provide some protection against fraud by the collectors. Savers may withdraw but those who do so face a penalty of 3% of the value of their withdrawal. Instead, they are persuaded to borrow, and can repay in up to 36 monthly instalments.

Savings Boxes in the Philippines
From personal field notes

In the Philippines (and no doubt elsewhere) Savings and Credit Co-operatives offer savings box services, leaving a wooden box with a padlock (to which only the co-operative worker has the key) in members' homes. Once a month (or sometimes every two weeks), the worker visits the member's home, and, with the member as a witness, unlocks the box, takes the money and updates the member's passbook to reflect the amount deposited.

This system also has the advantage for the co-operative of "clustering" a series of small deposits into one larger one. Of course, there is little reason why this type of service could not also be offered in the workplace – be it a market, factory or office to help poor people overcome the prohibitive nature of traditional bank opening hours.

A similar system is operated in Kampala by the Uganda Microfinance Union.

One of the chief fears voiced by MFIs with regard to providing savings services to the poor is that of the expense and complexity of dealing with the many small transactions that can be expected from poor clients. While this expectation is indeed likely to be the case, several important observations should be made:

1. The majority of the transactions will be deposits, indeed the poor are often remarkably unwilling to make withdrawals (see box below). Indeed, Robinson (forthcoming) notes that "Poor savers do value liquidity highly – but in order to have the option to withdraw whenever they want, not, in most cases, because they want to use their accounts frequently. A 1987 study of Bank Rakyat

Indonesia (BRI) SIMPEDES savers showed that in this fully liquid account, the average number of transactions per month was slightly below two."

2. Periodically, even poor people have lump sums to deposit as a result of windfalls or sale of assets.
3. As discussed above, poor people have a multiplicity of needs and are not always looking for a highly liquid account, which they will use on a regular basis.
4. Savings accounts targeted for medium and long-term needs are particularly attractive to MFIs in search of capital for on-lending, and appropriately designed products can encourage these (see the section below).

Disastrous Withdrawals ?
From Wright (2000)

The 1998 floods which, according to the World Bank, were "the worst in living memory", and covered two thirds of Bangladesh for a period of nearly three months. Although they had been badly hit by this disaster, a remarkably small proportion of BURO, Tangail's members withdrew their current account savings, and indeed deposits kept flowing in, albeit at a reduced rate. In July, as the floodwaters rose, badly affected branches observed withdrawal rates that had doubled to around 25% of the net savings balance. In the same month, savings deposits halved. In the areas unaffected by the floods, withdrawals also increased by about 34% and deposits also declined by 27%, probably suggesting that seasonal factors may have been influencing members' savings activities. Even in the most badly affected branches, savings deposits were exceeding withdrawals again by November, the month after the floodwaters had finally receded. By December, monthly deposits had returned to their pre-flood levels and withdrawals had dropped to 6% of net savings balance – members were building their savings balances once again. *Safe*Save and CARE, Bangladesh reported similar experiences in Dhaka.

Robinson (*forthcoming*) also reported that during the economic and political crisis which began in mid 1997 and continued into 1999, BRI's rural unit *desa* clients continued to save in the units. In the 23 months from January 1, 1997 to November 30, 1998, the number of accounts increased by 36% from 16.1 million to 21.9 million. In rupiah, the savings more than doubled during the crisis (from Rp.7.1 trillion to Rp. 16.2 trillion), even though the real value of clients' savings had decreased substantially from $2.979 billion to $2.019.

There are also important, and often over looked additional benefits of offering savings services. In addition to providing capital for on-lending, savings services can:

1. develop the client base (of borrowers) for the future (Wright et al., 1997);
2. obtain information on the clients' abilities to save and (by implication) to repay loans thus facilitating the assessment of credit-worthiness;
3. facilitate repayments when clients are unable to meet repayments out of current income; and
4. encourage repayments, as clients want to maintain a good reputation and their access to future services.

This latter point is of particular importance as there is growing evidence that after the first 3-4 loan cycles, group solidarity/guarantee mechanisms weaken and breakdown (Yaqub, 1995; Matin, 1997 and Sharif, 1997). It is the on-going access to the financial services that creates the chief incentive to repay. Therefore, the better the quality of these financial services, the more the clients will value access to them, and thus the more likely clients are to continue to meet their obligations (including repayment of loans) to the MFIs that provide them. Well-designed savings facilities are perhaps the most valuable and sought after financial services for the poor.

MicroSavings As A Source of Capital
From Hannig and Wisniwski, 1999

Mobilising small voluntary savings enables MFIs to satisfy an effective demand of microclients, simultaneously broadening and deepening the outreach of microfinance services. Given overall macroeconomic stability, small voluntary savings can mobilise large amounts of funds that are more stable than other funding sources. Though small savings can be captured at low financial costs, the small size of transactions might disproportionately raise administrative costs. This disadvantage, however, may be compensated by the synergies created through the economies of scope between savings and lending. Information costs and loan loss provisions are expected to be less when MFIs can draw on the deposit histories of potential borrowers to analyse their capacity to pay and creditworthiness. As a net effect, overall operating costs will be significantly reduced. Another important argument in favour of small deposits is that savings mobilisation provides incentives and discipline for MFIs to improve their operational efficiency and service culture. Finally, small savings can also contribute to good loan performance as borrowers are more likely to repay when they know that they use their neighbour's deposits.

There are also many ways of minimising the costs of providing savings services, and possibly even deriving a profit. This can be achieved through the careful development of pricing structures. Interest rates paid and the charges levied on savings accounts should be carefully structured to encourage savers to maximise deposits and minimise withdrawals. Clearly, the interest paid on savings deposits should be determined by the stability of the deposits, and thus the MFI can elect to pay interest only on accounts with balances above a certain minimum. In view of the clear evidence that poor people are willing to pay for convenient savings services and to ledger charges, MFIs could also experiment with charges for specific savings services. In order to reduce withdrawals, MFIs could also either limit the number of withdrawals per period, set minimum withdrawal amounts, require notice to withdraw or charge for withdrawals made.

However, this approach must be balanced with a recognition that many potential clients may want unencumbered access to their savings – a facility that gives them comfort, but which they may not actually use (see the box on "Disastrous Withdrawals" above). There is a risk that rules limiting withdrawals may scare off depositors who want (but may not use) open access to their savings, resulting in a net decrease in balances available to the MFI for on-lending.

In addition to the pricing structure, the MFI can reduce costs through its organisational approaches and work methods as the box below illustrates.

Keeping Costs Down – Other Approaches
From Hannig and Wisniwski, 1999

There are various ways to reduce the administrative costs of small savings:

- *Lean structures*: Use lean field offices with a minimum of infrastructure and staffing to keep costs low, possibly even use Automatic Teller Machines where setting up a branch would be too costly.
- *Accountability and incentives for increasing operational efficiency*: Using an organisational structure with branches as profit-centres increases transparency of costs and profits and instil responsibility for performance.
- *Streamlining of operations*: Computerisation instead of manual administration of accounts helps to reduce costs. Simple design of savings products facilitates administrative procedures and increases operational efficiency.
- *Outsourcing and networking*: Access to support structures enable the institutions to benefit from economies of scale and scope and will provide them with certain services at lower costs than when executing them on their own. Use holding companies, private consulting firms and alliances with commercial banks.
- *Use of volunteers or low cost agents*: Member-based organisations can often use voluntary staff and well-designed systems can make use of low-cost agents to operate in markets etc.
- *Seeking synergies*: Deposit-taking and lending operations produce economies of scope that reduce operating costs in each business area. MFIs can promote sales strategies that makes staff offer tailored savings and credit services to each customer.

3.2 Balancing Terms and Needs

This section outlines the continuum of products from the highly liquid current account, to what is possibly the most illiquid form of saving, life insurance. Discussed are the implications of the varying levels of liquidity for MFIs seeking to manage (and maximise income from) the funds for those products. Further, the cost implications for MFIs with different kinds of accounts (both in terms of delivering the services and in terms of interest paid) are examined.

As noted above, poor people save to meet a wide variety of needs using many and various savings devices, most of which are outside the formal sector (see Table 1).

Table 1. Needs and Products

Uses of Products/Needs	Time Scales	Typical Duration	Examples of Products
Managing day-to-day finances Responding to emergencies: education, health, food, etc. Managing lean/dry seasons	Short term	0-12 months	Current accounts Liquid/semi-liquid, short-term savings accounts
Storing lump sums of money Saving for time-bound future events: weddings, large scale education expenses, etc.	Medium term	12-36 months	Fixed deposits Contractual savings agreements
Saving for time-bound future events: retirements, land/house purchase, weddings, large scale education expenses etc. Providing for old age	Long term	> 36 months	Fixed deposits Contractual savings agreements Annuities Pension schemes
Protecting against/providing for fire/theft/death	Indeterminate		Insurance

Diverse needs of poor people require diverse savings products that meet the variety of needs. These products can address short, medium and long term needs for saving through disciplined, small regular

savings, small irregular savings or irregular larger lump sum savings. In the simplest of terms poor people will want a mixture of highly liquid, semi-liquid and illiquid savings products, such as offered by Bank Rakyat Indonesia (BRI) (see box below).

BRI Indonesia: A Big But Poor-Friendly Savings Bank
From Robinson, 1995, Rutherford, 1996 and Maurer, 1999

Over the years, BRI has steadily enlarged its network of small rural branches, "Unit Desas" that offer conventional banking services (savings and loans) cheaply to the poor as well as to other members of the villages. It recognises that most people like to save most of the time, and that while not everyone wants to borrow, those who do, do not want to borrow all the time. It therefore arranges its business terms (interest rates and loan and deposit schedules) to suit its customers' tastes. For example, BRI has found that savers place greatest value on safety of their savings, followed by ease of withdrawal, closeness to the home or workplace, prizes and bonuses, a high interest rate, and high quality service. As a result, all of its customers save, and about one in six are borrowers at any one time. As of December 1996, there were 16.1 million savers (who have saved $2.7 billion) and only 2.3 million borrowers (with loans of $1.7 billion outstanding) from BRI.
BRI's Unit Desas offer three products for individual savers:
SIMPEDES (rural)*/SIMASKOT* (urban)*:* aimed at small savers and groups who demand high liquidity. Monthly compounded interest rates, differentiated according to deposit size, provide a positive real rate of return (although no interest is paid on accounts with balances below $4.20). Savers are permitted unlimited withdrawals and participate in a (free) six monthly lottery using the amounts in the account as a basis for issuing lottery coupons.
TABANAS: the original Bank Indonesia savings product, aimed at depositors who want middle levels of both liquidity and return – for example school children and other holders of small accounts are encouraged to save in *TABANAS* which provides higher interest than *SIMPEDES* but (used to) allow only two withdrawals each month. The provision allowing only tow withdrawals a month has now been dropped and *TABANAS* is now only different from *SIMPEDES* in that it offers higher interest and smaller lottery prizes.
DEPOSITO: is a fixed deposit instrument designed for wealthier villagers and firms that want higher returns, and also for those saving for longer-term goals such as construction, land purchase or education. Available for 3-24 month terms.

Kenya Post Office Savings Bank (KPOSB) is also making an effort to do this through its diversified savings products.

Kenya Post Office Savings Bank: A Variety of Products
From Kamewe and Radcliffe, 1999

KPOSB offers seven major savings products through its network of 493 outlets (compared to a total of 370 operated by commercial banks):

- *Ordinary Savings Scheme (OSS):* The OSS or the "Passbook" is a typical interest-earning account, opened with a minimum initial amount, which must be left on deposit at all times. KPOSB customers receive 5% tax-free interest (1998) on their accounts.
- *Save as You Earn (SAYE)*: This product was introduced in 1981 to attract savings from formal sector employees and independent small business people. It is a contractual savings scheme whereby the saver remits specific amounts of money for a fixed period. Currently, the KPOSB scheme has two contractual periods: two years with a minimum remittance of Ksh. 500 ($7.14) per month, and a one-year period with a minimum remittance of Ksh. 1,000 ($14.28) per month. Interest is payable at 10% per annum plus a 10% bonus on interest payable if deposits have been made without interruption.
- *Fixed Deposit Scheme (FDS):* The FDS was introduced by KPOSB in 1983 to cater to middle and low income groups. Deposits are placed for fixed terms ranging from 7 days to 12 months. The minimum deposit is Ksh. 10,000 ($142.86.) and the interest offered is usually higher than the OSS rate, ranging from 8% to 17%, depending on market conditions.

- *Premium Bond (PB):* This scheme was introduced in 1978 and is based on bearer bonds sold in denominations of Ksh. 10 ($0.14) and Ksh. 20 ($0.28). All bonds are eligible for prizes from a monthly draw. Some conditions are attached to participation; deposits are interest-free, and withdrawals are not possible within the first three months. This is a major source of income, as the bank can utilize these cheap funds in interest-bearing investments. There is much customer enthusiasm for the scheme, and KPOSB is therefore introducing larger denominations of Ksh. 500 ($7.14), Ksh.1,000 ($14.28) and even Ksh.10,000 ($142.80), together with higher value prizes.
- *Premium Savings Account (PSA):* KPOSB launched this product in 1991 for middle and high-income groups. A minimum of Ksh. 50,000 ($714.28) is needed to open an account and subsequent deposits must be regular. Interest is tax-free and in 1998 ranged from 11% to 16%, depending on the balance in the account.
- *Children's Savings Account:* This account is open for children below 18 years and requires a minimum balance of Ksh. 500 ($7.14), and offers interest on balances above Ksh. 4,000 ($57.14).
- *Trust Account:* This account is for associations, clubs, societies, etc., requires a minimum balance of Ksh. 500 ($7.14), and offers interest on balances above Ksh. 4,000 ($57.14).

Carefully crafted savings products can also meet the needs of the poor for a disciplined savings system that "forces" them to save regularly and satisfies the "illiquidity" preference while encouraging longer-term savings. BURO, Tangail pioneered a variety of contractual savings agreements for poor people which do precisely this and also provide important sources of stable funds for on-lending (see box below).

Contractual Savings Agreements in Bangladesh
From personal field notes

BURO, Tangail's contractual savings agreements offer clients the option of saving a selected amount each week (Tk. 5 - 250 [$0.10 - $1]) for a selected period (3, 5 or 10 years). Client benefits include the prospect of receiving a large lump-sum enhanced by a high interest payment on successful completion of the agreement at the end of the period. Missing more that three weeks' instalments is penalised by transferring the balance to the client's current account and paying only current account interest rates on it.

These agreements appeal to the poor in Bangladesh as they allow them to save for specific, often time-bound goals such a marriages and performing *haj* (pilgrimage to Mecca) or to buy large assets such as land.

Although the scheme was only introduced on a pilot basis in 1997, contractual savings agreements have proven highly popular and, by the end of 1998, accounted for 19% of BURO, Tangail's extensive savings portfolio (BURO, Tangail, 1999). The success of this model has prompted the Association for Social Advancement (ASA) to introduce a similar scheme that has attracted hundreds of thousands of savers to the programme.

Even longer-term contractual savings agreements are extremely popular in the Philippines where they have been tailored exactly to meet typical clients' cashflows and generate generous pay-outs to finance their children through expensive university education. Thus parents wanting to put their children through higher education start to save regularly while the child is in the state-subsidised primary education. They then leave the balance "dormant" with the financial service provider and make no further contributions during the more expensive secondary education phase (for which parents have to pay). Finally, the scheme pays out during the time the child is at university.

Long-Term Contractual Savings Agreements - Scholarship Plan Phils., Inc
From Rutherford, 1998

In the Philippines, contractual savings "Educational Plans" marketed at middle and upper-income households worried about how they are going to pay for a decent college education for their sons and daughters - are common. Their offices are in towns throughout the country. Scholarship Plan Phils., Inc, for example, has its head office in Quezon City and offices in forty locations. It is registered with the Securities Exchange Commission. It markets educational plans and pensions, and invests the inflow of savings in trust funds in banks and directly with corporate partners.

Scholarship Plan Phils., Inc.'s standard product is a five year savings regime followed by ten or twelve year dormant period in which the invested amount remains with the company, followed by a pay-out in a lump sum or in staged payments. The matured sum may also be reinvested. A worked example from the Tabuk office involved a pension in which 73,200 pesos ($2,091) is invested over five years through monthly instalments of 1,220 ($38) pesos. Ten 'dormant' years follow, after which a lump sum of 200,000 ($5,714) pesos is available, or 600,000 pesos if the sum is reinvested for a further ten years. 300% growth in ten years is equivalent to an interest rate of just under 12% a year, compounded annually.

Another approach to medium and longer term savings systems is, of course, the fixed term deposit, which typically offers the client an enhanced rate of interest in return for a commitment to leave the savings on deposit with the institution. These savings plans are surprisingly useful for poor people, particularly those who have windfall gain, which they want to store for a pre-determined period. Contractual savings can be a good prelude to fixed deposit savings. Women in India often use a RoSCA to save enough to buy a gold ornament or put a lump of cash in the bank. It is not uncommon to see poor clients taking out a fixed deposit with one lump sum of money and then starting a contractual savings agreement with a completion date that coincides with the fixed deposit in preparation for acquiring land or some similar high-value asset.

Savings products can also be tailored to meet specific needs, including drawing clients into the MFIs credit programme as the box below illustrates.

FECECAM's Investment Savings-Plan[8]
From Goldstein et al., 1999

Based on regular deposits observed in the informal sector (RoSCAs, mobile bankers, etc.), this product is meant to mobilise savings in order to obtain credit dedicated to an investment.

The conditions required to open a plan are:
* to be a member;
* to deposit at least 5% of the investment amount;
* to regularly deposit a fixed amount according to a chosen periodicity;
* to create an investment club composed of at least 3 individuals (the club must block a minimum 5% of the credit amount into a special account); and
* to deposit 5% of the estimated cost of the project.

During the savings phase, the member regularly deposits the amount he wishes at a chosen periodicity. He can then be granted a credit in order to buy a capital good.

We have also seen that there is a significant demand for insurance products amongst poor people. It is important to note that several formal and semi-formal sector financial institutions have responded to this need in a variety of ingenious (and profitable) ways.

[8] Product experimented in some CLCAMs during the last 1998 quarter; the first results are not known yet.

Co-operative Life Insurance in the Philippines
From Rutherford, 1997

The "Mortuary Aid Plan" at Besao Co-operative works like this: when a member dies his or her heirs receive 15 pesos ($0.43) times the number of Co-operative members (currently 1,500 people, yielding 22,500 pesos [$642.86]). Members buy in to the scheme with an initial payment of 300 pesos or $8.57 (good for twenty deaths) and thereafter pay (through automatic deduction from their savings accounts at the Co-op) according to the number of actual deaths.

On the other hand, the "Mutual Assistance Scheme" at Kiangan Community Multi-purpose Development Co-operative (KCMDC) works through annual contributions made by each member. All members (now totalling 1,711) of KCMDC are required to buy share capital of 500 pesos ($14.29), but most buy at least 1,000 pesos ($28.57) of share capital as this gives them access to KCMDC's Mutual Assistance Scheme ("for heirs of the deceased") to help with funeral expenses. Under this scheme, participating members pay 75 pesos a year and receive 90% of $1/5^{th}$ of the total contributed on the death. Thus in 1997, 1,620 members participated in the scheme, contributing a total of 121,500 pesos ($3,471.43), and upon each death, the heirs received 21,870 pesos ($624.86). The 10% (and whenever there are less than 5 deaths among subscribers, the remaining funds) are credited to a buffer account to deal with years when more than 5 members die (as happened in 1996) - this account stood at 59,463 pesos (35 pesos [$1.00] per member) as of December 31, 1996, prior to starting to collect 1997 Mutual Assistance Scheme dues.

A private sector insurance company, Delta Life, in Bangladesh has combined a life insurance product with a Grameen type loan programme and is making handsome returns (see box below).

Gono Bima: Profitable Life Insurance in Bangladesh
From Rutherford (private correspondence)

Gono Bima, an offshoot of Delta Life, a private insurance company, offers a stripped-down life insurance product tailored for poor people - a no-frills policy with fixed ratios, fixed equal monthly premium payments and no medical check requirements. The cash inflow from premiums is recycled in Grameen-style loans. The product thus combines the annual fixed savings-to-lump-sum swap as practised by Grameen and the Association for Social Advancement with long-term savings against one event (death of the insured person). The product is popular and Gono Bima is expanding fast. By the end of 1997, Gono Bima had 513,000 policyholders insured for $112m assured sum ($220 each). 11,500 borrowers with loans outstanding of $511,000. Loan value disbursed $782,000 ($67 per borrower). On-time recovery rate of loans, 79%.

Several MFIs have combined life insurance with a policy that ensures that any loan balances outstanding are also paid off by the insurance policy. Thus the family of the deceased and the portfolio can be better secured.

Credit Insurance in Bangladesh and Kenya
From South Asian Network of MicroFinance Institutions, 1998

ASA offers all its borrowers a life insurance policy. The sum assured is equal to the face value of a loan, and premiums are equal to 0.5% of the face value of the loan, paid up-front on disbursement of the loan. The sum assured is paid to a nominated family member of a borrower upon death, less any loans outstanding with ASA. Premiums are only paid for three consecutive years/loans, thereafter the member is automatically assured for the face value of any subsequent loans without paying a premium.

WEDCO in western Kenya offers a similar system.

Other MFIs have taken this one step further by contracting out the life insurance product and extending it to provide a lump sum to the borrower's family as well as paying off the outstanding loan. In addition, in recognition of the additional financial stress to the household budget resulting from such events as funeral expenses, some have included other family members in the insurance cover. This (once again) protects the MFIs' loans to their clients by mitigating the financial stress on the budget from which these loans are repaid.

FINCA Uganda's Revised Insurance Product

From FINCA Uganda Internal Instructions to Credit Officers

As a strategy to ensure and insure repayment in case of injury and/or death due to domestic or outside accidents, FINCA has organised an open-ended insurance policy for its clients. This is underwritten by American International Group (AIG) and is referred to as "Group Personal Accident". It is tailored to suit the needs for protection against hazards caused by accidents. As part of the loan interest, the client is covered under the policy the benefits of which include:

a) in case of the death of the client resulting from an accident (bodily injuries), AIG pays Ush 1,200,000 ($827.59) plus the loan balance outstanding to FINCA;
b) in case of the death of the husband of the client as a result of an accident, AIG pays Ush 600,000 ($413.79) to the client;
c) in case of the death the client's child/dependent as a result of an accident, AIG pays Ush 300,000 ($206.90) to the client. This covers up to a maximum of 4 legal children/dependants;
d) in case of death of a client as a result of natural death or as a result of any disease (but not AIDS) AIG will pay the loan balance outstanding with FINCA.

Under the previous policy negotiated with American Insurance General (AIG), FINCA Uganda had offered an insurance policy that also covered some basic medical, and temporary and permanent disability expenses. FINCA Uganda is now with Nsambya Hospital to pilot-test a health insurance scheme, which is designed to operate in broadly the same manner as the Ishaka scheme outlined in the box below.

Health Insurance Scheme in Uganda

From personal field notes

The Ishaka Community Health Plan scheme works, like all insurance mechanisms, by pooling members' risk. The quarterly premium of Ush. 6,000 ($4.14) covers a family of four for all the basic in and out-patient health care provided by the Ishaka hospital. The family members need only make small additional "co-payment" contributions of Ush. 500 ($0.35) for out-patient and Ush. 1,000 ($0.70) for in-patient services every time they present at the hospital. One-thousand members have already enrolled in this plan and the numbers are growing so fast that Ishaka hospital is now moving towards developing preventive health care in order to try to reduce the flow of patients to the hospital, and thus save costs.

3.3 Compulsory, Locked-In Savings

The section looks at the issues of compulsory, "locked-in" (non-withdraw-able) savings and the role they play in securing loans and capitalising MFIs.

A recent BRAC study (Deeba and Ara, 1995) stated that at present it is not feasible for BRAC to operate differentiated savings schemes with a provision for complete withdrawal access. Due to the interdependence of savings and credit programmes, members' savings partially serve as an insurance mechanism against loan default. Furthermore, BRAC relies on members' savings for its Revolving Loan Fund.

Uganda Microfinance Union's Believes …
From Nalyaali, 1998

"People save in order to accumulate capital, but also to provide themselves with a cushion to fall back on in time of difficulty. With the latter reason in mind, Uganda Microfinance Union (UMU) believes that blocking savings from use by the saver on a rainy day is a potential disincentive to developing good saving habits. Many MFIs force savings, which are then used as collateral for credit. While this approach may safeguard the interests of the lender, the borrowers are not encouraged to save more than required. While we [UMU] do exercise control and discretion over the withdrawal of savings, and encourage clients to replenish the savings account within a reasonable time frame, our general practice is to allow borrowing clients access to their savings accounts when they need it. It is, after all, their money."

Compulsory, locked-in savings are sometimes used by MFIs as a source of stable capital from which to on-lend. For example, by the end 1995, Grameen Bank members had generated a cumulative Group Fund savings of $105.4 million, or over 70% of the value of all grants received from donor and other institutions, and were meeting a very important part of Grameen Bank's capital requirements (Grameen Bank, 1996). Other MFIs rely on these compulsory savings as an integral, often first-line, security mechanism for their lending operations, and indeed are honest enough to refer to them as "Loan Insurance Funds". These uses eventually present successful, client-responsive MFIs with a dilemma.

Not only had the locked-in "Group Fund" savings functioned as loan guarantee reserves, but years of enforced group savings also enabled the larger MFIs to build a huge capital fund for their lending operations. It was feared that allowing open access withdrawal of those savings could result in massive outflows of funds as the members might use these large balances - possibly in preference to taking loans.

When Grameen Bank in Tangail finally allowed members to withdraw their locked-in savings in 1996, there was a massive outflow of fund, seemingly confirming the banks' fears. But we should not lose sight of the build-up to the change in policy that allowed members the right to withdraw from their substantial Group Fund savings: a right won after years of protest and, in Tangail, a strike during which many groups did not meet. It took a while for the members' confidence to be rebuilt but both confidence and the members' savings were indeed returning within a year or so (personal field notes, 1997).

3.4 Selling The Idea

The section examines some of the marketing tools used by MFIs to promote their savings products beyond traditional forms of advertising (such as radio, posters, itinerant promoters using microphones etc.), these include creating a clear brand image, lottery draws and targeting specific groups (e.g. school-children).

Recent work by GTZ and the CGAP Savings Mobilisation Working Group (Hannig and Wisniwski, 1999) noted the importance of tailoring savings products to clients' needs and then selling the product with a recognisable brand name that captures the aim or mechanism of the product (see box below). "Innovative and creative marketing strategies are crucial for the success of savings mobilisation. The design of special trademarks and product labels, for example, attract customers as these reflect their motives for making savings. MFIs advertise their products with catchy names such as "Save to Win" or "Grow Every Day Savings". These names and attractive trademarks also increase recognition of products and institutions by creating a corporate design" (Hannig and Wisniwski, 1999). Furthermore, special product labels make it easier for customers to understand the particular design of the savings product, and they also help to distinguish the products from those offered by competing financial institutions. In Bangladesh, all the MFIs refer to their contractual savings agreements as "Deposit Pension Schemes" because this is the term used for the equivalent (and popular) product in the formal banking sector.

FECECAM's *Depot A Terme (DAT) Patriote*[9]
From Goldstein et al., 1999

This is a time-deposit product aimed at individuals, immigrant associations or institutions (e.g. the National Lottery) who wish to save, often to invest in their region of origin. This product allows a client to make distant deposits or withdrawals in the local branch and the home branch.

DAT terms are 6, 12 or 24-month renewable. There are no particular conditions. The minimum amount is fixed at FCFA 50,000 ($76.92) and the maximum at FCFA 5 million ($7,692.31). However, the same saver can subscribe to various contracts at the same time with a maximum FCFA 100 ($153,846.15) million amount. The interest rate varies from 3.25% (on FCFA 50.000 for 6 months) to 5% (on FCFA 5 million for 24 months).

One of the most successful and widely-used methods for marketing savings services to the poor (and maintaining a minimum balance) is public lottery draws which are open to savers meeting set criteria (see below for a particularly interesting example that combines contractual savings with a lottery). This method has proved immensely popular and is used by formal sector banks such as BRI, co-operatives all over the world, and even by informal sector deposit collectors (Mutesasira, 1999).

Contractual Savings Schemes Linked to a Lottery
From Wolfram Hiemann (personal communication)

Clients (ideally around 300) agree to save a given amount (Rp 10,000 - $4.17) every month for a cycle of a given number of months (usually 30 - 40). One person may buy more than one "number" or membership in order to increase the chances to win.

There is a deadline, a particular date, the last day for depositing the monthly contributions (savings) and specific day for the monthly draw, the date of which is published on the MFI's information board. Only clients with their contractual savings fully paid up-to-date are eligible for the draw, but clients who do not make the monthly deposits for some months can participate after they have repaid their arrears. All participants (and indeed those not enrolled in the scheme) are invited. Every month one participant, the winner, receives an amount of about 15 to 25 times the monthly deposit.

At the scheme's end, those who never won a cash prize will get a small amount provided their account was always fully paid and up-to-date. At the end of the cycle, all the money deposited is returned to the savers/participants or (ideally) converted into a current account. No repayments are made before the end of the cycle – clients cannot drop-out and liquidate their savings.

Some marketing strategies are designed to target specific interest or demographic groups. Many MFIs, and especially co-operatives with a commitment to "developing the savings habit", seek to develop products oriented towards children. Clearly, this strategy makes sense given that the institution is developing a client base with great future potential. However, different approaches and techniques are necessary for this type of specialised market as the box below illustrates.

[9] Product experimented in some CLCAMs during the last 1998 quarter; the first results are not known yet.

Savings Stickers

From Fritz Bouman and Klaas Kuiper (on Development Finance Network)

The Sarvodaya Movement in Sri Lanka in the 1980s used simple booklets (home-made) for savings records and used coloured stickers for 5 cents, 10 cents and 25 cents. Schoolchildren bought the stickers from their schoolteacher and stuck them in their passbooks. But the idea was to stimulate savings, introduce passbooks and use someone trusted to handle the lot.

The principle of using colours and stickers was the innovation. Before, glue and written numbers had been used, but the glue unglued and the writings faded. The stickers stuck and remained stuck. They used green for 5 cents, yellow for 10 cents and red for 25 cents. The interesting thing was that the red stickers became "hot" and kind of a status symbol: children preferred to have one red sticker than 5 green ones. The scheme stimulated the savings process, both children and parents became proud of the colourful passbooks. Unfortunately, the stickers can not be removed from the passbooks; you need another innovation to represent “withdrawals” !

A variation is a jigsaw puzzle type of card: you collect stamps that make up a picture, e.g. a cow, by collecting the various "parts" of a cow – a technique used in Holland nearly a century ago.

These systems have the advantage that they can be used as savings systems for illiterate clients.

Credit Unions/ Savings and Credit co-operatives have developed many innovative approaches to savings promotion as a result of their institutional history and philosophy. The box below outlines a few.

Creative Credit Unions

From the Virtual Library on MicroCredit

Consumer stores:
Trinidad and Tobago and other Caribbean Credit Unions offer member-discounts on consumer items, such as refrigerators, ovens and TV sets.
Savings charts:
Some Asian Credit Unions record members’ savings on charts. They do not record the names and amounts, only savers’ regularity.
Market-day sales:
Once a month in the Republic of Korea, members bring items to sell at the Credit Union. All money received goes to the members’ savings account.
Special clubs:
A Credit Union in Michigan, USA started the “Smart Savers” club for those who deposited a set minimum amount monthly into their savings account.
Premiums:
This is a favourite method of many Credit Unions to attract members. Credit Unions offer practical consumer items such as blankets, cups and appliances, to members who open savings accounts.
Instant photographs:
Free instant photographs were given to members of a Credit Union in Peru who deposited funds.
Raffle tickets:
Consumer items such as bicycles, TVs, cars and electric appliances are raffled off to members who make regular savings deposits.
Bonus plans:
The co-operative deposits a small cash bonus to the mounts of members who agree to deposit a set amount each month.
Associate membership: In Mauritius, one Credit Union allows these memberships to start at age eight months!
School programmes: Staff from some Canadian and Filipino Credit Unions visit classrooms to open accounts and take deposits from school children.

Premiums: A Credit Union in Asia offered "Animal banks" to all children who opened accounts. The co-operative sent a letter to the parents explaining the purpose of the programme.
Collecting returnables: In the Republic of Korea, young members can collect empty soft drink bottles, and the Credit Union deposits the earnings in the member's account.

4. Synthesis and Conclusions

This section attempts to bring together the key lessons and overlaps from the previous three sections and to develop conclusions and recommendations for MFIs seeking to design poor-responsive savings services.

The Conditions Under Which Poor People Save
From Rutherford, 1996

1. they feel their savings are *secure*
2. they feel they can get *access* to their savings (as withdrawals or as loans)
3. they have the opportunity to save *often and easily*
4. they see the *example* of others savings regularly
5. they feel under some *social pressure* to save
6. they feel they *own* their savings (the savings are not owned by a group)
7. they feel the savings are *growing* (by interest rates or bonuses) and protected from *inflation*

Stuart Rutherford (1999) differentiates between the strategies pursued by outside agencies (be they development or private sector), and the strategies used by poor people themselves as they seek to design and deliver financial services. Both strategies seek to provide financial services on an on-going basis, but they are radically different in approach. Outside agencies tend to use a strategy of "permanence and growth" and look to create sustainable institutions that deliver financial services to an ever-increasing number of clients –such as MFIs, banks, and co-operatives. By contrast, poor people generally use a strategy of "replication and multiplication" and look to create many small self-contained, often self-liquidating, schemes –such as RoSCAs and Christmas clubs.

There is another important difference between these two strategies and the types of schemes they spawn. The permanence and growth institutions tend to encourage the long-term build-up of funds through relatively slow, but steady, saving (and are therefore extremely well suited for addressing longer-term savings needed for house building, pensions, etc.). The latter replication and multiplication schemes tend to encourage the rapid accumulation and disbursement of funds (and are therefore better suited to meeting shorter-term savings needed for purchasing small assets, financing festivities or rituals, etc.).

These differences explain why the poor will often hold accounts in permanence and growth institutions while enthusiastically participating in a variety of replication and multiplication schemes. The different schemes fulfil very different needs. Furthermore, it is because of their differing roles that RoSCAs and other shorter-term schemes often attract markedly more savings than secure, interest-bearing accounts with financial service institutions.

In view of the above, it is often helpful to think in terms of the variables that must be considered when going through the process of designing savings products. For example:

- Access issues – branch opening hours/numbers or notice of withdrawals/ability to access loans concurrently
- Time scale/duration of the product – short, medium or long term
- Nature of deposits – small regular, small irregular or single/few lump-sums
- Liquidity – the ease of access to savings
- Returns/fees – interest to be paid on the products, lottery prizes to be offered, and the fees to be charged for transactions, maintain the account etc.

In addition, it is important to consider special needs/opportunities/markets – for example savings schemes of school children or insurance schemes. Similarly, MFIs need to pay close attention to how they market their savings products optimising their use of brand names, lotteries etc.

Finally, MFIs have to take care to ensure that the structure of the savings services they offer provide the right incentives for clients. These incentives should to balance the needs of the clients with those of the MFI to provide a sustainable savings service. The needs of MFIs are best met by high value, stable, low transaction savings accounts and thus MFIs should look at setting terms and conditions governing the services they offer in a way that encourages these. This can be done by remunerating high-value, long-term savers; by penalising low-value, high transaction savers; by simply prohibiting or limiting the number of withdrawals that can be made; or by levying charges on transactions.

There is increasing evidence that providing client-responsive financial services can both serve the needs of poor people while maintaining or in fact improving the sustainability and profitability of the MFIs (see for example Hulme, 1999 and Wright, 2000).

Characteristics of (Poor) Client-Responsive Savings Services

From Rutherford, 1999a

Products that suit the poor's capacity to save and their needs for lump sums:

- so that they can save in small sums, of varied value, as frequently as possible
- so that they can access the lump sums (through withdrawals or through loans) when they need them: short term for some consumption and emergency needs, medium term for investment opportunities and some recurrent life-cycle needs, longer term for other life-cycle and insurance needs like marriage, health-care, education and old age

Product delivery systems that are convenient for the poor:

- that are local, frequent and quick
- that are not burdened with paperwork and other transaction costs
- that are transparent in a way that is easy for illiterate people to grasp

There are no magic formulas for designing appropriate and sustainable savings products for poor people. There is no substitute for intensive market research and careful product development. But the rewards for the MFIs that undertake these exercises in terms of profits and client loyalty can be remarkable, and well worth the investment.

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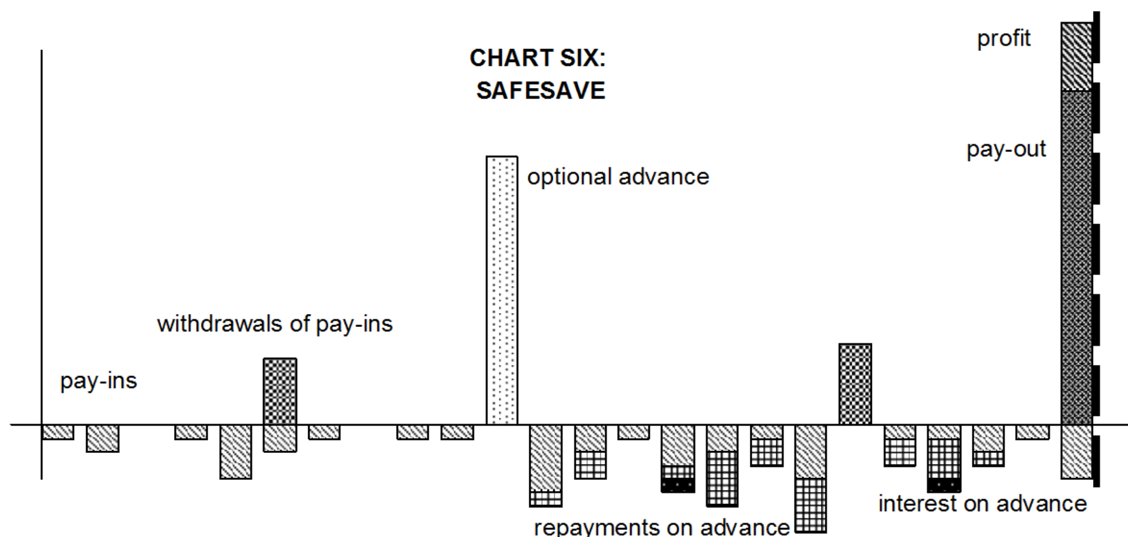
Appendix 1

***Safe*Save**
From Rutherford, 1999a

First, we noted that poor people need to store savings for the long run, for widowhood or old age or for their heirs. None of the examples shown so far helps them to do this (or at least not directly).
Second, we noted that poor people's ability to save fluctuates with time, so that they may be able to save a lot in one week and very little in another. But in all our examples so far there is the requirement for a (more or less) *fixed* saving at a *fixed* interval (the same sum each day for each box on Jyothi's card or for Mary's RoSCA, or for each week for the moneylender or for Rabeya's Fund).

Both of these shortcomings are particularly difficult for the *very* poor. It is the very poor who suffer most hardship in old age and most need financial protection for the end of their lives. And many poor people get excluded from these devices - and often indeed *exclude themselves* - out of anxiety that they won't be able to save the same amount *every* day (or week, or month) for a *whole* year (or other period).

The *Safe*Save diagram shows how *Safe*Save tries to get round these shortcomings.



*Safe*Save has Collectors (field staff) who visit each client each day at their home or workplace. They provide the same *opportunity* to save (or repay) that Jyothi and daily RoSCAs do. On each occasion, clients may save, but in any amount they like, including zero. The 'pay-ins' in the diagram show this - they vary over time. From this accumulation of savings clients may *withdraw* a lump sum at any time they like - this is shown by the solid black amounts. Then, as in a Fund, they can take optional advances, but - better than an Fund - clients repay when they like and can take as long as they like as long as they pay the interest (shown as fees) each month. Finally, as in a Fund, they get a pay-out of their accumulated savings plus profits. But unlike in a time-bound Fund like Rabeya's, they can leave these savings on deposit for as long as they like and earn even more profit the longer they leave them in. The only respect in which this flexibility is compromised is that they cannot withdraw from savings while they are holding an advance (except to repay the advance) and for this reason clients are allowed to hold more than one account.

The current version of *Safe*Save running in the slums of Dhaka, Bangladesh pays clients a little under 10% a year on savings (much less than Rabeya's Fund but more than formal banks) and charges an APR of about 28% on advances (much less than Rabeya's Fund but more than formal banks).
*Safe*Save raises many questions. One of them is whether *Safe*Save can be run profitably, generating surpluses that guarantee its sustainable and fuel its expansion. Unless that can be shown to be the case, *Safe*Save will not contribute much to banking with the poor. Though early signs are encouraging, *Safe*Save is still young - it began only in 1996 - and more time is needed to see if it will pass this crucial test. No more will be said on this issue here, since this chapter is concerned with 'basic personal financial intermediation' and focuses on the user's perspective.

The main question raised by *Safe*Save in that context is *discipline.* We have already seen that without discipline it is hard to save. This is true whether those savings are made following an advance against savings (as with moneylenders), or whether they precede a withdrawal or advance (as with a deposit collector like Jyothi) or are made both before and after a withdrawal/advance (as in a RoSCA). Moneylenders enforce discipline by their regular weekly visit, and Jyothi does it by daily appearances on the doorsteps of her clients. RoSCAs fail if their self-imposed discipline falters. *Safe*Save is no different, except that it has given up some things that undeniably promote discipline very strongly - *uniformity* of deposit size, and *regularity* of deposit. In all the other examples shown so far the user pays a set amount at a set interval. In *Safe*Save the user may pay at any interval and in any amount - including zero.

The risk is, therefore, that without any compulsion to pay a set sum at a set interval, *Safe*Save's clients will simply fail to save. *Safe*Save's experimental aspect is precisely that it is testing the extent to which a *frequent and reliable opportunity* to save is a way of maintaining savings *discipline.* So far, the indications are good. It looks as if the frequent opportunity to save - having someone knock on your door each day - is as good, or even better, as a way of maximising savings, as the obligation to pay a set sum at a set interval.

Summing up *Safe*Save:
*Safe*Save is a deliberate attempt to set up a financial service scheme for the poor which meets their circumstances and needs as understood by this author over twenty years of research and practice.
It allows for the fact that the poor can save and want to save - but can save only in small (but variable sized) amounts and can't save each and *every* day.

It allows for the fact that the poor need to turn those savings into usefully large lump sums at both short and long-term notice, and sometimes without notice. It recognises that to help them do this it must allow them - on a daily basis - all three of the 'basic personal financial intermediation' functions:
the chance to save and withdraw
the chance to take an advance against *future* savings
the opportunity to store up savings for long-term needs

*Safe*Save recognises that no-one can save without discipline, and offers a *daily opportunity* to save to all its clients as a way of developing and maintaining that discipline.

*Safe*Save is thus the most *flexible* of all the examples dealt with in this chapter, and because of this is the most attractive to the *very* poor who can be frightened off by the need to pay set sums at set intervals.

It may occur to you that - with the exception of the doorstep service offered by its Collectors - the financial services *Safe*Save offers are rather like what is available over the counter to ordinary customers of banks in the rich world. It is a combination of current account, savings account, long-term deposit, and loans.

Should that surprise you?