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Mobilising Savings
Key Issues and Good Practices in Promoting Savings

Preface

"Poor people are too poor not to save" (Rutherford, 1999).

It is often thought that poor people cannot save, but they do – it is their primary source of subsistence. Poor people have to face irregular income, uncertainties such as unexpected deaths, adverse climate disasters affecting their crops, endangering food quality, hence putting at risk their main source of livelihood. For these reasons, among many others (education fees etc.), most poor people save, be it under their mattresses or by buying livestock to be sold when needed. But most importantly, poor people need a way to save effectively and in a secure manner.

The microfinance sector has led us to think that credit is the most important financial product to take low-income people out of poverty. And in most countries, MFIs are not allowed to take on savings, and therefore they push on the credit side. However, savings are one of the main financial products to help the poor sustain their lives. Indeed, financial inclusion is also recognised as one of several essential pillars in supporting key elements of the sustainable development goals (SDGs). In 7 out of 17 goals, financial inclusion is an explicit target.

There are various savings methods which enable poor people to be financially included, ranging from holding savings accounts to group savings and more recently digital savings. In recent years, governments in low-income countries have started realising the benefits of having their population save in a formal way; in this regard some have started to regulate the sector to allow MFIs to take deposits.

Back in 2004, the SDC published the first version of Mobilising savings– Key Issues and Good Practices in Promoting Savings. The document provided an overview of the needs and demands of low-income households for savings services, as well as savings mobilisation from the perspective of a financial institution and the regulatory financial authorities in developing and transition countries. It was conceived as a tool for SDC staff and partners as well as for all other persons involved in the promotion of savings services by financial institutions.

This publication was updated in 2018, showing the progress of the topic since 2004, providing a deeper insight on new trends and highlighting once again the importance of mobilising savings. The Savings & Credit Forum on formal saving services held in September 2017 also revived the discussion on savings, from which insights fed into this document.

Table of Contents

Introduction 5

1. Savings and the poor 6
1.1 What is saving? 6
1.2 What are savings practices around the world? 6
1.3 Why do poor households save? 6
1.4 How do poor households save? 7
1.5 Why do they save little in formal channels? 8

2. Mobilising monetary savings from low-income households: the institutional perspective 9
2.1 Requisites and success factors for the institution 9
2.2 Savings compared to other sources of funds 11
2.3 Consequences for the financial institution 12

3. Product development, diversification and innovation 13
3.1 Critical success factors before implementing savings services 13
3.2 Designing adapted products 13
3.3 Overview of existing basic offer 14
3.4 Diversification and innovation 14

4. Legal and economic framework for savings mobilisation 18
4.1 Macroeconomic and political framework 18
4.2 Transformation of MFIs into deposit-taking institutions 18
4.3 Legal framework 19

Conclusion 23

References 24

Bibliography 26

Introduction

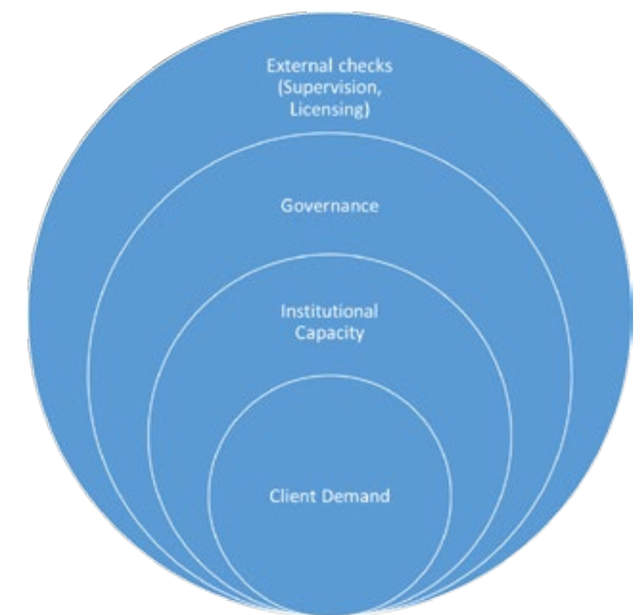
"Poor households want to save and do save…but it is not easy"[1]. This statement made in 1999 by Rutherford is still valid, almost 20 years later. Households need to save money in order to reduce their vulnerability to negative shocks, such as natural disasters, crop failures, job losses, illness or death in the family. With savings, in kind or in cash, a safety net is created. From a longer-term perspective, savings can help to increase the income base, for example by paying for the children's school education, buying a cow or a new sewing machine, investing in land or other productive assets. Households with low and irregular income save in different forms, for diverse reasons and purposes, and entrust their savings to various persons or institutions.

Microfinance practitioners generally agree upon the fact that even the poorest households can and do save in financial institutions if they have access to those. Microfinance Institutions (MFIs) have been constantly attempting to respond to the demand for financial saving services of this target group by taking into account the diverse needs in their product offer. However, in most low-income countries, MFIs are not yet allowed to mobilise savings if they are not licensed as a financial institution and supervised by the responsible authorities. Consequently, poor households still use a broad variety of forms of saving, although mainly informal ways.

Specialists and practitioners often argue that saving cash in a financial institution has more advantages for the poor than saving in physical assets or in kind (land, livestock, inventory, jewellery, etc.). Liquidity, divisibility, low transaction costs, discretion, security and intermediation between households are the often-cited advantages of monetary savings. Others argue that investments in physical assets are more appropriate for poor households, because they yield higher returns than monetary savings, and are more widely accepted. Also, many informal financial methods involve social relationships – from savings or investment groups to less structured groups where such social arrangements are a natural foundation for money management and where formal financial services are not available or out of reach. And despite the growing proximity of bank branches, cash-in cash-out agent networks and proliferation of mobile phones which offer even remote populations a growing set of choices for basic, digital financial services, these social arrangements persist.[2]

Cash savings deposited in a financial institution should not be seen as a substitute for in-kind savings, but rather as a complement. In that regard, donors should try to support reforms in legal and regulatory frameworks for MFIs whenever possible, in order to promote the introduction of savings services for the poor. Saving in a financial institution should provide those advantages that saving in kind does not. While the financial institution itself can ensure advantages like liquidity, divisibility, low transaction costs and discretion, other advantages, like security and intermediation strongly depend on the legal, political and economic environments of the country in which the institution operates.

The preconditions for mobilising savings can be summarised with the figure below[3]:



The structure of this publication covers the four levels highlighted in the above figure. The first part of this publication provides an overview of savings habits, methods and motivations of low-income households; the second part reviews the prerequisites that a financial institution should fulfil before starting to offer savings services to low-income households in order to ensure success of MFIs being funded by savings, as opposed to other sources of funding; the third part provides the reader with hints and advice on how a financial institution should proceed before launching savings products. Examples of savings services and products from financial institutions around the world targeting low-income households will supply insights and ideas for innovation and diversification. And finally, the last part covers aspects related to macroeconomic conditions and the regulatory framework in which savings mobilisation takes place.

1 Rutherford (1999).
2 Johnson (2018)
3 Hirschland (2005)

1.
Savings and the poor

1.1 What is savings?

Saving defines the action of putting aside a part of current income, in order to consume or invest it later on. The money saved can be either kept at home, deposited in a savings account or invested in different types of capital. Because many low-income households in developing countries have a small informal family business or a farm, they invest part of their savings in the production unit, in order to increase future income.

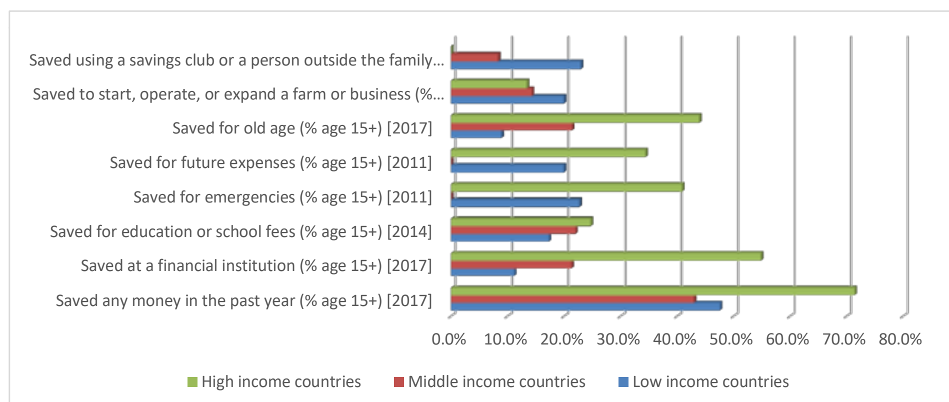
Saving in monetary form is just one way to manage the liquidity of the household. If credit is available, it is also used for liquidity management. The actions of saving, dissaving (consuming more than the current income), lending and borrowing money interact constantly. Experience shows that households do save more often than they borrow money.

Throughout this note, the following definitions will be taken into account: Saving is the action of keeping part of current income to use later[4]. Savings defines the amount kept aside in the current period (income minus consumption in a given period).

1.2 What are savings practices around the world?

The World Bank's Global Findex database provides in-depth data on how individuals save, borrow, make payments, and manage risks. It is the world's most comprehensive database on financial inclusion that consistently measures people's use of financial services across countries and over time.

The graph below captures saving habits around the world:



Source: Global Findex 2017

Graph 1: Savings Habits

4 In economic theory, the current period refers to the current year and the future to all years thereafter

Globally, 53% of individuals over the age of 15 reported having saved any money in 2017. This proportion is 71% in high-income countries, 43% in middle-income countries, and 48% in low-income countries. Savings practices also vary by region: the propensity to save is thus much greater in Sub-Saharan Africa (40.2%) and in South-East Asia and the Pacific (39.8%) than in other low-income regions.

The above graph also shows that a large fraction of savings is not placed in formal financial institutions. In low-income countries, only 11% of people over the age of 15 save in a formal institution, as compared to 29% globally. 23% of people in low-income countries mainly save in informal and semi-formal sectors.

1.3 Why do poor households save?

Studies on the saving behaviour of poor households in Asia, Africa and Latin America all agree upon the different motives for saving. What differs are the approaches and the terminology. The four motives below are cited most often:

Decrease their vulnerability

The poor constantly live with uncertainty regarding their capacity to cover their family's basic consumption needs. By saving, they insure themselves against bad times, and try to avoid having to cut their consumption expenses. Households save for emergencies (bad harvest, sickness, job loss), because in most cases they do not have access to or cannot afford formal insurance services. Saving also allows households to balance uneven cash flows between different periods of the year.

Accumulate lump sums

By periodically saving small amounts of money, households can accumulate lump sums for the following purposes:

- → To have money to cover expenses related to life-cycle needs (for example, marry a daughter, which might be very expensive in India, or bury a parent, which is expensive in most African countries).
- → To pay the school fees of their children at the beginning of the school year or send a child to a higher education institution, in order to increase their human capital.
- → To buy construction material for building a house or invest in any type of good that strengthens the household economy (a grain silo, a water pump, etc.) and increases their physical capital. Lower-income households usually tend to accumulate money to purchase agricultural or other production equipment in quantity, in order to get better prices and save on transaction costs.
- → To invest in "visible" assets that increase status and recognition within the community such as in West Africa, particularly the Sahel region, where cattle have a high social value. Indirectly, they invest in their social capital, because a higher status provides better access to networks of relation and information. But very often, "visible" assets have also a higher financial return than monetary savings in a financial institution.

Bequeath relatives and friends

- → People who have migrated from their village to the city or to another country save money in order to send it to their relatives who stayed behind[5]. As of 2014, 26% of adults aged above 15 in low-income countries received domestic remittances[6].
- → To have some "disposable" income in order to lend it when a neighbour or a relative has an urgent need. This can be considered as a contribution to social capital.

Obtain or repay a credit

- → This motive for saving is often cited in the empirical studies on poor households' savings in formal and informal financial institutions. Nevertheless, it is difficult to balance the importance of this motive, given that many financial institutions impose on clients to deposit money in an account as a prerequisite to obtain a credit.
- → Additionally, it can be related to the wish of accumulating a certain lump sum, in order to make an investment. With a credit, this investment may be possible earlier.

5 OECD (2006)
6 Global Findex data (2014)

1.4 How do poor households save?

The question of how poor households save is probably the most frequently asked in studies on the subject. First, because it is more obvious and visible than the "Why save?" and, second, it is more interesting for financial institutions (potential deposit receivers) to know the "how" than the "why". Nonetheless, it has to be kept in mind, that both questions are closely related.

An empirical study on West Africa shows how poor women use different savings services for different purposes: 1. they save in decentralised financial systems such as savings & credit cooperatives, in order to obtain a credit; 2. at the deposit collector, in order to manage the liquidity of their economic activity; 3. in tontines[7], for future consumption, health expenses, housing and economic activity, as well as social relations[8].

Box 1

Under which conditions do poor households save?
(Rutherford,1999)

- › They feel their savings are secure.
- › The amount of their savings is kept secret from others.
- › They can access all or part of their savings when needed.
- › They have the possibility to save often and easily.
- › They are entitled to obtain a credit (reciprocity).
- › They feel they own their savings (their savings are not owned by a group).
- › They feel the savings are growing and protected from inflation.
- › They feel under some social pressure to save.
- › They know at any time how much they have.

In which form do they save?

Whenever possible, poor households save small and variable amounts, in kind or in cash. They have a diversified portfolio of savings, ranging from liquid forms (money, gold, jewellery, clothing, etc.), to less liquid forms (housing material, chicken and pigs, cattle, land, etc.). Households in West Africa have explained that they first acquire their very liquid assets and then their less liquid ones, because the latter yield higher returns than the former[9].

7 A tontine is a system for raising capital in which individuals pay into a common pool of money and then receive a dividend based on their share and the performance of investments made with the pooled money (Investopedia, 2018)
8 Goldstein and Barro (1999).
9 Ib.idem

Box 2

What is an Informal Savings Group (Invested Development, 2012)?

An informal savings group is a social organisation formed to help community members save money for specific purposes (either individual or community level). The two most common examples are Rotating Savings and Credit Associations (ROSCAs) or Accumulated Savings and Credit Associations (ASCAs). ROSCAs function by taking monthly deposits from each member of a group and then giving the whole monthly sum to one member of the group. The recipient of the monthly sum is based on a predetermined rotation, ensuring each participant will eventually receive a large pay-out. ASCAs also require group members to make regular contributions. Instead of rotating pay-outs, the ASCA group fund is used to make loans that are paid back with interest. Loans are made either to group members or trusted third parties. After a certain period of time (often six months to a year) the group fund and its proceeds from interest are paid back to the original members.

Where do they save?

A household's home is probably the most universal place to keep money, although it is often not very safe, either because temptation to use it is significant, or because it might be stolen easily. Few poor households deposit money in a bank savings account, either because they have no bank close to their home, they do not trust the formal financial system or because conditions are not adapted to their needs. Nevertheless, if they do deposit money, they do so because the money is then safe from uncontrolled spending.

Examples from India, Bangladesh, Africa, and to a lesser extent Latin America, show that households dispose of diversified informal mutual savings systems: savings clubs, tontines, ROSCAs, ASCAs (see Box 2), Pasanaku, Munno Mukabi, etc[10]. In these systems, members regularly save small amounts of money in order to accumulate a lump sum for a social event or even as start-up capital for a business. It may also be very important for them to participate in such systems in order to enhance their social relations.

Those who do not have any secure place to deposit their savings entrust it to a money guard, who can be a neighbour, a relative, one's employer, etc. In some places, particularly where money rotates frequently (on markets, central bus stations, etc.), professional deposit collectors visit people every day and, for a fee, collect savings from persons who wish such a service.

→ Reciprocal lending (i.e. lending between relatives, friends or neighbours) is also used as a means of saving. It probably yields higher returns than depositing money, and often serves a social purpose, but might not always be very secure.

How often do they save?

The above examples show that low-income households save according to their income flow. For example, women who sell vegetables every day on the market, save each time they can. Farm households, on the other hand, do not save frequently, if their income depends only on agricultural production.

10 Invested Development (2012)

1.5 Why do they save little in formal channels?

The most common reasons for not saving at a formal institution are distance, cultural and social barriers, administrative complexity, prohibitive costs, lack of trust, etc. To lift those barriers, microfinance institutions have been seeking to offer simplified and inexpensive services. However, the results are not always up to expectations (see graph 1 above). Poor people are still said to save little, even when they have at their disposal innovative services and when it is in their best interest to secure their meagre deposits.

A study conducted in 2011[11] shows that the poor act as impulsive and impatient consumers, and that their scale of time is that of immediacy due to future uncertainty. A suggested way to resolve this situation is educating potential customers on how to use banks effectively and build trust towards the financial system. Alternative banking channels such as post offices should be promoted, showing their proximity with this specific target group, having a new strategy built around low-income population groups and adapted offers. Financial education should be at the core of such a strategy, to tackle the basic financial education barrier of the clients: the financial institution needs to ensure that the clients understand their responsibilities, manage their somewhat irregular income and see the benefit of savings. When clients are new to making formal deposits, financial education training is necessary to assess the potential risks of available savings options and make informed decisions to manage household finances more effectively. Financial literacy is also the key to rebuilding trust in banking among the very poor.

11 Banerjee and Duflo (2011)

Box 3

Learning to save money for contingencies and for future investments

PROMIFIN (2003–13) was an SDC programme promoting access to financial services for low-income population groups in Central America. To increase savings, various activities were undertaken:

- Board game: The programme designed a financial education board game allowing households to learn by playing a "monopoly type of game" which simulated real life financial situations and decisions; the aim was to demonstrate to illiterate people the effects of financial decisions on savings, investment and quality of life.
- Pocket booklet/financial diary: Each day people can verify whether they met their savings goals, how much they invested in productive assets and how much they spent on non-essential purchases.

An independent evaluation held in 2017 revealed positive results, with MFIs in Nicaragua, the Dominican Republic and Honduras still applying the FE methodology with improvements in money management skills and saving levels of learners. The study showed that 85% of clients who benefited from PROMIFIN increased their savings (46% of the clients were not savers before PROMIFIN; 54% were savers before PROMIFIN and subsequently increased their savings by over 50%).

2. Mobilising monetary savings from low-income households: the institutional perspective

2.1 Requisites and success factors for the institution

Level of formality

Before an MFI starts to offer savings services, legal guidelines should be observed. Forced deposits, which are used as collateral for credits, are generally tolerated by the authorities, given that clients owe more to the institution than the opposite. Those MFIs which are authorised to mobilise voluntary savings have either the legal form of savings and credit cooperatives or of "minibanks"[12]. If they do not have the capacity to adopt either of these legal forms, or if they are not yet allowed to take on savings, the institution can rely on linking mechanisms, in order to facilitate their clients' access to savings services[13].

12 Shareholding companies which offer financial services, but which cannot be defined as commercial banks as they are limited to certain services.
13 When microfinance institutions are not legally allowed to take in deposits from their clients, they can use different techniques of intermediation between their clients and a licensed financial institution (generally a commercial bank or a savings and credit cooperative)

Strong management and financial viability

Strong management and governance are key requisites when dealing with savings. The microfinance institution must have the financial resources, the know-how, and the institutional processes to manage a higher volume of less predictable transactions. Clear ownership and transparency allow better control from the clients and increase their confidence. The institution should be financially solvent and show a high level of loan recovery. Potential depositors will feel more secure if they know that the portfolio of the institution is diversified and of good quality. The managers of the institution should follow the evolution of macroeconomic indicators and be able to analyse them.

Risk management

From 2004 to 2008 microfinance enjoyed unprecedented growth in emerging markets (…) with average annual asset growth of 39%, accumulating total assets of over USD 60 billion by December 2008. However, a few countries started showing signs of stress, with microfinance loan delinquency crises emerging[14]. Financial business is always risk related.

14 CGAP (2010)

Box 4

"From Under the Mattress and into the Bank: Increasing Financial Access for Women in Nigeria" – an example from Nigeria

(Iskenderian & Saunders, 2012)

Visa and Women's World Banking partnered with Diamond Bank and Enhancing Financial Innovation & Access (EFInA) to help develop a commercially viable, accessible savings product that serves the financial needs of women in Nigeria. The project was rolled out in three phases, beginning with in-depth research to identify what services women need most to improve their financial lives. Next, an innovative pilot programme introduced mobile technology that represented a significant breakthrough in democratising access to financial services - as with a photo and basic data captured through a mobile phone application, clients receive their account number and PIN via SMS and a starter pack with an ATM card. Mobile phones are commonplace in Nigeria, and recent regulations have opened up the ability to provide mobile financial services — truly a game changer for women facing mobility constraints. Finally, the savings product* was anticipated to be launched nationwide following a successful pilot and supported by financial education programmes designed specifically for women.

The implementer's big bet was that this and other projects around the world will help other companies and governments see that investing in underserved women not only represents a potentially lucrative untapped market, but also will improve the lives of families for generations.

* More about the product here: https://www.efina.org.ng/

Financial institutions must measure risks to avoid bankruptcy while ensuring profitability. Risk management is one of the core functions of any financial institution. It reduces the likelihood of losses and includes the prevention of potential problems with early detection and corrective measure of risk events. Financial institutions usually face operational risks and financial risks. The management of those institutions must determine what level of risk is acceptable and desirable.

Marketing and communications

The financial institution must know its market and have a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships. Marketing and communication should be used as a tool for the institution to listen and respond to clients' needs with a product or service (instead of just pushing customers into buying decisions). The institution should also be aware of its competitors and their offers in order to design competitive products with features that meet customers' demands.

Image and accessibility

The financial institution must show an image of safety and accessibility if it wants to take in cash savings from low-income households. Either the money is kept in a safe box and a secure looking building, or it can be deposited in a local bank agency. It is crucial that the institution is easily accessible to the depositors with respect to hours of operation and location. Opening hours should be adapted to the local clients' habits, for example on market days, or perhaps the late afternoon. In very remote areas, the institution can install mobile units in order to collect savings depending on the security context in the country. Customers should be able to deposit money as often as possible as well as feel secure with the staff of the institution. Hence, the staff should be very professional and well-trained in the provision of savings services of this kind.

Digital finance access

Growing rapidly, digital technologies offer an opportunity to provide safe financial services at much lower cost, and therefore boost access to financial inclusion. Financial services can now be delivered via digital infrastructure (mobile or internet), using digital devices (mobile phones, computers, POS terminals, biometric devices, and so on), accessible outside a physical bank outlet.

The potential and benefits of digital financial services delivered via mobile phones, the internet or cards have been widely proven. These services have the power to transform the delivery and provision of financial services among the 1.7 billion people who lack access to formal financial services, over 1 billion of whom own a mobile phone.

To secure these potential benefits, key structures are required such as widespread mobile use, a digital infrastructure, and a dynamic business environment for financial services, where digital finance products would meet the needs of individuals and small businesses in ways that are superior to the current traditional system[15].

15 McKinsey (2016)

Internal and external controls

Usually, financial institutions that want to take in deposits from clients are submitted to external supervision and regulation by public authorities. Nevertheless, regulators of financial institutions are often reluctant to control deposit-taking MFIs, because these regulators have limited resources to do so and they do not necessarily have a sufficient knowledge of the microfinance sector and its peculiarities. Hence, where external supervision is ineffective or not compulsory, the MFIs should develop efficient internal control mechanisms conducted by an internal control or supervision unit. Internal controls should be combined with the services of an external competent auditor. Moreover, an efficient and adapted MIS (Management Information System) can help detect problems quickly.

Saving products offered by MFIs serve as a low-cost source of funding and are a common practice in low-income countries. Most governments only allow banks to offer micro savings products and prohibit other MFIs from raising deposits. The potential pitfall of these deposit products is that MFIs may fail to provide instantaneous liquidity. In India, the self-help group (SHG) model is primarily built on the mobilisation of savings (box 5). SHG members borrow funds from banks against these deposits[16].

Box 5

The SHG-Bank Linkage model

The SHG-Bank Linkage model was pioneered by the National Bank for Agriculture and Rural Development in India in 1992. Under this model, women in a village are encouraged to form a self-help group (SHG) and members of the group regularly contribute small savings to the group. An SHG is a group of about 15–20 people from a homogeneous class who join together to address common issues. These savings which form an ever-growing nucleus are lent by the group to members and are later supplemented by loans provided by banks for income-generating activities and for sustainable livelihood promotion. Banks have been providing loans to SHGs in certain multiples of the accumulated savings of the SHGs. Loans are given without any collateral and at interest rates decided by banks. Banks are comfortable lending money to the groups as the members have already achieved some financial discipline through their thrift and internal lending activities. The peer pressure in the group ensures timely repayment and becomes social collateral for the bank loans. This model accounts for about 58% of the outstanding loan portfolio of the microfinance sector.

Diversified offer

Although an MFI may start offering one particular savings product for a pilot phase, it will bring in higher volumes of deposit when offering a variety of services. It is beneficial to offer a choice of services, ranging from very liquid products to time deposits. Minimum balance requirements must be kept low to attract low-income clients. The various uses and needs of savings services by different groups of people should be addressed (see chapter 3).

2.2 Savings compared to other sources of funds

The structure of funds differs between financial institutions, according to their type. Commercial banks, savings and credit cooperatives, as well as self-reliant village banks, generate a large part of their funds by mobilising deposits. Donor-driven NGOs however are mainly funded through grants and soft loans, and less through commercial loans or equity. While grants and soft loans might be an effective way to start operations, they do not form a stable source of funding in the long run. Hence, when institutions grow, they should seek more stable and long-term solutions, such as voluntary savings and equity.

Savings can be divided into three types: **compulsory savings**, **voluntary savings** (sight deposits) and **lump sum voluntary deposits** (time deposits).

The first category is linked to credit services and used as collateral. Although compulsory savings help to educate households to some extent in monetary saving, they increase the effective cost of borrowing for the client.

Small voluntary deposits allow the MFI to increase its outreach and depth. Very poor households are best served with accessible, flexible and very liquid savings facilities. Experience shows that in a stable economic and political environment, small voluntary savings can mobilise large and stable amounts of funds for financial institutions. Although an institution's administrative costs to mobilise monetary savings are higher than for any other source of funds, the financial costs of this service are very low.

16 Jayadev (2012)

Lump sum voluntary deposits (time deposits) can mobilise considerable amounts of money from large individual or institutional depositors. The comparative advantage of this service is its low administrative cost. But on the other hand, financial costs are high because clients who save larger amounts for the longer term also look for a relatively high interest rate.

2.3 Consequences for the financial institution

On the positive side, savings mobilisation allows the institution to become more independent from donor funds. Moreover, clients' feeling of ownership for the institution is increased, which ensures a better control from their part on the management, especially for community-based organisations. Because some of the funds handed out as credits come from the community (hot money) rather than from donors or commercial lenders (cold money), the borrowers may be more careful with the money and repayment rates should be kept accordingly high. Savings services considerably reduce the costs for gathering information on clients' payment habits and client scoring.

On the negative side, we have seen above that savings services bear high administrative costs, particularly if clients save frequently and in small amounts. Nevertheless, experience from deposit-taking MFIs shows that administrative costs of small deposits can be kept low in different ways:

- Savings services should have a simple design and can be administered with a computerised system/mobile account.
- Moreover, the MFI can keep costs low by using lean structures and a small number of professional staff.
- Costs and profits should be reported in a transparent way and the performance of the portfolio should be kept high. Staff incentives can contribute to these goals.
- Outsourcing and networking should be used in order to reduce costs of information and training.
- Economies of scale, i.e. reaching a maximum of clients by offering them both savings and borrowing services, keep costs low.

3. Product development, diversification and innovation

3.1 Critical success factors before implementing savings services

Before starting to offer savings and deposit services to its clients, an MFI should fulfil a certain number of conditions (see chapter 2), i.e. possess strong management, tend towards financial viability, have a strong capital base, reflect an image of confidence among the public, and have internal and external control mechanisms at its disposal. If the institution is not ready yet and/or is not allowed to take in deposits, it can implement some kind of intermediation mechanism, possibly supported by a development project implementing a systemic approach.

Clients who have lost confidence in financial institutions because they could not withdraw their savings when needed are difficult to win back. Hence, the MFI should introduce the new service in a professional and stepwise manner.

Box 6

Insights from Graham A.N Wright

Group Managing Director, MicroSave, during the SDC Savings & Credit forum held in September 2017

"Forty years ago, it was all about microcredits: delivering and recovering them. About ten years later, the realisation that savings were important became clearer and clearer. Even the term changed to "microfinance". But very few institutions really managed to deliver a full range of financial services to their clients. Because poor people save in very small amounts, so the transaction costs were extraordinarily high whether for an MFI or for a bank. When those costs are too high not much attention is paid to it, and so the focus remained on credit."

First, the MFI should conduct market studies to analyse potential demand from their existing clients. They should also analyse the services provided by other financial institutions in their region, and/or other financial institutions who target the same type of clients. Important aspects to be analysed are the service delivery structure, competitive characteristics of the service (prices, terms, minimum amounts, variety, etc.), interest rates in different institutions, and profile of clients who demand the service. Second, the institution should perform field pilot testing, adjustments and retesting on a small scale. Third, many financial institutions introduce innovative marketing strategies, such as spreading information via social media, patronage of social events and networking with local authorities and community leaders, to promote the service on a large scale. A guide to designing savings products for financial institutions has been developed by MicroSave and is publicly available (2010).[17]

3.2 Designing adapted products

As seen in chapter 1, households save for diverse motives, in diverse and multiple (formal and informal) ways and with different time horizons.

Women are known to spend relatively more money than men on health and education expenses for the family. Some women who want to put aside regular small amounts of money may need to hide their savings from their husbands until they withdraw the money to pay school fees or for medical care. Men usually invest all their savings in the business, buying cattle, equipment, inputs, etc. They may save in order to accumulate lump sums. For example, mechanisms that combine savings by the client, previous to a leasing from the financial institution, could facilitate investment in productive assets.

Because needs are so heterogeneous, savings services should balance liquidity and return. Either products are very liquid[18] and accessible at any time, but pay low or no interest, or they are blocked for a pre-determined period, but pay higher interest. Very liquid saving products will serve the purpose of responding to poor people's emergency expenses, while illiquid savings will force them to apply discipline, and be used to plan the purchase of a house or land. In between, savings will serve to respond to life-cycle expenses (birth, wedding, death, etc.), which can be planned with more or less certainty. Poor people look for a mix of accessibility, security, discipline and discretion.

MFIs offer a mix of savings products with different levels of liquidity and return; individual and voluntary savings are the most common. Minimum balances to open an account are kept low. Interest rates are adapted to the amount saved

17 See also the product development tools on www.microsave-africa.com.
18 The more liquid an asset, the quicker it can be transformed into cash. A current account is very liquid, because you can withdraw money whenever you want. Time deposits are less liquid, as you can only withdraw money at the term.

(no interest paid below a certain balance, or interest rate increasing with balance). The offer ranges from simply designed products to complex market-segmented products. Trademarks, product labels and standardised logos are important to give products recognisable and memorable names associated with an image of quality.

The SMART Campaign:

In addition to protecting their borrowing customers, MFIs must also protect their savers. Consumer protection for clients at the bottom of the pyramid is recognised as a key component of achieving full financial inclusion.

The "Smart Campaign" is a global effort to unite financial leaders around a common goal: to keep clients as the driving force of the industry.

When microfinance institutions implement the Campaign's Client Protection Principles (see box 7) into their operations, they build strong, lasting relationships with clients, increase client retention, and reduce financial risk.[19]

Box 7

Client Protection Principles:

- Appropriate product design and delivery
- Prevention of over-indebtedness
- Transparency
- Responsible pricing
- Fair and respectful treatment of clients
- Privacy of client data
- Mechanisms for complaint resolution

19 https://www.smartcampaign.org/about/campaign-mission-a-goals

3.3 Overview of existing basic offer

As mentioned above, MFIs should offer their clients a mix of savings products. The ideal combination, which is provided by most savings and credit cooperatives and commercial banks around the world includes:

- **Current account or sight deposit**: bears very low or no interest, is very flexible, requires very low opening balance, usually gives access to payment services (cheques, credit card, etc.).
- **Savings account**: higher interest rate than current account but number of withdrawals limited to a few times per month; very low opening balance. This is the most widely known and used type of account. Often, the interest rate increases proportionally with the balance in the account, and sometimes, no interest rate is paid at all under a certain balance.
- **Time deposit or term deposit**: high interest rate, relatively high minimum opening balance, withdrawal only at term. Mainly used by richer households who want to save for a longer-term goal. In most cases, these long-term contractual savings can be withdrawn before term if an emergency occurs, but clients lose part or all of the accumulated interest.
- **Mobile savings account**: some FIs work with mobile network operators to offer this service which is discussed further in the next chapter 3.4

3.4 Diversification and innovation

Many financial institutions have diversified their offer in order to address special client segments (children, the elderly, clubs and associations) or special purposes (pilgrimage, education, housing, retirement, marriage, emergencies, etc.). Many products have been inspired from traditional informal savings systems such as ROSCAs, tontines, Munno Mukabi, etc.

Post offices can play a leading role in advancing financial inclusion given their widespread presence in rural and poor areas. A study from the World Bank carried out in 2013[20] found that post offices are relatively more likely than traditional financial institutions to provide saving accounts to individuals who are most likely to be from financially vulnerable groups, such as the poor, the less educated, and those out of the labour force.

Some countries have decided to convert their postal savings banks into fully-fledged post banks. Post offices in other countries, such as Brazil and Indonesia, have chosen to partner with existing financial institutions to offer accounts and savings and credit products. In Brazil more than 10 million bank accounts were opened between 2002 and 2011 after the post office established Banco Postal in partnership with an existing financial institution[21].

20 Word Bank (2013)

Box 8

E-Tontine for La Poste du Bénin
(SCBF, 2017)

La Poste savings bank is a large institution with a huge impact on financial inclusion. The SCBF's project was to use technology to increase formal micro-savings at La Poste du Bénin by digitising and building bridges with traditional savings practices known as 'tontines'. To do so, E-Savings set itself the task of developing a special platform tailored to the particular characteristics of Benin and La Poste.
The team also supported La Poste with the launch and growth of this product, known as 'e-tontine'.
Activities covered key phases over a 24-month period: i) the design and development of the 'e-tontine savings' product; ii) product launch; and iii) the monitoring, evaluation and improvement phase.
One of the main planned output was to have an Android e-tontine app adapted to local conditions, to be used by field officers in Benin to open accounts remotely for female market traders directly from their stalls, and to track deposit collections by field officers.

From the pilot to the end of the project, overall client satisfaction was good, based on a qualitative study which revealed, among other findings, the following:

- The reason for opening an e-tontine account was the perceived safety of their funds with the La Poste savings bank, which is state-owned and thus enjoys considerable trust. The security of funds in a market that suffers from constant fraud by both established and informal financial providers was a key value proposition.
- Clients started with low amounts to test the product, and slowly increased the amount saved daily, as they built trust in the product and field officer.

The digital revolution:

The adoption of mobile technology to provide financial services has become instrumental to fostering financial inclusion. Mobile financial services represent a cost-efficient solution, by providing a pathway to formal financial access in areas that physical banks cannot reach.

As described throughout the document, poor households often face barriers to accessing a safe place to save, owing to distance, time constraints, low financial literacy etc., and are forced to save in less secure and reliable ways (i.e. at home in a drawer, under a mattress, buying jewellery etc.). The introduction of digital financial services can address these barriers by being accessible, convenient, and by offering privacy and security through channels such as mobile phones. Digital savings accounts can enable poor households to save as frequently as possible, in small amounts.

Digital savings can also improve trust and build financial literacy, before opening the door to other services such as credits.

The "Partnership for Finance in a Digital Africa"[22] has developed a Digital Finance Evidence Gap Map, including a matrix containing impact studies on various digital finance product categories. Part of the studies analysed digital savings products in different markets with diverse client groups and design and delivery mechanisms. The table[23] of products on page 16 provides an example of the diversity of digital savings products:

Taking an example from the list, M-Pawa in Tanzania is a digital savings product, more specifically an interest-bearing mobile money savings account that also provides micro loans conditional on savings performance. Additionally, it partnered with Arifu, a mobile learning platform, to improve savings and borrowing behaviours among smallholder farmers.

Indeed, much innovation in digital financial services to date has been driven by Mobile Network Operators (MNO) but focused on payments rather than other financial services such as savings, credit or insurance. Digital savings is still nascent, and success has been uneven. However, in markets where mobile money has reached critical mass, there is evidence of users storing some savings in electronic wallets as seen in the table above, demonstrating latent demand for a safe and mobile place to save.

Basic mobile phones represent the most common technological interface through which users access their accounts. Most accounts are accessible through a mix of a banking institution's own mobile-banking platform and through a partner

21 Klapper (2013)
22 Finance Digital Africa (2018)

23 Finance Digital Africa (2018)

Product name	Country	Design and delivery mechanisms			
Roshan M-Pasandaz	AFGHANISTAN	Mobile money	Default savings contribution	Matching incentives	Financial literacy or customer training
Carteira Móvel mKesh	MOZAMBIQUE	Mobile money	Financial literacy or customer training	Non-financial interest	
SimpliBank mobile money (EKO)	INDIA	Mobile money	Mobile banking	Pricing	
Not specified	SRI LANKA	Mobile money	Mobile banking	Pricing	
Vodacom M-Pawa	TANZANIA	Mobile money	Two-way SMS	Mobile learning platform	
Vodacom M-Pawa	TANZANIA	Mobile money	Mobile learning platform	Timing of SMS reminders	Financial literacy or customer training
Safaricom mobile bank account and Safaricom locked saving account	KENYA	Mobile banking	Timing of SMS reminders	Locked savings account	Financial literacy or customer training
Family Bank of Kenya Mwananchi Account	KENYA	ATM cards	Pricing		
Not specified	PHILIPPINES	Mobile banking	Availability of agents		
Bancolombia	COLOMBIA	Mobile banking	Two-way SMS		
Opportunity International Bank of Malawi	MALAWI	Roving agents	Roving ATM		
National Savings Bank	SRI LANKA	Roving agents	Wireless PoS		

MNO's mobile-money service. Access via an MNO's mobile-money service is most common in Sub-Saharan Africa, where the services of Safaricom, Vodacom, MTN, and Airtel all link to digital savings accounts. In Asia, where regulations have often blocked MNOs from directly offering digital financial services, it is far more common for banks to utilise their own mobile-money applications.

Even though some challenges remain, such as poor network connection and women being less likely to own a mobile phone than men, mobile money providers are increasingly partnering with financial institutions to offer savings accounts that leverage mobile money's infrastructure and market reach. According to GSMA's 2014[24] State of the Industry report, as of December 2014, over 10 million mobile savings accounts had been created through 26 bank-MNO partnerships in 22 countries. This further supports the need for a wide range of players and demonstrates the potential scale that can be reached through digital savings services.

The number of individual mobile subscribers has grown dramatically in the last decade. In Sub-Saharan Africa at the end of 2018, there were 456 million unique mobile subscribers in Sub-Saharan Africa – an increase of 20 million over the previous year and representing a subscriber penetration rate of 44%[25]. Additionally, the spread of mobile money accounts has created new opportunities to better serve women, poor people, and other groups traditionally excluded from the formal financial system. Indeed, there are some early signs that mobile money accounts might be helping to close the gender gap.[26]

The digital transformation of MFIs[27]

Still recent, the digital transformation of MFIs is not yet widely spread but represents the future for financial inclusion, as it provides a unique opportunity to raise deposits in a more cost-effective manner than financial actors have so far been able to do. Digital technology and data allow financial service providers to more effectively serve the financially excluded with a "customer-centric" approach while reducing operational risks, developing new business models with more partnerships and collaboration with various actors. However, particular attention should be paid to building trust and ensuring consumer protection.

24 GSMA (2014)

25 GSMA (2019)
26 Global Findex (2017)
27 Sitorus (2017)

Box 9

Airtel Weza: Digitising Rural Savings Groups in Uganda

(Grameen Foundation, 2015)

Almost a third of Ugandans save money through informal village savings and loan groups. Group members regularly save a fixed amount – sometimes as little as 20 cents a week – and store their collective savings in a metal box secured with three locks.

But the box is subject to theft and earns no interest. Working with Airtel Uganda, a mobile communications company, Grameen Foundation developed Airtel Weza, a digital service that allows savings groups to store their cash on a phone as mobile money.

To increase group-level security, Airtel Weza requires three members of each group to enter individual pin numbers to approve cash withdrawals. They also receive SMS confirmation messages for each transaction.

More than 200 groups are participating in the project, which was launched in April 2014. Users report increased security and transparency – meaning less theft or misuse of funds. They are also partnering with the global non-profit FHI 360 to expand the number of Airtel agents able to serve savings groups in remote areas.

The 2016 Digital Impact Awards Africa recognised Airtel Weza as the Best Financial Inclusion Initiative in Uganda.

4. Legal and economic framework for savings mobilisation

4.1 Macroeconomic and political framework

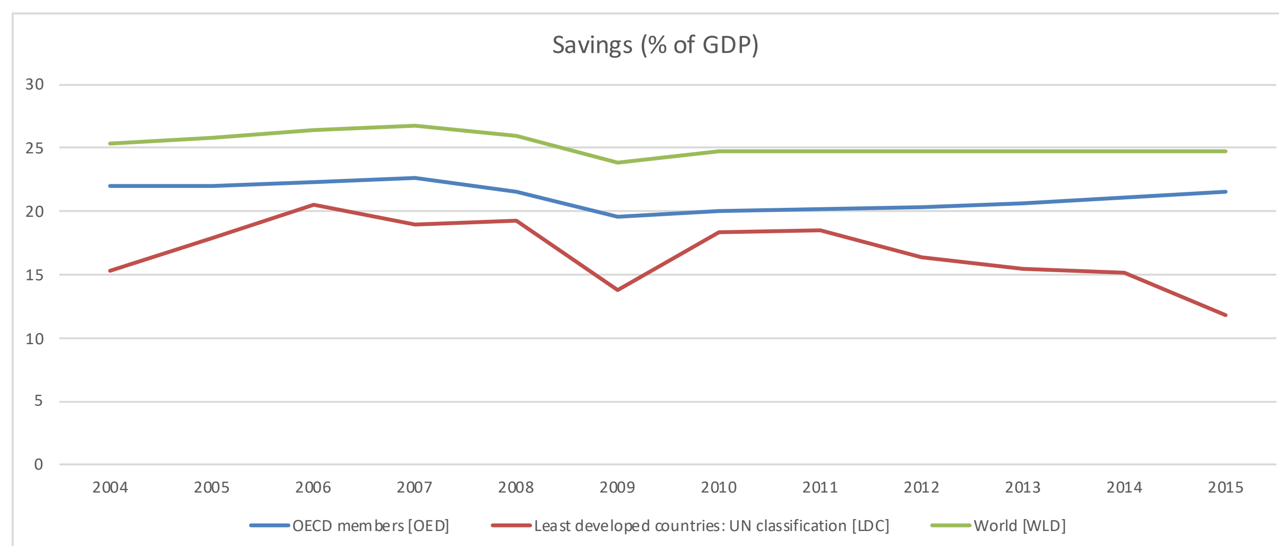
From the customer's point of view, a stable macroeconomic and political situation is crucial in fostering its confidence in financial institutions. In a highly inflationary context, savers will not be motivated to deposit cash in an institution. They may rely on in-kind savings, whose real value is maintained, and which usually yield higher returns. Hyperinflation, and more generally macroeconomic instability, have triggered many financial crises in the world. Such crises have negative impacts on savings mobilisation, as seen for example in the 2008 financial crisis (see graph below). Exchange rate fluctuations can also affect financial institutions, and thus the safety of deposits. When exchange rate risk is a threat to the financial stability of the country, MFIs can protect themselves by avoiding taking credits on external financial markets and by placing their liquidities in a strong currency. Hence, it would not be appropriate to promote savings mobilisation in MFIs during macroeconomic or political turmoil. But macroeconomic crises and hyperinflation are temporary situations, and the promotion of monetary savings can be postponed until the economic and political situations are more settled.

The possibility to intermediate monetary resources between different regions in a country is an important factor when talking about savings mobilisation. MFIs should be integrated within a network and/or linked to the financial system in order to facilitate that intermediation. Institutions will also benefit, in the sense that they will be able to allocate their liquidities more efficiently between regions with different needs in terms of savings and investment. The overall economy of the country will gain from a more efficient distribution of resources.

4.2 Transformation of MFIs into deposit-taking institutions

As stated previously MFIs have been focusing on credits and much less on savings, mainly due to regulations, as taking deposits means that certain requirements have to be considered, for both the microfinance sector and the supervisory authority.

For an MFI, requirements start in governance and in management – including technical skills and experience. There is a need for a qualified team handling deposit-taking activities and risk management associated with loan portfolios, which is not often the case. But this is highly relevant and important as this directly affects depositors. Additionally, a sufficient and robust MIS is also needed, next to a strong internal audit system. For MFIs to meet those requirements, regulatory and supervisory authority should have adequate instructions and capabilities to monitor the sector with a prudential approach. Deposit-taking MFIs which mobilise deposits should have specific permission from the central bank.



Source: Helvetas, based on Global Findex 2017

Graph 2: The impact of the 2008 financial crisis on savings

Box 10

Transformation examples
(Laurer, 2008)

A significant proportion of MFIs in developing countries operate either as non-governmental organisations (NGOs) or as projects run by international NGOs. Some of these NGO MFIs plan to "transform" into a for-profit company – often a regulated financial institution.

The first microfinance transformation on record occurred in 1992, when the Bolivian NGO Promoción y Desarrollo de la Microempresea (PRODEM) created the commercial bank Banco Solidario, S.A., or BancoSol. PRODEM transferred only its already profitable branches to BancoSol.

The two institutions agreed that, on an ongoing basis, the NGO would develop new markets and transfer its new branches and clients to BancoSol once they became profitable. However, the initial arrangement resulted in a falling out between the two institutions. PRODEM developed a rural portfolio but transferred it to a finance company (Prodem FFP) that the NGO established in 1999.

Today, Prodem FFP is the third largest MFI in Bolivia, serving more than 250,000 clients through 90 rural and urban branches. Currently, more than 600 Prodem employees are also shareholders.

In contrast, the Philippine NGO CARD has an ongoing arrangement with CARD Bank (established in 1997, 11 years after the establishment of the NGO). Since the transformation, the NGO has continued to open new branches. When a branch is financially sustainable, it is absorbed (subject to regulatory approval) by CARD Bank.

The reality shows that financial sector regulations put strict conditions on MFIs that want to take in deposits. The MFI has to prove that it invests deposits in a safe manner. However, micro-loans are usually unsecured loans, which regulators normally consider high risk. This is the main reason why in many low-income countries MFIs find it difficult to get a deposit-taking license.

4.3 Legal framework

Why regulate and supervise deposit-taking institutions?

The main objectives of supervising financial institutions are to protect savers from losing their money and the financial system from collapsing. If depositors learn that their bank is in trouble, they start to withdraw their money and bank runs may occur, even with healthy institutions. Apart from some exceptions, microfinance institutions do not represent a significant enough part of national financial systems to be a threat in that sense. Nevertheless, clients' savings have to be protected.

Regulation and supervision of financial institutions should therefore contribute to professional management, transparency of operations and the protection of customers against abusive practices. Particularly in the context of financial services provided to low-income households, preventive measures can help avoid over-indebtedness and excessive interest rates and fees. At the same time, regulatory authorities should avoid creating a distortion of competition[28] between different financial intermediaries and avoid interfering in management decisions.

What kind of supervision and regulation?

A universal rule for optimal supervision and regulation of MFIs cannot be established. Those in charge of designing a system of supervision and regulation for MFIs in a specific country should first analyse the existing banking supervision and regulation system, then investigate how it can be modified and adapted, in order to take into account the particularities of MFIs (portfolio risk, size of operations, administrative costs, ownership structure, etc.). "Developing a new regulatory regime for microfinance takes a great deal of analysis, consultation, and negotiation; the costs of the process can exceed the benefits unless a critical mass of qualifying institutions can be expected".[29] Hence, a country should host a certain number of institutions which have the capacity to fulfil regulatory requirements and the willingness to offer savings services to

28 For example, if the state imposes an upper limit on lending interest rates, it might discriminate against those "particular" financial institutions, which incur higher administrative costs because they attend clients with low and insecure incomes.
29 IMF (2005).

Box 11

Why Prudential Regulation for deposit-taking MFIs?

(Aljundi, 2017)

The central bank applies prudential regulation when it is specifically aimed at protecting the financial system as a whole as well as protecting the safety of small deposits in individual institutions. When a deposit-taking MFI becomes insolvent, it cannot repay its depositors, and – if it is a large institution – its failure could undermine public confidence which could lead the banking system to face the risk of a run on deposits. Therefore, prudential regulation involves the government in overseeing the financial soundness of the regulated institutions: such regulation aims to ensure that licensed institutions remain solvent or stop collecting deposits if they become insolvent.

The objective of prudential regulation is to:

› 1- Protect the country's financial system by preventing the failure of one institution from leading to the failure of others,
› 2- Protect small depositors who are not well positioned to monitor the institution's financial soundness themselves.

low-income clients[30] before starting to invest in a regulatory framework adapted to MFIs.

There is a clear distinction between prudential and non-prudential regulations. Prudential regulation is aimed at protecting the financial market and its clients, in particular their savings, while non-prudential regulation is meant to enable financial institutions to operate legally.[31] The authorities in charge should "… avoid using burdensome prudential regulation for non-prudential purposes – that is, purposes other than protecting depositors' safety and the soundness of the financial sector as a whole".[32]

The table above takes into account the prudential standards that are usually applied to financial institutions and that should be adapted to the particular conditions of deposit-taking MFIs.[33]

Even when prudential standards are followed, financial institutions might get in trouble and may need to be saved from collapse. The lender of last resort (LLR) and deposit insurance are the usual protective regulatory instruments. In most countries, the Central Bank plays the role of the LLR, through providing solvent financial institutions with liquidity during temporary liquidity crisis. The LLR protects the financial institutions from collapsing. Ideally, it should only help solvent institutions, but given the asymmetry of information and political pressure, the LLR may also help insolvent banks who occupy a key position in the financial market.

While the LLR directly protects the financial institution (thus indirectly depositors), deposit insurance provides direct protection to depositors. On the one hand, this measure is very effective in avoiding bank runs, but on the other hand, depositors and institutions are less interested in monitoring their operations, given that in case of bankruptcy, they get full protection.

Which institutions should be supervised?

If the only aim of regulation is to protect deposits, the supervisory authorities should only supervise those MFIs which offer voluntary savings services to their customers. MFIs that are funded by other sources than savings (grants and concessional loans from donors, commercial loans, etc.) do not need prudential regulation as failure will not affect their customer base. Nevertheless, they might be willing to undergo external supervision in order to give a signal of their financial soundness to prospective investors. It might also give them the possibility to access commercial funds at lower interest rates.

In many places, member-based savings and credit cooperatives are supervised by a government agency, which is in charge of the supervision of all kind of cooperatives and not specialised in savings and credit services. Effective supervision of big cooperatives is beyond the scope of their members and of a non-specialised government agency. Bigger savings and credit cooperatives should thus be supervised by a specialised financial authority.

MFIs demanding cash collateral from their debtors (forced savings) which is often deposited at a third party (commercial bank), may be authorised to operate without supervision. In such institutions, customers usually owe more to the institution than the institution to them.

30 See chapter 2.
31 Non-prudential regulatory issues are: permission to lend, protection of borrowers against abusive lending, fraud and financial crime prevention, credit information services, interest rate caps, limitations on ownership, management and capital structure, tax and accounting treatment, legal form (for detailed information, see CGAP, 2012).
32 CGAP (2012).
33 For detailed regulation, see CGAP (2012).

In any case, authorities should analyse the supervision needs for each type of institution present in their country, given that supervision is extremely costly and supervisors often have to be trained on special MFI issues. Small community-based MFIs, which take in deposits from their customers or members, may be authorised to operate without supervision. But in such a case, customers and members should be fully informed about the fact that the institution is not controlled by any financial authority, and that their savings are not insured.

Regulations and supervision around mobile savings accounts is still unclear. In countries with non-enabling regulatory environments, mobile money providers face challenges in launching and scaling the full breadth of mobile financial services. Today, regulation allows both banks and non-banks to provide mobile money services in 54 out of 90 markets where mobile financial services are available; with 33 countries having national financial inclusion strategies or financial sector strategies addressing financial inclusion[34]. In countries with high mobile money usage, mobile money providers are partnering with other financial institutions to offer other formal financial services. However, despite the great contribution by the mobile money industry towards changing the landscape of financial inclusion as described earlier, there are markets where regulatory barriers make it burdensome for the industry to launch and scale services.

Who supervises and under which law?

Microfinance institutions might be supervised by three different kinds of institution:

→ Within the existing supervisory authority,
→ By a self-regulatory and self-supervisory body,
→ By delegated supervision.

They may be regulated and supervised in three different ways:

→ Regulation by banking law,
→ Regulation by a special MFI law,
→ Self-regulation.

The supervision of microfinance institutions can be located within the existing supervisory authority for banks, with the advantage of larger financial resources and the credibility of regulation (with a few exceptions). The question is whether to create a separate department for MFIs within a given country. Another question is whether MFIs (or MNOs) should be regulated under a special law or under the existing banking law. Very often, MFIs have no choice but to adopt the conditions of commercial banks, because authorities do not want to set up a special law for MFIs. In such cases, MFIs might be able to negotiate exemptions that take into account their specific features (administrative costs, equity requirements, risk structure, different types of collateral, etc.).

Box 12

Regulatory Sandboxes in Developing Countries

(Wechsler, Perlman, Gurung, 2018)

"Sandbox" in the financial industry refers to a mechanism for developing regulation that keeps up with the fast pace of digital innovation. In other words, it means testing ground for new business models that are not supervised by the regulator.

"Regulators must be able to identify, understand, adapt and respond to these disruptive new products and services in a timely and appropriate fashion. Existing regulations crafted for outdated physical models may be incompatible with or difficult to apply to modern digital solutions. Regulatory uncertainty and incompatibility can hinder and discourage investment in innovation by increasing innovator costs, risks and efforts. In response, an increasing number of jurisdictions are recognising regulatory sandboxes as a flexible framework to facilitate advancement of potentially beneficial innovation (which introduces risk) while ensuring the safety of consumers and stability of the marketplace [...] Regulatory sandboxes primarily appear in developed countries and emerging economies. The number of 'developing countries' implementing regulatory sandboxes has recently increased and, in some cases, they are being used to directly advance financial inclusion. Regulatory sandboxes can potentially impact on financial inclusion objectives by safely relaxing some regulatory barriers and encouraging innovation and implementation of FinTech products and services relevant to DFS – such as the development of electronic Know Your Customer (KYC and eKYC) solutions for customer identification and verification, biometric identification systems and remittance services."

34 GSMA (2017)

On the one hand, regulation by a special MFI law presupposes the interest from the legislator and the capability of the competent authority (both financial and know-how). For example, since 2011 Tunisia has had its own Microfinance Supervisory Authority. On the other hand, MFIs should be willing to submit themselves to statutory regulation. The process of creating a specific law can be quite long, given that financial authorities have to learn about microfinance and that MFIs have to learn about regulation and supervision. The regulation should also allow a fluid graduation to a commercial bank.

MFIs can decide to create their own system of self-regulation without recourse to the government. The advantage of such a system is that institutions have more freedom to innovate and take account of their specific needs in terms of supervision. MFIs submitted to self-regulation can decide to adopt a code of conduct. They may want to be self-regulated in order to issue a signal for potential investors and create confidence for savers (provided they are authorised to take in deposits). However, experience shows that self-regulation of financial intermediaries in developing countries has rarely proven to be effective in protecting the soundness of the self-regulated institutions. Additionally, no study has investigated whether regulated MFIs actually achieve better financial results and reach more poor clients than non-regulated MFIs[35].

Finally, the financial legal authorities can delegate the supervision to an outside body over which they keep control. This private independent body should be entrusted with enough authority to actually apply sanctions. Alternatively, supervision can be done by external auditing firms specialised in handling MFIs. A competent authority should revise the audits in order for that alternative to be effective.

A combination of self-regulation and delegated supervision by an accredited auditor can represent an interesting alternative for MFIs that wish to become regulated, when financial authorities have neither the capacity nor the political will to do it themselves. Nevertheless, in the mid-term, an integrated solution, together with the supervision of banks, will be preferable.

35 Hartarska (2007)

Conclusion

Savings represent a safety net against negative shocks, which threaten the survival of the household, and help to decrease the vulnerability of the poor. In that sense, savings replace missing, or deficient, health and employment insurance. The security, the liquidity and the accessibility of monetary savings are the determinant criteria to decide where and how to save, especially by poor people who cannot afford risks. Low-income households save in various forms, for reasons and purposes specific to their needs, and entrust their monetary savings to different persons or places (neighbour, financial institution, under the mattress, etc.). Saving in a financial institution or an informal system may create a certain degree of discipline. It helps people to better manage their liquidities provided they have financial literacy skills.

Needs and demands for savings services are very diverse among low-income households, addressing saving for short-term and long-term purposes. Financial institutions which seek to respond to existing diverse demands as well as to capture significant amounts of deposits, should have a diversified portfolio of savings products. The mix of products should balance liquidity and returns. Poor clients need to have quick access to their savings and are usually not too concerned about returns, as they keep low balances.

When introducing savings services, institutions should proceed stepwise and professionally, analysing the existing offer and the potential demands of their clients. Security and accessibility of deposits are key factors to attract low-income households to a savings institution. Prior investments are required in a) an efficient management information system (MIS); b) transparent internal control mechanisms and c) staff training.

In periods of high inflation and political turmoil, savings mobilisation should not be promoted. Those institutions which are already engaged in savings mobilisation should have strong management to overcome inflationary periods. MFIs that take in voluntary savings from their clients should undergo supervision and regulation, in order to protect clients' deposits. If competent authorities do not have the capability and political will to establish a specific regulatory framework for MFIs, alternatives such as self-regulation and delegated supervision are possible. They should nevertheless lead to integrated supervision from the financial authorities in a predictable time horizon.

Donors can have several roles in the promotion of savings services for the poor. First, they can influence the policy dialogue for the creation of a legal and regulatory framework adapted to MFIs. Second, they can encourage MFIs to offer savings services by transmitting a clear message on their support in the long run to foster financial inclusion. Additionally, donors can support those microfinance institutions which are transforming themselves into deposit takers. They may fund technical assistance to MFIs in order to introduce and develop new savings services adapted to the needs of the clients.

Finally, digital technology changes the financial inclusion landscape on a fast track. Financial services providers and mobile network operators have proved the concept of digital payment, saving and credit. It is reaching excluded communities, it is cost-saving for both parties and accessible at any time of the day. With the disrupting technological innovations, it has become even more important to "get to know our digital consumers better and offer them the tools – such as linked savings accounts – to become better borrowers and manage their money across diverse products"[36].

36 Mazer, Ravichandar, Dyer, (2017)

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