SAVINGS COUNT

Trends in access, use and the ecosystem of savings in sub-Saharan Africa.

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This briefing paper contains key findings from the first in a series of three biennial reports looking at savings by low-income individuals in Sub-Saharan Africa. It is a product of the Mastercard Foundation Savings Learning Lab. Based on a detailed review of current literature and data, the key message of this report is that savings should be promoted more prominently and more explicitly within the broader financial inclusion agenda.

Savings Learning Lab

KEY MESSAGES

Savings are critical for poor people's consumption smoothing, risk management and financing of important life goals such as education and starting a business. Savings are also good for financial service providers' bottom lines and are required for economic growth.

Poor people in Sub-Saharan Africa continue to rely predominantly on informal savings and therefore do not benefit from formal financial services and products. Less than a third of people in the region who saved in 2017 did so through formal financial institutions. While people who use informal savings value them, the arrangements do not offer the benefits of saving at a formal institution, such as security of funds and access to other services. Besides, large numbers of people are not able to save at all (46% according to 2017 Findex data).

Access to formal savings products is growing but many barriers remain. Significant advances have been made in reaching poor people with the use of alternative delivery channels, the rise of digital financial services, the proliferation of linking savings groups to formal finance, and the use of customer-centric approaches. However, providers continue to struggle to serve this population segment with appropriate savings products. They face a number of challenges including high costs of providing services and low profit margins, insufficient understanding of their clients' behaviors, the distance of clients from branches, and product offerings that do not meet client needs.

We need to build the evidence base on what approaches work best for providers to deliver and maintain savings products sustainably. In addition, we need to build the evidence base on what policies and regulation need to be in place to generate an environment that could best facilitate the provision and uptake of savings products.

A SAVER'S STORY

Daphrose has big plans but has been through a difficult struggle. Her parents and the father of her baby abandoned and vilified Daphrose after she became pregnant. While she lived with her family after her son was born, she had no external support or means to provide for her child. She became a beggar.

In 2014 she joined the POWER Africa program. Her savings and access to credit allowed her to buy a sewing machine, then a goat. She used the money from the businesses she established to buy food and clothes for her son. As her businesses expanded she was able to send her deceased sister's four children to school. She wants to continue to build her businesses and build a house on the plot that she won after challenging the local government.

Source: https://power.care.ca/

> "The banks require so many papers to fill in just to open an account. You also find that the buildings themselves are intimidating with those flashy windows. I passed through one bank where you can't be served unless you press a machine for a ticket."

An Ethnographic Study of the Perceptions and Attitudes to Digital Financial Services in Sub-Saharan Africa.

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WHY ARE SAVINGS IMPORTANT?

Extensive research demonstrates that poor people can and do save and that they benefit from savings immensely.[1] This was confirmed in the majority of evidence included in a recent evidence-mapping of savings initiatives conducted by Itad.[2] The evidence points to a range of positive outcomes from savings including increased income, increased ability to smooth consumption, improved resilience and enhanced food security. Savings deposits are also a significant source of capital for financial service providers and mobilizing savings is an important component of domestic financial investments and strongly predictive of future economic growth.[3]

WHY DO POOR PEOPLE SAVE?

Given their unpredictable income, poor people rely on savings to smooth consumption, cope with risk, invest in education and undertake productive activities. Research shows that they are also likely to want to save for long-term reasons, so there are opportunities and potential that can be harnessed. Rates of savings for business-related expenses in Sub-Saharan Africa (SSA) are higher than in other regions demonstrating the importance of savings for entrepreneurs in the region.

WHERE AND HOW DO PEOPLE SAVE?

Savers are a mixed group and use a variety of savings mechanisms depending on their needs. Most poor people who save do so informally and nearly half of people in SSA do not manage to save at all. While informal savings mechanisms are highly valued by users, they tend to offer limited functionality which can lead to lower saving rates and limit the impact savings can have on the savers.

Formal account ownership has increased significantly across the region in the past years. However, this growth in access has not benefited all groups equally. Women, youth and the poorest experience the largest gap in formal account ownership.

> “You cannot keep money at home because you will always be tempted to use it, so Savings and Internal Lending Committee gives you a good way to save. And it is good to save, as it can support further planning”

Male SILC member, Omadira, Uganda.
(Uganda Country Report, EFI Ethnographic Research)

WHAT BARRIERS TO SAVING DO POOR PEOPLE FACE?

Significant barriers to saving still exist for many people in the region; 46% of people responding to the Findex survey did not manage to save at all in the previous year. Demand-side barriers include the perception of having too little money to save, lack of trust in formal providers, intra-household dynamics and social norms and behavioral biases. Supply-side barriers include prohibitive account opening procedures, cost to open and maintain accounts and distance to a service provider.

WHO SERVES THIS MARKET AND HOW?

The low-income savings market is served by a range of providers such as banks, microfinance institutions, savings and credit cooperatives, and mobile money providers. All providers continue to face challenges in reaching this market segment at scale and evidence on how best to deliver savings products sustainably is relatively scarce.

Despite the challenges, several successful approaches have bridged the gap between the demand for and supply of formal savings to low-income clients. These include:

- alternative delivery channels
- mobile technology
- linking savings groups to formal finance
- behavioral interventions to influence the uptake of savings and
- data-driven innovations in service provision.

ENABLING POLICY ENVIRONMENT

Government regulation and financial inclusion policy are key factors in the strength and diversity of the savings sector within a country.

For example, regulators may allow microfinance institutions to mobilize savings by obtaining deposit-taking licenses. Regulators can also enable small balance deposit mobilization by allowing financial service providers to open small balance accounts with tiered know your customer requirements. While progress has been uneven, jurisdictions in SSA employ a range of policy and regulatory initiatives that can help promote savings for low-income clients.

1 Examples of this research include Portfolios of the Poor
2 Mastercard Foundation Savings Learning Lab
3 Revisiting the causal nexus between savings and economic growth in India

SUMMARY AND IMPLICATIONS

The consistent use of financial services can help the world's poorest people better manage risks, step out of poverty and build a better life. There is strong evidence that savings are an essential part of this package, demonstrating a need for savings to be promoted more prominently and more explicitly within the broader financial inclusion agenda. Putting away money for tough times and for financing critical life goals is important for everyone, but particularly for poor people whose financial lives can be unpredictable.[4]

However, while savings rates in SSA are the highest of all developing regions, most people in SSA are saving informally and are not benefiting from formal financial services. The shift toward formal saving is happening slowly because many barriers remain.

Monitoring these trends will enable stakeholders to better understand how far they've come and what gaps remain. The next report will update on the progress in this area.

	SOLID ADVANCES	WORK IS IN PROGRESS	SIGNIFICANT PROGRESS REQUIRED
CLIENTS	**Strong evidence** of impact of savings in key areas such as income, consumption, resilience and food security. **Understanding** of savings behaviors, needs and preferences; how poor people manage their money and what savings mechanisms work best for them. **Demonstrated** latent demand for savings and recognition of persistent gaps between demand and supply overall and especially for women, youth and the poorest.	**Understanding** of intra-household and inter-household dynamics, as well as personal biases and how these affect savings behavior. **Building** the evidence base in areas such as the impact of savings on asset accumulation, business and entrepreneurship.	**Build** the evidence base on the impact of promotion of savings on health and nutrition, education and other social outcomes. **Address** concerns related to the digital divide and consumer protection in the context of digital financial services and use of customer data. **Close** the gap in account ownership for women, youth and the poorest.
INSTITUTIONS	**Investments** in infrastructure such as internal system upgrades and points of sale along with uptake of technological innovations enabled FSPs to extend services to low-income clients and reduce their costs. **Innovative** partnerships between banks, savings groups, fintechs and mobile network operators on channels and products. **New** providers such as non-bank e-money issuers as critical drivers of digital financial services.	**Developing** the business case for serving low-income clients with the recognition that products and services need to meet the needs of this segment while being affordable and convenient. **The use** of human-centered design and behavioral insights for product development.	**Build** the evidence base on provider-level outcomes related to the effectiveness of business models, institutional capacity and governance, and partnership models. **Increase** investments and innovations in reaching women, youth and rural customers. **The use** of traditional and alternative data for product development and improved operations.
ECOSYSTEM	**Widespread adoption** of national financial inclusion strategies, regulation of e-money funds, and widespread regulation allowing the use of agents to facilitate account opening. **Global data** sources provide increasingly reliable demand and supply statistics on the progress of financial inclusion.	**Regulations** supporting simplified customer due diligence requirements, such as tiered KYC and enforcement of customers' ability to receive account information at no cost. **Financial** inclusion measurements placing a focus on use and benefits to customers and how financial services help customers reach their life.	**National** financial inclusion strategies to include commitments that are specific and tailored to the promotion of savings. **Build** the evidence base on how policy and regulation can support the promise of digital finance in closing the access and use gap. **Build** the evidence base on supporting functions, market coordination and informal rules and norms.

4 Five ways universal financial access can help people build a better life, World Bank Blog