MicroSave Briefing Note # 13

Money Managers: The Poor and Their Savings

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Introductory Observations

Before poor people can begin to access opportunities to generate income/employment they need to reduce their ***vulnerability*** and develop the mechanisms to manage ***risks*** they face. Essentially, they need to create a stable platform on which to build income generation activities/businesses without falling pray to the crises that so regularly beset poor households. Without this stable platform to allow them to cope with crises, poor households are often forced to use creative money management mechanisms to respond whenever their children fall sick, thieves visit them, animals die etc. Many of these mechanisms (including de-stocking business and diverting loans) have direct impact on the loans that MFIs may have advanced to support their business.

The Main Money Management Problem: Assembling Large Sums Of Money

Despite their small incomes, the poor are faced, surprisingly often, with expenditure needs which are large in relation to the sums of money that are immediately available to them. Although day-to-day household expenditure – food is often an example – can be roughly matched with income, there are many other expenditure needs which call for sums of money much larger than they normally have in their purse or pocket.

There are three main 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, and for seasonal variations in consumption.
- ***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 there are opportunities that require large sums of money, such as starting or running businesses, acquiring productive assets, or buying life enhancing consumer durables such as fans, televisions and refrigerators.

Finding these large lump sums of money is the main money management problem for poor people.

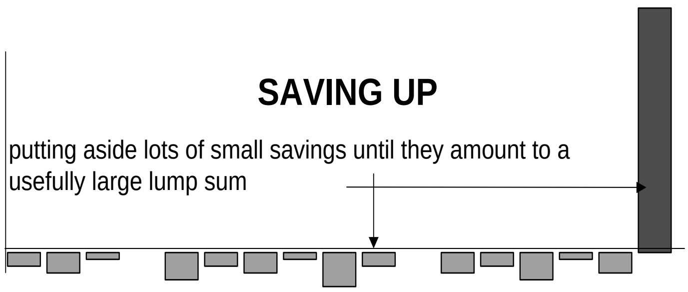
The poor themselves recognise the need to build savings into lump sums and contrary to popular belief, the poor ***want*** to save and ***try*** to save, and all poor people except those who are entirely outside the cash economy ***can*** save something, no matter how small. When poor people do not save it is for lack of opportunity rather than for lack of understanding or of will. The predicament of the poor can be expressed in the phrase “too poor to be able to save much; too poor to do without saving".

Three Ways To Convert Savings To Lump Sums
(From Rutherford 1999[1])

There are several ways in which savings can be built into usefully large sums of money, but they fall into three main classes, as follows:

1. ***Saving up***.

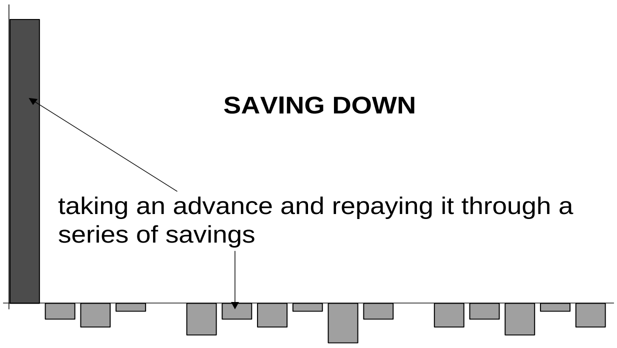
This is the most obvious way. Savings are accumulated in some safe place until they have grown into a usefully large sum. Many poor people lack a safe and reliable opportunity to save up. As a result, they may be willing to accept a negative rate of interest on savings, in order to be able to make deposits safely. We see this in the case of the deposit collectors that work in the slums of Asia and Africa.



[1] **Rutherford**, Stuart, “Savings and the Poor: The Methods, Use And Impact Of Savings By The Poor of East Africa***”, MicroSave*** 1999 available on ***MicroSave’s*** website: www.***MicroSave***.net under the Study Programme section.

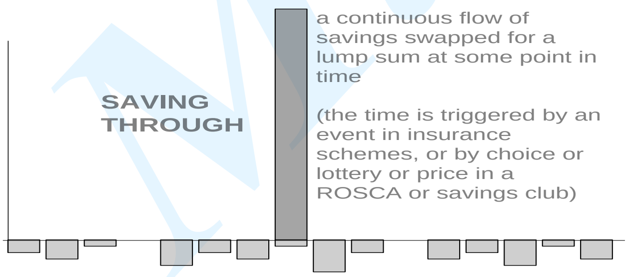
2. ***Saving down***.

In 'saving down', the poor are lucky enough to have somebody give them an *advance* against future savings. The savings then take the form of loan repayments. Many urban moneylenders offer this service at high cost. MFIs, like Grameen Bank in Bangladesh or PRIDE in East Africa, offer a similar service but do so at a lower cost and with greater reliability. The recipient of a PRIDE or Grameen Bank loan makes a large number of repayments at short intervals and these repayments can be sourced from the borrower's capacity to save. The advance can therefore be spent on any of the uses in the three classes listed above[2].



3. ***Saving through***.

In this third case savings are made on a continuous and regular basis, and a matching lump sum is made available at some point in time during this flow of savings deposits. The services offered by insurance (in which case the savings take the form of premium payments) are of this type, though the poor are very rarely offered formal insurance services. "Saving through" is also offered by many forms of savings clubs, including, notably, rotating savings and credit associations, or RoSCAs. 'Saving through' therefore constitutes the most common class of device that the poor are able to provide for themselves.



So What Are The Poor Doing?

The vast majority of poor households are forced (through lack of alternatives) into using a wide variety of mechanisms to save up, down and through in the informal sector. But all of these informal mechanisms, whether RoSCAs, ASCAs, savings, deposit collectors or pawn-brokers are characterised by clubs, indigenous insurance schemes, money guards high risk and high levels of loss. The use of the group guarantee system by MicroFinance Institutions (MFIs) – particularly when high drop-out rates rapidly result in groups of members who scarcely know each other – results in high levels of loss to defaulting members.

The challenge for MFIs is to develop appropriate, secure quality financial services for the poor.

What Are "Quality Financial Services" for the Poor?
(From Rutherford 1999)

Financial services for the poor are services that help the poor turn savings into lump sums. Good financial services for the poor are a matter of doing this:

- In as many ***different ways*** as possible (saving up, saving down and saving through)
- Over as many ***different periods*** (varying from very short term for quick needs, to very long term for old age or widowhood, for example) as possible.
- In ways that are ***convenient, quick, appropriate, flexible*** and ***affordable.***

How To Design Better Financial Services Products For The Poor

1. accept the **right kind of pay-ins**: (remember, the pay-ins might be savings, repayments, insurance premiums, or contributions to a ROSCA etc.)
- allow *small* sums to be paid in
- allow *variable* sums to be paid in
- allow sums to be paid-in *frequently*

2. allow clients to take out the **right kind of lump sums**:
- provide a *savings bank service* (saving-up)
- provide an *advance-against-future-savings* service (saving-down, or loans)
- allow *short-term, mid-term and long-term* swaps (saving up, down and/or through)
- place no restrictions on how the lump sum is *used*

3. make it **convenient** to pay-in and take-out
- allow sums to be paid in and taken out *locally*
- allow sums to be paid in and taken out *quickly* (on demand and with minimum delay)
- recognise that clients may accept group formation as a price worth paying for a service but will prefer an *individual service*
- make the services open to *all poor* people (not just women, or just adults, or just one person per household)

Designing such quality financial services is the challenge for the future of the microfinance industry.

[2]That is, it is not necessary to spend the advance on 'income generating activities' that produce an immediate stream of additional income. Of course, the source of the savings that are used to make the repayments may or may not be a business.