

Savings: Why are they important to the poor?

MFIs are increasingly providing the poor with access to safe and accessible savings products.

Do poor people save?

The poor save all the time. They usually use informal mechanisms such as hiding money under the mattress or buying a cow. Some even pay others to keep their savings safe for them (e.g. Susu collectors in Ghana). Savings are often the only way the poor can manage to pay for a major life event such as a marriage or funeral, survive a natural disaster, or take advantage of a business opportunity. A loan may serve the same purpose, but is riskier and usually more expensive. Moreover, it is generally recognised that savings may be more important than credit in helping the poor to raise incomes and reduce risk.

What do the poor want from deposit services?

Typically, the poor want their savings to be secure and not at risk from fraud, theft, fire or relatives' demands. Safety is paramount, even in the face of inflation. They also want low transaction costs – with proximity being extremely important, as well as convenient opening times and minimal paperwork. Savings products need to allow frequent deposits of small amounts and for quick access to funds.

What institutions can provide deposit services?

An institution providing deposit services for the poor requires strong management of credit, liquidity and interest rate risk. It also requires internal controls, a robust MIS, the financial capacity to withstand external shocks (e.g. inflation), adequate capital and proper supervision (usually by the central bank). Examples include OI-SASL, OIBM and Opportunity MFIs in Eastern Europe. Note that most NGO partners lack the governance, legal status and institutional capacity to accept voluntary deposits.

Case study: OIBM in Malawi

Each day, around 60 savings accounts are opened at OIBM. Using innovative technology such as biometrics (fingerprint ID), the poor can open a savings account without a driver's license or passport. All that is needed is something called a smartcard ("Malswitch").

Savings products on offer by OIBM include:

- **Active Saver Account:** This is designed to help micro-entrepreneurs enjoy the security of a savings account while having the flexibility needed by their businesses. The minimum balance is 500 kwacha, deposits are unlimited and 8 free withdraws are allowed every month.

- Term deposits: These are deposits made for a fixed period (usually a term of around 6-9 months). A higher interest rate is offered given that these savings are less “liquid”.

Further innovations introduced by OIBM include smartcards for AIDS orphans and a product that will mobilise Trust Bank members to collect savings from non-members in their communities (thereby tapping into the indigenous “Xitique” deposit collection system).

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