A penny saved…

"If you would be wealthy, think of saving as well as getting."

Benjamin Franklin, 1706 to 1790

What will I talk about?

- *Saving:* the verb
- *Savings:* the noun
- Lessons for institution-building

Saving: the verb

The act of saving

Saving: the verb

- "Saving" is holding back from today's consumption.

When we talk about designing institutions that facilitate savings, ***facilitating the act of saving is what we should focus on***

Everyone saves

- To repay debt when yesterday’s consumption was more than yesterday’s income
- To save up for tomorrow, if today's consumption is less than today’s income

Saving can be even more critical when you are poor

- The poor are less likely to have excess income each day for the non-essentials. So they are more likely to need to savings and credit
- Unfortunately for the poor, saving in cash – the most versatile asset – can be inconvenient and risky

Savings habits of the poor in Bangladesh

- Reciprocal lending, money guards, rotating savings and credit groups, consumer credit and NGO *micro-credit* obligations are all popular ways to put what is not consumed today into productive use.

Savings habits of the poor in Bangladesh

- NGO MFIs, despite their outreach, *don't attract much savings.*
  - Withdrawal rules can be inflexible
  - Savings can be looked upon as an expense of borrowing, since the aren't always accessible, and they can be absorbed by the group guarantee

Savings: the noun

(One) <u>result</u> of saving

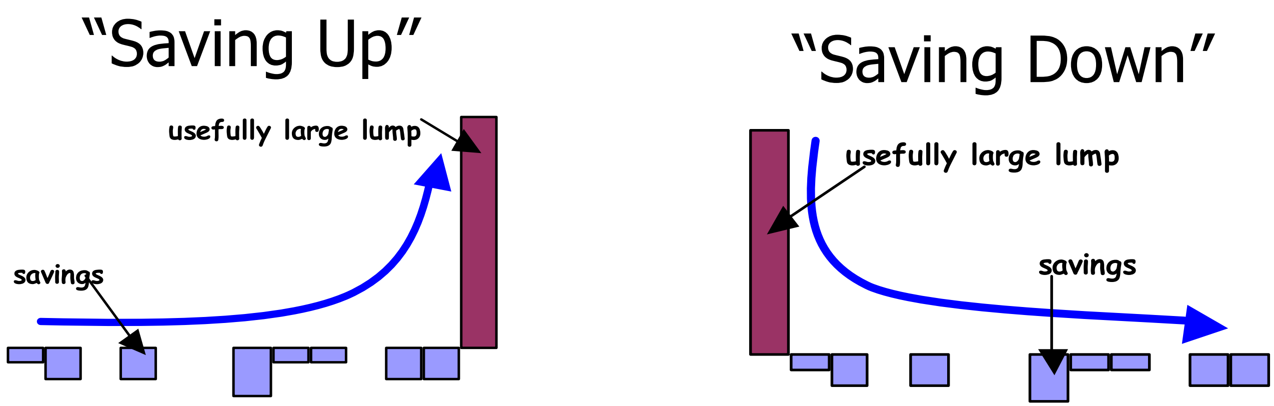
Savings: the noun

- Cash savings is the most versatile asset, especially if it is accessible
- Cash savings is so important that poor people are often willing to pay for it:
  - Money guards
  - Risky informal savings groups

What if I don't have the option to build up savings (the noun)?

- I "save" in other ways:
  - I participate in a savings club with others
  - I take supplies or groceries on credit, then pay it back by saving out of tomorrow's income
  - I take a loan from an MFI and pay it back

But how can taking a loan and paying it back be "saving"?



Stuart Rutherford teaches us that accumulating savings and taking loans are similar, as they are both facilitated by the *act* of saving. The act of saving is what produces the strings of small sums that add up to a useful large sum – *the order in which the act of saving occurs is less important than the act of saving itself*

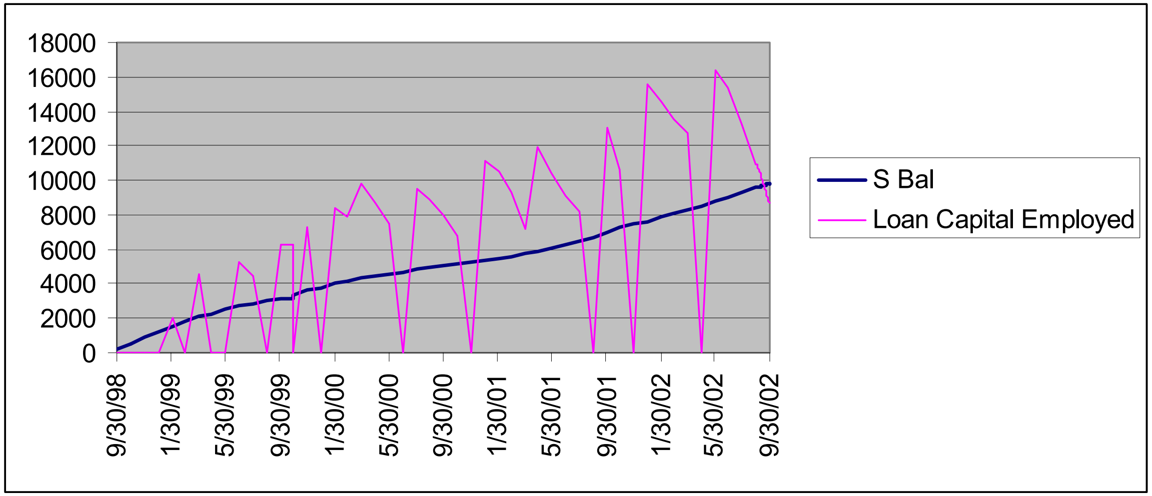
So what’s the difference?

- Accessibility
- Versatility
- Cost

- Credit is a useful, widely available means to ‘save.’ Loan repayments are more readily respected by your family than cash in hand (discipline). But *credit is an expensive way to 'save,’* and it is not always accessible, nor particularly versatile.

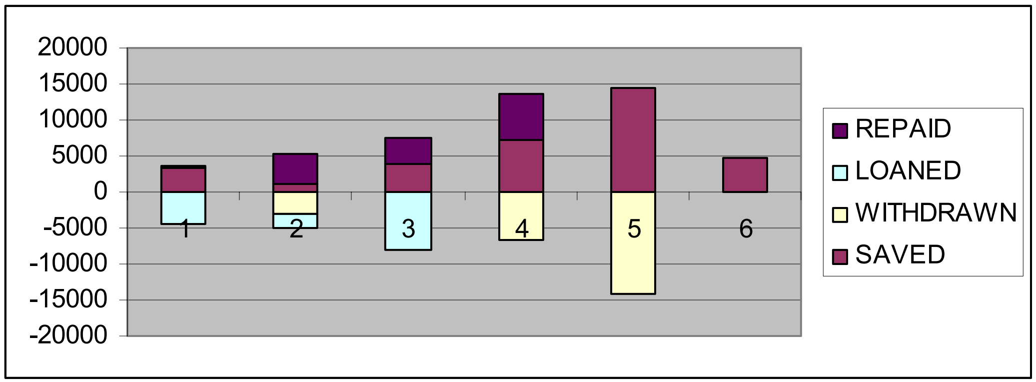
Md. Shahid: 2.5 years

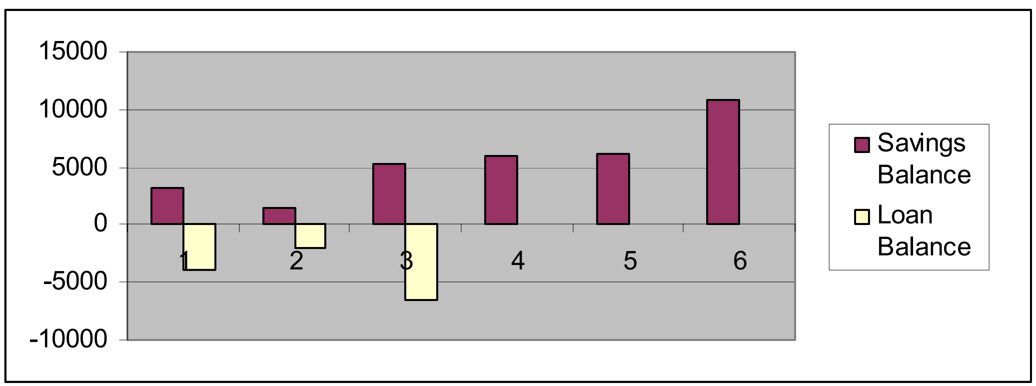
Shahid has taken 15 loans in 30 months, repaying them daily. His most recent loan is for 17,500 taka ($300), toward which he is repaying at 100 taka per day. He has used his loans to finance land and a house in the village. Shahid is "saving down."



Shahid has paid more than 13,000 taka in fees ($230) for this service.

Nasima Begum: Six years





Nasima was always a good saver, but she stopped borrowing in her fourth year with SafeSave. She says there are two simple reasons: If she saves up and withdraws, she doesn't lose money to interest. Further, withdrawals can be accessed at any time (as compared to loans taken one at a time)

Institution-building

How do I use this information?

Savings is created constantly

- Rutherford et. Al. found that a sum equivalent to 2/3 of all income within poor households was subjected to some form of money management – meaning that it was 'saved' rather then consumed that same day. This adds up to *$10 billion per year,* and is all the result of the act of "saving."

But relatively little gets stocked up as "savings" in the formal or semi-formal financial system.

How does that realization help?

- Savings institution designers need to concentrate on facilitating the act of saving, not on the savings itself – there is massive demand for the products that result
- This is best done by making pay-ins (both saving up and saving down) *flexible* and *frequent* - helping households to hold back from today's consumption in a convenient manner

Frequent opportunity

If *Safe*Save gives a rickshaw puller the chance to save 5 taka per month, he'll save 5 taka in a month.

If it gives him the chance to save 5 taka per week, he'll save 20 taka per month.

If it gives him the chance to save 5 taka per day, he may save 150 taka per month, and *he probably won't notice the difference*.

Facilitating flows vs. stock (the verb, not the noun)

- If we emphasize the stock of savings in the microfinance market, we'll miss the point: *poor people save every day*. They just don't have much opportunity to stock up their savings reliably and flexibly <u>in cash</u>.

SafeSave's formula:

A frequent and convenient opportunity to save (up or down)

Loans with flexible timing and repayment strategies

A reliable and accessible place to store savings

SafeSave in September

- 6,300 clients, 5 branches and 60 branch staff
- 51,595 transactions totaling $55,000
- 36,018 transactions (70%) were savings deposits averaging $0.30
- 14,175 transactions (27.5%) were loan repayments averaging $1.20
- 97.5% of all transactions in September were acts of 'saving,' whether to save-up or save-down

Frequency of transactions

***Safe*Save in September**

		Per transaction:
Pay-ins		
Deposits	6 per client	$ 0.30
Repayments	3.5 per loan client	$ 1.20
Pay-outs		
Withdrawals	1 per 6 clients	$ 8.00
Loans	1 per 20 clients	$ 61.00

Stocks and flows again

Saved per client	$	1.71
Withdrawn per client	$	1.38
Borrowed per client	$	3.08
Repaid per client	$	2.63
Change to assets per client	**$**	**0.78**
Total transaction flow per client	**$**	**8.81**

Transaction flow per client was 11 times the increase in average client assets during September

Review

- Poor people need banking services that allow them a frequent, convenient opportunity to save what they don’t consume, as well as control over the amount
- They need a choice between saving up and saving down, and control over the timing of loans and withdrawals
- They need a reliable, accessible place to store their savings when they are able to accumulate them

SafeSave

www.safesave.org