Understanding the challenges and opportunities in promoting savings among low income individuals in Lesotho, Malawi and South Africa

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Preface / Acknowledgement

We are grateful to many people for making this report possible. FinMark Trust, who in partnership with SUFIL and UNCDF, commissioned and guided the study at its early stages. FinMark Trust together with Competitiveness and Job Creation Support Project (CJCSP) in Malawi, provided valuable introductions and background materials in Lesotho and Malawi respectively. The study steering committee also provided useful comments on the draft report which were taken into account in the finalisation of the report.

The study team interacted with financial sector providers, government policymakers and regulators, development organisations and low income savers in each of the study countries - we would like thank individuals at each of these organisations who actively shared their reflections and insights, introduced us to other colleagues and some of their clients and also provided some key background material/data that guided the study team.

We hope that this report will ultimately lead to a better understanding of the main challenges and opportunities in promoting savings among low income individuals in these three countries and provide some interesting comparative insights into this important field.

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Executive Summary

The purpose of this study is to comprehensively document the savings landscape in Lesotho, Malawi and South Africa in order to understand the challenges and opportunities in promoting savings among low income individuals. Oxford Policy Management (OPM), in association with Kadale Consultants (Malawi) Ltd. (Kadale), were engaged by FinMark Trust, in partnership with UNCDF and UNDP in Malawi and Lesotho (through the Support to Financial Inclusion in Lesotho (SUFIL) project) to undertake this analysis.

This report is divided into two Sections: Section A contains an introduction to the study, the methodology, a review of the global literature on low income savings, and a synthesis of the main cross-cutting findings from the three country studies. Section B contains in-depth analysis of the low income savings landscape in three countries (Lesotho, Malawi and South Africa), and provides a SWOT[1] analysis of the savings environment in each country and associated recommendations for policymakers and the private sector.

SECTION A – An overview of low income savings, with reference to Lesotho, Malawi and South Africa

Methodology

For the purposes of this study, the ToR define savings products and services as "financial instruments that allow individuals to store/keep funds safe (current account, e-wallets, store voucher), to put monies in a non-cash form on a regular basis for the purposes of accumulation for future use (livestock, building materials and housing, burial societies, bank account, pension), to earn a return (deposit account, savings and credit groups, property appreciation, unit trusts/ETF)." As the definition notes, the study focuses on 'financial instruments' and how they are used for various objectives related to savings (e.g. store funds, accumulation, earn a return). Savings in non-financial instruments, such as livestock and property, are identified but are not comprehensively analysed.

The study consisted of a combination of desk-based research and field work. A literature review was carried out at the start of the assignment. This included both an examination of global evidence on the role of savings for low income households and a more in-depth review of the savings landscape in each of the three focus countries. This literature review was combined with data analysis of the two main financial inclusion databases – FinScope and the World Bank's Global Financial Inclusion Database (Findex).

Field work was conducted during August 2013. Key informant interviews were held with country and sector stakeholders (e.g. policymakers, formal and informal saving providers and development organisations) using a standardised research instrument across the three countries. Twenty five focus group discussions (FGDs) were held with participants from low income households across the three countries. Reflecting the timing and budgetary constraints of the study, this primary research was aimed at providing additional demand side insights rather than attempting to provide nationally representative results.

[1] Strengths, weaknesses, opportunities and threats

The global savings context for low income individuals

The report reviews a number of conceptual issues that have framed the approach taken to the country studies and their synthesis, beginning with developments since the turn of the century in the global consensus on financial sector development in general and on savings in particular.

This body of research and practice has revealed the wide range of different roles that formal, semi-formal and informal savings mechanisms provide to the poor. In particular, it highlights the importance of recognising the different functions performed by different types of savings in the *'Portfolios of the Poor'*, and not to assume that in some way informal financial services are bad and formal savings are good (or better). With that in mind, the study attempts to explore the spectrum of savings providers in each country. While the core focus of the study is at the micro-level (supply/demand), it also seeks to draw links between these findings and the broader enabling environment for savings at the macro-level (and where appropriate at the meso-level). This includes issues of culture and behaviour patterns, but also relates to more formal rules such as policies and regulations that impact upon savings.

Cross country findings

Comparative analysis was undertaken across the three country studies to identify areas of similarities and divergence between three countries at different levels of financial and economic development. These comparisons are categorised by demand, supply and macro (policy, legislative and macroeconomic) issues. The key cross-cutting conclusions include:

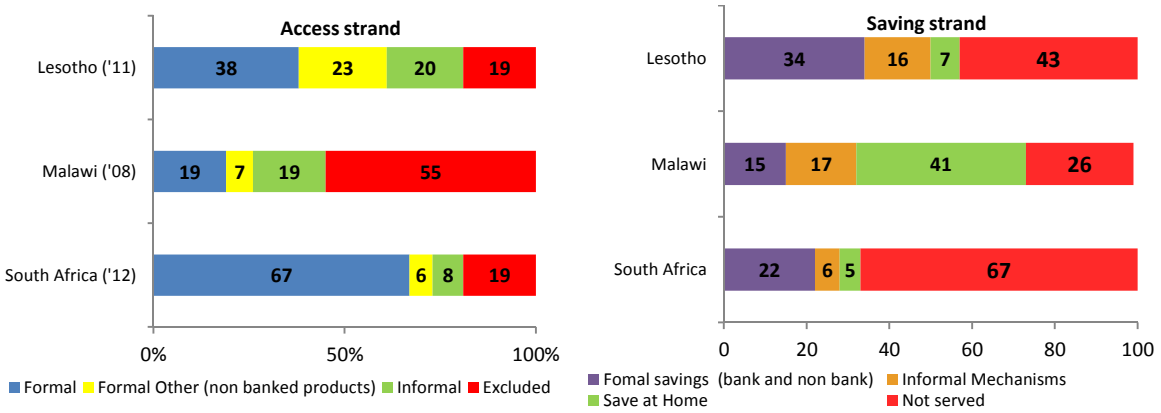
Demand

- The variation in savings strands between the three countries and their relationships with the overall access strands in Figure A below offer insights into country-specific saving behaviour.[2] For example:

  i. Lesotho has a significantly higher savings rate in formal products (bank and non-bank) than South Africa, but a lower overall formal access rate (particularly in banking services), in part driven by differences between the types of institutions offering savings in the two countries; and
  ii. It is notable that Malawi, the poorest of the three countries and with the highest rate of financial exclusion (55%), has a significantly higher overall savings rate than the other two countries. This is partly an indication that the poor can view even the short-term storing of money to be used for transactional purposes, such as savings at home, as a form of savings, which may not be the case in the more affluent countries.

[2] Notwithstanding difficulties in comparing access strands.

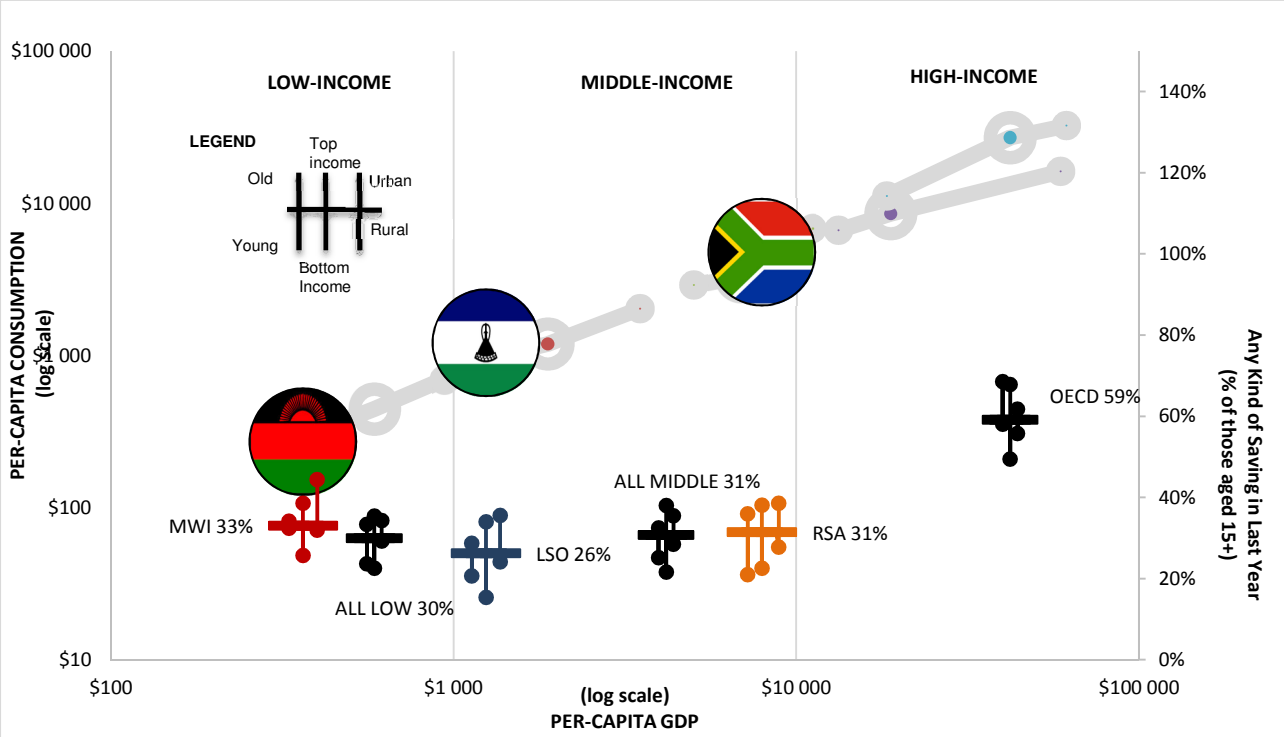
Figure A: Access and Saving Strands



Source: FinScope: Lesotho (2011); Malawi (2008); South Africa (2012)

- A wide range of instruments (financial and non-financial) are being used by low income individuals to meet their needs. This is consistent with the findings of *'Portfolios of the Poor'* (2009), which highlights the complex cash management strategies utilised by low income households;
- In contrast to the FinScope saving strands, the overall incidence of savings in each country, as measured by Findex, is similar in each country (Figure B).[3]

Figure B: Savings as per financial inclusion and income spectrum



[3] Findex is not as in-depth as FinScope and needs to be treated with caution, not least because of conflicting estimates across Africa of how many adults have accounts at formal institutions compared to FinScope. Findex is nevertheless sufficiently coherent and comprehensive to allow for credible cross-country comparisons.

Source: Author's calculation using Findex and World Bank Open Data

- Two particularly interesting conclusions can be drawn from Figure B above:
  i. The pattern across the three countries is consistent with the global pattern, with the incidence of savings being virtually the same in middle income as in low income countries, while the incidence of savings in high income countries is significantly higher. This 'middle income paradox' is, we suggest, partly attributable to households' increasing preference for consumption as incomes rise; and

  ii. From the upper middle income band upwards, savings become more formalised. A quarter of all savers use formal sector products to save in Malawi (just under the global low income average), rising to a third in Lesotho, and two thirds in South Africa (just above the middle income average).

- Informal savings mechanisms are important throughout the three countries, with savings group models recently expanding in all;
- Formal institutions are still being used and aspired to, despite low/negative real interest rates and the affordability challenges that formal accounts present (fees, minimum balances and costs of transport). The perception of the value proposition of banks as a safe place to store money was present throughout the three countries, as was the indication that interest rates mattered less than fees when choosing a bank;
- Savings accounts in both formal and informal sectors are often used in a transactional manner (lots of small deposits and transfers), rather than for building lump sums or to earn a return;
- When households are building lump sums they are usually doing so based on saving for an identified project (e.g. school fees, farm inputs etc.). These 'project' funds are, however, often used for emergencies if and when they are required;
- Savings through non-financial instruments (e.g. livestock, property), whilst quite prevalent, were generally viewed as inferior options, with drawbacks including the risk of theft and their relative illiquidity in times of emergency; and
- There is an increasing 'third adult'[4] phenomenon in South Africa and Lesotho (although the evidence suggests this is less prevalent in Malawi). These third adults tend to have less direct access to financial services, including savings, but may be accessing these services indirectly through the head of the household.

Supply

- Banks as a whole have made few inroads into providing savings products to low income households;

[4] For example, a young adult within the household that is not the household head (e.g. living in their parental home).

- Despite improvements in the enabling environment (e.g. permitting MFIs to take deposits), there appears to be a limited prospect that MFIs or SACCOs will become major providers of low income deposit services in the near future;
- There has, however, been significant expansion in the number and types of informal savings and credit groups in all three countries. These have changed the landscape of low income savings provision;
- The overall low level of savings in the formal sector, particulary when compared to the overall incidence of savings, offers the prospect of a better supply response in the lower and middle-income SADC economies. For example the low number of Malawians currently using formal saving options represents only a small proportion of all adults actively saving;
- Mobile phone/agency based banking is an opportunity in all countries for low income savers, although it is struggling to take off as rapidly in the study countries as in some other countries, in particular Kenya and other countries in East Africa. It is tending to be used as an *additive* rather than *transformational* service[5] and is therefore not yet having a significant impact on increasing financial inclusion.

Macro

- The macroeconomic climate has a significant impact on people's ability to save in all three countries;
- The low income savings culture appeared to be significantly stronger in Lesotho than Malawi or South Africa;
- Financial literacy – in respect of how formal savings (and other risk mitigation/developmental) products operate – was low across all three countries, and identified by all three governments as a key reform area;
- Social grants are potentially a significant driver of savings in South Africa but are not so significant in the other two countries;
- There have been significant improvements in the regulatory enabling environment in Lesotho and Malawi, particularly with respect to the provision of services by non-bank financial institutions (NBFIs). However there are concerns about the required level of supervisory capacity and the ability of the sector to adjust to and absorb so many changes in a short period.

SECTION B – Country case studies: Lesotho, Malawi and South Africa

Country studies

The countries chosen for this study have significant differences. They include a country with relatively high levels of income and financial inclusion (South Africa), a country with medium

[5] 'Transformational' banking provides services in such a way that unbanked people are targeted. 'Additive' initiatives simply supply another channel for the banked.

levels of income and financial inclusion (Lesotho), and a country with low levels of income and financial inclusion (Malawi).

The country sections provide in-depth analysis of the savings landscape in each of the three focus countries. Each country study documents the access issues in each country; evaluates the demand characteristics of low income savers; identifies the providers of financial services across the spectrum of formal and informal financial services; and highlights the main policy and regulatory issues that have an impact on low income savings.

Country conclusions and recommendations

Key country conclusions are provided in the form of a SWOT analysis (summarised below), both detailing the current environment for low income household savings and identifying future opportunities and challenges. Recommendations that respond to this analysis are also provided, separated into those intended for policymakers, those aimed at providers of low income savings, and those that identify gaps which future research could fill.

Lesotho - SWOT analysis for promoting low income savings	
Strengths • Relatively high financial inclusion • Positive government stance on financial inclusion; specific initiatives in place • Flexible approach by regulator • Favourable political economy • Fairly strong savings culture • Good informal savings mechanisms • Formal FIs offer group savings products • LPB has trust of low income groups and a high savings base • NBFIs are competing with banks • Some illiquid products disincentivise withdrawal of savings • Strong donor engagement	**Weaknesses** • Lack of formal outreach in rural areas • High liquidity of formal FIs reduces their incentive to seek low-income deposits • High bank costs and charges • Poor consumer information from banks • Few formal FI savings products offer access to credit • Perception that banks are for the wealthy • HR constraints on LPB expansion • LPB facilities not inter-operable • Poor governance and capacity of SACCOs • Doubts about Boliba's stability and supervision • Risks from savings groups holding cash instead of banking their excess liquidity • Too many savings groups in some communities, diluting their strengths
Opportunities • Building upon momentum of RUFIP, SUFIL etc. • Widening the offering from existing services (burial cover, etc.) • Adding credit dimension to savings accounts • Increasing financial literacy • Expanding role of credit bureaus • Emerging opportunities for use of mobile technology and agency banking • Scaling up ASCAs as savings-led providers of credit • Strengthening SACCOs • Strengthening LPB management to build on its strong positioning • Licensing Boliba and enforcing capital adequacy requirements	**Threats** • Poor macroeconomic climate • Danger of overly cautious approach to implementation of FSDS • Weak capacity in regulation and supervision • Weak regulatory capacity increases risks of regulator's 'watch and learn' approach • Lack of trust in financial system at all levels • Lack of understanding of financial products among consumers • Possible collapse of large deposit taking financial cooperative • Some pressure for LPB to become a profit-driven commercial bank

Malawi - SWOT analysis for promoting low income savings	
Strengths • New legislation in place that brings regulatory framework up to date for MFIs (2010) and SACCOs (2011) and agent banking (2012). • Access for urban low income clients to formal/bank savings is relatively good due to concentration of bank outlets in urban/large centres. Even with significantly negative real savings rates, they are viewed as safe places to store money until it is needed. • Considerable take-off of VSLA/ROSCA variants in recent years – these meet the needs of (rural) women in terms of access, convenience, returns and social capital. Convenience is particularly prioritised in rural areas and important for women who are less able to travel freely. • The parallel social funds in informal groups act as group based self-insurance that in practice protect the member savings from having to be withdrawn to meet irregular spending needs and emergencies. This has been an effective and attractive part of the informal savings group mechanism.	**Weaknesses** • Low level of income for a majority of the population means limited funds for savings, other than cash smoothing 'savings' in the house. This is particularly so in the formal sector where costs of saving are high (e.g. bank fees, transport, etc.). • Many savings accounts in the banks are operated like transaction smoothing accounts – they are current accounts without cheque book and overdraft facilities, but misnamed as 'ordinary savings accounts.' • Savings patterns are linked to a savings project, but savings products are not usually designed with these projects in mind, although there have been some recent developments, e.g. school fees account, festivities account, etc. • There is a credit mentality among key stakeholders in the financial sector that results in savings and other non-credit financial services being under-valued and ignored. • SACCOs are weak players at the moment and are likely to undergo a period of consolidation before they can offer a route to mobilising low income savings. MFIs are not yet operating in the savings market. • Capacity of RBM to fulfil role as Regulator of MFIs and SACCOs is still weak (and overstretched), including MAMN and MUSCCO to whom it has delegated some regulatory responsibilities.
Opportunities • A potential opportunity for expansion by the formal sector presents itself from Malawi's relatively high incidence of overall savings, yet low incidence of savings at formal institutions. • Increasing mobile phone ownership (low cost of phones) and focus on mobile money offer new options for increasing access and convenience. This is combined with high development partner interest in Mobile Money, Financial Literacy, Consumer Protection and overall financial inclusion (e.g. FSTAP, FHI360/MMAP, DFID). • Agency development is possible with a relatively dense population, at least in rural towns and trading centres. • MFI deposit taking may create a new group of more decentralised deposit takers leading to more options for low income households.	**Threats** • Malawi is in a period of economic instability and adjustment; its economy is fragile and renewed depreciation and inflationary pressure will adversely affect savings though reducing the value of net incomes. • Adverse weather/climate leading to major crop losses in one or successive years are always a risk for savings/savers. • There is a risk of regulatory interference on savings rates, charges and borrowing rates as RBM is frustrated with the low interest rates offered by banks and high charges. • Rushed m-banking schemes may fail, eroding trust in such mechanisms in the longer term. The design of such schemes therefore becomes important with a balance between short term profits and building necessary volumes and long term viability.

South Africa - SWOT analysis for promoting low income savings	
Strengths • Relatively high financial inclusion and well developed financial sector • Social grants provide cash injections into accounts with a payment card linked to account: potentially increases ability to save • Most people have regular income: pre-requisite/facilitator for saving • Mobile phone- and agency-based banking increasing outreach of formal banks and reducing transactions costs • Remarkably astute choice/use of financial services for different purposes • Most people can meet KYC requirements of FIs as the national ID system is well established. • Financial literacy initiatives in schools etc.: familiarity with financial terms • Commercial banks offer a range of savings products • Nedbank piloting group savings-based lending products • Some interest in linkage banking • *Stokvel*/ASCA-type savings culture very strong, widespread	**Weaknesses** • Limited outreach of banks in rural areas • Lack of perceived incentive for low income households to save at formal FIs • Banks have been slow to compete for low income savings • Consumerism/entitlement culture and lack of discipline in relation to saving • Perception that saving is not part of own community's culture • Stringent regulation - .e.g. requirement for bank-led mobile money perhaps holding development/outreach of mobile financial services (including savings services) back[6] • Little interest/incentive among MFIs to take deposits • Structures, processes and governance among stokvels vary considerably between groups, as do track records in respect of default rates, security of savings and rates of return - levels of trust also vary • Low financial literacy in respect of knowledge of formal financial products/services
Opportunities • Capitec and others have proved that there are good opportunities for banks to attract low income savings: banks showing interest in low income market • New head of Stokvel association: influential figure has plans in place to increase bargaining power of stokvels. Stokvels beginning to capitalise on enormous potential collective bargaining power – may increase low income savings, return on savings • SASSA e-payment cards: more low income people will have cards to save • Deep penetration of mobile phone network and of mobile phones providing foundation for spread of mobile-enabled savings products, once launched	**Threats** • False perceptions about social grants: potential disincentive to save • Perception that one needs large amounts to save and social grants too small for this • Over-reliance on loan sharks • Debt spiral: inability to save because servicing debt • Resumption of high rates of inflation hitting low income households: less money available to save • Perception that informal savings institutions offer inferior savings options, that they should not be seen as offering valuable alternative vehicles for saving and that they should be replaced as rapidly as possible by formal savings services • Dependence of scale-up of ASCAs on donor support

[6] There is, for example, much debate globally about the merits of requiring mobile money transfer services to be bank-led, with a number of regulators and analysts arguing that such restrictions may tend to limit innovation and hamper the development/outreach of mobile financial services (including savings services). Kenya's experience suggests that there is much to be gained by allowing mobile phone operators to take the lead, provided that close contact with the regulator is maintained.

RECOMMENDATIONS FOR ACTION			
	Lesotho	**Malawi**	**South Africa**
Policy-makers	- Ensure momentum created by RUFIP, SUFIL and similar initiatives is maintained - Ensure implementation of FSDS - Further promote savings mobilisation and developing the saving culture of Basotho - Ensure adequate data collection/validation to ensure credit bureau becomes operational in June 2014, in order to improve stability of deposit-taking institutions - On-going development of suitable regulatory and supervisory framework to implement the new Financial Institutions Act of 2012 - Build capacity of regulator and Department of Cooperatives to assist regeneration of viable SACCOs - Continue with the process of licensing Boliba Savings and Credit as a registered deposit-taker and oblige/assist it to meet capital adequacy requirements to the extent it does not currently do this.	- Policy makers, FIs and development partners can increase their positive rhetoric on savings. A programme to extol the benefits for households from saving would help address the current strong credit bias. Whilst government and donors tend to focus on economic benefits of a savings pool, it is a relatively small pool and the biggest benefit to Malawi would be a change in household behaviour to saving up, not paying down. - The regulator and its delegated partners, MAMN and MUSCCO, will need support (including from development partners and their affiliates) to get the right level of oversight of MFIs and SACCOs. - The deposit guarantee scheme should proceed, bringing greater safeguards to deposits.[7] To that end, arrangements need to be made to also cover SACCOs and Deposit taking MFIs, as well as banks. - Support and strongly promote VSLAs and other informal financial services, which have become a major player in the rural savings landscape. - Ensure financial literacy focuses beyond banks/formal products and educates people on the benefits of savings and basic cash management.	- The roll out of SASSA e-payments and the impact they have on savings behaviour should be tracked. - Continued implementation and prioritisation of National Financial Literacy Strategy. Particular need for increased financial literacy training to enable more discipline around savings and awareness of savings products, and for banks to communicate better, especially with the youth. - Formal and informal savings institutions both have substantial advantages to offer to low income savers. Providing low income households with an adequate range of formal and informal savings options and channels should be a key goal of policy (as opposed, for example, to maximising the proportion of low income savings deposited in formal financial institutions) - Investigate ways of making informal savings services more stable and sustainable, and how consumers using these services can be better protected.

[7] This is based less on low income clients' views of such banks – which as the study indicated, people generally view as safe places – but as a safeguard to their deposits in the case of crisis.

RECOMMENDATIONS FOR ACTION			
	Lesotho	**Malawi**	**South Africa**
Savings Providers	- Formal FIs could attract more low income household savings by developing savings products that attach access to credit - Mobile, agency banking emerging: potential to use to increase savings outreach, reduce transaction costs. Group accounts could be combined with mobile money to allow low income rural Basotho more access to formal savings facilities - Encourage, help devise, support campaigns to increase financial literacy and for FIs to improve their communication with low income households - LPB could increase outreach by lower cost approaches, e.g. renting space in post offices, appointing agents - Re-build strength/reputation of SACCOs through tighter regulation, auditing, and capacity building - Fertile ground for ASCAs to develop further: good track record, lack of trust in more formal FIs/SACCOs - Continue to promote linkages between inclusive finance providers and formal finance providers.	- With VSLA/ROSCA variants in a lift off phase, there is potential to renew/revisit making linkages with the formal sector that previously did not work well. This might work best with rurally focused MFIs than with banks. - There is scope for more tailored product design. There is insufficient analysis of lower income saver needs and behaviours, including segmenting lower income groups – urban traders (regular daily deposits, slightly less regular weekly withdrawals for purchases), farmer input saving products (lump deposit, with occasional top ups, limited withdrawal, time related etc.) - different 'project' savings accounts etc. - Options and ideas on mobile money uptake would be helpful with dissemination of successful and sustainable business models within Malawi and from abroad.	- Banks should reconsider their strategies for attracting low income savings. Using a solid track record of savings as the collateral basis for loans seems to offer a promising new option. - Capitec and others have proved there are good opportunities for banks to attract low income savings. Peer learning should be facilitated. Actors such as FinMark Trust can play a role in disseminating case studies of successful business models. - Given the rapid spread of mobile phones and network, providers should experiment with mobile-based savings products. - *Stokvels* should work towards capitalising on their enormous potential collective bargaining power, in turn increases low income savings and potential return on savings. - The voluntary registration of stokvels and the pooling of excess liquidity in a central account may lead to a substantial increase in low income households' formal savings deposits. Banks and NASASA could assist this. - Increased support for the growth and development of informal savings institutions with a good track record by government, private sector financial

RECOMMENDATIONS FOR ACTION			
	Lesotho	**Malawi**	**South Africa**
			service providers, multi-/bilateral aid agencies and NGOs.
Future research	- Ensure further FinScope surveys to track progress towards increasing savings in Lesotho - Commission a detailed supply-side study of the financial sector in Lesotho in order to provide further information into the savings products available to low income households - Commission further research into 'middle income savings paradox' and its implications on savings behaviour - Commission further research into 'third adult' phenomenon and its implications on savings behaviour - Learn lessons about why Lesotho Agricultural Bank collapsed and explore scope to replicate good points in LPB or encourage new savings bank to target rural areas - LPB to look at using PO branches to increase outreach.	- VSLAs have flourished in recent years and many respondents have highlighted the importance of the social capital such groups bring. Ethnographic research on the precise dynamics within such communities and these groups may offer interesting insights that other financial providers can use in their own value offering. - As agent banking and m-banking grow, it will be important to monitor the impact and effectiveness of different types of agent models (e.g. PoS, kiosk etc.). - A detailed supply-side study of the financial sector could provide further information into the feasibility of different retail banking models (and associated savings products) to meet the needs of low income households. It would also help fill a data gap, of distinguishing between what income strata are using which types of accounts and if they are being used to store savings as opposed to only for transactional purposes. - New compulsory pensions for employed workers will affect some low income households and it would be useful to assess how this may affect individual saving behaviour, especially in light of high inflation.	- Ensure further FinScope surveys to track progress towards increasing savings in South Africa - Commission a detailed supply-side study of the financial sector in South Africa in order to provide further information into the savings products available to low income households - Commission further research into 'middle income savings paradox' and its implications on savings behaviour - Commission further research into 'third adult' phenomenon and its implications on savings behaviour - Investigate the impact of informal savings on development and low income communities including through commissioning rigorous impact assessments.

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List of Abbreviations

ASCA	Accumulating Savings and Credit Association
ATM	Automatic Teller Machine
BBBEE	Broad-based Black Economic Empowerment
BSC	Boliba Savings and Credit
CBDA	Cooperative Banks Development Agency
CBL	Central Bank of Lesotho
CRS	Catholic Relief Services
ECRP	Enhancing Community Resilience Project
FGD	Focus Group Discussion
FIA	Financial Institutions Act (Lesotho)
Findex	Global Financial Inclusion Database (World Bank)
FNB	First National Bank
FSC	Financial Sector Charter
FSDS	Financial Sector Development Strategy
GoM	Government of Malawi
HiH	Hand-in-Hand
IFAD	International Fund for Agricultural Development
KII	Key Informant Interview
KYC	Know Your Customer
LNIG	Lesotho National Insurance Group
LPB	Lesotho PostBank
M4P	Making Markets Work for the Poor
MAMN	Malawi Microfinance Network
MBS	Malawi Savings Bank
MFI	Microfinance Institution
MMT	Mobile Money Transfer
MNO	Mobile Network Operator
MUSACCO	Malawi Union of Savings and Credit Cooperatives

NASASA	National Stokvels Association of South Africa
NBFI	Non-bank financial institution
NBS	National Building Society
NEDLAC	National Economic Development and Labour Council
NGO	Non-Governmental Organisation
NSDP	National Strategic Development Plan (Lesotho)
OBM	Opportunity Bank of Malawi
OPM	Oxford Policy Management
PPP	Purchasing Power Parity
RBM	Reserve Bank of Malawi
ROSCA	Rotating and Savings Credit Association
RSCG	Rural Savings and Credit Group
RUFIP	Rural Financial Intermediation Programme
SACCO	Savings and Credit Co-operative
SADC	Southern Africa Development Community
SASSA	South Africa Social Security Agency
SCG	Savings and credit group
SEF	Small Enterprise Foundation
SILC	Savings and Informal Lending Community
SUFIL	Support to Financial Inclusion in Lesotho
TEBA	The Employment Bureau of Africa
ToR	Terms of Reference
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
VSLA	Village Savings and Loan Association
WB	World Bank
WDI	World Development Indicators
WSBI	World Savings Bank Institute

SECTION A: Promoting savings among low income individuals, with reference to Lesotho, Malawi and South Africa

1 Introduction

Oxford Policy Management (OPM), in association with Kadale Consultants (Malawi) Ltd. (Kadale), has been engaged by FinMark Trust, in partnership with the UNCDF, UNDP in Malawi as well as through the "Support to Financial Inclusion in Lesotho" (SUFIL) project, to undertake a study to understand the challenges and opportunities in promoting savings among low income individuals in Lesotho, Malawi and South Africa.

The purpose of this study is to comprehensively document the savings landscape in Lesotho, Malawi and South Africa. Included in the study is an understanding of the various savings mechanisms (both formal and informal) currently used by low income households, an identification of the barriers/obstacles/opportunities for greater expansion of savings to these households as well as a diagnosis of the factors that help and hinder the availability and quality of savings in these countries, taking explicit account of country-specific dynamics.

The Terms of Reference (ToR) for the assignment are reproduced in Annex A.

This report is divided into two main sections:

- Section A contains an introduction to the study, the methodology, a review of the global literature on low income savings, and a synthesis of the main cross-cutting findings from the three country studies; and
- Section B contains in-depth analysis of the low income savings landscape in the three countries (Lesotho, Malawi and South Africa), provides a SWOT analysis for each country and recommendations for policymakers and the private sector.

Along with the ToR, the annexes contain a summary of the characteristics of the study's demand side respondents, the list of key informants met during the fieldwork, a list of savings products provided by banks in each country, an overview of the savings regulatory framework in each country, and some additional figures regarding savings in Lesotho.

2 Methodology

2.1 Savings definition

As explained in the introduction, the overall objective of the study is to understand the challenges and opportunities in promoting savings among low income individuals in Lesotho, Malawi and South Africa. For the purposes of this study, the ToR define savings products and services as: *"financial instruments that allow individuals to store/keep funds safe (current account, e-wallets, store voucher), to put monies in a non-cash form on a regular basis for the purposes of accumulation for future use (livestock, building materials and housing, burial societies, bank account, pension), to earn a return (deposit account, savings and credit groups, property appreciation, unit trusts/ETF)."*

As the definition above notes, the study focuses on 'financial instruments' and how they are used for various objectives related to savings (e.g. store funds, accumulation, earn a return). It is acknowledged, however, that savings and other asset management strategies may be linked to the study. We therefore identify some non-financial instruments that might be considered as alternatives to saving, such as investing in housing or livestock. However, to keep the scope of the study manageable and its policy implications clear (and relevant to the financial sector providers and policymakers), these alternatives are only considered to the extent that they affect savings decisions in relation to financial instruments.[8]

2.2 Approach

The study consisted of a combination of desk-based research and field work. A literature review was carried out at the start of the assignment. This included both an examination of global evidence on the role of savings for low income households and a more in-depth review of the savings landscape in each of the three focus countries. A full list of documents reviewed in the study is provided in the reference section.

The country literature included government policy documents, financial inclusion studies, donor reports, suppliers' market analysis, impact assessments of savings products, and ethnographic studies. Research from the major development organisations focusing on financial inclusion and savings (e.g. FinMark Trust, World Bank, the Consultative Group for Assistance to the Poor (CGAP), the World Savings Bank Institute (WSBI) etc.) was reviewed. This literature review was combined with data analysis of the two main financial inclusion databases – FinScope and the World Bank's global financial inclusion database (Findex).[9] This involved documenting the key findings from these databases, as well as additional data analysis using their raw data. Box 1 highlights some of the differences between these databases.[10] Although these differences reduce the ability to make direct comparisons between the two data sets, they are broadly comparable and offer detailed insights into financial behaviour of low income households.

[8] Another area that the study will be aware of, but will limit its attention to, is the role of credit as a substitute for, or complement to, savings. In such cases spending power is delivered up front rather than at the end of the process (i.e. 'saving down' rather than 'saving up' or 'saving through' in the terms of Stuart Rutherford's *The Poor and their Money*').

[9] Demirguc-Kunt and Klapper 2012

[10] We subsequently do not comment on these differences in the country studies although they remain relevant throughout.

Box 1: Key differences between Findex and FinScope datasets

There are some specific differences between Findex and FinScope that relate to sampling and definitions within the questionnaire:

- The age range for Findex is 15+ as opposed to 18+ in FinScope.
- Findex asks about savings in the last year whereas FinScope tends to ask less time-bound questions, e.g. are you currently saving?
- A formal institution in Findex is defined as an individual or joint account, whereas FinScope often refers to 'use'.
- A formal institution in Findex includes MFIs and cooperatives, which are labelled 'formal other' in FinScope.
- A savings group in Findex includes savings with someone outside the family, which would normally be disaggregated in FinScope studies.

There are also differences in how the survey is carried out:

- FinScope is a detailed face to face survey. By contrast Findex is a Gallup Poll survey, is shorter and is largely telephone based, and therefore subject to the various biases this may entail.
- FinScope's questionnaire is tailored from country to country whereas Findex is more consistent across countries.

The literature review and preliminary data analysis were used to identify key issues to be explored during the field work in the three countries. It was also used to identify stakeholders to be interviewed.

Field work was conducted during August 2013, with around a week spent in each country. Key informant interviews (KIIs) were held with country and sector stakeholders using a standardised research instrument across the three countries. Where it was not possible to hold interviews with all the stakeholders involved in the savings sector, the study sought a broad representation across government, formal and informal suppliers and development representatives. Where face-to-face meetings were not possible telephone interviews were held. A list of stakeholders interviewed is provided in Annex C.

As well as KIIs, focus group discussions (FGDs) were held with participants from low income households in each country. Reflecting the timing and budgetary constraints of the study, this primary research was aimed at providing additional demand-side insights rather than attempting to provide nationally representative results. FGDs across the three countries were held using a standardised interview guide that was subsequently tailored to incorporate key country characteristics. A total of 25 FGDs were held,[11] 14 of which were in rural areas and 11 in urban/peri-urban, with a total of 258 respondents. Locations were chosen based on the likelihood of low income households being present. Six FGDs were held with informal savings groups, and in Lesotho, based on stakeholder feedback, one FGD was also held with a group of textile workers. A full description of the characteristics of the respondents is provided in Annex B. Within these locations, purposive selection of respondents was undertaken to ensure they either managed savings themselves (in any form and place) or used others to manage savings for them. Those that had not ever saved were omitted.

Following the field work, additional literature and data analysis was conducted based on the country findings, a team brainstorming was held, and a summary report was prepared and submitted. Following feedback from the study's steering committee, the report was finalised.

[11] 8 in Lesotho, 9 in Malawi, and 8 in South Africa

3 Understanding savings

This chapter reviews a number of conceptual issues that have framed the approach taken to the country studies and their synthesis, beginning with developments since the turn of the century in the global consensus on financial sector development in general and on savings in particular. The range of formal and informal financial services is then considered, with its implications for the focus of this study. Finally, we touch upon current techniques used in promoting financial sector development, including Making Markets Work for the Poor (M4P) and political economy analysis.

3.1 The renaissance of interest in savings

For much of the twentieth century, until the 1990s, relatively little attention was paid to the role in development of the financial sector in general and of access to financial services for the poor in particular (King and Levine, 1993; Levine, Loyaza and Beck, 2000; Honohan, 2004). When access to finance for the poor did emerge as a prominent issue, there was a heavy emphasis on credit rather than savings, strongly influenced by the group savings techniques adopted by NGOs in Bangladesh and elsewhere. 'Microfinance' was often used as if it were synonymous with 'microcredit' and savings were relatively neglected as an important service for the poor (Demirgüç-Kunt et al, 2007)

A turning point was marked by the publication of the first edition of Stuart Rutherford's *The Poor and their Money* in 2001 (the second edition being Rutherford, 2009). Based on many years of observation of the financial behaviour of very poor people, Rutherford highlighted the need for poor people to save, and the range of ways in which they save: 'saving up', 'saving down' and 'saving through'.[12] Later research also demonstrated the global dominance of savings over credit in terms of both volume of money and numbers of people (CGAP, 2004; Peachey and Roe, 2006). In a paper on the history of savings banks, Robert Stone (2011) gives an account of the historical erosion and renaissance of the understanding of the role of savings for poor people; Chris Dunford (2012) offers an interesting perspective on this issue by explaining the incentive, even now, for financial service providers to perpetuate the emphasis on credit (namely that it is easier to make money on lending than savings).

Rutherford's insights, and the similar insights of other contemporary practitioners, were the result of close observation of the behaviour of poor people, usually while working on the provision of financial services to them. The result was an increasing recognition of the need to better understand how poor people actually behave in relation to money, and what they think. This agenda has been pursued in a variety of fruitful ways:

- through financial diaries (Collins et al, 2009)
- through quantitative surveys (FinScope, Demirgüç-Kunt and Klapper, 2011)
- through ethnographic studies (Morawczynski, 2009; Johnson, 2012)
- through randomised control trials (RCTs) (Banerjee and Duflo, 2011)
- and, more recently, through the techniques of behavioural economics (FAI, no date).

3.2 The spectrum of savings

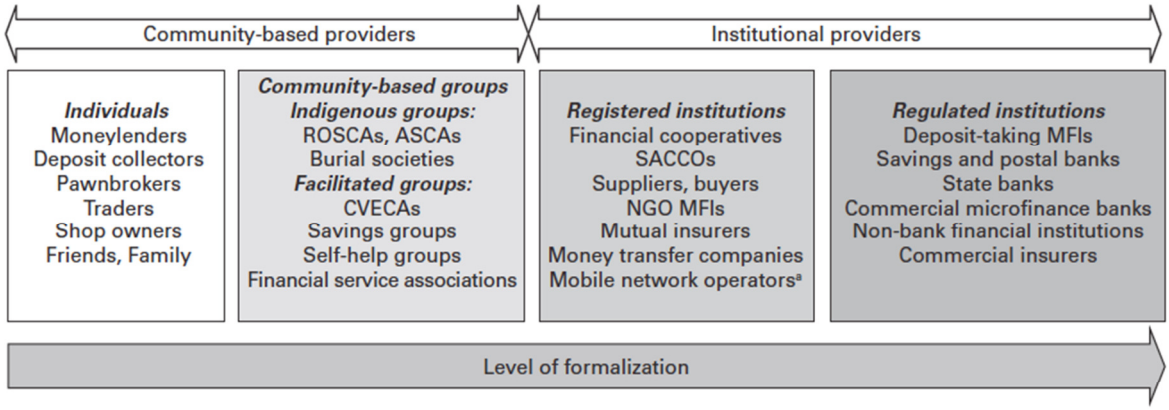
This research and action research has revealed the wide range of different roles that formal, semi-formal and informal savings mechanisms provide to the poor (WSBI, 2012). It is important to

[12] 'Saving up' refers to storing small sums until they are large enough to serve an expenditure need, 'saving down' refers to borrowing and repaying the loan (i.e. with the lump sum coming first), and 'saving through' is a mix of the two above, often seen in types of insurance.

recognise the different functions performed by different types of savings in the *'Portfolios of the Poor'* (Rutherford, 2009), and not to assume that in some way informal financial services are bad and formal savings are good (or better). This point is made persuasively in the World Bank's *New Microfinance Handbook* (Ledgerwood, 2013), where the range of financial service providers is illustrated as in Figure 1.[13]

In considering the uses of savings methods at the informal end of the spectrum, account will also need to be taken of the cultural and behavioural dimensions of savings: informal savings mechanisms usually have a role in building social as well as financial capital, linked to complex patterns of generalised and specific reciprocity that differ from one culture to another.[14]

Figure 1: The range of financial service providers



Note: ROSCAs = rotating savings and credit associations; ASCAs = accumulating savings and credit associations; CVECAs = *caisses villageoises d'épargne et de crédit autogérées*; SACCOs = savings and credit cooperatives.
a. Mobile network operators are regulated as communication companies; most are not licensed to provide financial services.

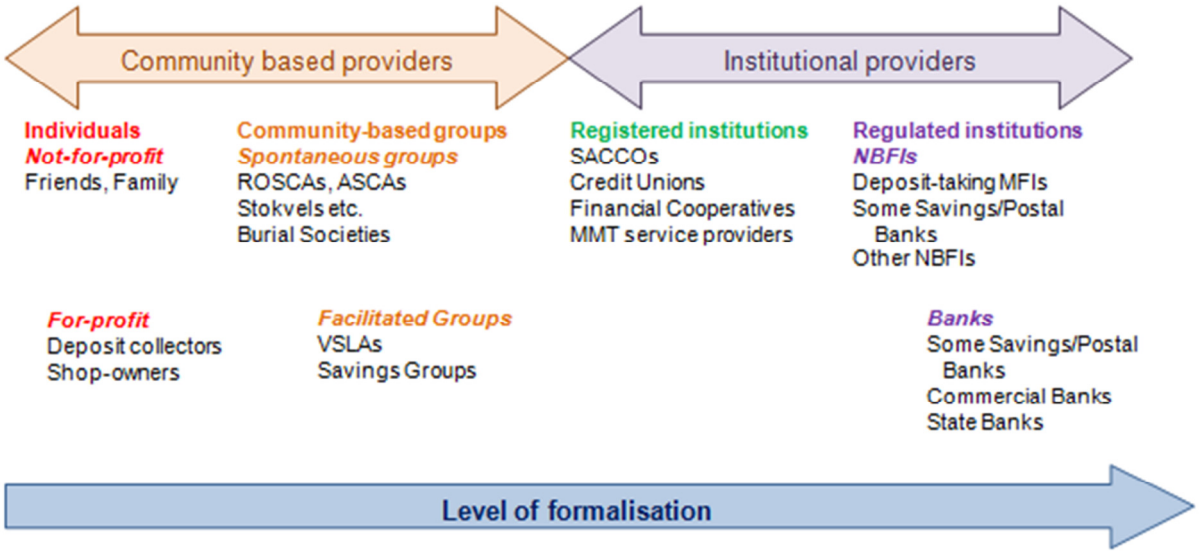
Source: Ledgerwood, 2013

Figure 1 covers all service providers in the financial sector: for the purposes of this study the focus is of course on the spectrum of providers of *savings* services, as illustrated in Figure 2 below. It should of course be noted that among some community based providers, such as Rotating and Savings Credit Associations (ROSCAs) and Accumulating Savings and Credit Associations (ASCAs), the 'providers' of the 'service' are the same people as the users.

[13] See in particular Chapter 6, 'Community-Based Providers', by Candace Nelson, from which Figure 1 is taken.

[14] For a rigorous anthropological study of such patterns in Kenya, see Johnson (2012). FGDs in preparation for FinScope surveys can also be revealing in this respect – see, for example, FinMark Trust Zambia (2009). FGDs have been undertaken in the context of this study. For the purpose of this study we also sought to identify relevant existing research into financial behaviour from an anthropological and social perspective.

Figure 2: The spectrum of savings service providers



Source: Adapted from Ledgerwood, 2013

Box 2: Mobile money as a savings provider?

In Figure 2, mobile money transfer (MMT) services are included under 'Registered institutions'. The delivery and regulation of MMT is a complex subject: some MMT services are delivered by providers that offer full service bank accounts (like WIZZIT in South Africa); others offer only money transfer services (like Vodacom M-Pesa in South Africa). The Reserve Bank of South Africa deems MMT to be a banking service and therefore requires a bank to be involved, even if only MMT services are being offered. In some African countries outside South Africa, however, it is permissible for MMT services to be offered by a mobile network operator (MNO) alone. In those countries, MMT services are indeed offered primarily by MNOs purely as money transfer services: they do not offer savings or banking services, though in some cases banks offer services on the MMT platform (like the M-Shwari savings service offered through M-Pesa in Kenya). There is much debate about whether pure MMT services are in practice used as a form of savings by clients who maintain balances on their accounts. The prime focus of this debate is M-Pesa in Kenya: for an example of a study that argues that M-Pesa is widely used for savings, see Morawczynski (2011); for an example of the counter-argument about the limitations on the use of M-Pesa for savings, see Sadana et al. (2011a, b and c).

The approach to the study in this context therefore focuses on:

- where people are saving along the spectrum in each country, where possible segmented by relevant categories such as income, gender, age, geography etc.;
- the reasons why people are saving where they are, and the costs and benefits of such savings; and
- the opportunities and challenges involved in moving along the spectrum from informal to formal providers.

The last area of focus needs to be handled with some caution because, as indicated above, there are likely to be savings functions that are best performed by the informal methods developed or adopted by the users, which should not necessarily, in that case, be subject to attempts to formalise them.

There is an alternative to either formalising informal financial services or leaving them alone, which is to find ways to *link* informal savings groups to formal financial services. Important work on developing this methodology has been undertaken by organisations like CARE International, which

is promoting useful principles to guide such linkages (CARE, 2013). Whether such linkages can prove to be consistently transformational, however, remains an open question.[15]

Finally, in conducting this study, account is also taken of two important findings of research undertaken by WSBI in the context of their programme to double the number of savings accounts at member savings banks (summarised in WSBI, 2013).[16] Firstly, despite differences between countries, poor/near-poor people always dominate the unbanked:

- In poorer countries: poor people are (not surprisingly) the mass middle market; extremely poor people dominate but there are still a lot of unbanked moderately/near-poor, and within the unbanked, poor householders dominate; and
- In better off countries: unbanked moderately/near poor people begin to dominate the mass middle market and unbanked households/householders are rather less significant because the biggest unbanked group are mostly young third adults still living in the parental home (a point on which the current study focuses).

Secondly, the affordability of formal financial services is a major issue. It eases in better-off countries but can still be a problem.

- In poorer countries: what poor/near-poor people might apparently need to spend on fees per month to maintain a formal bank or savings account is a day's living for someone; in many cases this is going to have to be shared with other financial service providers (mobile money operators, informal services, etc.); and
- In better off countries: the affordability envelope eases and the experience of paying for formal financial services becomes more acceptable; the key success factor is to load charges on transactions that the client expects to pay for and not to levy charges on savings.

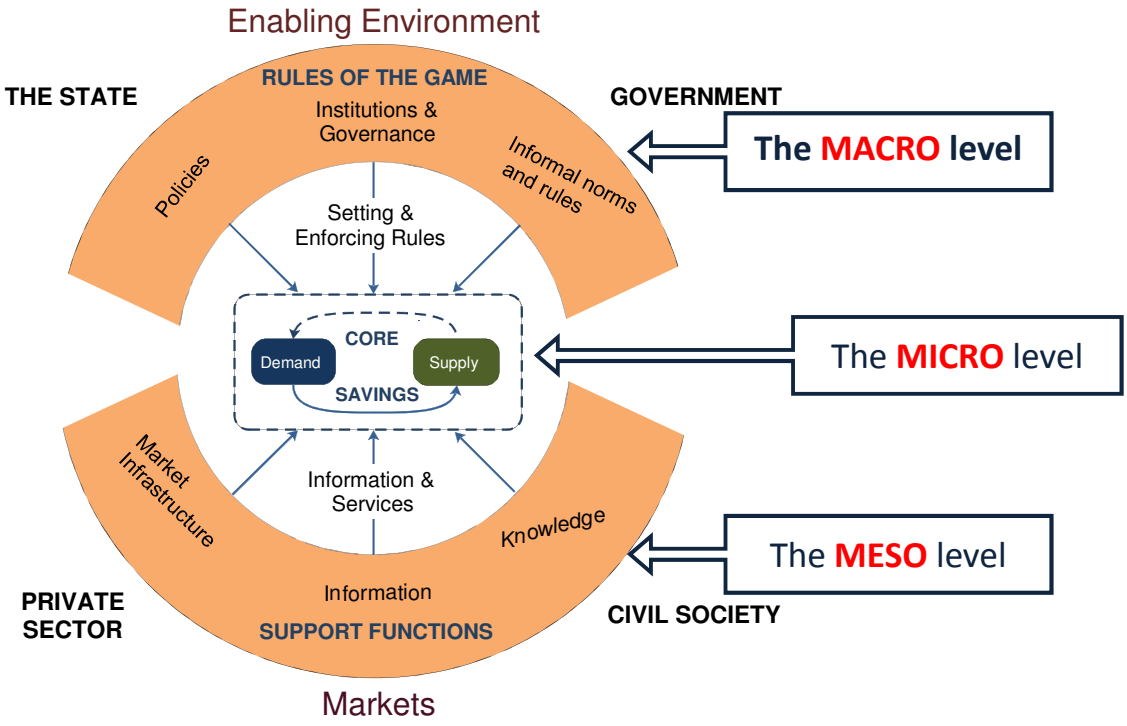
3.3 Current approaches to financial sector development

In conducting the study, we have taken account of the context in which the findings are likely to be utilised. In particular, most financial inclusion policies and programmes currently include a market development emphasis or element, commonly known as the Making Markets Work for the Poor (M4P) approach, as illustrated in Figure 3.

[15] There is anecdotal evidence of the limitations of some linkage models in practice. In a link between CARE, Orange and Equity Bank in Kenya, for example, the focus appears to have been mainly on getting the savings business of the group onto an account and away from a pure cash basis; simply doing this brought no extra savings business from VSLA group members, let alone from their wider family networks (Rippey and Kobare, 2013). A financial diary study of an Opportunity International Bank of Malawi (OBM) mobile 'bank-on-wheels' serving rural locations in Central Malawi suggests that the van platform was not delivering as much meaningful access as had been hoped.

[16] The programme operated in ten countries: the poorest four were Uganda, Tanzania, Burkina Faso and Kenya; the middle three were Lesotho, Vietnam and Morocco; and the best off three were Indonesia, El Salvador and South Africa.

Figure 3: Making savings markets work for the poor



Source: Adapted from GEMS Programme Document, DFID Nigeria (2009)

While the core focus of the study is the micro-level (supply/demand), we draw links where possible between these findings and the broader enabling environment for savings at the macro-level (and where appropriate, meso-level). This includes issues of culture and behaviour patterns as noted above, but also relates to more formal rules such as policies and regulations that impact upon savings. It also includes the institutional implications for savings service providers, as summarised in the savings chapter of *The New Microfinance Handbook* (Ledgerwood, 2013). In that sense, the M4P diagram provides a useful framework to show how impacts at different levels of the market interact with and reinforce each other: this makes it important that the broad scope of areas covered in the study are not treated in isolation from one another.[17]

The M4P methodology, particularly at the macro-level, needs to be combined with an understanding of the political economy of the countries in the study. Political economy analysis (PEA) is a central tool in analysing the environment within which financial services are delivered, and in particular the interplay, among governments, donors and other stakeholders of market modernism and a more activist approach to tackling financial exclusion (Johnson and Williams, 2013).

The more intensive focus in recent years on a market development approach and on political economy has been part of an increasing sophistication in the approach to savings studies and the delivery of savings services (WSBI, 2011). This includes a recognition of the importance of wider research, for example, on the demand-side, on the role of social capital (Cordery, 2003), and, on the supply-side, on the complexities of the relationship between the state and the informal sector (King and Stewart, 2007).

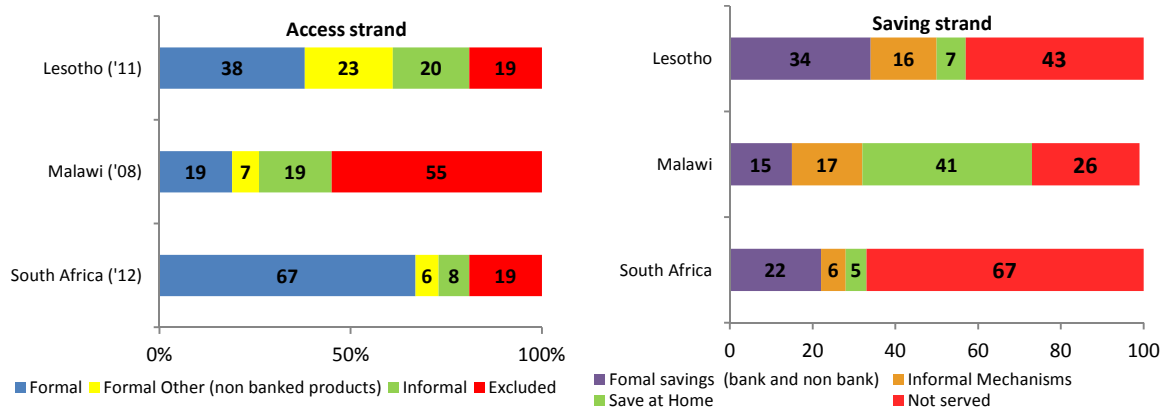
[17] The study does not follow a strict M4P approach, rather using the systematic market perspective as a guiding framework.

4 Cross-cutting findings from Lesotho, Malawi and South Africa

Comparative analysis was undertaken across the three country studies to identify areas of similarities and divergence between three countries that are at different levels of financial and economic development. These are categorised into areas of demand, supply and macro (policy, legislative and macroeconomic).

Demand

Figure 4: Access and Saving Strands[18]



Source: FinScope: Lesotho (2011); Malawi (2008); South Africa (2012)[19]

- **The variation in savings strands between the three countries and their relationships with the overall access strands in Figure 4 above offer insights into country specific saving behaviour.** For example:

  i. Lesotho has a significantly higher savings rate in formal products (bank and non-bank) than South Africa, but a lower overall formal access rate (particularly in banking services). This is driven by several differences between the types of institution offering savings in the two countries and by differences in savings culture;

  ii. It is notable that Malawi, the poorest of the three countries and with the highest rate of financial exclusion (55%), has a significantly higher overall savings rate than the other two countries. This is partly an indication that the poor can view even the short term storing of money to be used for transactional purposes, such as savings at home, as a form of savings, which may not be the case in the more affluent countries. But savings through external formal and informal mechanisms is also greater in Malawi than in South Africa, which, as in the case of Lesotho, appears to be partly explained by differences in the savings culture;

[18] In relation to the financial access strand, the categories are mutually exclusive. Thus, for example, someone with access to both bank and other formal services will fall into the category of "Formal – Banked" and not "Formal – Other"; a person who falls into the category of "Informal" will be someone who has no access to any formal services. Those who have access to bank accounts or to other formal services are defined as "formally served"; the formally served and those with access to informal services are defined as "financially included."

[19] The savings strand for each of the countries is calculated slightly differently. For example, the South African savings strand disaggregates the use of bank products from other formal products. For representational purposes these have been aggregated in the diagram above. The authors also used their own variables to calculate the Malawi FinScope savings strand as these were not available.

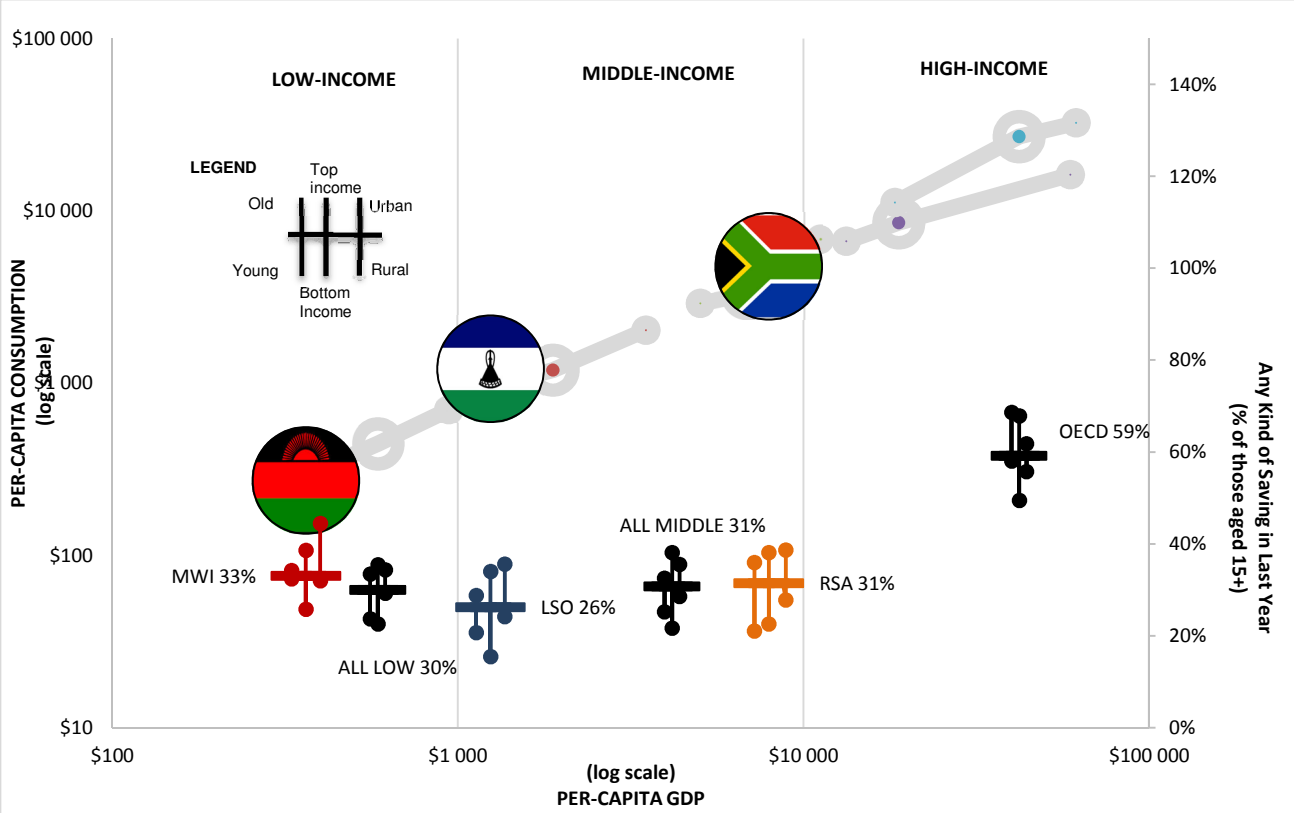
iii. These differences may also be partly explained by different perceptions among FinScope respondents about what actually constitutes savings. Differences in savings culture go wider than simple differences in propensity to save: they extend to the very definition of savings. Some mobile money transfer clients, for example, would describe the balances on their accounts as savings while others would not; some people might regard a loan to a relative or the provision of goods to a neighbour as a form of savings, while others would not.

- **A wide range of instruments (financial and non-financial) are being used by low income individuals to meet their needs.** This is consistent with the findings of *'Portfolios of the Poor'* (2009), in terms of the complex cash management strategies utilised by low income households. In both Lesotho and South Africa, we found that most people use a variety of mechanisms to save (often using both banks and informal savings groups), depending on whether the savings are primarily intended for short-term or long-term purposes and on how readily accessible they want the funds to be. Malawi provided a slightly more nuanced picture, where individuals tend to either use formal <u>or</u> informal (with little overlap between the two markets), although those using informal services such as Village Savings and Loan Associations (VSLAs) are also likely to be saving at home. However, looking at the household level, there are indications that both formal and informal services are being used to some extent, with husbands tending to use the former and wives the latter.

- **One of the most interesting findings was that the overall incidence of savings in each country, as measured by Findex is broadly similar (see Figure 5).**[20] While much of the research highlighted that households in Malawi, a very low income country, often had little surplus to save, the overall incidence of savings (33%) is similar to that of South Africa (31%) and Lesotho (26%). To explore this finding further, additional analysis was conducted to compare the finding to each country's per capita GDP (the horizontal access) and per capital consumption index (left hand vertical axis) – see Figure 5. The three countries are also compared to low, middle and high-income country groups globally. The analysis was further broken down into older versus younger adults; the top, better-off three fifths of adults versus the bottom two fifths; and urban versus rural.

[20] Findex is not as in-depth as FinScope and needs to be treated with caution, not least because of conflicting estimates across Africa compared to FinScope of how many adults have accounts at formal institutions. Findex is nevertheless sufficiently coherent and comprehensive to allow for credible cross-country comparisons.

Figure 5: Savings as per financial inclusion and income spectrum



Source: Author's calculation using Findex and World Bank OpenData

- Three particularly interesting conclusons can be drawn from Figure 5:

  i) **A low proportion of adults are savers throughout the world.** In any one year, barely one in three adults are actively saving in low and middle income countries and less than two in three in high-income OECD countries;

  ii) **The pattern across the three countries is consistent with the global pattern, with the incidence of savings being virtually the same in middle income as in low income countries.** This 'middle income paradox' is, we suggest, partly attributable to households' increasing preference for consumption as incomes rise: even though households have greater surplus income for savings, they prefer to spend this on day-to-day consumption at the middle income level;

  iii) **From the upper middle income band upwards, savings become more formalised.** A quarter of all savers use formal sector products to save in Malawi (just under the global low income average), rising to a third in Lesotho, and two thirds in South Africa (just above the middle income average). This was also consistant within countries, with strong correlations between income and savings in the formal sector.

- **Informal savings mechanisms are important throughout the three countries**, with savings group models recently expanding in all of them (even by 2011, they were a more important savings destination in Malawi and Lesotho than formal institutions, according to Findex).[21] Informal mechanisms are valued for access and convenience, high returns and social capital.

[21] A caveat to this is that the definition of savings groups used in Findex can also include savings in cash through other non-household means, which are not easily definable.

There are also a number of structural constraints to using formal institutions (e.g. proximity, Know-Your-Customer (KYC) requirements).

- **Formal institutions are still being used, and aspired to, despite significant negative real interest rates and the affordability challenges that they present (fees, minimum balances, and costs of transport).** The perception of the value proposition of banks as a safe place to store money was present throughout the three countries, as was the indication that interest rates mattered less than fees in terms of choosing a bank. Saving through banks was also seen as a way of getting access to a wider range of financial products than may be available via informal mechanisms. In Malawi, the privacy of the transaction (from spouses and other community members) was also valued, particularly by men.
- **Savings accounts in both formal and informal sectors are often used in a transactional manner (lots of small deposits and transfers), rather than for building lump sums or to earn a return.** Such accounts were, however, often still described as 'savings accounts' by banks and individuals. Many salaried individuals who receive their salaries into their accounts withdraw either the whole or the greater part of their salary the next day or a short time thereafter.
- **When households are building lump sums they are usually doing so based on saving for an identified project (e.g. school fees, farm inputs etc.).** These 'project' funds may often be used for emergencies if, and when, they are required. People are generally well aware of the fungibility of savings, and of the probability that an emergency will prevent them from investing in a business, buying seed etc. Most poor people do not think 'I will save to buy a machine' and then get taken totally by surprise when they have to use the funds for an emergency; rather, they think 'I will save and, if no serious emergency arises, then I will be able to buy a machine.' This has two product design implications: first, the need to tailor products to such 'project' needs, taking into account the nature of the sub-groups of households pursuing them (e.g. farmers of particular crops, urban traders etc.) and the need for funds saved through such products to be easily accessible if emergencies occur (or for other services, such as credit, to be accessible for emergencies).
- **Savings through non-financial instruments (e.g. livestock, property) whilst quite prevalent were generally viewed as inferior options**, with draw-backs regarding the risk of theft and their relative illiquidity in times of emergency. Their continued use suggests that there are still inadequacies in the financial instruments available to many low income households. Investing in livestock might, however, be a choice for those that see it as a relatively illiquid option but one that can give them a return if they are able to manage it well.
- **There is an increasing 'third adult'[22] phenomenon in South Africa and Lesotho** although the evidence suggests this is less prevalent in Malawi. A third adult is a young adult within the household that is not the household head (usually a young adult living in the parental home). These third adults tend to have less direct access to financial services, including savings, but may be accessing these services indirectly, through the head of the household. These adults need to be targeted with separate marketing strategies by financial providers.

Supply

- **Banks as a whole have made few in-roads into providing low income households with savings products.** Although some specialised banks (e.g. Malawi Savings Bank and

[22] I.e. a young adult within the household that is not the household head (i.e. living in their parental home).

Opportunity International in Malawi, Capitec in South Arica, and Lesotho Postal Bank (LPB)) have moved down-market, they are still less present in, or accessible from, many rural areas.

- **Despite improvements to the enabling environment** (e.g. permitting MFIs to take deposits), **there appears to be a limited prospect that MFIs or SACCOs will become major providers of low income deposit services in the near future.** SACCOs remain weak in all three countries and are mainly vehicles for salaried individuals, often used to gain credit they cannot access elsewhere. MFI lenders are struggling to identify profitable business models for expanding outreach through a deposit-led strategy.
- **There has been significant expansion in the number and types of informal savings and credit groups throughout all three countries**: these have changed the landscape of low income savings provision. This expansion could continue in the near future with models well suited to low income savers, offering convenience, a commitment device, access to credit (and social funds) for emergencies, and high returns. However, to the extent that this expansion has relied on donor funding there remains a risk it could slow down if that funding decreased. There could, in the medium-term, also be increased competition from banks experimenting with products aimed at similar low income households, although as noted above, this is still fairly limited. There was limited appetite for linkage arrangements with such groups among the financial institutions we interviewed, although given the current *stokvel* mobilisation and excess liquidity in South Africa linkages with formal institutions may provide an important additional source of capital for both parties.
- **The overall low level of savings in the formal sector, as opposed to the overall incidence of savings offers the prospect of a better supply response in the lower and middle-income SADC economies.** For example, when looking at the Findex data (Figure 5) the 8-9% of Malawians currently using formal saving options represents only one-in-four of the 33-35% of all adults actively saving. The limited use of formal savings applies regardless of age, income and location, so a formal product that can be accessed remotely at low cost and marketed to young as well as older adults has a ready market of people already saving. South Africa represents more of a challenge - the 22% of adults using formal saving options represent about two out of every three savers and this ratio is not much higher even in the high-income group (non-OECD as well as OECD).
- **Mobile phone-/agency-based banking is an opportunity in all countries to increase savings provision for low income individuals/households.** It is struggling to take off as rapidly in the study countries, when compared with some other countries, in particular Kenya and other East African countries. It is tending to be used as an *additive* rather than *transformational* service[23] and is therefore not yet having a significant impact on increasing financial inclusion. However, even when being used as an *additive* service banks could be doing more to transform clients who are primarily transactional into savings clients. This constitutes an important business opportunity that is not being capitalised on.

Macro

- **The macroeconomic climate has a significant impact on people's ability to save in all three countries.** South Africa's economy has struggled in recent years, resulting in increases in unemployment, particularly among young people, with the result that many people who were saving in the past are now unable to do so. In Lesotho there has been a significant drop in the number of migrant workers to South African mines, and therefore a fall in remittance levels that is likely to hit rural communities hard. Malawi has been affected by high inflation and a downturn in the overall economy. All of these factors may have a significant impact on the

[23] 'Transformational' banking provides services in such a way that unbanked people are targeted. 'Additive' initiatives simply supply another channel for the banked.

surpluses low income households have to save and therefore of the attractiveness to formal savings service providers of moving down-market.

- **The low income savings culture** (evidenced by policy documents, FGD findings, views from key stakeholders etc.) **appeared significantly stronger in Lesotho than Malawi or South Africa.** Basotho generally recognise the importance of saving but in South Africa many people struggle to save and saving is sometimes not considered as part of a community's culture. This is reflected in the lower savings rates in South Africa, despite the significantly higher levels of financial inclusion (see also above on the 'middle income paradox'). Low income deposits have a limited use as a source of capital mobilisation in all countries but senior stakeholders in Lesotho and to some extent South Africa appear to view savings potentially more useful for development than credit services.
- **Financial literacy in respect of how formal savings** (and other risk mitigation/developmental) **products operate was low across all three countries, and identified by all three governments as a key reform area.**
- **Social grants are potentially a significant driver of savings in South Africa but are not so significant in the other two countries.** Although social grants are also paid in Lesotho they are limited and their impact on savings behaviour has yet to be felt. In Malawi, it is only the ultra-poor who receive such grants.
- **There have been significant improvements in the regulatory enabling environment in Lesotho and Malawi, particularly with respect to the provision of services by the non-banked sector.** However there are concerns about the required level of supervisory capacity and the ability of the sector to adjust to and absorb so many changes in a short period.

SECTION B: Country case studies: Lesotho, Malawi and South Africa

Introduction to country studies

The following sections provide in-depth analysis of the savings landscape in each of the three focus countries. Each country study documents the demand characteristics of low income savers, assesses the providers of financial services across the spectrum of formal and informal financial services, and documents the main policy and regulatory issues that have an impact on low income savings.

The countries chosen for this study have significant differences. They include a country with relatively high levels of income and financial inclusion (South Africa), a country with medium levels of income and financial inclusion (Lesotho), and a country with low levels of income and financial inclusion (Malawi). Table 1 highlights some of these key characteristics: South Africa's high level of economic output is mirrored by the depth of its financial system, shown by a relatively high contribution of the banking sector to the financing of domestic economic activity, and its success in securing domestic finance. Lesotho and Malawi on the other hand have much smaller financial systems, as well as lower financial access (see also Figure 4 above).

Table 1: Economic and financial overview of focus countries

Economic and Poverty Data	Lesotho	Malawi	South Africa
GDP (current US$) million (2012)	2,448	4,264	384,313
GDP per capita (current US$) (2012)	1193	268	7507
Poverty headcount ratio at $2 a day (PPP) (% of population)	62 *(2003)*	82 *(2010)*	36.4 *(2012 -$2.50 PPP)*
Financial Sector Development	**Lesotho**	**Malawi**	**South Africa**
Money and quasi money (M2) as % of GDP (2012)	35.5	36.4	75.2
Domestic credit provided by banking sector (% of GDP) (2012)	3.1	35.6	187.2
Domestic credit to private sector (% of GDP) (2012)	18.8	20.6	151.1

Source: World Bank World Development Indicators

5 Lesotho

Some of the key insights from this chapter are summarised in Box 3 below:

Box 3: Summary of the landscape for low income savings in Lesotho

- Demand-side data (FinScope and Findex) show that Lesotho has a relatively high incidence of savings, with many low-income consumers using a variety of financial services to save. There is a good savings 'culture' in Lesotho, with most people understanding the need to save and trying to save where possible.
- Accounts are often used for transactional purposes and where salaries are paid into accounts the majority, or entire, amount is withdrawn almost immediately. There is a blurring between savings and cash for transaction smoothing (i.e. coping with common irregularities in income and expenses).
- There are very different patterns between the types of savings in urban and rural areas, with more access to formal saving opportunities in urban centres. Banks tend to lack incentives to move downmarket and those that have still make up a relatively small amount of total deposits.
- Individuals feel banks are expensive and often do not trust them, but they still want bank accounts primarily to keep money safe and to stop themselves being able to access money too easily.
- Bank accounts are also used to receive remittances from migrant workers in South Africa, although numbers of migrant workers have dropped in recent years so remittance levels are likely to fall. The return of migrant workers appears to be affecting local community structures, including savings groups.
- Saving for a particular project (e.g. Christmas groceries; farm inputs; school fees) is prevalent although these savings are often diverted to meet emergencies, resulting in longer time periods to save for the project than intended.
- Most of Lesotho's banks are attempting to target low income customers to a certain extent. Greater outreach and lowering of transaction costs may occur as mobile banking begins to take hold. Lesotho Post Bank probably has most scope to offer savings products to low income customers in rural areas, through local post offices.
- There have been numerous changes to the enabling environment, most notably the Financial Institutions Act (2012) which is being gazetted. This should enable better regulation of deposit-taking institutions.

5.1 Context

5.1.1 Economic overview

Lesotho is a small (30,000 square kilometres) landlocked country, completely surrounded by the Republic of South Africa, with a population of about two million people. The vast majority of Lesotho's population (estimated 99.7%) are Basotho, a Bantu-speaking people. Lesotho's highlands constitute two-thirds of the country's territory, less than 10% of which is suitable for cultivation (World Bank, 2013). Lesotho has limited natural resources and a narrow production base. Although Lesotho has a per capita income of around US $1,000, around 60% of the population lives on under US $2 dollar (PPP) a day (World Bank, 2013).[24] HIV/AIDS rates are among the highest in the world with 23% of adults (15 to 49 years) infected (UNAIDS, 2013).[25] This has clear economic and social implications.

[24] World Bank World Development Indicators (2003)

[25] UNAIDS: http://www.unaids.org/en/dataanalysis/knowyourresponse/countryprogressreports/2012countries/ce_LS_Narrative_Report[1].pdf [accessed 10 October 2013]

The economy is open and diverse and the main industries are agriculture, textile manufacturing, and diamond mining. Receipts from the Southern African Customs Union (SACU) dominate public revenues. Net official development assistance (ODA) was US $265 million in 2011, which constitutes 9% of GNI.[26] The performance of Lesotho's economy in 2012 was modest, as drought reduced agricultural production by an estimated 70%. GDP nonetheless grew by 3.8%, mainly driven by the expanding mining sector and the building industry (African Economic Outlook, 2013). In the last six years Lesotho's manufacturing sector's relative contribution to GDP declined from 20.1% in 2004 to 11.4% in 2010 as a result of stagnation in the textile and garments sector, due to the global economic crisis and the rapid growth in other sectors, notably mining. Textile producers have struggled in recent years to compete with low-cost Asian producers. The Lesotho Loti is pegged to the South African Rand, which is also a legal tender in the country (World Bank, 2013).

Lesotho's economy has tended to be highly dependent on remittances inflows, mainly from migrant mining workers to South Africa. Lesotho had the largest share of remittances in sub-Saharan Africa to GDP for the period 2005-11 (35.4%).[27] The fact that many men are migrant workers affects both income patterns and household structures – many households have no adult males (FinScope, 2011). However, the number of migrant mineworkers has dropped in recent years from over 50,000 until 2003 to just over 30,000 in 2012,[28] and is expected to drop to around 27 000 in 2013. This decline is a result of a change in the Immigration Act in South Africa. With the average 8% rise that gold miners recently received and the larger rise in platinum wages, the value of remittances may not fall in 2013. But between changes in South Africa's Immigration Act and the increase in mechanisation that can be expected following the wage hikes and labour unrest in 2012 and 2013, mine employment – and quite likely the rand value of remittances - for Basotho will probably trend downwards in the medium term.

About 70%-80% of Lesotho's people live in rural areas, and more than three-quarters of these are engaged in agriculture – mostly traditional, low input, low output, rain-fed cereal production and extensive animal grazing. As highlighted in the previous paragraph, in the past, remittances from mineworkers were a major source of rural livelihoods, providing vital cash needed to purchase agricultural inputs and productive assets or to invest in household assets and housing, but this situation is now changing, which is likely to have a significant impact on many rural households. The 'forced savings' entailed by the compulsory deferment of 30% of mineworkers' wages for payment on their return home has played a major role in the investment of many Lesotho households in assets such as houses, consumer durables, motor vehicles, livestock and farming equipment. This pattern is likely to be negatively affected by the recent changes in the South African Immigration Act and increased mine mechanisation.

Weaknesses in infrastructure in Lesotho limit the outreach of a variety of services, including financial services, particularly in rural areas. Although the lowlands are relatively well financially served, about a quarter of the population live in the mountains, with poor access to basic services and commodities, as well as limited market opportunities. According to the National Strategic Development Plan (NSDP) 2012/13 – 2016/17, Lesotho has a road network of 7,437 km, 16% are paved 51% are gravel and 33% are earth and other forms of roads. Lesotho has one small railway, one international airport and 12 operational airstrips throughout the country. Household access to electricity is estimated at 20%, concentrated in the lowlands and Senqu river valley. About 77% of the Basotho use biomass as main source of energy. ICT infrastructure, which requires connectivity, international access, significant density of computers, telephones (including mobiles) and electricity

[26] OECD: http://www.oecd.org/dac/stats/LSO.gif [accessed 7 October 2013]

[27] This fell to 25% in 2012 but remains the highest percentage in Sub Saharan Africa.

[28] Data obtained during an interview with Mr Kikine Kikine, Regional Manager, The Employment Bureau of Africa (TEBA), Lesotho. Although these data are only for South African mines for which TEBA acts as recruitment agent they provide a good indication of current numbers as TEBA recruits for all of the largest mines in South Africa.

connections, influences the expansion of inclusive finance in Lesotho. The FinScope Lesotho report (2011) indicates that about 66.6% of the adults in Lesotho use mobile phones and about 26.7% and 4.7% of the adult population use public phones and landline phones respectively (FinScope 2011). Only 4.59% of the adults in the country had internet access in 2012.[29] Inadequate, irregular water and wastewater services have been also identified as a key constraint on growth (Amha, 2012).

5.1.2 Financial sector overview

The country's financial system includes four commercial banks,[30] as well as various NBFIs such as credit providers/microlenders, insurance companies, private pension funds, unit trusts and SACCOs. Three of the commercial banks are South-African owned and have around 98% of the market share. The other is the state-owned LPB. Between them, the four banks have 42 branches and around 80 ATMs.[31] The South African banks are profitable, well capitalised and liquid but LPB still requires a government subsidy to cover its operational costs. LPB has operated at a loss of M3-M10 million annually since its inception in 2004. The financial system has also suffered from the negative repercussions of the financial crisis, despite its relative isolation from the global capital markets, largely due to the crisis' impact on the South African financial sector.

Total NBFI assets represent about 21% of GDP. Although it was reported that there were around 90 credit unions with 76,000 members and US $7.3 million in total assets in Lesotho in 2012,[32] reliable statistics are hard to come by for registered SACCOs, almost certainly the most numerous form of credit union. However, two reports compiled for the government of Lesotho in 2011 and 2012 indicate that the SACCO movement has experienced malaise over the past few years. Public confidence in SACCOs seems to have been negatively affected by the generally poor governance, staff competence and auditing that resulted in substantial losses some years ago. One of the few financial cooperatives that seems to have grown significantly since then is Boliba Savings and Credit (BSC): a Subsidiary of Boliba Multi-purpose Co-operative which was founded in June 2000 and currently has three branches and an agency within Maseru city. BSC's total savings deposits – in about 65,000 accounts - currently amount to about M80 million (about US $8 million).[33] BSC's clients are mainly from low income groups in Maseru city, as indicated by the low average balances per savings account. However, BSC is not supervised by the Central Bank of Lesotho (CBL) and some of its practices are a cause for concern. For example, in recent years Boliba has operated substantially below the lowest levels of capital adequacy. This represents a systemic risk to Lesotho's financial sector. Informal financial services also play an important role in the financial sector, as discussed further in section 5.2.3.

The insurance sector in Lesotho is relatively small. As of March 2008, six insurance companies, mostly South African, and twelve insurance brokers, operated in the country. The main insurance companies are Lesotho National Insurance Group, Metropolitan Lesotho and Alliance Insurance Company. As in other developing countries, many insurance products are only accessible to relatively wealthy, salaried people: minimum payments of around M150 (US $15) per month on most life and endowment policies are beyond the reach of many. However, Lesotho has numerous informal and formal burial societies, offering products that allow people to save/insure against funeral costs at more affordable monthly contributions, often made possible by group schemes (FinScope, 2011).

[29] http://www.theglobaleconomy.com/Lesotho/indicator-IT.NET.USER.P2/ [accessed 7 October 2013]

[30] Standard Lesotho Bank Ltd, Nedbank (Lesotho) Ltd, First National Bank of Lesotho, Lesotho Post Bank

[31] FinScope Lesotho Report (2011)

[32] WOCCU 2012 statistical report

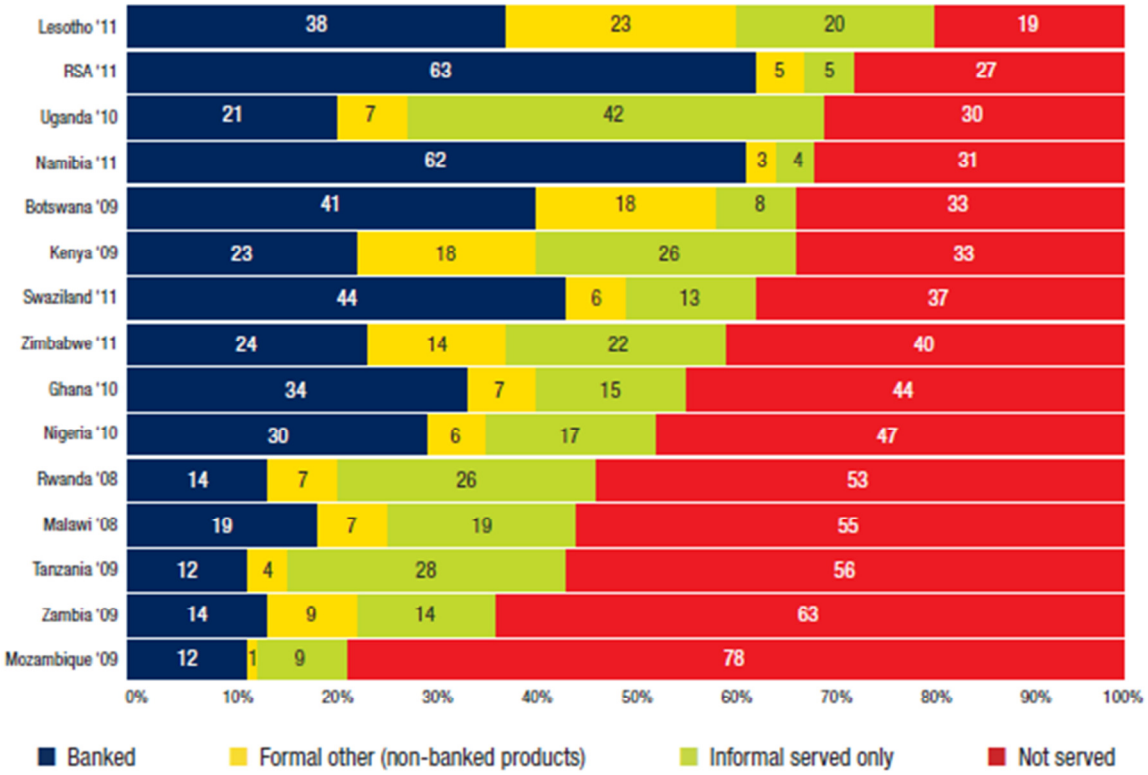
[33] Interview with General Manager, Boliba Savings and Credit, August 2013

5.2 The savings landscape

5.2.1 Key determinants of financial access

According to FinScope 2011, the level of financial inclusion in Lesotho is relatively high, with only 19.1% of the population being financially excluded, as shown in Figure 6.[34] This is the highest level of financial inclusion across all countries which have undertaken a FinScope survey.

Figure 6: The Lesotho Access Strand: Country comparisons



Source: FinScope consumer survey, Lesotho 2011

One of the reasons for the relatively high financial inclusion levels in Lesotho is the high level of usage of products related to funeral cover: a total of 81% of respondents have funeral insurance, and the majority have this cover through the informal sector (through burial societies). However, even without funeral cover, the level of financial inclusion would still be high. This could be explained, in part, by the fact that Lesotho is relatively small, both geographically (so financial institutions are more likely to be within reach of rural areas) and in terms of population size (just over 1 million adults to serve financially) but the FinScope findings suggest that NBFIs are doing something right in terms of outreach, particularly regarding insurance products and microfinance (FinScope, 2011). However, while the insurance industry encourages and facilitates savings through its long-term assurance products (life and funeral cover), MFIs – other than BSC and to a lesser extent Moliko – play a more limited role when it comes to savings. The high levels of financial inclusion may also have something to do with the compulsory deferred pay scheme operated by the mines through the Employment Bureau of Africa (TEBA) (see section 5.1 above). These result in about 28% of Lesotho mineworkers receiving the annual proceeds through

[34] The access strand for South Africa included in this figure is from FinScope 2011 – we have used FinScope 2012 data in the rest of this report but this figure was included in the Lesotho 2011 FinScope report, before the 2012 South Africa FinScope.

domestic bank accounts. It is also likely that most remittances arrive in Lesotho through some form of formal account nowadays and this would push up formal financial inclusion generally as Lesotho is still heavily dependent on remittances.

The western and northern lowlands districts have the best access to finance, especially Maseru urban which has almost half of all branches and ATMs. On average there are 4.44 branches/ATMs for every 100,000 people in Maseru urban. Mokhotlong (in the rural north-east) has the lowest financial inclusion, with two branches/ATMs per 100,000 people (FinScope, 2011).

Many Basotho have low expectations of, and low trust in, the financial system as a result of recent scandals/problems. For example, one of the burial societies (MKM/Star Lion Group) collapsed following a pyramid scheme scandal and as a result an estimated 400,000 people lost their money. SACCOs generally seem to have been poorly governed, administered, supported and audited, resulting in a decline in their popularity, and as mentioned above, there are some concerns about the stability of the largest SACCO, BSC. Furthermore, a loan guarantee scheme for farmers which was established in 2006 was poorly designed, has cost the government hundreds of millions of Maloti and has become the subject of a political scandal (FinScope, 2011). This has resulted in low levels of trust in a number of elements of the financial system. In addition, understanding of bank charges and formal insurance policies seems limited which leads to further misunderstandings and erosion of trust. The FGDs carried out for this study revealed that some people feel that banks are charging fees that are unreasonably high and are non-transparent and that this has led them to withdraw their deposits to pre-empt further charges. Participants told us:

"When money is saved in the bank it just evaporates."[35]

"They say the money that is taken by the bank pays the security guards."[36]

"*I used Boliba bank at one point and I would sometimes have a problem accessing my money due to what they said were imbalances in the account; they sometimes said the money in the account did not correspond to what was shown in my 'bank book' and I would be denied my money and told to come back some other day. In my opinion this was a problem that was supposed to be solved internally and should not have affected me as a customer*."[37]

"*You would get paid M700 on Friday and when you go to withdraw it on Saturday the bank only reflects M680, and if you don't take all of it out, you cannot afford to be giving the bank your M20s every time you withdraw your money*"[38]

Similarly, formal insurance policy contracts and brochures are often only available in English. Advice, if available, is sometimes poor, which has led to the perception that pay-out from formal insurance policies is unreliable, as conditions for pay-out are frequently not properly explained at the time of joining.

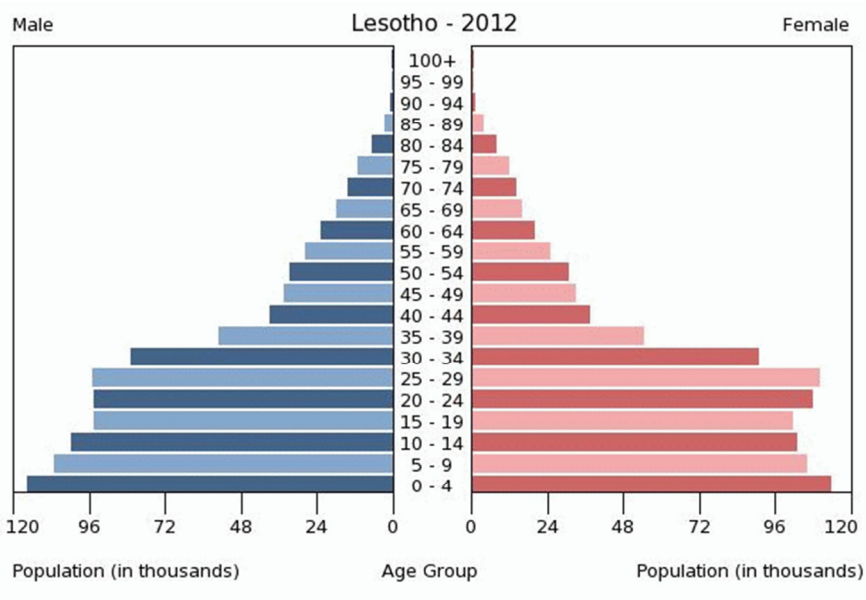
"*They ask you to bring birth certificates, baptism certificates etc. and if they realize you cannot produce say the baptism certificate, that's where they have got you. They will use that as an excuse not to pay up.*"[39]

A mixture of low expectations, mistrust and low financial literacy seems to be a barrier to further increasing the reach of formal financial instruments to low income households.

[35] FGD in Lifotholeng village in Ha-Makhoroana area in the Berea district.
[36] FGD in Lifotholeng village in Ha-Makhoroana area in the Berea district.
[37] FGD in Ha-Fako, Sefikeng (Berea).
[38] FGD in Thetsane industrial Area (Maseru).
[39] FGD in Majakaneng, Ha Mopeli (Butha – Buthe).

In order to better understand households' financial behaviour, it is important to understand household make-up. As shown in Figure 7, Lesotho has a relatively 'young' population, with particular bulges in population around 20 to 30 years.[40] This population bulge is moving up the age scale and at the same time is accompanied by growing household size and much of that growth now is driven by increasing numbers of adults per household.[41] This is hardly surprising given unemployment is high in Lesotho (25.3%)[42] so many of these 'new' young adults are still living with their parents and can therefore be classified as 'third adults'.

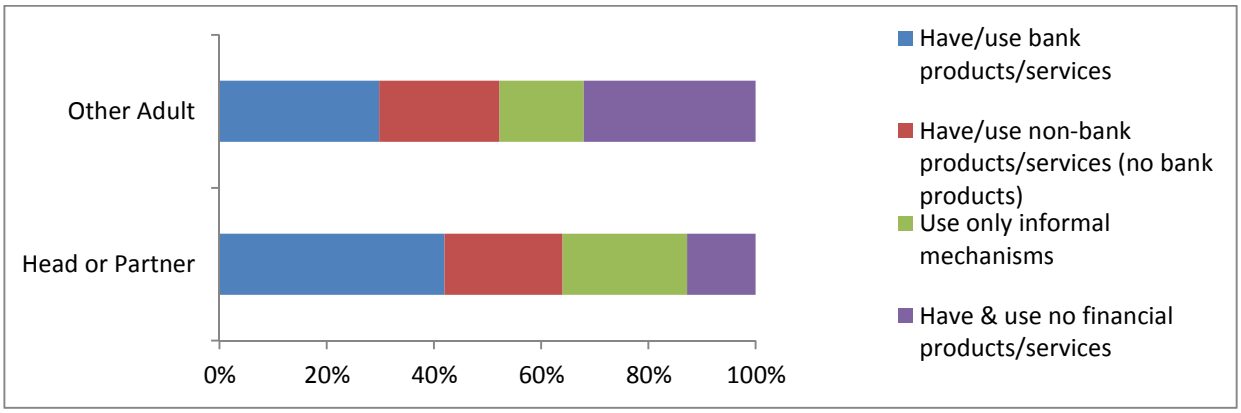
Figure 7: Lesotho Population Period - 2012



Source: www.indexmundi.com

As mentioned in section 3, the position in a household has a crucial influence on how personally monetised a person is, with householders handling much more money than they spend on themselves, children virtually none and third adults somewhere in between. This has an effect on the amounts and timing of likely saving flows. As shown in Figure 8, 'other adults' (or 'third' adults) are generally more financially excluded than heads of households or their partners.

Figure 8: Access strand by status in household (Lesotho)



Source: FinScope Lesotho data (2011)

[40] The chart in Figure 6 shows resident population and the lack of an obvious bulge for males aged 20~29 reflects the fact that this is the peak age for migrant work in South African mines.

[41] UN National Human Development Report (NHDR) 2006 Table 3.3.1

[42] http://www.bos.gov.ls/ [accessed 30 September 2013]

5.2.2 Demand

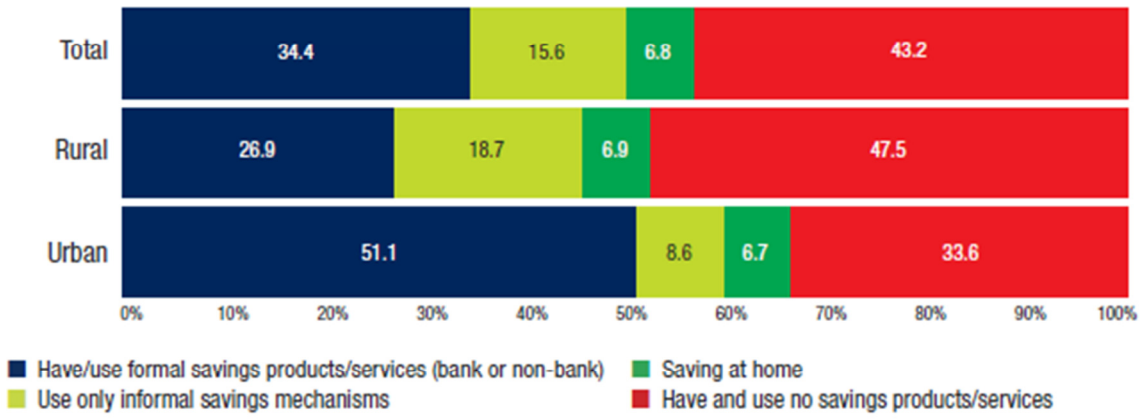
How prevalent are savings?

Looking more closely at the FinScope data in relation to savings, some interesting findings emerge. The dominant ways in which the Basotho interact with the financial services sector (both formal and informal) are insurance (61.7%), savings (50%) and transactional products and services (42.4%). Furthermore:

- Of the 38% of the population which is **formally banked**, most individuals use transactional products (used by 87% of banked) and savings products (used by 86% of banked) rather than credit products (10%). In 2011, 42% of the banked population used their bank accounts for remittance purposes (50% urban/35% rural) but it should be noted that this is likely to have decreased as the number of migrant workers has dropped in 2012/13 (see section 5.1);
- Of the 23% of the population served by **NBFIs**, 18.2% use NBFIs for savings (27.9% urban/12.1% rural); 81.2% for insurance, 31.1% for credit and 3.1% for remittances;
- Of the 20% of the population using **informal** financial services, the majority use them for membership of burial societies (60%), 47% use them for savings and 52% for credit.

According to FinScope 2011, in total 57% of adults in Lesotho claim to save in some way. A higher proportion of urban adults (66%) save than those in rural areas (52%). Urban adults tend to save using formal financial services (51%), compared to 27% of rural savers. More rural savers use informal financial institutions to save (19%) compared to only 9% of urban savers, as shown in Figure 9.

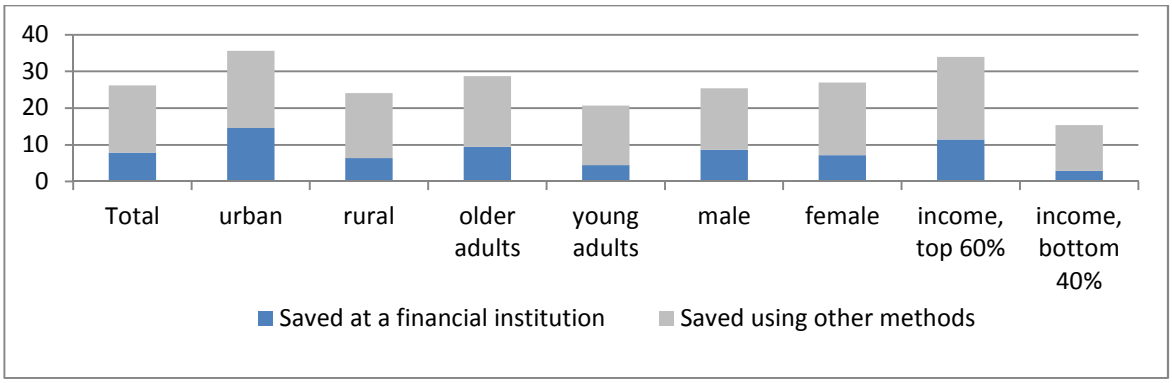
Figure 9: Savings mechanisms/products: rural versus urban



Source: FinScope consumer survey, Lesotho 2011

There seem to be some key differences between Findex data on savings in Lesotho and the FinScope 2011 findings. For example, Findex shows that only 26% of Basotho aged over 15 years saved any money in the past year, as shown in Figure 10, compared to the 57% shown by FinScope. Box 1 provides an explanation of some of the key differences between FinScope and Findex, and the variances occur as a result of these differences. As shown in Figure 10, Findex found in 2011 that of those who had saved over the previous year, around one third had saved at a financial institution – this is similar to the proportion shown in Figure 9.

Figure 10: Respondents saving money in the past year (%) (Lesotho)



Source: World Bank Findex 2011

Figure 10 also shows that savings levels were higher in urban areas, among older adults and higher income respondents. Although more females saved than males, it is interesting to note that males were more likely to save at financial institutions. This might be due to the fact that more men than women are or were formally employed and received a salary through a bank account.

Sources of income for savings

According to FinScope, the main sources of income in Lesotho are farming (31.4%) and salary or wages (16.8%). Other sources include private pensions (12.5%), remittances (11.9%), income from own business (11%), government pensions (8.5%) and government grants (5.8%) (FinScope, 2011). Most of the income earned by households that took part in our FGDs was reported to come from casual labour. Non-cash income received, for example, from selling something to the local school in return for the reduction or waiving of school fees, was also reported to be important. There was also mention of subsistence farming and livestock rearing as sources of income, but the climate has been harsh and livestock theft has been on the rise in recent years. In contrast to South Africa, social grants (to orphans and vulnerable children and those over 70) are only slowly starting to play a role. The grants to orphans and vulnerable children are seen as problematic by some participants as they are only paid out on a quarterly basis (rather than monthly as is the case with the grants to over 70s) and are often delayed.

Remittances were also mentioned during the FGDs, but these had become less important as a source of income in recent years. However, although the number of migrant mineworkers to South Africa is declining (see section 5.1), remittances still constitute an important source of income for households, particularly in rural areas. Remittance levels for mine workers recruited through TEBA, the largest recruitment agency for South African mines, showed a steady increase from around M270,756,582 (approximately US $27 million) in 2006 to M370,425,138 (approximately US $37 million) in 2012, due largely to the sharp increases in wage rates, which have more than offset steadily declining employment. However, these trends may have led to a situation where fewer households are benefiting from remittances. In 2013, the number of Lesotho mine workers is expected to fall by a further 10-15% because of South Africa's tighter labour immigration requirements, although the value of remittances may remain more or less unchanged. It is important to note that the employment contracts of mineworkers include a compulsory deduction of 30% of their salary for 'deferred compensation'. This amount can only be paid to them in their country of origin at the end of their contract (usually one year). This system of enforced saving has governmental support throughout the SADC region and we were told in stakeholder interviews for

this study[43] that it has been responsible for much capital investment in low income communities in Lesotho. Many of the brick houses in Lesotho, especially in rural areas, are the product of this deferred compensation system, as well as investments in farms, small businesses, etc. These investments - and saving in general – will probably be negatively affected by the continuing drop in the employment of mineworkers from Lesotho.

Given the recession and the extreme labour turbulence on South African mines in 2013 (which has already led to substantial retrenchments and will probably lead to further mechanisation), we expect that the downward trends in employment, saving and investment will continue. During our FGDs, we heard that the impact of this trend on communities that have for many years relied on mine remittances for a large part of their income manifests itself in different ways. These range from households being headed by grandparents, where parents have gone searching for jobs elsewhere and have not been able to support their children, to young men returning from the mines without having secured employment, to a breakdown of trust within such communities, due to rising levels of unemployment and desperation. The joint effect of the slowdown in the global economy and of the decreasing number of jobs in the mining sector has been to make it difficult to maintain the fragile balance in communities dependent on remittances. The result is increasing levels of vulnerability and increasing inability to access or use existing formal financial instruments, as more bank accounts become dormant and the local economy moves back to a less monetised form of bartering. For example, LPB (the bank which is most active in rural areas) reports that about 23,000 of its 72,000 savings accounts (more than 30%) are currently dormant.

Where and how people save

According to FinScope, 15% of respondents save at home.[44] This may include hiding money away in a secret place, carrying it on the person at all times, burying it in different places outside the house, or leaving it in the hands of someone else (FinMark Trust, 2012f). It is likely that this figure has increased in the wake of the economic crisis, as people move away from saving in bank accounts and in local saving clubs to keeping money at home. Trust within communities - and even families - seems to have eroded during these tough economic times. Whilst FGD participants reported high levels of saving at home, they also mentioned that this posed the threat of the money being stolen or taken by other family members. Recent examples of disappearing funds from community saving clubs seem to have also led to a more cautious approach to participation in such clubs and to an increasing number of legal challenges in traditional courts.

"*When one of my family members passed away, I was turned away with the excuse that there was no money and that members only qualified for the funds when they have been members for at least six years*". "*The latter reason", she continued, "was never specified to anyone at the beginning.*"[45]

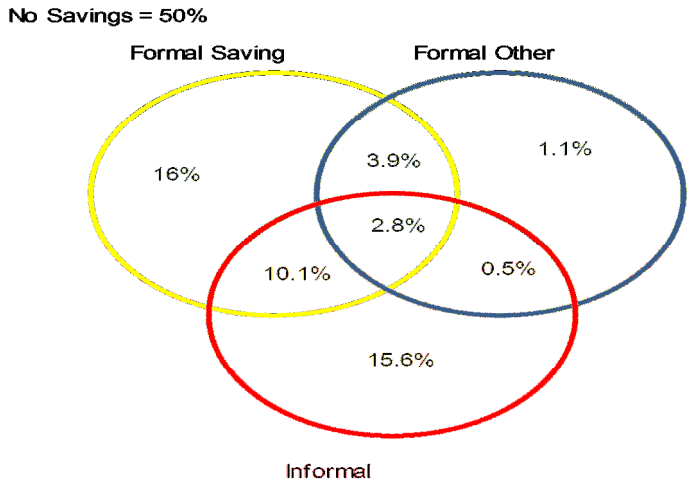
Despite these concerns about saving at home or in community saving clubs, people nonetheless seem to view them as the mechanism for saving that is best tailored for their needs. Banks are perceived as only useful for storing large amounts of money and for saving that cannot readily be accessed for purposes other than emergencies. Despite the general negative perception of banks as a result of their charges, most FGD participants stated that if possible, they would prefer to save at a bank. Generally banks are seen as being a more secure place to put money and an opportunity to access a wider range of financial services. The Lesotho Agricultural Development

[43] Interview with The Employment Bureau for Africa (TEBA)
[44] Although Figure 5 shows 6.8% save at home, it is important to note that the FinScope strands are mutually exclusive – see footnote 4
[45] FGD in Ha Seitlheko (Mafeteng).

Bank, which was liquidated in 2000, was mentioned as a bank that used to provide products tailored to the needs of low income households and had branches easily accessible even in rural areas.[46]

Many Basotho use a variety of financial services to meet different savings needs – this is in line with the findings of 'Portfolios of the Poor'. Figure 11 shows the overlaps in usage of different types of savings products, according to FinScope data.[47] As shown, there are significant overlaps between usage of formal and informal savings products: 17.3% of the 50% who save use more than one of the mechanisms, while 2.8% use a mixture of all three (formal, formal other and informal).

Figure 11: Overlaps in usage of savings products



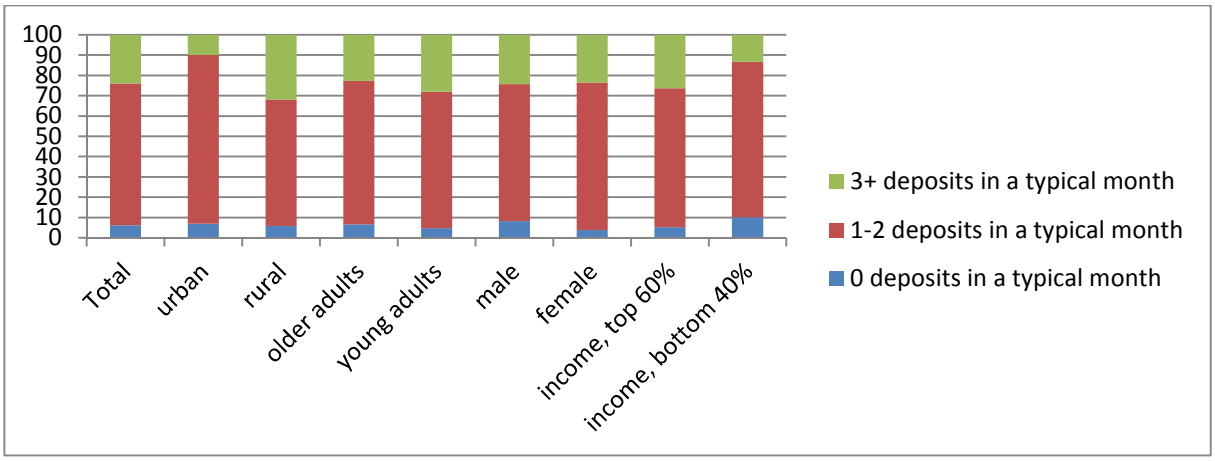
Source: Author's calculation using FinScope (2011) data

In general, those saving at financial institutions in Lesotho are not saving frequently or regularly. The FinScope 2011 report states that many salaried people actually use so called 'savings accounts' as checking accounts, with salaries paid into accounts by employers usually cashed out the next day. This is partly due to dissatisfaction with the financial instruments provided (fees and charges) and partly due to the fact that people take the money from the formal financial institution to invest it in informal ways which they perceive as yielding higher returns and providing easier access to cash if needed. Findex data on the typical number of deposits per month (see Figure 12) shows that 70% of respondents make 1-2 deposits per month, compared with only 24% making more than 3 deposits in a typical month. This is a surprisingly high incidence of depositing, for both salaried or non-salaried income earners and backs up the FinScope finding that banking is highly transactional.

[46] The Agricultural Bank mobilised savings and provided agricultural credit.

[47] It should be noted that half of all FinScope respondents do not save at all and 15% save at home: these are not included in the figure.

Figure 12: Typical number of deposits per month (%) (Lesotho)



Source: World Bank Findex 2011

The perception that only large amounts are worth depositing in formal institutions seems widespread. This is partly linked to a belief that small amounts are not worth incurring fees for, where there is a charge for depositing, and partly due to an acknowledgement that banks offer the only truly safe way to keep larger amounts of money or to save towards larger items.

"*Banks will still pay you if they get robbed, but one's house will not pay out if anything were to happen to it!*"[48]

"*It is true some may feel banking is outdated, but if I want something like a house or a car, which are very expensive, I have to save and therefore will be forced to save at the bank, even though I know that when I save M10, the bank takes M5. All I need to do is condition my mind for it if I really want to achieve my goal.*"[49]

Formal financial institutions tend therefore to be used for saving larger amounts and by people receiving salaried income. Remittances are also increasingly channelled through bank accounts.

"*I would love to be able to save in a bank if they were closer to home and also because they can offer loans and greatly eliminate the trust issue that cripples most local schemes.*"[50]

However, low income households typically struggle to access banks and formal insurance policies. This is partly due to lack of physical proximity to banks and ATMs and partly due to the KYC requirements for opening a bank account and for taking out an insurance policy. Valid passports have to be presented, as well as payslips. Given the informal and irregular nature of income experienced by most low income households this, de facto, prevents them from accessing formal financial institutions.

"*I used to save my money in the bank while I still had a passport that was valid in order to avoid using it for unnecessary reasons.*"[51]

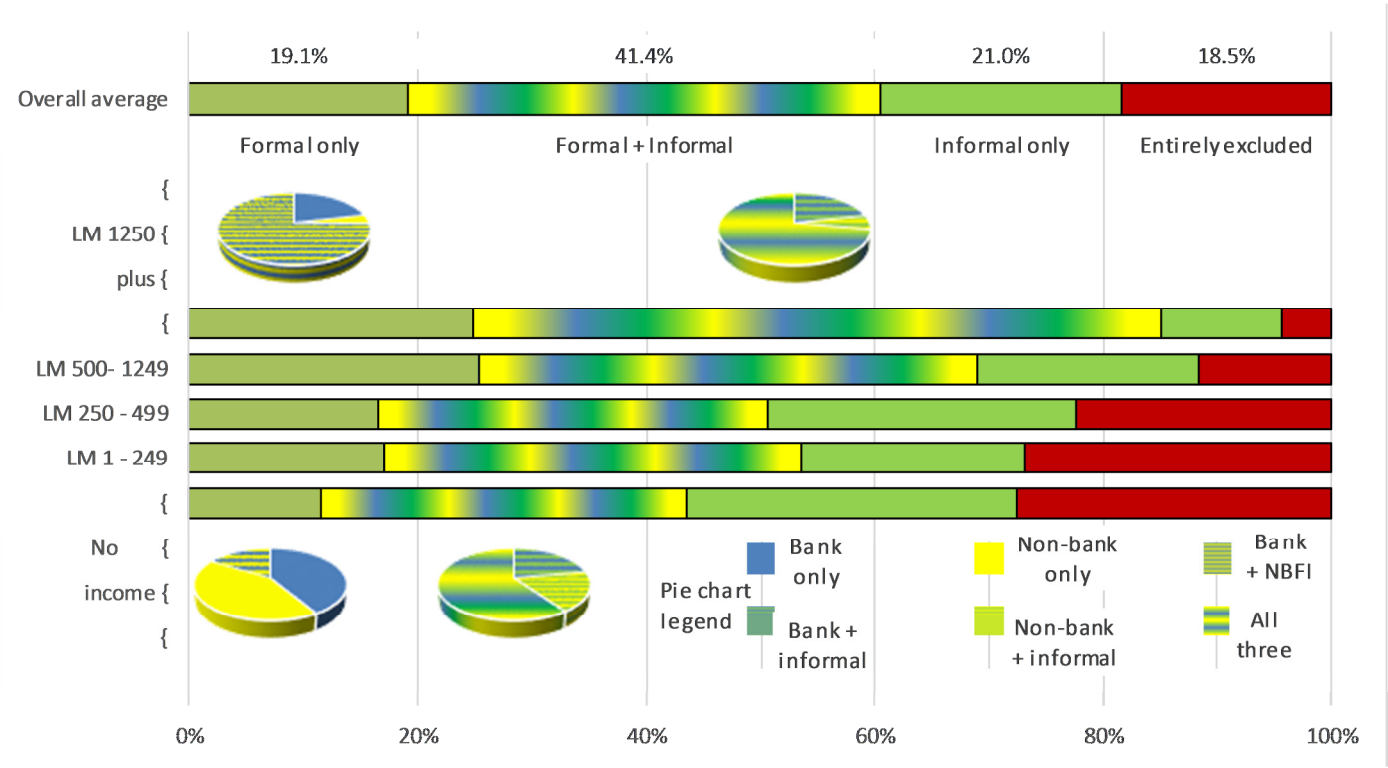
"If I had a payslip I would have perhaps been saving more by way of a bank. I know a number of people who have the same problem with banks."[52]

[48] FGD in Ha-Fako, Sefikeng (Berea).
[49] FGD in Quthing.
[50] FGD in Quthing.
[51] FGD in Ha-Fako, Sefikeng (Berea)

The problems associated with accessing formal financial institutions lead to an increased use of informal saving mechanisms, such as community burial societies and *mechaellanos*.[53] One of the main reasons given for saving informally is the ease of accessing funds if needed. However, this does not apply to all forms of informal or traditional forms of saving. Investing or saving in livestock continues to be popular despite rising levels of livestock theft. The FGDs revealed that people do not view this form of saving as useful for dealing with emergencies, as livestock are difficult to sell at a good price when potential buyers know that the seller is in need of cash, and in communities which are characterised by a shortage of readily available cash.

Figure 13 looks at how income affects the way Basotho mix different types of formal and informal financial services. Given the relatively small sample size of 50% of respondents saving, we look at financial services usage in general rather than focusing on savings. However, the chart should be seen as indicative of financial services usage across all products, including savings. As shown in the figure, income seems to be an important determinant of total exclusion – almost 30% declared no income in the month before the FinScope survey was conducted, while another 30% were only using informal services. For those earning more than M1,250 per month (about US $200), only about one in six were using informal financial services or were entirely excluded. It is interesting to note that many of those in the highest income brackets mix informal with formal and that most of these are mixing banking, non-bank formal and informal financial services. Even among those with no income, mixing financial services mechanisms is a significant feature but clearly not to the same extent as for those in higher income brackets.

Figure 13: Overlaps in financial services usage by income bracket



Source: Findex and WDI data, author's calculations

[52] FGD in Ha Seitlheko (Mafeteng)

[53] A kind of ROSCA, popular in Lesotho, whereby members agree on a monthly contribution, the total of which is given to one member every month in a rotating manner throughout the group. *Mechaellano* are common with, but not limited to, working people or people with a regular stream of income.

We have also included an analysis of the usage of financial services by other binary tabulations (status in household, location and gender) in Annex F. Interestingly, this shows that the extra access that householders have, compared to other adults, is also mostly due to more mixing of 'formal' with 'informal' and between 'formal' and 'other formal'. The same is true of location. Gender shows only the most subtle differences.

The FGDs produced a mixed picture of how men and women use different savings mechanisms. Women are generally viewed as knowing more about financial services but men are also involved in making decisions about savings, especially if they earn an income. The female textile workers we met feel that because they earn they have the right to make financial decisions. However, eldest sons sometimes become involved in the decision making process if their mother is a single parent. Several women reported saving in savings clubs behind their husband's back, as husbands often did not approve until they could observe the benefit of saving. CARE participants said that joining a CARE group had helped them convince their husbands of the benefit of saving in this manner.

Why people save and why they might find it difficult to save

It is also important to understand why Basotho save. The two main reasons for saving given by FinScope respondents are: 'living expenses when you do not have money at that time' (42.2%) and 'funeral expenses when needed' (38.3%). Findex data is less specific but shows that 12% of respondents had saved for future expenses. According to FinScope, only 16.3% of Basotho save for emergencies (other than medical) and Findex provides similar data (17%). This suggests that Basotho adults save for reasons which require them to have quick and guaranteed access to their money or to credit when required. FinScope data also suggests that Basotho adults may not undertake long-term planning when it comes to saving, with only 2.8% 'saving for retirement in old age' and still fewer - 2% - saving so they 'have something to leave their families when they die' (FinScope 2011).

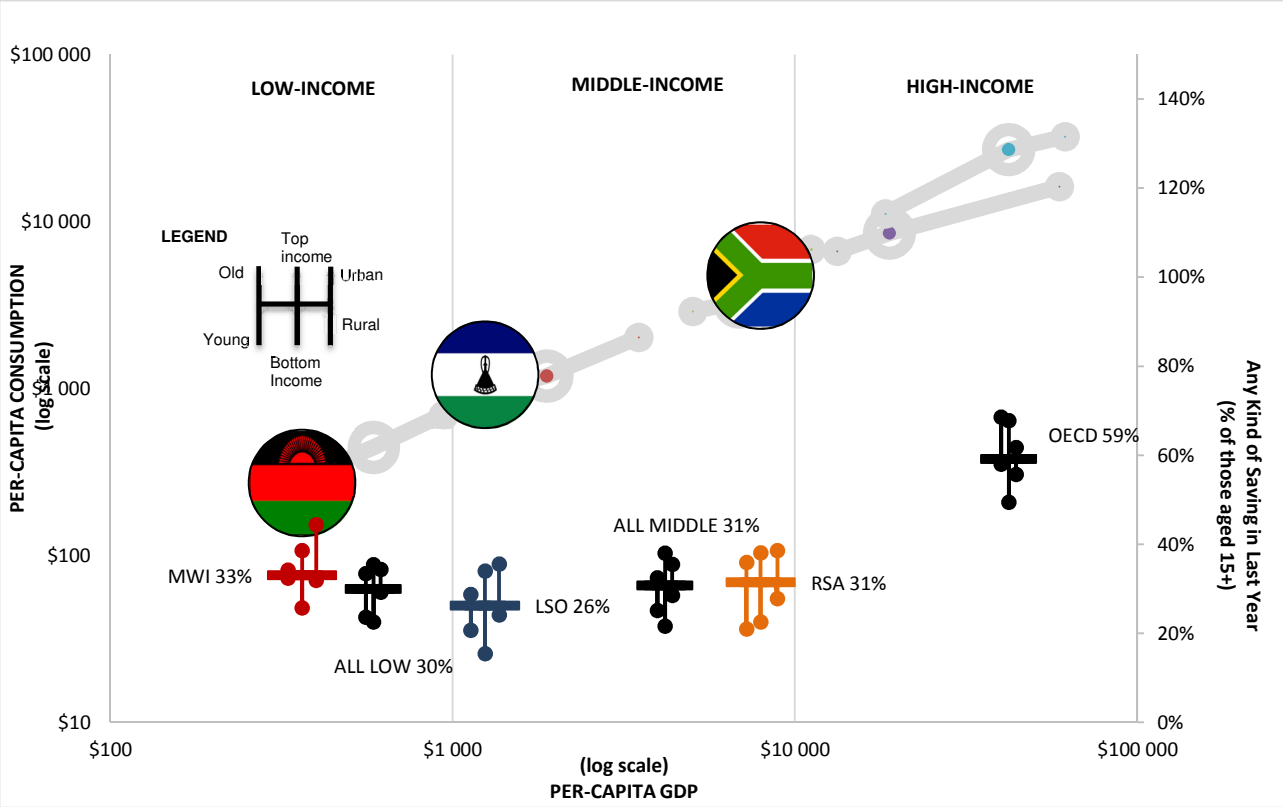
The FGDs conducted for this study paint a more nuanced picture. People typically responded by saying that they were saving to build a house, invest in a small business, buy seeds or other farming inputs, or for the education of their children. Grocery savings groups and saving for Christmas expenditure were also mentioned as short-term saving goals. However, people reported they were frequently forced to abandon even these short-term goals due to more immediate needs, such as emergencies linked to health, the death of a family member or groceries to survive. Even though several respondents started to save for secondary school while their children were still in primary school, many also reported not being able to reach their saving targets due to unforeseen emergencies in the family or wider community. Saving for education, health and emergencies thus emerge as de facto reasons for why Basotho save, with more aspirational goals existing, but rarely being realised. However, this is probably true of the way many people save, throughout the world. Most people who save for long-term goals are aware that emergencies may happen and they may need to use savings to deal with those emergencies, thus preventing them from reaching their goal within the timescale envisaged. We therefore think that the participants are well aware of the fungibility of savings, and are aware of the likelihood that an emergency will prevent them from investing in a business, buying seed etc.

When one compares the Findex data on saving during the year 2010/2011 in Lesotho with the country's income status and per capita consumption an interesting picture emerges. In Figure 14 below countries are plotted by where on the development spectrum they appear (GDP per capita along the horizontal axis and per capita consumption on the main, left-hand, vertical axis with each country's position indicated by the relevant country flag) but then below each of these positioning plots the Findex data for the percentage of adults saving during the year up until the survey date

are plotted against the secondary right-hand vertical axis. The average for all adults is shown by the thick horizontal bar with the contrasting percentages for older/younger adults, better-off/bottom-end and urban/rural shown as vertical ranges above and below this. The three countries covered by this study represent the full spectrum of low and middle income developing countries. Malawi is where one would expect it to be – bottom end of the low income spectrum and a third of all adults are saving in any one year and the biggest differentiators are income (the middle pairing) and urban/rural (the rightmost pairing). South Africa, at the top end of the upper-middle income group shows a not dissimilar average but the reasons are more complex and multi-factorial.

This immediately raises one interesting paradox, which might be called the 'Middle-Income Savings Paradox' – why doesn't the prevalence of current savings rise with income level until a country gets into the high income bracket? One reason may be that saving in low income countries is very active; money moves in and out of the family budget and around various financial mechanisms all the time but once a country starts to move up the poverty spectrum savings becomes a longer term phenomenon with no more current activity (apparent in the Findex data) but more holding of savings (apparent from the FinScope data). This distinction seems to matter a lot in Lesotho, which is clearly off the line in the Findex analysis, weighed down by modest levels of inclusion for better off households and very poor levels for the bottom 40% of households (the middle pairing) and a sharp urban-rural divide.

Figure 14: Positioning Lesotho on the financial inclusion spectrum: any saving in the last year



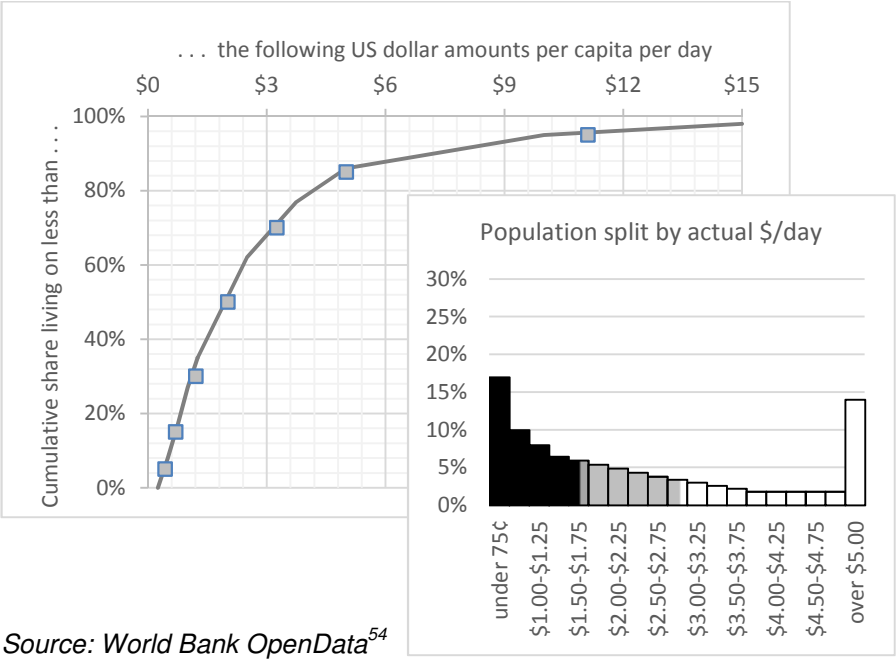
Source: Findex data and WDI data, author's calculations

Figures 9 and 10 show a significant proportion of the population of Lesotho saving but Figure 14 shows an unexpectedly low proportion is currently saving (i.e. saving in the last year).

FinScope 2011 estimates the number of potential savers in Lesotho at 492,425. We have attempted to calculate the potential amount that lower-income households have available for transaction bundles/savings. If the bankable population is 670,000 and there is a combined commercial bank total of about 100,000 savings accounts of various kinds, then the overall penetration rate of this category of service can be reckoned at about 15%. What cannot be said for sure is what the representation of low income households is in these estimates but income is clearly a major driver of current ability to save in Lesotho.

This is hardly surprising given how poor some Basotho are. Just over a quarter live on less than one actual dollar day and over 40% live a sub-PPP$1.25 lifestyle, which takes up to $1.6 actual dollars to achieve in Lesotho, possibly more in urban areas. Against this background, monthly account fees that can be twice an extremely poor person's daily living expense, or withdrawal fees of the same, suggest that the poor really are locked out of active saving via individual bank accounts and that is why the supply side and survey evidence shows them using NBFIs and informal financial services disproportionately. We have provided graphic illustrations of this in Figure 15.

Figure 15: Simplified Lorenz curve and population split by daily living expenditure (Lesotho)



Source: World Bank OpenData[54]

It is worth keeping in mind this visualisation of what the poor are actually living on (anywhere shaded on the bottom chart above) when considering what banks talk about as being low income. Of course the two are going to be different – a single salary may be feeding five mouths. Even allowing for this, the real cut-off for what constitutes genuinely low income (the black shaded part of the chart) will be somewhere around M1,500 for the main income earner and M500 - M1,000 for secondary and tertiary incomes if the formal financial sector is ever going to be relevant to day-to-day saving activity of the poorest 40% of Basotho households. The M3,000 plus that most banks seem to be using is probably above the real cut-off for anything other than the upper mass-middle market and above in Lesotho (i.e. the un-shaded top 40% of Figure 15).

Alternative to savings services

The main alternative savings mechanisms identified during the FGDs were livestock and preservation of food stuffs. For example, many participants cook and store peaches for

[54] Some of the poverty data in Lesotho is quite old so caution should be taken when interpreting.

consumption later. Keeping or buying livestock was viewed as a form of saving, but participants stressed that this was not an optimal way of saving for the reasons referred to earlier. The right to till land was also sometimes "sold" for a specific period of time in order to raise cash, which suggests that people view access to land as another form of saving that can temporarily be liquidated.

5.2.3 Supply

Banks

As mentioned in section 5.1, Lesotho currently has four commercial banks, three of which are South African (Standard Lesotho Bank Ltd, Nedbank (Lesotho) Ltd, First National Bank (FNB) of Lesotho) and one of which is indigenous (Lesotho Post Bank). Standard Lesotho Bank is the biggest player in the retail market in Lesotho. It reports having about 100,000 accounts in the 'low income' sector - which it defines as having income of less than M3,500 (US $350) per month - or about 60% of the market. About 95% of these accounts are held by salaried individuals, mainly employed by government, and most are essentially transactional accounts with an average balance of about M200 (US $20). Standard Lesotho Bank has about 10,000 low income savings accounts, which it estimates make up about 10% of the formal low income savings market. The average balance for these is around M2,000 (US $200). This comprises call, fixed deposit, notice and 'Pure Save' accounts (call with a maximum of 2 withdrawals/month) and group accounts. The bank says that it has lost low income market share to LPB in recent years. Further details of a selection of Standard Lesotho Bank's savings accounts are provided in Annex D.

Nedbank (Lesotho) Ltd. operates mainly in the corporate/high-income savings market. Like Standard Lesotho Bank, most of its low income savers (who are defined as having an income of less than M7,000 (US $700) per month) are in salaried positions. Its savings products are segmented into age categories. Though precise data are hard to obtain, its share of the low income savings market is probably similar to Standard Lesotho Bank's.

FNB of Lesotho has a range of savings products with no notice period, aimed at different segments of the market, with varying benefits/facilities, charges and interest rates. It also has 32 day notice savings accounts and offers the same 'e-wallet' mobile facilities that are available in South Africa (see section 7.2.3). These are primarily transactional, though they can be used for savings. No data on average balances were available. Further details of a selection of FNB of Lesotho's savings accounts are provided in Annex D. An order of magnitude estimate of FNB of Lesotho's share of the low income savings market is 5-10%.

LPB was established and registered as a bank in 2004 and is regulated by the CBL. Prior to that, the Lesotho Postal Service (LPS) had for many years offered savings facilities. LPB has 13 branches and is the largest player in the low income savings market, with by far the largest number of genuine savings accounts. It has about 72,000 savings accounts, although only about 49,000 of these are active and about 9,000 currently have zero balances. Most clients are irregular income earners – only about 3,000 are thought to be regular salaried individuals. The average balance is about M3,000 (US $300). Most are ordinary zero-notice savings accounts. Fixed deposit accounts number about 1,000, with an average balance of M5,000-7,000 (US $500 – 700) and about M14 million (US $1.4 million) is presently held in subscription (fixed contributions per month) accounts. This indicates a combined total of around M230 million (US $2.3 million) in LPB savings instruments. Most savings accounts still function on a hard-copy savings book basis, though card-based accounts have been offered since February 2013. Cards operate on an electronic switching

platform, but on a 'closed loop' basis, i.e. not inter-operable with other commercial bank accounts. LPB's current strategy is to give their clients an option. For those who choose to use cards, their bank books will be replaced with cards. But clients who prefer books will not be forced to replace them with cards.

The interest rates that apply on all of the banks' savings accounts are significantly negative in real terms, especially when (direct) transaction costs are factored in. This must make the desire for other features - typically security, the discipline induced by the negative price-incentive to withdraw and access to transmission/transactions facilities - the reasons why low income (and other) clients hold such accounts. With their current product range, most banks can also generally not compete with informal institutions in terms of returns, access to savings-based credit and, especially for rural clients, physical access.

Banks are aware of a substantial pool of savings in the informal system (see below) and would like to tap into this, especially as it constitutes the cheapest form of capital in terms of interest payable. But the costs of opening and maintaining many accounts with relatively small balances are high relative to the overall cost – and ease – of securing funding from the wholesale market (even though the interest payable on such funds is much higher). There is also relatively little urgency to go after the pool of low income savings with the demand for credit presently weak because of the international recession. During our KIIs, two banks in Lesotho indicated that their deposit book is currently about twice the size of their loan book. However, as will be discussed in more detail for South Africa in section 7.2.3, the application of Basel III requirements in 2015 – which will place a premium on retail over wholesale deposits on banks' balance sheets (given the relative stability of the former) for minimum capital levels – may make banks consider new approaches to attracting low income savers more seriously, some of which are being piloted with evident success by smaller players in the savings market (see below).

Basel III does not affect LPB, whose capital will be far above what will be required, with its loan book so small relative to its savings deposits. LPB's challenges are more directly related to governance, staff capacity and the viability of its business model, which aims to continue to serve a widely dispersed, small client base – a high-cost operation – while not being able to earn a commensurately high return from its large deposit base. Since its inception in 2004 it has made losses, caused partly by inefficiencies (for example, its high cost approach to maintaining/increasing outreach) and partly by the paucity of high-yielding investment opportunities for its very substantial deposits, most of which are invested in low-yielding government bonds - hence the emphasis, presently on hold, to increase its loan book. It is well placed to do this, using clients' own savings as collateral. If it pursues this strategy with energy, it will present a significant alternative to accessing credit for many who currently belong to informal savings and credit groups: the rate of return on savings will be lower, but so will the rate of interest on loans, at the same time as providing an alternative avenue for accessing credit. However, this will need to be complemented by considerably greater internal efficiency and a lower cost approach to attaining outreach.

With the CEO's position currently being vacant at LPB, the earliest appointment of a new CEO is a matter of priority. In this respect, it would seem appropriate for the importance of the LPB's historical role as anchor financial services provider to low-income communities to be given due consideration.

Non-bank financial institutions (NBFIs)

Until recently, the only formal (registered and regulated) NBFIs that were permitted to take deposits in Lesotho were registered SACCOs. The new Financial Institutions Act (FIA) 2012 allows for others, such as registered privately-owned MFIs, to do so too. Tier II of FIA encompasses all qualifying microfinance deposit taking institutions, savings banks and SACCOs. However, at this stage it looks like only the largest of the registered MFIs, e.g. Leshego Financial Services, have the resources to put in the institutional infrastructure and carry the administrative and compliance costs that will be entailed in taking deposits. Other players that are not privately-owned MFIs but that are already taking deposits on a significant scale on an informal basis, such as BSC and Moliko Micro-Credit Trust, may also be obliged to register as MFIs or as some other form of regulated financial institution, such as a SACCO, in the near future. Certainly, these two are closely monitored by CBL at present, even if they are not yet regulated.

Insurance companies

There are three major formal sector insurance companies. These are Lesotho National Insurance Group (LNIG), Metropolitan Lesotho (a subsidiary of the South African public company MMI Holdings) and Alliance Insurance Company Limited. The main products with an explicit or implicit savings dimension offered by all three are funeral policies and life cover, both of which are long-term assurance as against short-term insurance products. LNIG (and possibly Metropolitan) also market retirement savings and endowment-type products, LNIG through the Corporate Bodies Pension Scheme (to which many parastatals and some private companies belong), for which it is a service provider. All insurance company products have to be approved by CBL.

For life policies that have an endowment component, savings are explicit; otherwise they are implicit, given that assurance covers deaths/funerals that are certain to happen at some point. Insurance covers risks that may not eventuate. Premiums may therefore result in no return to the purchaser, thereby making them more akin to a risk management expense than to saving. However, life cover and endowment policies are probably only purchased by low income savers who are also salaried employees, typically in public sector/parastatal posts (in education, health, police/armed forces, water, etc.) which make up the main body of formal employment in Lesotho. Though no hard data for sales of life policies were available at the time of writing, Alliance reported that this was a major growth market and almost certainly included a significant number of low income salaried individuals. Group life cover is evidently now quite widespread in this segment of the market, its lower cost making it more affordable. But because it usually lapses as soon as employees leave the service of a particular employer, for most employees it is also probably closer to a short-term risk management expense than to saving. As mentioned in section 5.2, formal insurance policy contracts and brochures are often only available in English, effectively excluding those in Lesotho who are unable to read English.

By contrast, funeral cover is reported to be subscribed to by the great majority of households, perhaps partly as a response to the high incidence of HIV/AIDS in the region. This cover is taken by those in formal employment probably mainly through insurance companies and most others through informal burial societies. LNIG and Alliance market group funeral cover products that evidently reduce the cost of cover substantially for individuals. They report that many informal groups now use this to increase the cover available to their members. A further advantage of group products is that they make insurance products more accessible to non-salaried/irregular income earners, who otherwise tend to find insurance companies reluctant to accept them as clients. Alliance recently launched a funeral cover product with an explicit endowment/savings component which pays out a guaranteed lump sum after a period.

To increase outreach as rapidly as possible, Alliance has adopted a new lost-cost approach of hiring booth space in post offices, especially in smaller, more remote centres. They are hoping that this will bring affordable assurance/insurance within the reach of many more low income households. Seven new branches have been opened in this way over the past year.

As mentioned in section 5.2.1, many Basotho have low expectations of, and low trust in, the financial system as a result of recent scandals/problems – one of which was the collapse of a burial society (MKM/Star Lion Group) following a pyramid scheme scandal in 2007/08. The financial model adopted by MKM/Star Lion group was unsustainable and collapsed, resulting in an estimated 400,000 people losing their money. MKM acted illegally, failing to obtain the correct licences for its business activities and misleading the CBL by providing false information about its financial situation (FinScope, 2011).

Savings and credit cooperatives (SACCOs)

The only formal deposit-taking institutions currently permitted by law, other than commercial banks, are SACCOs. These are required to register with and are regulated by the Department of Cooperatives of the Ministry of Trade, Industry, Cooperatives and Marketing. The Department of Agriculture also provides some support. Among the requirements that SACCOs have to meet is to have managers and properly trained staff and among the support that the Department is required to provide is regular audits and staff training. Neither appear to have been fulfilled over the past few years, resulting in a malaise in the movement and a decline in its initial popularity.

Reliable statistical data on SACCOs are hard to come by. However, the Department of Cooperatives reports the existence of about 300, with a membership of as many as 37,000. RUFIP records total savings through SACCOs at about M3 million (US $300,000) in 2012/13, indicating average savings per member of rather less than M100 (US $10). The World Council of Credit Unions (WOCCU)'s statistical report for 2012 records 90 credit unions in Lesotho, with a membership of 76,000 and assets of US $7.3 million, but these figures probably include the large multi-purpose cooperative, BSC (see 'informal sources of finance' below), which is not a dedicated SACCO. The proposed Financial Sector Development Strategy (FSDS) mentions only four of 51 SACCOs as being of a significant size (over 100 members).

SACCOs appear to have gone through a difficult period in recent years owing to poor skills and governance. RUFIP's data indicates a current loan delinquency level of about 17%, and the draft 'Inclusive Financial Sector Assessment' conducted for government in 2012 refers to a 'high' rate, resulting from poor governance, record-keeping, auditing and staff competence, leading to the widespread distrust and demoralisation of members. The FSDS proposes a number of measures to consolidate and strengthen SACCOs and to encourage members of non-viable SACCOs to join either larger, more viable ones or accumulating savings and credit associations (ASCAs) or Rural Savings and Credit Groups (RSCGs) (see 'informal sources of finance', below) (Andrews, 2013). It appears that it was partly in response to these deficiencies that the relatively simple, transparent but robust and reliable ASCAs were promoted by a number of international NGOs from 2008 in Lesotho (see 'informal sources of finance', below).

Informal savings groups[55]

Informal deposit-takers span a wide range of organisational forms. These range from unregulated multi-purpose cooperatives, to CARE's Village Savings and Loan Associations (VSLAs) and

[55] We only cover deposit-takers here, i.e. not traditional money-lenders, family/friends, etc.

Catholic Relief Services' (CRS) Savings and Informal Lending Communities (SILCs) – variants of the basic ASCA model – to the International Fund for Agricultural Development (IFAD)'s RSCGs, to self-help groups. For reasons that are not clear, it appears that the *stokvels* - various types of rotating savings and credit associations (ROSCAs) that are so popular in South Africa – are not as popular in Lesotho. Across these organisational forms, women typically make up 80-90% of members. Membership by individuals in more than one such group appears to be common.

Founded in 2000, by far the biggest of all of the informal deposit takers is currently Boliba Savings and Credit – a multi-purpose cooperative (not a dedicated SACCO). As mentioned in section 5.1.2, BSC is not supervised by the CBL and some of its practices are cause for concern. For example, it has in recent years operated substantially below the appropriate levels of capital adequacy. This represents a systemic risk to Lesotho's financial sector. As with the other major informal deposit-taker, Moliko Trust, and MNOs, the CBL appears to have adopted a 'watch and then regulate' approach, so it keeps close contact with Boliba and Moliko. Boliba offers three types of savings product: ordinary savings accounts (interest for all balances 0.25% p.a.), no deposit fee, but a withdrawal fee of M1.60/M100); fixed deposit accounts (1.25-4% p.a.); and subscription ('spiral') accounts (3.5-5.5% p.a.). The ordinary savings account operates effectively as a transmission account for many of the roughly 60,000 depositors. However, with an average balance of M1,018 (US $100) (as against Standard Bank's M200 (US $20), but still substantially less than LPB's M3,000 (US $300)), there is clearly a significant savings dimension in depositors' minds when opening such accounts. There are presently about 1,000 fixed deposit account holders, with an average balance of M13,000 (US $1,300) and about 3,250 subscription account holders, with an average balance of about M2,200 (US $220). Boliba's total savings deposits therefore amount to about M80 million (US $8 million). To date, all savings accounts operate on a hard copy savings book basis.

Though no percentage was given, Boliba's clients are mostly at the low income end. Around a quarter are salaried employees. About 3,000 are listed as receiving their salaries through their Boliba accounts – a mix of public and private sector employees, the latter mainly in the textile industry – while a further almost 700 government pensioners have a similar arrangement. Boliba has three branches at present (all along Lesotho's western border) and also uses BEDCO (see publicly-owned non-bank entities) as an agent. Its strategy is to roll out rapidly, partly through hiring booth space in those of the country's 47 post offices that are situated close to a bank branch or ATM. It is also exploring using post office branches to conduct transactions on Boliba's behalf.

Boliba reports being perceived as a bank by savers and that it is drawing many of its new clients from SACCOs and commercial banks. Its loans to members carry an interest rate of 24% p.a., well below the 10% per month charged by most ASCAs and VSLAs to their members. So, like LPB, it offers a significant alternative source of credit to those belonging to ASCAs, VSLAs and SILCs and is competing directly in their market. At 75:100, Boliba's loans:deposits ratio is considerably higher than commercial banks at present, although its General Manager reported its default rate as being close to zero. However, an external assessment conducted in 2011 estimated Boliba's non-performing loan rate at as high as 50% and expressed concerns about the organisation's solvency. As mentioned above, other assessments have raised questions about Boliba's capital adequacy, given its high loans:deposits ratio.

For all intents and purposes, Boliba has become a cooperative bank. As mentioned above, under the new FIA (2012), large deposit-taking non-SACCO cooperatives will be regulated, and this will include Boliba. The act is expected to be implemented in the near future.

Another informal institution that encourages the formation of ASCA-model groups is the Moliko Micro-Credit Trust. Although Moliko does not take deposits directly, its clients are required to open an account with the LPB in order to be able to access loans. Over time, the account is used to deposit proceeds from the association, and its performance is reviewed for subsequent loans. Moliko relies both on voluntary savings that such groups place with it for management and on compulsory savings that prospective borrowers have to deposit with it (a minimum of 20% of loans) for the bulk of its capital base. The trust was established in 2007 by the Commonwealth Youth Credit Initiative and the Kellogg Foundation 'to assist and develop micro-enterprises run by young people to access financial services.' In March 2012, it had 1,417 voluntary and 1,278 compulsory savers, with combined savings of almost M360,000 (US $36,000), averaging around M130 (US $13) per saver. It reports an average repayment rate of about 90% and a portfolio at risk percentage of about 1%. Like Boliba, Moliko represents a relatively low interest alternative to ASCAs for accessing credit – as well as offering this access on the back of a defined minimum of savings, in contrast to banks – thereby playing a very valuable 'middle market' role. Its main challenges are shortage of capital to fund what is reported to be an enormous demand for its loans – not easily solved by injections of external capital, if the essential requirement for borrowers first to save at least 20% of their loans is to be met – and limited internal capacity in terms of staff, skills and management systems. Moliko is currently under guidance from the CBL to qualify for transformation into a microfinance deposit-taking institution.

In 2008, a number of international NGOs began promoting VSLA-type savings and credit groups (SCGs) in Lesotho. These are groups with existing social bonds, typically between 10 and 20 women, who come together with an individual commitment to save a certain minimum amount monthly, which they lend out at an agreed rate of interest to members of the group. These groups are particularly prevalent in rural areas where households find it difficult to access the savings services offered by formal financial institutions, and where SACCOs have largely lost their credibility. The accumulated pool of savings and interest – given as averaging 47% p.a. for CARE groups and 40% p.a. for CRS groups – is shared out on a pro rata basis once a year, providing members with a capital sum which they can then apply as they wish. Many groups form to save for a particular purpose, such as the purchase of Christmas gifts, annual crop inputs or annual school expenses and time their annual pay-out accordingly.

While the formation of a group, the composition of membership and agreement on structure and process are self-determined, promoters generally recommend approaches that have proved widely successful and these are invariably adopted. The success of the model has led to the development of groups with a reported total membership of more than six million in Africa in recent years. Promoters provide training, usually over about a year, to support new groups and, more often than not, also provide training in basic business skills.

International NGOs who have promoted the formation of such SCGs in Lesotho in recent years include CARE and CRS, which have in turn been given technical assistance by the Government of Lesotho, UNDP and UNCDF though RUFIP. Savings groups that World Vision is also helping establish are understood to operate along similar lines. CARE reports the existence in June 2011 of 914 VSLAs in Quthing and the remote mountainous districts of Mokhotlong (north-east) and Qacha's Nek (south-east), with a combined membership of about 12,738. In partnership with RUFIP, a further 122 VSLAs with a combined membership of 1,783 were established in 2010-11. While CARE does not give any details of the value of savings for the 914 groups, RUFIP records the combined total for the 122 groups as M36,000 (US $3,600), or an average of about only M20 (US $2) per member. Data from RUFIP record that 208 SILCs with a membership of 2,276 and total savings of about M87,000 (US $8,700) – averaging about M38 (US $4) per member – were

started in partnership with CRS in 2010-11. With roughly 16,000 members, CARE's and CRS's VSLAs now clearly offer a significant alternative to SACCOs, but with an average saving for member of only about M30 (US $3), actual savings appear to be very small.

RSCGs were created some years ago through an IFAD initiative, but are presently fully owned and supported by Ministry of Agriculture. In the past, CBL supported them through a credit guarantee fund which promoted linkages with commercial banks. The strategic intention of the initiative was to provide capital for small enterprise development rather than consumption. While still small, it appears that RSCGs are growing substantially: from 268 members in 18 groups in December 2011, RUFIP's data reflect almost a doubling to 543 members in March 2013. With total savings of M403,691 (US $40,369), the average saving per member of M743 (US $74) is substantially higher than the various ASCA groups. The FSDS rates the overall performance of Lesotho's ASCAs and RSCGs as *'sufficiently important for ... financial inclusion … (for) the Ministry of Agriculture and Food Security extension services (to) take on responsibility for monitoring … and providing technical advice'* and proposes that dedicated Ministry staff should be trained for this purpose. The FSDS also concludes that *'both the RSCG and VSLA programs deserve on-going donor support so long as the monitored data base gives evidence of continued success.'* (Andrews, 2013).

Self-help groups, such as those established by Hand-in-Hand (HiH) – a UK-based international movement – provide another option for low income communities in Lesotho to save towards small enterprise development. Members agree to contribute a certain minimum monthly, frequently about M20 (US $2). However, HiH's groups do not pay out their respective pools of savings annually, unlike ASCAs, but accumulate savings on an on-going basis, making loans available for individual and group enterprises periodically, as allowed by the amounts in their pools. HiH Lesotho reported having established 118 self-help groups with 1,433 members by July 2013 - comparable to CRS's SILCs. These groups had, in turn, made loans capitalising 247 small enterprises with 2,414 workplaces.[56] The collective savings capital of these groups is around M300,000 (US $30,000), indicating average savings per member of about M210 (US $21). HiH plans to establish its groups in all ten Lesotho districts over the coming years. It is not known how many other savings-based self-help groups operate in Lesotho.

Our overall conclusions for informal deposit-taking institutions in Lesotho are that they appear to be expanding quite healthily and, on the whole, to be fairly soundly based. This is particularly encouraging, given that Lesotho's banks, with the possible exception of LPB, appear unlikely to place much emphasis on expanding their share of the low income savings market in the immediate future; that LPB has yet to solve the range of problems that are constraining both the expansion of its outreach and the roll-out of its loan products; and that the SACCO movement will probably find it difficult to regain credibility in the eyes of most small depositors, even if they become better governed, skilled and supported by government. Perhaps the most immediate challenges to be addressed are Boliba's institutional stability and supervision and the deepening of donor and government support for – and monitoring of – up-scaling the various ASCA-based SCG initiatives and RSCGs.

Mobile money services

Only two mobile phone services presently operate in Lesotho: Vodacom and Econet. Vodacom began marketing M-Pesa mobile money transmission services in July 2013. No specific savings option is offered yet, although it is reported that this is being considered. Less than three months

[56] We found no indication of whether these were full- or part-time, permanent or seasonal.

after its launch, the service had signed up 260,000 users, approximately 13% of the total population and over 20% of the adult population between the ages of 15-64.[57] Vodacom reports having 410 agents. Econet's EcoCash mobile transmission product was launched in February 2013. It now has about 100,000 subscribers, of whom about two thirds are active, and reports a current growth rate of as much as 20% per month. It has an 'e-wallet' option for savings which users can activate by requesting EcoCash to set aside part or all of account balances for a period specified by the client. However, EcoCash says that there have been very few requests of this sort so far. Almost all accounts are used entirely for transmission/transactions. There are no deposit charges, but a 'small' charge is levied on withdrawals. With no interest being payable, it is perhaps not surprising that accounts are not used much as a vehicle for saving. An explicit e-savings account is evidently being considered for the future. Econet has also recently launched EcoSure Mpolokeng, an insurance product that is underwritten by Lesotho National Life Assurance Company. Mobile phones are now widely owned, but reception is poor/non-existent in many rural areas. The two companies operate under the CBL's mobile money guidelines, effective November 2012. With their enormous low-cost outreach, if and when the mobile phone operators launch savings initiatives, it can be expected to transform the savings product market radically.

5.2.4 Policy environment and regulation

Macroeconomic challenges

The macroeconomic context has inevitably had an impact on savings in Lesotho. As mentioned in previous sections, Lesotho has been highly dependent on remittance inflows for many years, but mine recruitment from Lesotho has decreased steadily over the past quarter of a century – from about 111,000 in 1987 to the roughly 27,000 expected in 2013 (about a 75% decline) – even though, in nominal terms, the value of remittances is similar now to what it was 25 years ago because of the increase in wage rates. This has resulted in higher unemployment, especially in rural areas, which, together with the reduced real cash flow into these areas, has meant that people generally have less income from which to save. This, in turn, has led both to the collapse of some informal savings groups and to the loss of confidence of some formal savings institutions, particularly SACCOs.

There are some tax exemptions in place in relation to interest on savings. The first 500M of interest derived from a single savings account by a resident individual is exempt from income tax, provided the account is with a financial institution registered in Lesotho.[58] Lesotho is part of the common (Rand-related) monetary area (CMA) and the CBL administers exchange control regulations for transactions with parties outside the CMA. There are no restrictions in place on inward investment by foreigners and profits can be fully repatriated. However, there are restrictions on outward investment by local residents (Deloitte, 2012).

Policy

The government of Lesotho appears committed to increasing financial inclusion, which in turn should have a positive impact on people's ability to save. The NSDP includes six strategic objectives for the financial sector, as follows:

- Promoting a savings culture
- Improving access to finance

[57] *See* http://businesstech.co.za/news/mobile/46372/vodacom-takes-mobile-money-to-lesotho/. For statistics on percentage of population aged 15-64, see https://www.cia.gov/library/publications/the-world-factbook/geos/lt.html.

[58] http://www.sadc.int/information-services/tax-database/lesotho-direct-taxes/ [accessed 26 September 2013]

- Increasing alternatives for mobilising financial resources
- Improving financial sector efficiency
- Bridging the skills gaps in the financial sector and increasing financial literacy
- Improving financial stability and soundness.

As a means to achieving these objectives, the government has, in collaboration with UNCDF and UNDP, through the SUFIL initiative, commissioned the drafting of a 'Financial Sector Inclusion Strategy'. This process is understood to be at an advanced stage. The need for the development of such a strategy is also anchored on the recent findings of the 2011 FinScope report and the Financial Institutions Act of 2012, which aims at supporting the growth and development of financial institutions, especially non-bank institutions (FinMark Trust 2012).

Legal and regulatory issues

The CBL is obviously a key player in promoting financial inclusion. One of its objectives is *'to promote the safe and sound development of the [Lesotho] financial system'*. This also involves improving the reach and depth of financial services delivery (FinScope 2011). According to FinMark Trust, the CBL *'attempts to bring all finance and credit institutions in the country to serve as tools of development and economic growth'* (FinMark 2012). The CBL provides licenses to different categories of financial institution, including deposit-taking institutions, non-deposit taking institutions and other institutions.

The main laws governing financial services provision in Lesotho are: Societies Act (1966), Companies Act (1967), Insurance Act (1976), Money Lenders Order (1989), Money Lenders (Amendment) Act (1999), CBL Act (2000), Cooperative Societies Act (2000), Financial Institutions Act (2012),[59] Credit Reporting Act 2011 and Data Protection Act. All banks are regulated by the new Financial Institutions Act of 2012, which replaced the Financial Institutions Act of 1999. The new act has recently been passed by Parliament specifically to address illegal deposit-taking, corporate governance, and regulation of NBFIs and large financial cooperatives. The main difference between the 1999 and 2012 Acts is that the latter covers a wide range of financial institutions, rather than just commercial banks. Under the Financial Institutions Act 2012, large financial cooperatives such as BSC will be transformed into licensed Type II banks and regulated by the CBL. Type II banks will be subject to prudential regulation and supervision, including a minimum capital requirement of M10 million (US $1 million).

The Cooperative Societies Act (2000) covers all types of cooperatives and has been developed as a separate law to guide and regulate financial cooperatives. Financial cooperatives in Lesotho can access savings from, and provide loans to, non-members. This was an area of concern to the CBL, as it has a strong mandate to protect depositors' money. A Financial Cooperatives Policy has recently been drafted and presented to the Cabinet but has not yet been approved (Amha, 2012).

The regulations governing microfinance regulation and supervision have recently been drafted and are due to be gazetted soon. The regulations will allow for both deposit-taking and non-deposit-taking microfinance institutions. The CBL has indicated that deposit-taking MFIs will also be expected to transform into licensed Type II banks. When the law changes, only the largest MFIs may find it worthwhile to enter the deposit-taking market, given the likely capital adequacy requirements and the costs of developing satisfactory administration and compliance systems.

Until recently, agent banking and mobile financial services were not prevalent in Lesotho, as outlined in section 5.2.3. Standard Lesotho Bank has been providing some mobile banking and

[59] This replaced the Financial Institutions Act (1999)

Internet Banking services to its clients, although these appear to be more additive (aimed at current bank clients) than transformational (aimed at banking the unbanked) in nature. Vodacom and Econet have recently launched mobile money products, but none yet with a savings-explicit dimension. The new FIA (2012) does provide general guidelines for the licensing of agents of financial institutions, although it does not specify the services that such agents may provide. In addition, the Act would appear to require all prospective agents to apply for and obtain a license directly from the CBL, which might be burdensome in practice.

In November 2012, the CBL issued Guidelines on Mobile Money. These Guidelines explicitly permit and regulate the nonbank-based mobile money model, allowing mobile network operators and other nonbanks to directly offer mobile money services to customers. Mobile money accounts are subject to daily and monthly transaction limits that vary according to the levels of KYC due diligence applied to the particular customer. Transaction limits range from M2,500 (US $250) daily and M10,000 (US $1,000) monthly (least KYC) to M7,500 (US $750) daily and M20,000 (US $2,000) monthly (full KYC). No specific maximum balance limits have been established in the Guidelines, so it would appear that mobile money accounts could be used as savings mechanisms. Our impression gained from the KSIs is that the regulator is presently fairly flexible in relation to mobile money developments and is taking a similar approach to the Kenyan regulators during the launch of M-Pesa, namely, watching developments closely but allowing some experimentation by service providers.

Customer identification and verification requirements for access to formal financial services are addressed in the Financial Institutions (Know Your Customer) Guidelines, 2007. These Guidelines provide for a risk-based approach to customer identification, requiring financial institutions to classify customers as high-risk, medium-risk, or low-risk. In general, the Guidelines provide significant flexibility to financial institutions with respect to verifying a customer's identity and address. For example, in addition to standard documents used to prove (1) identity (such as a passport or driver's license) and (2) address (such as a utility bill), the Guidelines allow financial institutions to accept documents such as a letter from a "recognised public authority" or any other document that provides the necessary information, "subject to the satisfaction of the financial institution."[60] Therefore, it does not appear that formal customer identification and verification requirements are limiting the use of formal savings accounts by low-income Basotho. However, given the perspective that these constraints remain from the FGDs, it suggests that either the formal requirements are not being implemented as envisaged, or awareness of them is limited.

Annex E provides a list of supervisory bodies for the various types of financial institutions in Lesotho. It shows that the CBL supervises most regulated financial institutions. SACCOs are supervised by the Commissioner for Cooperative Development under the Ministry of Trade and Industry, Cooperatives and Marketing (MTICM), while informal financial institutions are not supervised. There is no formal system of off-site supervision or on-site inspection for SACCOs but the Department of Cooperatives is upgrading supervision from annual audits to quarterly reporting (FinScope 2011). The capacity of the Cooperative Department to build the capacity of the primary, secondary and apex financial cooperatives is weak. The Cooperative Department has not yet established a regulatory framework or accounting standards for cooperatives and there is no explicit policy to promote their growth (Amha, 2012).

Some unlicensed deposit-taking entities also operate in Lesotho, by far the largest of which is BSC. These entities attract sizable deposits from the public by offering above-market interest rates: there is some concern about whether these institutions will be able to meet their growing liabilities. A large Ponzi scheme, operated by a closed institution without proper licensing, emerged in 2009. This affected several investors and basically wiped out the savings of thousands of Basotho. The CBL intervened in December 2009 to liquidate the scheme and redistribute existing funds, but the

[60] Financial Institutions (Know Your Customer) Guidelines, 2007, Schedule II.

final resolution of identified liabilities remains outstanding and investors are expected to recoup only part of their original investments. While financial intermediation as a whole does not seem to have been widely affected, the many poor individuals that were involved have suffered important financial losses (MFW4A, 2013). The FGDs carried out for this study also demonstrated that the resulting lack of trust in the financial system is still widespread.

There have been some positive interventions and initiatives in Lesotho by government and development partners recently to promote sustainable financial inclusion. Some of these aim to redress weaknesses in the legal and regulatory sphere system. For example, a commercial court has been established, and the Land Act and new Financial Institutions Act have been issued. The development of a non-bank financial institutions policy and regulations, of the national identification and credit bureau bill, of the Data Protection Act 2011, of payment and settlement systems regulations, of leasing legislation, of a financial cooperatives policy, as well as of a draft MSME policy, are all in progress. The credit bureau laws have also been passed.[61] However, the pace of implementation for many of these initiatives and the finalisation of policies has taken a long time. Through the SUFIL project, a proposed MSME Policy and Inclusive Finance Strategy have been developed. Through the drafting of an Inclusive Finance Strategy, the Government has recognised that a *'stable, liquid, competitive and efficient'* inclusive financial sector in Lesotho is one of the preconditions for expanding agricultural production, increasing the number of MSME operators, creating employment and increasing household income in a sustainable way (FinMark Trust, 2012).

The general approach to financial sector regulation in Lesotho has been fairly flexible, allowing financial institutions to experiment with savings mechanisms. This approach is welcome and can lead to innovations which would not be allowed under tight regulation – the Central Bank of Kenya also took this approach to regulating mobile money and this enabled M-Pesa to take off and reach scale. However, there are also inherent risks in adopting a flexible approach and it is important that the regulator continues to monitor financial institutions closely while maintaining its flexibility. There is potentially more to be gained by adopting this approach than there is to be lost.

5.3 Conclusions and recommendations

[61] In the gazette they are termed "Credit Reporting Act 2011" and "Credit Reporting Regulations 2013"

SWOT analysis for promoting low income savings in Lesotho	
Strengths	**Weaknesses**
• Financial inclusion (including savings) high on policy agenda • Recent improvements in regulatory and legal framework • Financial inclusion specific initiatives (RUFIP, SUFIL), FSDS drafted • Relatively high financial inclusion • Fairly strong savings culture: people are open to saving/see the need to do so • Good choice/use of savings services for different purposes • Formal FIs offer group savings products • LPB awash with deposits relative to loans disbursed: formal FI that has trust of low income groups • Competition created by NBFIs' offering better returns on deposits than banks • Strong track record of ASCAs: high returns, have people's confidence • Variety of informal groups (day/night burial societies etc.): more choice, smaller, more transparent = more trust • Good support for savings: chiefs/MPs support community members • Some savings mechanisms (fixed deposit accounts, livestock) make it difficult to liquidate quickly: disincentive to withdraw funds • Flexible approach of regulator: apparent willingness to allow financial institutions to experiment with savings mechanisms, subject to close monitoring • Strong donor engagement to support policy development, informal savings groups • Financial education district and radio campaigns conducted for public information on products offered by CBL e.g. Treasury Bills and by regulated institutions e.g. Collective investment schemes	• Lack of outreach of formal FIs in rural areas; LPB not fulfilling mandate in rural areas: few branches, high cost approach to increasing outreach • Lack of strong leadership, staff skills, morale in LPB major constraint on fulfilling growth, development potential, achieving operational efficiency • Most formal FIs saving products don't offer access to credit • Formal FIs have high liquidity: less incentive to serve low income customers • High bank charges, low interest on savings, distance to bank = lack of incentive for low income households to use formal FIs • Interest charged to members by ASCAs high (although lower than money-lenders and interest accrues pro rata to members) • LPB savings/transmission account card facilities not inter-operable • Many low income households struggle to meet KYC requirements; lengthy/bureaucratic process to check ID, etc. • Formal FIs generally unresponsive to market demands (especially low income) • Formal FIs not communicating products well to low income households • Perception that banks are only for wealthy customers/large deposits • Insurance companies sometimes publish information only in English and require payslips to access products with monthly premium payments. Deficient legal and regulatory framework hampering financial inclusion • Poor governance and lack of capacity of SACCOs and of regulator: led to Ponzi scheme, systemic weaknesses of key provider caused lack of trust in financial system, esp. SACCOs • Reluctance to bank periodic excess liquidity of savings groups increases security risks for members • Several small savings groups within communities: this can lead to dilution and weakness • Many low income households have irregular incomes: difficult to save regularly

Opportunities	Threats
• Ensure momentum created by RUFIP, SUFIL and similar initiatives is maintained through project extension/successor initiatives/secondment of skilled staff and incorporation of lessons into policy, practice • High rate of financial inclusion skewed by popularity of burial cover; much scope for increasing inclusion in banking services • Formal FIs could attract more low income household savings by developing savings products that attach access to credit, thereby creating low interest alternative to accessing credit to informal savings and credit groups • Encourage, help devise, support campaigns to increase financial literacy and for FIs to improve their communication with low income households, e.g. through publication of product pamphlets in Sesotho, more extensive use of radio • Establishment of credit bureau should improve stability of deposit-taking institutions • Appointment of strong LPB leadership; endorse traditional focus on providing financial services to low income market; provide support for strategy development, implementation • Postbank could increase outreach by lower cost approaches, e.g. appointing agents • Fertile ground for ASCAs to develop further: good track record, lack of trust in formal FIs/SACCOs; encourage continued donor support for scale-up of ASCAs as savings-led providers of credit • Re-build strength of SACCOs through tighter regulation, auditing, and capacity building (with donor support) • Mobile, agency banking emerging: potential to use to increase savings outreach, reduce transaction costs. Group accounts could be combined with mobile money to allow low income rural Basotho more access to formal savings facilities • Unexploited scope for mobile phone-based financial services providers to introduce savings-explicit products • Make Boliba a registered deposit-taker and oblige/assist it to meet capital adequacy requirements to the extent it does not currently do this • Basel III minimum capital requirements may encourage banks to move down-market in respect of savings/deposit-taking	• General lack of trust in financial system (at all levels) • Poor macroeconomic climate: fall in remittance levels = income levels likely to drop further, especially in rural areas; negative effect on savings groups • Too much caution among policymakers can slow progress towards financial inclusion, including savings (e.g. implementation of FSDS) • Weak regulation, supervision, capacity building could lead to further systemic weakness/scandal • 'Watch and learn' approach of regulator potentially risky • Lack of understanding among consumers of bank products • Possible collapse of largest deposit-taking financial cooperative if capital adequacy not increased • Pressure in certain quarters to make LPB a profit-driven commercial bank

5.3.1 Recommendations

Policymakers/regulator

- Ensure momentum created by RUFIP, SUFIL and similar initiatives is maintained through project extension/successor initiatives/secondment of skilled staff and incorporation of lessons into policy, practice
- Ensure implementation of FSDS
- Further promote savings mobilisation and developing the saving culture of Basotho (e.g. 'savings week' held in 2013 in South Africa)
- Ensure adequate data collection and validation to ensure credit bureau becomes operational in June 2014, in order to improve stability of deposit-taking institutions
- Provide enabling environment for credit bureau(s) shortly to be established, for example, by resisting political temptation to grant periodic 'credit record amnesty' by legislating for scrapping of credit records.
- Build capacity of regulators (especially medium/small SACCOs regulator)
- On-going development of suitable regulatory and supervisory framework to implement the new FIA of 2012
- Build capacity of regulator and Department of Cooperatives to assist regeneration of viable SACCOs (perhaps with donor support)
- Ensure banks meet Basel III minimum capital requirements: may encourage them to move down-market in respect of savings/deposit-taking
- Continue with the process of making BSC a registered deposit-taker and oblige/assist it to meet capital adequacy requirements to the extent it does not currently do this.

Providers (including private sector, NGOs and informal groups)

- Formal FIs could attract more low income household savings by developing savings products that attach access to credit, thereby creating low interest alternative to accessing credit to informal savings and credit groups
- Mobile, agency banking emerging: potential to use to increase savings outreach, reduce transaction costs. Group accounts could be combined with mobile money to allow low income rural Basotho more access to formal savings facilities
- Encourage, help devise, support campaigns to increase financial literacy and for FIs to improve their communication with low income households, e.g. through publication of product pamphlets in Sesotho, more extensive use of radio
- Appoint new CEO for LPB, with due consideration being given to the importance of LPB's historical role as a financial service provider to low-income communities, especially in rural areas; provide support for strategy development, implementation
- LPB could increase outreach by lower cost approaches, e.g. renting space in post offices, appointing agents
- Re-build strength/reputation of SACCOs through tighter regulation, auditing, and capacity building (with donor support)
- Fertile ground for ASCAs to develop further: good track record, lack of trust in more formal FIs/SACCOs; encourage continued donor support for scale-up of ASCAs as savings-led providers of credit
- Continue to promote linkages between inclusive finance providers and formal finance providers such as banks and insurance companies, under CBL and SUFIL

Research

- Ensure further FinScope surveys to track progress towards increasing savings in Lesotho
- Commission a detailed supply-side study of the financial sector in Lesotho in order to provide further information into the savings products available to low income households

- Commission further research into ‘middle income savings paradox’ and its implications on savings behaviour
- Commission further research into ‘third adult’ phenomenon and its implications on savings behaviour
- Learn lessons about why Lesotho Agricultural Bank collapsed and explore scope to replicate good points in LPB or encourage new savings bank to target rural areas
- LPB to look at using PO branches to increase outreach.

6 Malawi

Some of the key insights from this chapter are summarised in Box 4 below:

Box 4: Summary of the landscape for low income savings in Malawi

- Malawi's saving landscape is changing rapidly; bank account holders have increased considerably in the last five years. There has been limited expansion downmarket by banks although some are playing a more active role in targeting low income groups. There has been an explosion in the number and penetration of VSLA/ROSCA groups.
- Demand-side data (FinScope and Findex) show that Malawi has a relatively high incidence of savings, although low formal penetration. Despite low incomes in Malawi, leaving few surpluses to save lump sums, this supports the notion that even the very poor are active savers to help manage household budgets.
- But accounts that are nominally termed savings accounts are also often used for transactional purposes. There is a blurring between savings and cash for transaction smoothing (i.e. coping with common irregularities in income and expenses). For example, banks have termed accounts savings accounts, but these are in effect often current accounts without an overdraft facility and without a cheque book.
- There are very different patterns between the types of savings in urban and rural areas, with more access to formal saving opportunities in urban centres. Banks tend to lack incentives to move downmarket, and those that have still make up a relatively small amount of total deposits.
- Individuals want bank accounts primarily to keep money safe, often earmarked for specific projects and to put it beyond temptations/pressures to spend. Other main uses are to receive remittances and keep financial affairs private. There is still generally a positive view of having a bank account despite negative real interest rates. Bank charges, particularly monthly ledger fees, and inaccessibility resulting in high costs to access are a more important constraint to formal savings. The convenience of informal mechanisms like informal saving groups is a key driver in their uptake, but they also bring important additional benefits of access to credit, emergency funds and social capital, which are particularly attractive to rural women.
- There is a considerable seasonal effect related to the agricultural cycle for both formal and informal savings. Savings balances fall in the period October to December primarily related to withdrawal of funds for buying agricultural inputs, and to a lesser extent, for the main period of festivity (Christmas).
- There have been numerous changes to the enabling environment, including legislation and regulations that permit MFIs to collect deposits, changes to how SACCOs and MFIs are supervised and clarification on the use of agents. These provide the regulatory building blocks for further expansion downmarket by the formal and non-bank sector but will also place greater strain on RBM's capacity to manage all these changes at one time.

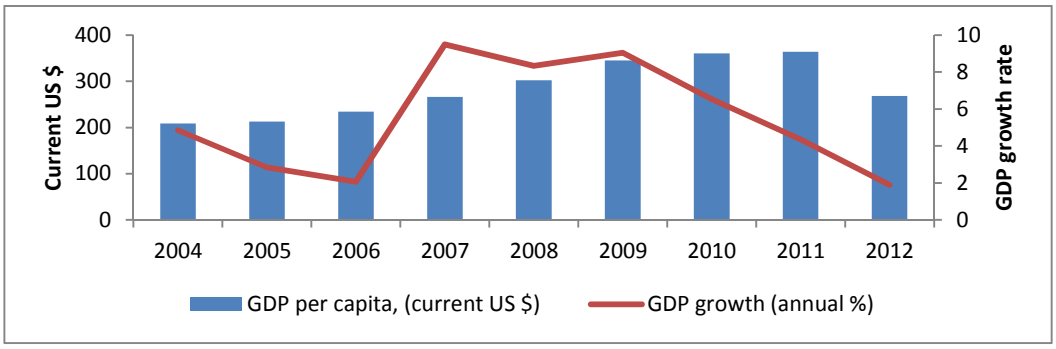
6.1 Context

6.1.1 Economic overview

Malawi achieved strong economic growth from 2005-2010, assisted by stable macro-economic policies, high levels of donor assistance, and relatively benign weather. However, from 2011, there have been a number of economic challenges leading to a considerable slow-down in growth and a subsequent decline in living standards (see Figure 16). The effects of an over-valued exchange rate resulted in significant shortages of forex and knock on effects on the availability of fuel and other key imports. A change in the Presidency in April 2012 was immediately followed by a devaluation of the Kwacha, with its value falling by 50% against the US dollar. After a period of appreciation during the tobacco season, the exchange rate is once again sliding rapidly, suggesting that inflationary pressures will resume by the end of 2013. Inflation moved into double

digits in early 2012 and remains the highest in the region (at 25% in July 2013).[62] Growth rates slowed in response in 2012, but are projected by GoM to improve into 2014 and 2015.

Figure 16: Malawi: GDP growth 2004-2012



Source: World Development Indicators (WDI), World Bank

Malawi is one of the poorest countries in the world, with 82.3% of the population living on less than $2/day, with rural poverty significantly higher than urban (WDI). Agriculture dominates the economy, regularly accounting for over 30% of GDP (RBM), with tobacco the largest export crop and an important source of cash, especially in the rural economy.[63] Poverty is closely linked to this vulnerability with rural households facing a number of potential shocks, including drought and dry spells, flooding in low lying areas, and market price fluctuations (Kadale 2012a).[64]

Malawi does, however, have one of the highest population densities in Africa which should make it easier to reach rural people cost-effectively with financial services [65]

6.1.2 Financial sector overview

The financial sector is shallow with weak integration in global financial systems and low foreign bank participation (MFW4A, 2013). The country's banking system, which includes 10 commercial banks,[66] is well capitalised and profitable. There is a high concentration of assets, with the three largest banks accounting for 65% of total bank assets in the country (RBM 2011). Deposit money bank assets to GDP have tended to be low (in 2009 this was around 15% compared to an SSA average of 32%), hampered by negative real deposit rates and high lending rates (MFW4A, 2013). High profitability levels have also reduced incentives for commercial banks to diversify their client base, with excess liquidity placed at the RBM.

There is a small insurance industry, with three life insurance companies and eight non-life insurers. Whilst there has been some innovative product development (for example, crop, weather and funeral insurance) the sector is limited in regard to products for low income households. Financial access is also low, with only 19% of the adult population banked (FinScope 2008), though this data is now relatively old and financial access is likely to have increased substantially (see below for further details).

[62] Based on the 12 month average, http://www.rbm.mw/default.aspx

[63] According to the Tobacco Control Commission, there has recently been a sharp fall in tobacco production in 2012 (by about 35%), which greatly reduces rural incomes although this is expected to have improved in 2013.

[64] HIV and AIDS has also significantly impacted Malawians with an HIV infection rate of 11-12.9% of the adult population, UNAIDS: 2008-09 country comparisons.

[65] 139 people per km^2 and 84.6% live in rural areas (NSO 2008)

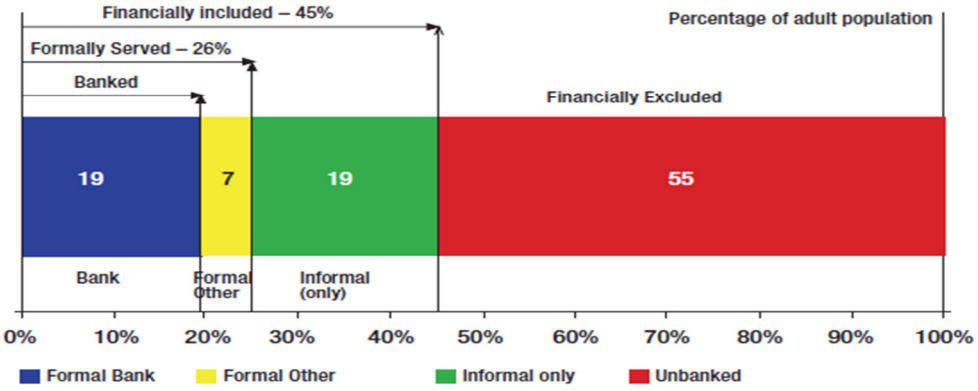
[66] First Merchant Bank recently took over International Commercial Bank (ICB).

6.2 The savings landscape

6.2.1 Financial access overview

The FinScope study of 2008, although outdated, is still the most comprehensive source of demand side information on financial access in Malawi. It showed that more than half of the adult population of Malawi do not have any kind of financial product (formal or informal). Whilst this figure is somewhat outdated, and the current level of access is expected to be higher largely as a result of the rise in VSLAs (see Section 6.2.3), exclusion is still significant.[67] For example, a more recent survey, albeit conducted using a different methodology (Findex 2011), showed that access to formal institutions was low at 16.5 %.[68]

Figure 17: Malawi Access Strand



Source: FinScope 2008

Figure 17 shows that 19% of individuals are banked, 7% use a financial product from a formal financial institution other than a bank (e.g. MFIs) and 19% make use of informal financial products and/or systems available to them. The level of indirect access to banking is high with 22% of banked adults making use of bank accounts that are not registered in their names (FinScope 2008). Indirect banking mainly occurs through the use of the account of a spouse, parent or child although the bank accounts of neighbours and friends are also used. The FGDs confirmed such findings, highlighting that wives are more likely to be banking through their husbands (with the reverse true for informal mechanisms).[69] The position within the household does not have any noticeable effect as to the level of financial access, unlike in the other country studies, Lesotho and South Africa.

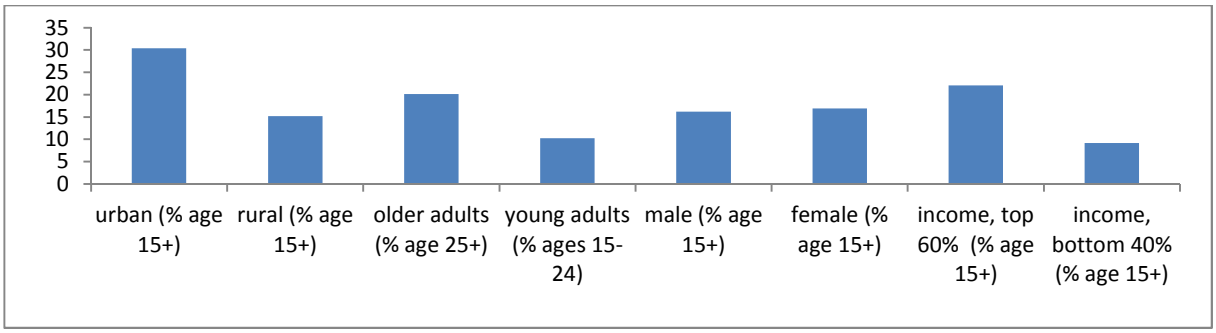
Similar to other countries in SSA formal access is much higher in urban areas and also for older, richer and more educated adults (Figure 18).

[67] The FinScope survey is due to be repeated in 2014.

[68] Another survey - the FinScope MSME (2012) - found that 59% of MSMEs are financial excluded.

[69] Findex data however does not support this, suggesting that men and women have roughly similar levels of formal account usage. A current empowerment drive by the Government is also attempting to address this issue.

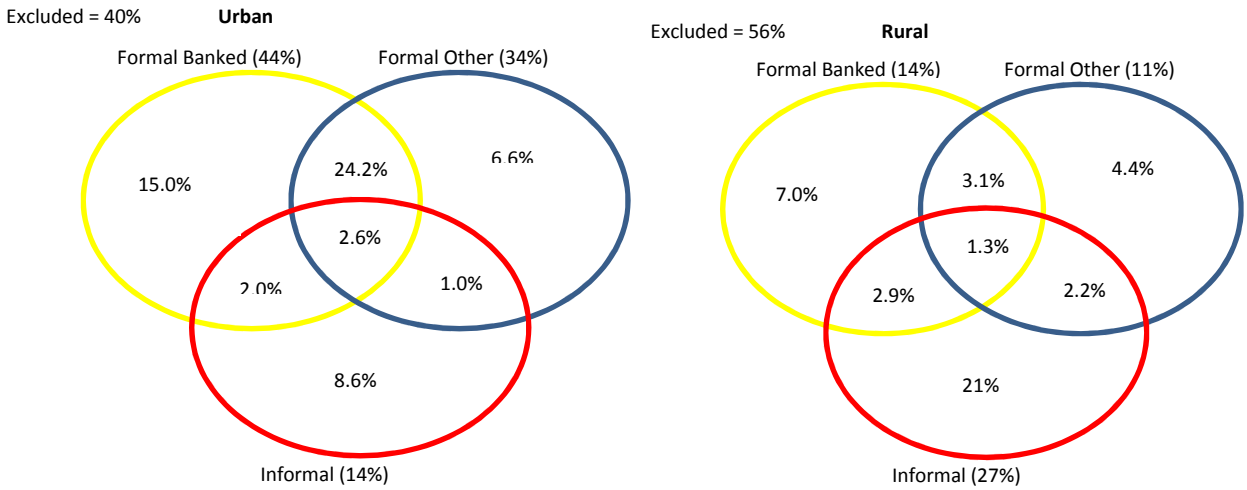
Figure 18: Account at a formal financial institution



Source: Findex 2012

There is a high degree of overlap between those who are reached by banks and other formal financial services, especially in urban areas (Figure 19). The non-bank microfinance sector does not significantly change the mix of who is reached, even though MFIs have access points in districts where banks do not (OPM 2010). The big jump in access comes between being formally and informally included. Figure 19 shows that when informal sources of finance are included in rural areas, the proportion of adults with financial access almost doubles, showing that they are offering a service of relevance to the rural poor (OPM 2010). As will be shown below in the context of VSLAs, this has important implications for savings. In total, 25% of the adult population are using the informal sector, with only 6% also using products from the formal sector, suggesting that they are essentially catering to different markets.

Figure 19: Overall access in urban and rural areas



Source: FinScope 2008

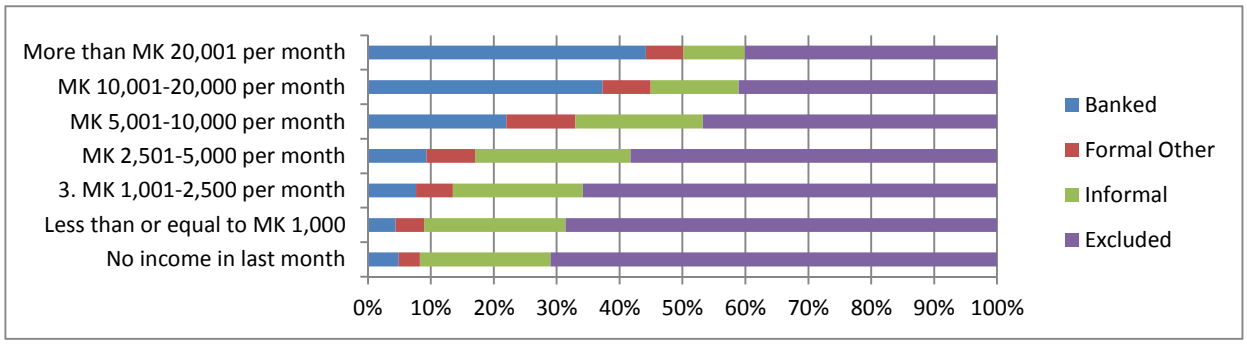
The key reasons people keep their money in bank accounts are for safety from theft (62%) or to prevent themselves from spending it (33%) (FinScope 2008). The transactional use of bank accounts is also fairly important with accounts used to receive money from other deposit accounts (27%) or to transfer money safely (17%), although note this is significantly less than the proportion of adults in Lesotho who view their bank as a transactional device. Findex data, however, also highlights the prominent use of formal accounts to receive remittances as well as wages (Findex 2011).[70] There are limited money transfers from abroad.[71]

[70] Stuart et al. (2011) financial diaries study in Malawi also highlights the importance of urban to rural remittances in rural financial lives, highlighting that remittances are mostly used for day-to-day expenses.

As highlighted above, there are many risks to low income individuals in Malawi, however, only 3.0% of Malawians have insurance, with a lack of awareness (45.9%) and cost (27.5%) identified as key constraints (FinScope 2008). Instead households rely on family or borrowing to finance costs such as funerals or medical expenditure.

Key determinants of financial access

Figure 20: Income and financial access



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Source: FinScope 2008

As Figure 20 shows, a key characteristic of financial access is an individual's level of income. 54% of individuals surveyed responded that they did not need a formal account since they did not have enough funds, with over 80% of respondents stating there were times of the month where they had no cash in the home (FinScope 2008). In urban areas the relationship between income and banking services is particularly strong, with a steady rise in bank penetration through the lower income bands, peaking when declared incomes rise above the food poverty line (OPM/Kadale 2010).

Affordability is also a major constraint to formal access. The FGDs stressed that it was bank fees/charges rather than the requirement for a minimum balance (or level of interest rate offered), as well as the costs of transport to the bank (predominately undertaken by public transport), which were the key affordability issues.

While the convenience of bank access points is important (both with regards to transport cost and opening hours), population density is less important than income characteristics in determining where banks operate (OPM/Kadale 2010). This highlights that "while the location of an access point is an important consideration for an individual to make use of a financial service….other variables still need to be considered – such as, for example, whether financial services being offered are configured to meet the needs of rural people (OPM/Kadale 2010, pp. 49)." This suggests that constraints to formal services are not only structural (i.e. distance), but that they also relate to their value proposition. The extent that products and services offer value to low income individuals with respect to their *savings needs* is explored further below.

6.2.2 Demand for savings

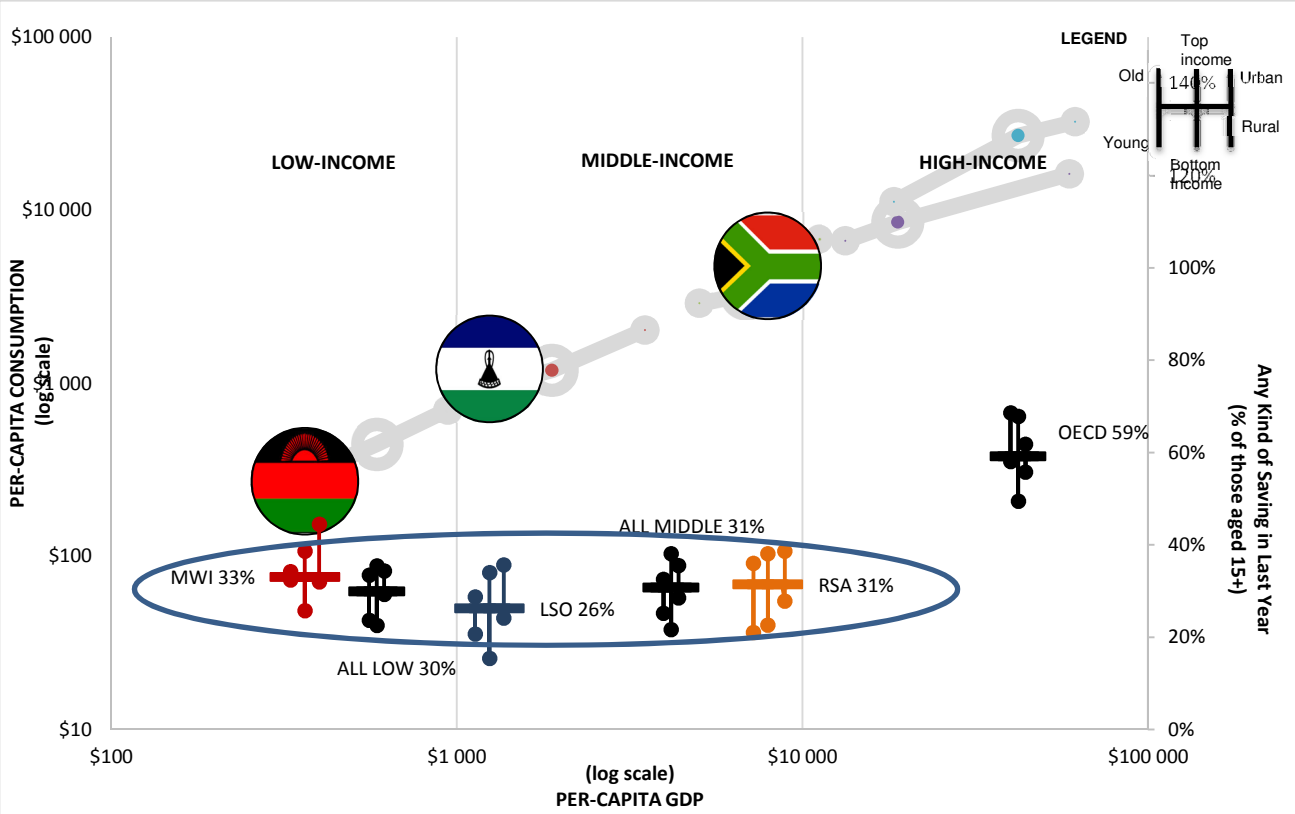
How prevalent is saving for low income households?

FinScope Malawi (2008), found that a striking 74% of adult respondents were saving in cash or in kind. This overall savings figure is extremely high in comparison to other countries. For example, Figure 4 showed that only 33% of adults saved in South Africa and only 59% in Lesotho. This

[71] Remittance inflows as a % GDP in 2010 in Malawi was 0.3%, compared to 28.6% in Lesotho, 0.2% in South Africa, 1.2% in Mozambique and 1.6% in Rwanda, in World Bank Migration and Remittances Fact Book 2011.

Malawi result is heavily driven by the level of those that stated they saved cash at home.[72] To further test this finding, Findex (2011) data was used to compare Malawi's incidence of current saving ('have you saved in the past year'[73]) against other countries of similar and higher levels of income.[74] As Figure 21 shows, Malawi is broadly consistent (33% as opposed to 30%) with other countries of a similar income level showing levels of current saving activity that are generally not exceeded until countries are firmly in the high-income bracket. Thus, saving in Malawi is done by proportionately as many adults as is the case in South Africa, an indication of how important saving is even to poor individuals/households. Age does not seem to be a significant differentiator (and that is indicated also by the FinScope survey results). Income and location (urban-v-rural) are however significant dimensions of relative access and this conclusion is explored further below.

Figure 21: Malawi savings as per financial inclusion and income spectrum



Source: Author's calculation using Findex and World Bank OpenData

After keeping cash at home or in a secret place, the second most common response for those that were saving was 'savings at a bank' (17%). FinScope respondents also highlighted three methods of savings in-kind including livestock (13%), stock for a business (8%) and farm inputs (8%). Saving through an informal group was less than 1%, although, as commented below, this appears to have changed significantly with the substantial increase in VSLAs.

[72] There is often a fine line between if such cash is for savings or transactional use, and some people with cash at home for expenses may have been counted as saving.

[73] This is different from the FinScope on access to various savings formats, some of which may be long-term put aside for major life events or predictable 'emergencies' and both made and used outside the survey year.

[74] See Section 5 above for a description on how this Figure has been developed.

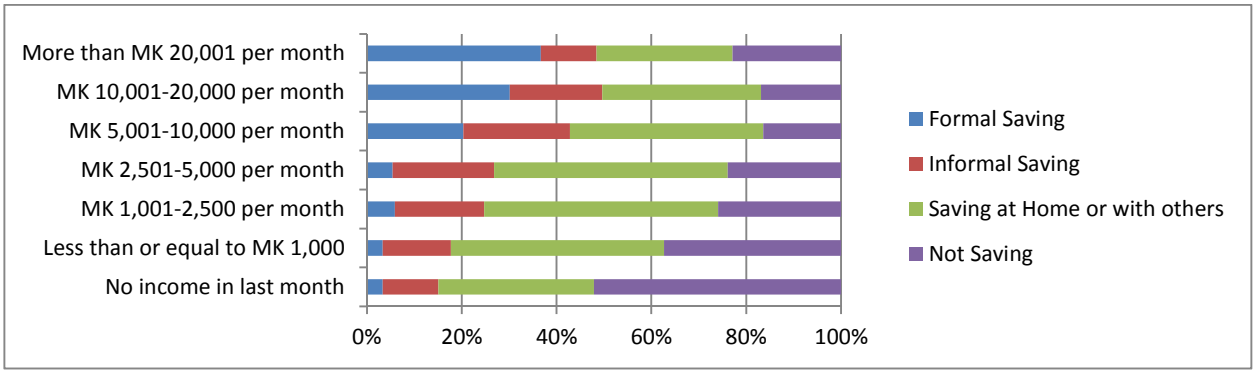
Data on average savings was not available across all formal saving institutions.[75] Opportunity Bank Malawi (OBM) data however provides a good indication of balances at the lower end of the formal market. They indicated that average balances, per savings account, were in the region of US$50 (c17.500Mk),[76] but that there is a considerable seasonal effect related to the agricultural cycle. Savings balances fall in the period October to December primarily related to withdrawal of funds for buying agricultural inputs, and to a lesser extent, for the main period of festivity (Christmas). Balances then increase from April through July, as a combination of crop proceeds and income from trading businesses flows into accounts. This trend was confirmed by other banks and key informants, including Malawi Union of Savings and Credit Cooperatives (MUSCCO). MUSCCO reported average deposits[77] across its 46 members of $0.96m (336mMK) as at end March 2013, giving an average voluntary savings of MK3,580 (US $10.2) at this annual low point.

The key informants and FGD respondents were consistent in highlighting that for a large proportion of the population, there was no or very limited surplus income to save. This is shown in Figure 22, which is similar to Figure 20 but analyses how the level of *savings* (rather than overall access) is affected by income. This is supported by FinScope which found that the most common reason for not saving was 'no money left after expenses (57% of those that did not save).[78]

"The hand to mouth syndrome is what makes us not save up. We would rather buy things for the home than leave it with the bank."[79]

"*Someone who relies on selling fritters cannot bother opening an account as he gets a little and most of the money is used to feed the family.*[80]"

Figure 22: Savings strand by income



Source: FinScope 2008

Data from the Microfinance Opportunities financial diaries study (Stuart, et. al. 2011b) showed that 115 out of 257 participants made at least one deposit into or withdrawal from a bank savings account over the 18-month study period. Overall, they were net savers, making 441 deposits with a median amount of $150 and 581 withdrawals with a median amount of $75. These are relatively high amounts, driven by the top 27 savers being from the highest-income households in the

[75] The study was not able to collect data from all banks given time available in country. Moreover, this data could potentially be misleading, with little disaggregation between high and low income accounts, and the misnaming of savings accounts which are, in practice, only used for transactional purposes.

[76] Values in $s are affected by the considerable change in the Malawi Kwacha to the US Dollar, which at that time was at a relatively high point against the US $ (at the time of the interview, August 2013, which is likely to be close to its peak).

[77] Over and above shares.

[78] Regularity of income is also important with those who saved with a bank more likely to have a regular source of income, either a salary or regular remittances from salaried family members (Kadale, 2012b).

[79] FGD, in Mpempa

[80] FGD, in Mpempa

sample deriving income from tobacco farming. This highlights the importance of tobacco to savings as one of the highest earning farming activities in Malawi, in which income is received in lump sums, two or three times a year between April and August.

The same pattern in terms of the seasonal build-up of savings was reported by key informants relating to informal savings groups (VSLAs/ROSCAs) and by members of these groups through FGDs. Group methodologies vary, but in essence, the main savings are predominantly made from March to September, with the groups dividing shares/paying dividends/returning savings in October to November for use for farming inputs around the onset of the rains. As informal savings groups are more commonly rural and for lower income households, the reduction in savings is more extreme and more tightly related to the farming calendar (onset of rains) than the reduction in bank deposits, which are due to more urban and 'trading' depositors. This further emphasises the link between savings and the agricultural nature of the economy, both for deposits and withdrawals.

Anecdotal data from key informants and FGD participants suggest that weekly savings (share contributions) to an informal group range from US $0.30 to US $1.60, plus contributions to the social funds, which are used for grants or interest free loans to members with emergency social needs (funerals, medical). Members give a high priority to making the savings, and the amounts are carefully discussed at the beginning of each savings period, to ensure that they are within the range of the members, so missing a saving/share is relatively uncommon. The members also appreciate the regularity of saving which brings discipline to their own financial affairs. Over a season the member savings/shares can build up to a "useful" sum, perhaps in the region of US $10-35, but the addition of the dividend from interest[81] charged on loans to members and non-members (less common) can result in payments of over three times these amounts at the time of distribution.

Where and how are people saving?

FinScope (2008) noted that the deposit function of a bank account is important, shown by over 50% using their account to save for an emergency (27%) or to set aside money for a planned purchase (26%). However, this research suggested that some of these bank accounts, whilst sometimes used to save for a particular project, are also often used for transactional purposes. 'Having a bank account' is commonly seen as synonymous with 'saving' no matter what that account is used for.[82] To that end, savings accounts often appear to be misnamed and are in fact only transactional accounts, opened for payment/receipt arrangements (especially for low income government employees).

A financial diaries study (Stuart, et.al 2011b) found that for the study population, savings were not so much a way to hedge against some hypothetical rainy day as a means of coping with common irregularities in income and expenses. For low income households, the timing distinction between saving and transactions (or day to day cash management) is likely to be shorter than it is for higher income households. For example, 'saving' for rent in an urban context is a matter of preserving cash income received, quite possibly at home, even if it is only for a few days before the rent is due. It looks transactional from the outside, but for the low income person, they are making a conscious choice not to spend it immediately and to earmark it ('save it') for a particular use.

The FinScope (2008) saving strand highlights the very different patterns between the types of savings in urban and rural areas (Figure 23).[83] For urban areas, there is more access to formal

[81] Rates were commonly 20% per month for members, and 30-40% per month for non-members.

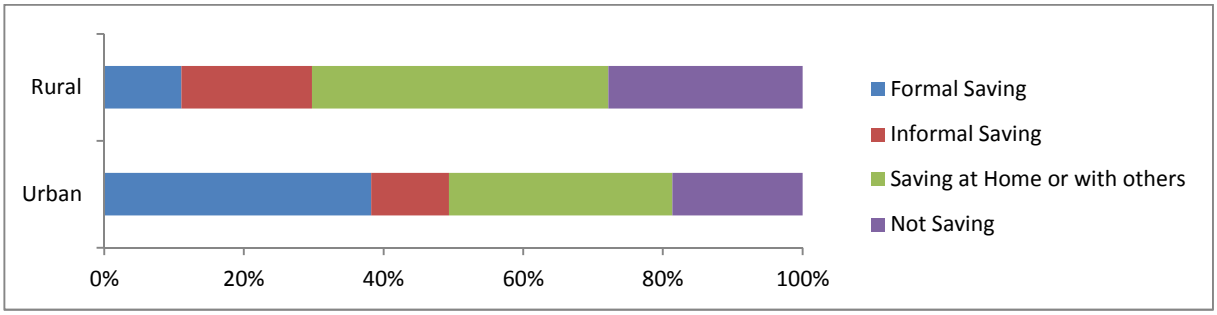
[82] The term 'savings' is used widely for accounts, though many of these are operated as card-based current accounts (but without cheque or overdraft features) with frequent deposits and withdrawals.

[83] This is supported by more recent Findex data.

saving opportunities, while in rural areas there is more opportunity for informal savings.[84] In particular, for rural low income savers they have to face higher costs of transport in accessing formal savings products due to longer journeys.

"*much as savings in the bank is very important for security reasons, I do not use it often, as the banks are hard to reach. For someone to deposit or withdraw MK 2,000, he has to have another MK 500 for transport to and from Blantyre City where the banks are.*"[85]

Figure 23: Rural-Urban Savings Strand



Source: FinScope 2008

In the absence of a recent FinScope to compare these findings to, relevant feedback from key informants and FGDs in regard to where low income households are now savings included:

- The number of bank account holders has increased considerably in the last five years, possibly by as much as 60-70%, based on analysis of raw numbers of accounts given by some banks. Having a bank account is seen as almost synonymous with 'saving'.
- There had been expansion of bank-on-wheels by several banks and one large SACCO, but these have been reduced in recent years due to high costs of operation, challenges with fuel (2010-12) and changing models of operation. It appears some banks were overly ambitious in how viable it was to serve markets with these units. Whilst overall evidence of their impact was mixed, these mobile banks were found to have had a greater impact on women's savings, with the conclusion that the convenience of financial services may be more important to women than to men (Stuart et al. 2011b).
- There has been contraction of branches by some formal FIs, as they re-assess viability, while others have filled in gaps in their networks.[86] What has not happened is an increase in outreach beyond centres already served by one or more formal outlets.
- There has been an explosion in the number and penetration of informal savings groups (e.g. VSLAs, ROSCAs etc.) groups. For example, CARE reports over 200,000 members (from 13,000 a few years ago), the WALA project reports 135,000 members (93,000 households) and COMSIP reports over 90,000 members. CARE and WALA have ambitious targets and high expectations of continued growth, mainly through the presence of rural promoters who get a commission/reward from groups once they are established. VSLA/ROSCA groups appear to have reached a critical mass with momentum to be an accessible source of savings, particularly in rural areas, which also gives a very good return to savings, and well above that

[84] In reality, informal providers play an even smaller role than Figure 25 suggests given 'informal' also includes savings through other mechanisms such as employers or through business stock. This is consistent with a study in 2009 (with more than 2400 households) that suggested that between formal and informal providers savings were largely with the former (Adelman and Nagarajan 2009).

[85] FGD in Mpempa

[86] Malawi went through a significant slowdown in its economy in 2011-12 period, due mainly to poor economic management (fixed exchange rate, excessive spending and borrowing by GoM). This resulted in shortages of goods and fuel, lay-offs and a drop in spending. Several banks faced financial difficulties and had to cut back, so lower performing outlets were cut back.

for formal savings. This will radically change the savings strand shown in Figure 25 above where informal providers played a fairly small role.

- Although men were reluctant to join groups, and some are specifically promoted by NGOs to women only, there was evidence of men saving through their wives. There is an indication that some men and women have realised that the returns on informal group savings are way above the returns from formal savings. Although there is some risk, the risks appear manageable through the group members' knowledge of its member and non-member borrowers. This has become a means to syndicate savings and on-lend for a good return, especially compared to formal savings.
- The two large mobile network operators (MNOs) have launched new m-money products in the second quarter of 2013. These offer e-wallets for transfers and transactions, which can, but do not have to, be linked to a bank account. Inevitably, balances will be held in these e-wallets on the same basis as cash at home – a mix of transaction smoothing and short-term savings. Although no interest can be paid on balances, the FGDs highlighted that the accessibility benefits and the lack of charges for holding cash, compared to 'ledger fees' in banks on ordinary savings accounts, are likely to be attractive to low income households. At this very early stage, there was no evidence of use for savings purposes, but there was interest in trying it among some FGD participants.

"*To get money from the bank means you have to consider transport to and from the bank. Maybe this [m-banking] can be good in that you would not to go to the bank often and your money is saved up without having to buy the simplest thing that is available.*"[87]

Formal and informal savings

i) Why do people save in formal institutions?

- The key reasons to use bank accounts are to keep money safe either from theft (62%) or to prevent themselves from spending it (33%) (FinScope 2008). Other important uses of an account are for money transfers (including to receive wages).

"I keep money at the bank to avoid spending it at home as whenever someone passes with something they are selling, I feel the need to buy. In short, I can't keep money on my person."[88]

- The FGDs confirmed the importance of safety, particularly among traders who were interviewed and who deposit daily or very regularly. Some also highlighted a savings account as a step towards credit, mainly to save for collateral. This is consistent with other studies (GIZ 2012).
- In the FGDs, male participants were more attracted to bank saving than female participants. The men preferred the more individual and private nature of bank saving. This was partly because the levels of trust by men in other men is particularly low, partly to keep the information from others (to avoid scrutiny of how they use money), and partly because men associate the use of group methodology in VSLAs/ROSCAs as something that is associated with women.

"*If the bank catches fire, the customers are assured that their money is still there because the records are always safe. If the money is saved at the treasurer's place and the house catches fire, it means all is lost.*"[89]

"When you have the money saved up at home, once you pass away it would be easy for those left behind to quarrel about how to share the money. The bank however would help share the money accordingly depending on how you declared the money be shared."[90]

[87] FGD in Tikondane
[88] FGD in Mpempa
[89] FGD in Tikondane
[90] FGD in Tikondane

"My husband has an account with the bank and we save our money together. I do not know the bank procedures, but when I make enough money from the business, I give it to him to keep at the bank"[91]

- There seemed to be no attraction to accounts for low income respondents in the FGDs based on interest rate paid, even though the banks and the RBM put more emphasis on this. The rate may be of note if a person has more than one option at the time of opening an account, but the high transaction cost of opening and closing accounts suggests there is little reason to move. Therefore, competing on interest rates, which are already well below inflation, appears to be mostly irrelevant to low income households. Savings in banks and SACCOS are not even a modest hedge against inflation – to do that, the saver needs to find a place for their money that gives a better return (business, farming, informal savings group on-lending) or holds its value (assets).

ii) Why do people save in informal institutions?

- Women valued the convenience that the groups provided to savings, credit and emergency funds, which operates as a form of collective group self-insurance.
- Some FGD respondents were only interested in saving for safe keeping and access to help with emergencies. Others wanted to save to get a return, having understood that the returns are relatively high.
- A study into informal finance in Malawi found respondents preferred the approachability and understanding of informal groups compared to banks and MFIs. *"There is no transparency at the bank, while with a VSLA you understand how your money is being used and what interest you will have at the end. Also there are no charges when saving with VSLA like what the banks do"* (Kadale 2012b).
- Bank fees were also considered a problem.

"The bank steals our money. They generate money on our money but do not generate interest for us."[92]

- The FGDs also highlighted that some people do not trust saving with friends or even at home, viewing it as an unsafe place. This is consistent with FinScope (2008), which highlighted that over 80% of adults were wary of keeping cash.

"It is not easy to save with any other family member except the grandparents as they might end up spending it. Grandparents however understand our financial problems and they wouldn't spend the money or lend it to anyone else."[93]

- The take-off of informal savings groups suggest that they are meeting a market need and although there was some sense of ultimately wanting a bank account, the conclusion is that informal savings groups are an important and appropriate source of savings in rural areas that are remote from formal financial outlets. That is likely to continue for the near future and points towards a dual approach of (1) developing the formal sector *and* (2) expanding the informal savings group model.
- There is a related on-going need for basic financial literacy to ensure people can make informed financial decisions and choices between informal and formal financial sources rather than to only promote formal sources.

"If there were at least less procedures, less deductions and if the bank was to provide help by their employees on reading and writing or use of their ATM, the banks would be an easy place to save our money."[94]

[91] FGD in Tikondane
[92] FGD in Mpempa
[93] FGD in Tikondane
[94] FGD in Mpempa

iii) Alternative to savings services

As indicated, men in the FGDs were more likely to be positive towards credit, while women were more cautious, mirroring previous research in Malawi and elsewhere (Kadale 2012b). More interestingly there is a preference for credit that is paid down, rather than for savings where a person saves up for something. This culture was noted by the SACCOs and one bank in particular. FIs, GoM and Development Partners have focused on credit as the means to meet a range of finance-related problems, but with very little mention of savings as a viable and in some ways advantageous alternative to getting large lump sums.

One SACCO stated that it had changed its promotion message from promoting credit to promoting 'savings first', as it had identified that a lot of members had joined in order to borrow, based on multiples of savings. In the recent past, this had resulted in this SACCO having a poor quality lending portfolio and considerable financial losses.

Whilst saving in livestock or in other assets was viewed as relatively popular in the FinScope surveys the research found that people generally found this an unpopular route, as they were subject to theft or illiquidity at times of emergencies.

"The increase in theft also discourages us from investing in property. Same for livestock, someone can steal a pig and you wouldn't gain anything from it."[95]

"The disadvantage of livestock is that they are regarded as a symbol of wealth which is for the children…selling livestock in this case cannot be used in times of emergencies because the family would have to meet up and discuss whether to sell or not as it is family property"

"You can buy chickens once in a while but it is not the same as saving in cash. You would still need money in cash when it comes to emergencies."

The new rules that make it compulsory for employers to enrol employees in a pension scheme and to contribute 10% on the employee's behalf could also become an alternative form of savings. Employees are required to contribute 5% of their salary to the same pension, with restrictions on being able to draw on the funds prior to retirement. The implementation of the legislation began in 2011, but there is no known research yet on the impact on incentives for, and attitudes to, saving. It is speculated that because there was limited saving for 'retirement', other than building assets, pensions will not significantly affect savings behaviour, but rather people will continue to save for projects and assets. In the longer term, this may change.

Use of savings

FinScope (2008) found that the main reason respondents were saving was for farming (19%), followed by typical household living expenses (15%) or making provisions for anticipated medical expenses or other type of emergency in the near term. Very few respondents (less than 5%) save money for future investment purposes such as a house, business or collateral for a loan.

FGDs and key informants highlighted the importance of savings for a purpose/'project'. Respondents generally had something in mind for the savings, with more common answers related to buying stock for a business or farm inputs, or for housing materials or school fees.

"*We use money we get from COMSIP (group) for maintenance on the home, fees for the children and anything else that we would not want to use money for our business on.*"[96]

[95] FGD in Kamanga
[96] FGD in Tikondane

"I was having problems in raising school fees money for my children. I could start saving in my house for school fees but when anything happens, I was tempted to use the money. All this stopped when I joined the group because we save in a group as such I cannot just go and get the money even if I want to."[97]

In some of these cases, particularly for men, they saw savings as the alternative to credit, which while credit was preferred, it was inaccessible to them. On the other hand, for women, savings were favoured because they preferred to avoid getting credit. A few FGD respondents reported saving for loan collateral.

From the FGDs, there was limited evidence of saving for an investment return through interest received. This is perhaps due to the very low real returns (interest rates) on savings in the formal sector (minus 20-25% in urban areas). The exception was where some rural people had seen that saving in informal groups gave a very good return on available cash.

There was limited reporting of saving specifically for emergencies in the FGDs, but savings for a project were often diverted to meet emergencies, resulting in longer time periods to save for the project than intended. This contrasts with FinScope (2008) which did highlight savings for emergencies, but it may be the interpretation of how the question was asked. For example, in the FGDs it was clear that *the purpose* was generally not to save for emergencies, whereas FinScope may have been picking up how people were *actually using* any savings they had.

For lump sums, the financial diaries study found that clients did turn to the formal sector for help in meeting a lump-sum need**,** but savings were preferred over loans**.** Onerous loan terms and conditions, and long processing times make loans suitable for foreseen planned large expenses, but much less attractive than savings, which are more flexible for other needs.

"*Nowadays it is very hard to access soft loans like the ones accessed in VSLAs. There are Katapila Operators around, but their interest rates are very high. 50% is their minimum interest rate and if you don't pay back on time, they do not hesitate to confiscate your goods.*[98]"

Insurance/Risk

Formal insurance has very low uptake in Malawi, at less than 3% of adults (FinScope 2008). However, it was interesting that the social fund is a key component of the informal savings group that FGD respondents found to be a key attraction. The social fund runs alongside the main share/savings fund, with compulsory weekly contributions; it is a form of group self-insurance that enables members to maintain their savings balances in the face of problems/emergencies. In this respect, insurance and savings are complementary. There was no other insurance identified that was relevant to savings.

Remittances

As with most alternative sources of income, remittances can reduce the need and incentive to save. There is evidence of employees (mostly urban) sending money to relatives (rural and usually to parents) or others to whom there is an obligation. The FGDs were unable to quantify these flows but the FinScope 2014 will help provide further information in this regard. The FGDs did highlight that they are usually used to pay for major items, like farm inputs and building materials, rather than for living expenses, unless it is to a spouse. This likely reduces the incentive of the recipient to save for major items, but the motivation for sending is likely to be that these are beyond the reach of the recipient to save for without assistance.

[97] FGD in Tikondane
[98] FGD in Tikondane

6.2.3 Supply

Banks

Banks continue to generate high levels of profitability, and lack incentives to move downscale. Interestingly, the three banks that have targeted lower income clients, OBM, NBS Bank[99] (NBS) and Malawi Savings Bank (MSB), have all faced financial challenges in the last two years. These challenges are not necessarily related to the targeting of lower income households, but more from the resilience of these particular banks to wider problems in the economy. In response to these challenges, NBS and OBM have scaled back some operations, including their bank-on-wheels services. These three banks still maintain their commitment to lower income clients.

Considering the geography and population density of Malawi, bank branches are reasonably spread across the country's various districts. But branch operations still focus on cities and District Headquarter towns, with very limited outreach to the rural areas. OBM's and NBS's experience confirms that rural savings act as net source of funds for on-lending by urban-based branches or outlets (OPM/Kadale 2010).

OBM received a banking licence in 2003 from when it started to take deposits. OBM reports that it has 529,000 savings accounts, totalling MK 9 billion (US$28.1m) at end July 2013. It has consistently targeted low income savers, predominantly urban initially, but does reach into rural areas. This total includes people with multiple accounts, households with multiple accounts and medium and higher income savers. Along with NBS Bank, OBM has been the main formal provider for low income savers, with a large portion (not identified) of the above being lower income savers.[100]

OBM has utilised different means to reach lower income households. First, it opened branches close to urban markets, aiming to attract traders. Then it opened variants on full branches, notably smaller kiosks, containers, full service mobile banking vehicles and finally, it deployed lightweight banking vehicles that offer more limited services, but that can reach more remote locations off the main tarmac roads.

NBS had deposits of MK 39bn ($ 122m) in 2012, down from MK 45bn ($ 284m) in 2011. It is not clear what proportion of the above could be classed as low income savers, though NBS has targeted lower income savers more than other banks, as it was a relatively new entrant looking for an underserved market. The economic difficulties in 2011 and 2012 caused the downturn in deposits, as well as a period of retrenchment for NBS. Like OBM, NBS also used full service banks on wheels to reach beyond the urban areas.

NBS is working with MasterCard Foundation to downscale deposit products, but this is in the early stages. It is getting technical assistance from Women's World Banking (WWB) (USA), in part in recognition that some of its products are not well suited to rural clients. NBS is piloting deposit products through five non-urban Post Offices and private shops linked to NBS via a cellular link, although there are some challenges with connectivity. Clients can use either PoS devices and/or mobile phones to access accounts. Stakeholders, such as UNCDF, have argued that there is greater potential to work with retailers/chain stores.

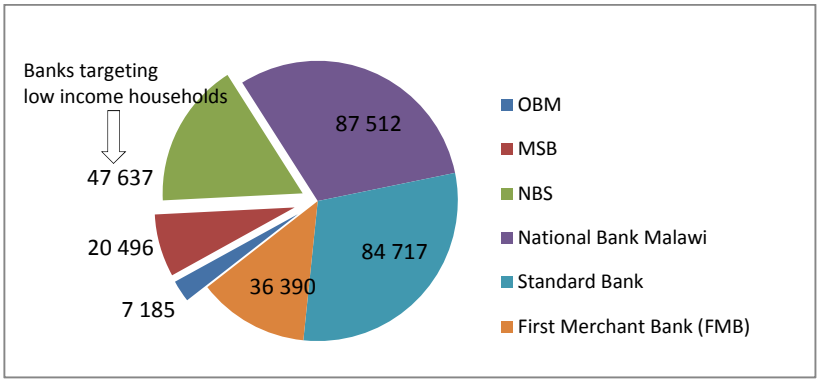
MSB is a majority state owned bank (via Press Corporation), which was separated out of the Post Office. It targets urban and rural savers, including low income savers. It has the most extensive

[99] NBS nominally stands for its predecessor institution being New Building Society, but it is just NBS Bank and not an abbreviation of New Building Society.

[100] One of the difficulties in data collection for this study was that banks' MIS do not easily identify which accounts are held by low income individuals.

branch network in urban and rural areas, which is driven by its mandate from government to offer savings to lower income households. Data on its deposits and low income client numbers were not available although overall deposits mobilised are shown in Figure 25.

Figure 24: Deposits mobilised by selected banks, 2012

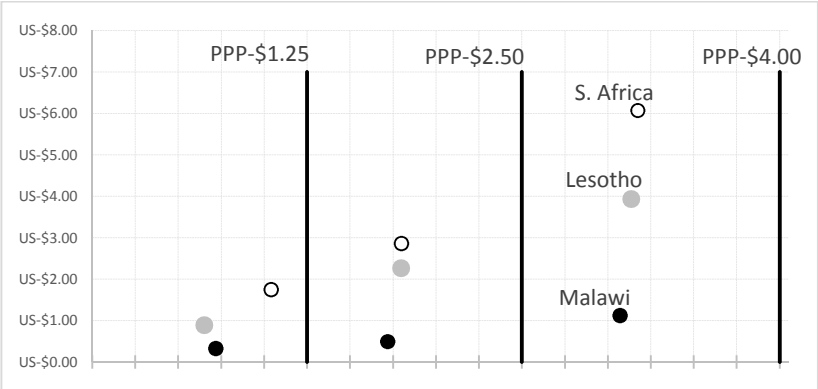


Source: Various 2012 Annual Reports[101]

Figure 24, which includes *most* of the banks in Malawi[102] shows that the main banks aimed at low income households make up a minority of the overall deposits mobilised in the country, although they make up a higher proportion of actual accounts, due to having relatively small average deposits.

Most of these other banks are generally not targeting lower income clients and apply minimum levels of income for opening accounts (around MK 30,000 - US$94), which excludes most Malawians. In effect, this means some banks do not 'allow' deposits by low income households. This is perhaps not surprising given the low US$ amount of likely transaction bundles the poor have in Malawi, leading to high relative transaction costs. Figure 25 shows that all levels of poverty are either a dollar or sub-dollar phenomenon in Malawi. Monthly fees may therefore equate to more than a day's income. However, banks are looking at lowering transaction costs, particularly from use of mobile money. For example, National Bank (the largest in Malawi) is working with UNCDF on how it could use mobile technology to reach lower income households for saving, increasing number of transactions (and lowering their cost), although its definition of low income might still be relatively high.

Figure 25: PPP-$ -v- US-$ at different levels of poverty



[101] The MSB annual report was from 2011.

[102] NedBank Malawi is not included as its financial statements are not disaggregated by country. Data for Ecobank and Indebank was not available. International Commercial Bank has been taken over by FMB

Source: Word Bank Open Data[103]

A potential opportunity for expansion by the formal sector presents itself from Malawi's relatively high incidence of overall savings, yet low incidence of savings at formal institutions. For example, Findex shows that 8-9% of Malawians currently using formal saving options represents only one-in-four of the 33-35% of all adults actively saving. Factors such as age, income and location all influence this, so a formal product that can be accessed remotely at low cost and marketed to young as well as older adults may already enter a market of people already saving.

Overall, there is competition for urban and peri-urban lower income savers by banks and SACCOs. As noted above, there is quite a lot of overlap between which markets the bank and non-bank sector compete for. There may also be some overlap where SACCO savers also have bank accounts, but for low income savers, having accounts at more than one bank is expensive due to the ledger fees and the amounts of money available to them to keep as a minimum balance. Most savers have basic card-based accounts which they operate more as transaction accounts, though some higher end low income and middle/high income savers may also have a fixed savings account.

In rural areas, which include District Headquarters ('Boma'), the options are limited beyond the Boma, where there may be five or more banks present. Beyond the Boma, the only options are a branch of MSB or MSB counter in a Post Office, or a bank on wheels from OBM, NBS and/or MSB. However, there are some limited agency-bank relationships such as First Merchant Bank (FMB) through agri-input dealers (Farmers World & Agora), where FMB's Makwacha card can be used for payments and deposits. These are located in the Boma and bigger trading centres, but absent in smaller trading centres and beyond, resulting in high travel time and cost to get to a bank outlet.

With 10 banks in competition in a relatively small economy, with added pressure on the urban economy from devaluation and slowing growth, Malawi's banks may feel pressure to consider how to reach the large majority of the population who live and work in rural areas. However, the distribution of bank services is constrained by relatively high standards for branch infrastructure and the experience of the high running costs of banks-on-wheels. More positively, the combination of full m-money/e-wallet services and regulatory room for agency banking opens up the real possibility of accessing many new potential customers.

Following RBM's directive on agency banking in November 2012 (See Section 6.2.6), NBS is piloting rural agents through Post Offices and retailers. OBM is also piloting agents, while FMB is negotiating with its existing agents for more extensive services. Agents for MNOs are currently not covered, giving the MNOs some advantage, though in practice they would want to operate prudently. A World Bank consultant on e-money recommended that the RBM does not make it a requirement to have a bank account, if using e-money. RBM has accepted that, and this is the case with current MNO operations.

However, there are questions over the suitability of the products and banks' distribution capacity to serve client needs (see below for a discussion of bank products). Banks need to better segment low income households to develop products that meet a range of differing needs, such as farmers saving for farm inputs, traders needing a safe place to keep daily takings, and people saving for a range of different projects ranging from school fees to building materials and business stock. To do this, banks need better information about their potential client base and markets.

[103] This graph is based on consumption, inequality and poverty data from the World Bank's Opendata source.

Microfinance institutions

MFIs are supervised by the RBM. All those that are licenced by RBM for deposit taking will be directly supervised, while smaller MFIs will be supervised via the Malawi Microfinance Network (MAMN). FINCA is in the process of applying for a deposit taking licence but is largely expected to operate in urban areas.

At present, only the Malawi Rural Finance Corporation (MRFC) can provide savings services to the public (notionally to 'farmers'), under a long-term special exemption. MRFC cannot on-lend the savings it collects from the public and invests them mainly in government instruments.

Some MFIs collect 'mandatory savings' from their clients to form collateral, as a pre-condition for clients' access to loans. RBM has recently issued a directive that MFIs need to pay interest on these savings, which may result in nominal rates of interest and/or higher credit charges and/or a reduction in their use.

A number of MFIs have facilitated savings from their groups. CUMO Microfinance links its clients to the nearest bank, so that they can deposit voluntary savings generated through their ROSCA plus model.[104]

At this point in time and for the near future, MFIs are not very important for deposit taking, though CUMO Microfinance and Micro-loan Foundation are focused on rural areas, with around 80,000 borrowing clients.

SACCOs

SACCOs fall under MUSCCO, which has 46 active members.[105] Data as at March 2013 gives total shares at MK 2.9bn ($ 9.2m) and total deposits at MK 0.3bn ($ 1.0m) from 93,847 members. Member SACCOs are either location, profession (e.g. teachers) or company/organisation-based. Members are not necessarily low income in Malawi's terms, but in global terms they are in the low to middle income range.

FINCOOP, a subsidiary of MUSCCO which had been growing rapidly, faced major problems with its loan book (MK 350m ($ 1.1m) write-off) and was put under RBM supervision in 2011. It is re-building its balance sheet, but faced a large fall in members (47,000 to 21,000), as those that were saving just to access loans realised that it was not in a position to lend. Such was the scale of FINCOOP among SACCOs that its shrinking has been a major factor in an overall reduced membership and asset/deposit base for MUSCCO overall. FINCOOP had operated mobile bank (on wheels) facilities, but is no longer using these as a cost reduction measure. Perhaps inevitably, some other small SACCOs are also facing management and loan repayment problems (OPM/Kadale 2012). MUSSCO has a requirement that a proportion of SACCO funds are kept with MUSCCO, which is meant to be used as a form of deposit guarantee.

MUSCCO has a new initiative to form a rural farmer SACCO called MuFuNa with Farmers Union of Malawi (FUM) and National Smallholder Farmers Association of Malawi (NASFAM). It aims to address weaknesses in its rural outreach and has 1,700 members, so far.

There are SACCOs that also accept deposits from non-members. These non-members are interested in a safe place to store their savings or their cash surplus at the end of a business day, and are not willing to travel long distances to make deposits to a bank. This implies that there are

[104] This involves group saving and lending internally, and after a period of successful operation, CUMO provides loans to group members. Groups continue to save and internally lend.
[105] There have also traditionally been small groups of SACCOs that sit outside of MUSCCO but these are very few.

unmet opportunities for drawing deposits in unbanked peri-urban areas of the country, even if only overnight or very short term.

Informal saving sources

There has been considerable take-off in Malawi of informal savings group variants in the last five years. These include:

- CARE has been working on its VSLAs for the last 10 years in Malawi, but through a series of projects it is now achieving considerable scale with 204,000 members in over 10,000 groups, of which 82% are women, saving $17m (cumulatively). This does not include VSLAs in its Enhancing Community Resilience Project (ECRP), in which it is the VSL lead among 8 other NGOs – targeting 58,000 members overall. Average cost ("investment") per member (to CARE) is $25, but if it includes business training in the support package, then it is about $35/member.
- Catholic Relief Services' WALA project is a key constituent member of the ECRP. Its VSLA model has been one of its best components with high adoption rates at 135,000 members (approx. 93,000 households). WALA has facilitated $2.5m in savings so far and expects to double these by the end of the project. VSLAs have become self-sustaining through its 262 'Private Sector Providers', who get paid by the group when it completes its first cycle.
- COMSIP[106], which was spun out of the Malawi Social Action Fund (MASAF) in 2008, uses a group model for those that receive payments under the Public Works Programme (PWP). These are assisted to make savings for three months and then receive a COMSIP loan as group capital. It has approximately 90,000 members, but is not growing, as its membership is linked to the PWP activity.
- MUSCCO has experimented with a Group Savings and Loan Association (GSLA) approach in partnership with the Malawi Lake Basin Programme. So far it has over 5,000 members.

Overall, informal FIs are now widespread as the informal savings group model is widely used by a range of providers in addition to the above. Informal savings groups offer the considerable advantage of low transaction costs and convenience for the members, compared to travelling to a bank/formal FI. It is more attractive to women, as they are both used to, and seem to like the opportunity to meet weekly/regularly, compared to men who do not wish to spend time like this. As this model with regular meetings has become associated with women, then it is also a factor in men not wanting to be engaged.

CARE and WALA have experimented with facilitating linkages between established groups and banks. Although the bank came out to the groups to open the initial account, the groups then found it difficult to access the Bank outlets.

Innovations for Poverty Action (IPA - 2012) implemented a randomized control trial to measure the impacts of CARE's VSLA program on households and women.[107] The take-up rate was 22% for female respondents in the programme areas. These were on average more literate and wealthier women who were more likely to have had a business before the programme, and more experienced at managing money than non-members.[108] Female VSLA members reported a median weekly contribution of 100 MWK (US $0.66 during the study period). The median share-out is 7,225 MWK ($48). Respondents most commonly spent these funds on fertilizer purchases (23%) and housing improvements (19%). There was a *significant increase* in savings balances, from

[106] Community savings and investment promotions, but generally referred to as 'COMSIP'

[107] IPA collected panel survey data on a sample of over 4,000 households across 380 villages. Baseline data collection took place between April and June 2009, prior to the implementation of the program, with an endline survey taking place two years later. The panel study spans 22 months of program activities in the treatment areas; upon completion of the study in June 2011, VSLA programming began in the control areas.

[108] Members had been part of the group for 12 months on average, and only 57% of members in Malawi had completed one or more full cycles at the time of the survey.

1,325 MWK ($9.2) in control areas to 2,125 MWK ($14.9) in the treatment group; savings balances are defined as the difference between deposit balances and outstanding credits.

These informal groups are challenging the banks' savings dominance. The informal group model has achieved a self-sustaining critical mass and it is anticipated that it will continue to spread and deepen its reach in rural areas. Based on the FGDs, these informal groups are likely to bring the financially excluded into informal inclusion, rather than result in many people (particularly women) closing bank accounts. Respondents still valued the status and perceived safety of a bank account, if it is accessible to them.

M-money services

M-money services are offered by at least four banks and both major MNOs. For the banks, the m-money services can be limited to balance enquiries and selective bill payment. Telecom Networks Malawi (TNM) offers 'Mpamba' and Airtel has 'Airtel Money', both of which create e-wallets that can be used to buy airtime, send money and pay for utility bills. These can be linked to a bank account, but do not have to be.

Although the MNOs do not have licences to offer savings products, there is nothing to stop a person just holding surplus cash in their e-wallet. There is a transaction cost when they cash it out or send it, but there are no ledger fees that reduce it month-by-month, as with many bank savings products. On the positive side for banks, the linking of e-wallets to accounts could provide a major boost in savings to banks, particularly if businesses are willing to receive payment in e-money, which they then deposit to their bank account.

There is a Mobile Money Working Group (MMWG), co-ordinated by Family Health International 360 (FHI 360) (USAID funded) under its Mobile Money Accelerator Project (MMAP). This is running three pilots for: civil servant salary payments, Agricultural Value-Chains using Hunger Project loan cash outs, and supporting the Social Cash Transfer Programme (SCTP) through TNM.[109]

Savings products

Minimum balances for many card-based savings accounts have been reduced, often to MK500 (US$1.40) (see Annex D for a list of savings products in Malawi at the lower end of the market), but there are significant costs associated with opening and keeping a bank account that preclude low income individuals from holding an account. Even these low balance requirements require continued depositing to keep the account at its minimum level requiring active cash management.

The strongest complaint in the FGDs concerned the monthly ledger fees, which result in savings balances progressively reducing, as these are higher than monthly interest in most cases. This contrasts with the formal sector's view of incentives of households, which tends to focus on interest rate offered, yet users appear much more concerned about charges.

There are savings accounts that carry transaction charges instead of ledger fees, which would better suit savers that want to leave money in an account untouched, but it seems that many savers are not aware of or do not understand the differences, and banks seem unconcerned to better inform them. A ledger fee with no withdrawal fees is better suited to accounts where there is a high volume of transactions. Models with lower fees for limiting deposits and/or withdrawals would seem to be an obvious development.

[109] In relation to the SCTP, with payments of around $7-15/month, the $ value has been affected by the devaluation and therefore in its current form unlikely to affect savings greatly. However, there are some pilots that are testing different delivery mechanisms for cash transfers including the effect on financial inclusion.

The cost of opening and maintaining a bank account is high for many low income households. From the analysis of FinScope data, the overwhelming majority of those unbanked respondents who declared their income reported *cash* incomes below MK10,000 (US$70) a year. For urban-based individuals, this constituted about 70% of the said respondents, while in the rural areas, this proportion was as high as 85% (OPM/Kadale 2010). Analysis conducted in 2010 showed that with minimum opening and maintaining balances of MK1,000 (US$7), a large proportion of the population would find it almost impossible to meet this requirement (OPM/Kadale 2010).

Fixed-term savings accounts are often inflexible, especially in allowing periodic and progressive deposits. The depositor tends to need the full amount to deposit at the start, rather than be able to add to it as money comes in. This then is not accessible to lower income clients, who need to save up (do not have lump sums), but is accessible to better off clients who have a lump sum they want to put aside.

Meeting the needs of the poor through savings products

Bringing supply and demand sides together, the following opportunities can be identified:

- There are opportunities for savings products that focus on particular sub-groups of low income households that have particular deposit and withdrawal patterns, such as farmers depositing crop proceeds and saving for next season's farm inputs, traders seeking a safe very short term place for funds daily,[110] and products that enable multiple deposits over differing periods. However, it will be important that any product is flexible enough to allow savers, if saving for a particular 'purpose/project', to then use money accrued in time of emergency. OBM, NBS and MSB are already thinking more about fitting products to different groups and needs.
- Part of the success of those existing products that are tailored to particular deposit and withdrawal needs is the importance of committing savers to save. One recent RCT study explored this issue, analysing a commitment device savings product for tobacco farmers. Those who used the commitment accounts cultivated 0.42 more acres than those in the control group, spent more on inputs, and earned MK 19,200 more in profit ($132), leading to higher monthly household spending (Brune, et al 2010). However, overall levels of savings were relatively unaffected making it difficult to interpret the results in relation to savings products.[111]
- There are opportunities for pricing savings accounts to match the usage patterns and steering savers to products with higher transaction charges but low/no ledger fees, while providing transaction accounts with higher ledger fees and no/low transaction charges. Re-branding accounts to be more clearly transaction or saving accounts would help people make better choices, because at present there is confusion between accounts that are better used for transactions and those that are better for savings.
- Informal savings groups have their own momentum in rural areas, and particularly with women. Access to savings could be strengthened by promoting informal savings to be relevant for men and for urban areas. E-wallets may be more attractive for men in these areas, as they combine proximity with privacy. There is a risk that the more successful informal providers are with rural women, the more those other groups might believe it is not for them.
- There is the potential to encourage people to use mobile phone e-wallets in different ways, particularly for making payments. This has considerable potential for reducing transaction costs and risks with cash (for consumer and retailer). It would also be useful to encourage people to hold funds on their e-wallets, as an alternative to bank accounts where charges can be higher for maintaining an account.

[110] In this case, it might be about having a convenient depositing service open until the end of trading hours, close to markets, so that traders do not have to cut short the trading day to get to the bank before it closes.

[111] As David Roodman concluded, whilst some of the results from this experiment were impressive it does not fully explain why they have occurred, a common criticism of RCT studies. See, David Roodman, (2012), Savings Study: Flummoxing Findings, David Roodman's Microfinance Open Book Blog.

- There is potential to widen access to bank services through banking agents, which would be particularly beneficial to women who value convenience and are more constrained in being able to travel to deposit and withdraw.

6.2.4 The policy, legal and regulatory environment

Macroeconomic challenges.

From 2000-2004 excessive government borrowing was financed by domestic debt with some of the highest real interest rates in the world crowding out private investment and bank lending (World Bank 2009). Whilst the improved macro-economic performance from 2005 to 2010 provided positive conditions for the expansion of the financial sector, a number of recent macroeconomic challenges have threatened this and overall savings behaviour in recent years.

As Section 6.1 highlighted, the reduction in economic growth and an overvalued exchange rate led to a severe shortage of foreign exchange. While potentially an incentive to banks to broaden outreach, given reduced opportunity to generate profits in the foreign exchange market, the significant uncertainty this created, along with the overall economic downturn has been detrimental to overall business activity (OPM/Kadale 2010). As noted above, the main banks that have been targeting low income savers, such as NBS and MBS, have had to scale back operations. High agricultural price volatility, particular in tobacco, and production risks from adverse weather, has also had a direct effect on rural economies and the circulation of cash (and therefore savings). Although prices are expected to stabilise in the near term (IMF 2013), the recent resumption of the rapid currency depreciation from September 2013 suggests that inflation is more likely to increase again in the near term.

Inflation increased rapidly in the last two years, reflecting the devaluation of the MKW in 2012[112] as well as increasing food prices. This has exacerbated negative real interest rates on savings accounts and eroded the value of savings balances. The RBM increased its base interest rate to 35% in early 2013 and although this has reduced recently (to 25%) banks have kept their base lending rates at 35-40%, while maintaining low savings interest rates, from 2 to12%. With inflation at 25-30%, savers are facing considerable negative interest rates at present.

It is worth noting, however, that although mobilizing savings has become most costly for low income households, there is little indication that inflation plays much of a role in the *mind-set* of low income households (it was not mentioned, for example, within the FGDs). Instead, it is the effect that inflation has on impacting households' resources that is constricting *available funds* for saving that is more of a concern.

Policy

The Government of Malawi (GoM) has a number of overarching policies and programmes that target financial access and to a lesser extent the mobilisation of savings. These include the GoM's (2010) Financial Inclusion Strategy 2010-2014, the GoM/World Bank Financial Sector Technical Assistance Project (World Bank 2011) and the Malawi Growth and Development Strategy II (MGDS II) (GoM 2012). Within the financial inclusion strategy, there are two specific targets in relation to savings: first, to 'increase the volume of savings mobilized to a level of 676,910 million MKW (currently around 1.9 billion US$) by the end of 2014';[113] and second, to 'support savings mobilization and transform five credit-only MFIs into deposit-taking inclusive finance providers.'

[112] The MKW has depreciated by an additional 33 percent against the U.S. dollar following the initial 33 percent devaluation in May 2012. (IMF 2013)

[113] To note, it is not clear what exactly this figure is intended to measure, with deposits currently mobilised far exceeding this target.

These initiatives are coordinated at the policy level through the Financial Sector Policy Unit (FSPU) and an associated working group, although the former has suffered from capacity constraints since its inception.[114]

However, despite such targets the overall emphasis of these policies is on general access and credit rather than low income savings. Interviews with stakeholders suggested that some see credit as a more pro-active way to assist the poor, rather than leaving the poor to rely on their own resources, and thus to some extent more political salient. Low income savings also fail to gain political resonance as an important source of capital, which is perhaps unsurprising given their relative size. They are insignificant when compared to deposit mobilisation by the main commercial banks that focus on richer households (see Figure 24 above), and following the resumption of aid flows there are other sources of more easily available funds. Instead, as suggested in Section 6.3, greater attention needs to be placed on the positive value of savings at the household level as a development goal in itself.

In terms of direct actions in the financial sector, the GoM has tended to pursue a relatively interventionist approach to mobilising and allocating financial services though a number of government-led development finance institutions, in particular the Malawi Rural Finance Company (MRFC) and two government trusts, SEDOM and DEMAT, of which the latter has since been merged into SMEDI, which targets the SME sector).[115] MSB operates as a bank rather than a development finance institution, but it was subject to some interference under the previous Presidency. The World Bank states that “while some programs have achieved some modest measures of success, overall performance has not been stellar, nor achieved government’s objectives of broad based access to finance (pp. 3 World Bank 2011)." There is recognition by the GoM of these challenges with the MGDS and FSTAP highlighting how they have distorted the market.[116] It should be noted, however, that such negative judgements are in part based on the loan performance of these institutions, with MSB and MRFC providing access to savings accounts where other formal institutions have not. This though brings its own risk, with depositors – often in low income households – potentially at risk if the institution failed.

There are also less interventionist approaches being pursued. For example, the RBM is looking for ways to encourage banks to increase outreach, considering changes to the liquidity requirement if a bank can show that they have opened their networks to the remote areas. RBM may also press banks to offer higher savings rates, although as yet it does not appear they will go beyond this and issue directives to encourage greater outreach or higher deposit mobilisation.[117]

Other inclusion based initiatives with relevance to savings include a strong emphasis on financial literacy, promoted through the RBM (and the FSTAP), with a baseline being developed and plans to include modules into the school curriculum with savings being one component. It will be important, however, to ensure that not only information on formal savings products is provided, but that it also covers informal household savings and wider principles of why savings are important. Mobile and agent banking are being promoted, with the potential to push formal providers down market, although progress in this area has been slow. There has also been a push more generally to promote wages being transferred through the financial system, through promoting Government

[114] FSTAP progress report

[115] Others include the Malawi Rural Finance Corporation (MRFC).

[116] As part of the FSTAP, there a number of restructuring initiatives planned to strengthen the oversight and governance structures of state-owned financial institutions.

[117] However, at the time of the research there were unconfirmed reports that the RBM has issued a directive to MFIs that they should be paying interest on those mandatory deposits they are currently collecting. It is not clear yet what this will mean for MFIs and their other charges.

to Person Payments (G2P).[118] This followed the finding by FinScope that 75% of employed people were being paid in cash.

There are no large scale tax incentives for low income savings, although there are exemptions provided on interest up to10,000 MKW ($33).[119] There are also some tax exemptions for the acquisition of finance related infrastructure, with mobile banking vans, ATMs, and POS exempt from customs duty and excise tax, *potentially* reducing the end costs passed onto the consumer.[120]

Legal and regulatory issues

There were many Acts of Parliament passed in 2010-2011 after much pressure from financial sector players over many years. The *Financial Services Act (FSA) 2010* regulates the entire financial sector with the *Banking Act 2010* governing banks that are licensed and regulated by the RBM. The insurance industry is regulated through the *Insurance Act 2010* and the *Consumer Protection Act (CPA) 2003*.

There have also been regulatory reforms of particular relevance to savings aimed at regulating non-bank institutions. The passage of the *Microfinance Act 2010*[121] explicitly authorizes the licensing of deposit-taking MFIs, which may contribute to an expansion in deposit-taking activities. As noted above, it is unclear how many MFIs will seek to do this given regulatory requirements and their current focus on credit. In any case, first mover MFIs are likely to initially concentrate on the 'easier' urban market.[122]

In 2011, Malawi enacted the *Financial Cooperatives Act*, which for the first time established a specific legal and regulatory framework distinguishing financial cooperatives from other cooperatives. In addition, the Act assigns responsibility for licensing and supervision of financial cooperatives to the RBM.[123] Increased supervision of the traditionally weak SACCO sector is an important step to reviving the potential for this sector to play a role in low income savings. However, it is expected that the sector will need to contract and consolidate before it will be in a position to expand. Increased regulation of the formal nonbank sector is being combined with a plan to introduce a Deposit Insurance Scheme for the banking sector, although at first this may not cover the SACCO sector; this is being considered by the RBM and will be decided by June 2014.

With so much new legislation in the last two years, the RBM as the regulator needs time to develop its capacity and learn about the intricacies of the new sectors under its supervision, in order to undertake its new roles in ways that are conducive to growth in financial inclusion. There is the risk that these supervision powers will not be properly enforced, with new actors (such as deposit taking MFIs) creating new risks to the sector. On the other hand, without a deep understanding of the MFI and SACCO sector there is also the risk of over regulation, as the RBM's experience is with regulating banks.

[118] Initial attempts to do this across the public service were very challenging with liquidity management a key constraint. Pilot schemes are now working with the Health Department and financial intermediaries to attempt a more modest roll out.

[119] Income Taxation Act, Laws of Malawi; Chapter 41:01 (formerly Income Tax Ordinance 1963).

[120] Customs and Procedure Code (CPC) on Importation (Paragraph 161)

[121] This provides for a number of regulatory tiers: a deposit-taking tier that is subject to stricter regulation by the RBM; a tier for non-deposit taking MFIs; and a tier for micro-credit lenders.

[122] As of July 2013, no MFIs were listed as licensed deposit-taking MFIs on the Reserve Bank of Malawi's (RBM) website, but there are plans for FINCA to mobilise deposits.

[123] Some of the regulatory role is delegated to the MAMN for MFIs and MUSCCO for SACCOs. There is a cut off of MK75m assets for regulation of SACCOs – institutions above this threshold (19 out of 45 SACCOs) are regulated by RBM.

Other recent and relevant regulatory changes include new *Guidelines for Mobile Payment Systems* (2011) that allow MNOs and other payment providers to offer payments and other services via mobile phones and other electronic channels. While daily transaction limits (approx. USD 60 for unbanked and USD 150 for banked customers) have been established for mobile payment services, no specific maximum balance limits have been specified for mobile e-wallets, so it should be possible to use the mobile wallet as a mechanism for saving small lump sums. As noted above, while the FGDs indicated interest in this use of e-wallets in this manner this is not yet happening. As MNOs are not as heavily regulated as certain other financial service providers, they may have an advantage in developing innovative models aimed at expanding outreach. In 2012, *Agent Banking Guidelines* were rolled out providing clarity to banks interested in extending their services.[124]

Finally, the *Pensions Act 2011* created enabling legislation for the regulation of pension funds and made employer and employee contributions to pensions mandatory as from June 2011. It is still too early to ascertain the effects on the savings rate, and although it will not apply to the majority of low income households (being mandatory for formal employers only), how it affects individuals' behaviour should be closely monitored.

6.3 Conclusions and recommendations

A SWOT analysis is provided below, which analyses in more detail some of the above factors, while also highlighting the future challenges and opportunities for promoting low income savings.

[124] An agent has to have 18 months operating experience, as well as the integrity and trust of customers, with banks fully responsible for their conduct.

SWOT analysis for promoting low income savings in Malawi	
Strengths • New legislation in place that brings regulatory framework up to date for MFIs (2010) and SACCOs (2011). • Relatively benign agency rules should encourage bank agency, which is in its early stages. Mobile phone agencies are less strictly regulated, which gives mobile operators an advantage at this point. • Access for urban low income clients to formal/bank savings is relatively good due to concentration of bank outlets in urban/large centres. Given the high population density some rural households can access formal products when there is a good value proposition. Even with significantly negative savings rates they are viewed as safe places to store money until it is needed. • Pension legislation now covers all formal employees creating forced long-term savings. • Considerable take-off of VSLA/ROSCA variants in recent years. This seems to have further to run with several large NGOs/projects pushing it – these meet the needs of (rural) women in terms of access, convenience, returns and social capital. Convenience is particularly prioritised in rural areas and important for women who are less able to travel freely. • The parallel social funds in informal groups act as group based self-insurance that in practice protect the member savings from having to be withdrawn to meet with irregular spending and emergencies. This has been an effective and attractive part of the informal savings group mechanism.	**Weaknesses** • Structural issues, such as a lack of a national identity scheme, limit overall formal access. • Low level of income for a majority of the population means limited funds for savings, other than cash smoothing 'savings' in the house. This is particularly so in the formal sector where costs of saving are high (e.g. bank fees, transport etc.). • Many savings accounts in the banks are operated like transaction smoothing accounts – they are current accounts without cheque book and overdraft facilities, but misnamed as 'ordinary savings accounts.' This may also result in high charges for their usage. • Savings patterns are often linked to a savings project, but savings products are not usually designed with these projects in mind, although there have been some recent developments, e.g. school fees account, festivities account etc. • Fixed-term savings accounts are often inflexible, especially in allowing periodic and progressive depositing – depositor has to have the full amount to deposit at the start, rather than be able to add to it as money comes in. • There have been negative returns on savings in formal institutions for a long time, worsened by the hidden banking 'rule' of paying interest on the lowest balance for the month – this encourages a transactional attitude to 'saving' in formal institutions. • Cost and time make the bank/formal sector unaffordable for many in rural areas. • There is a credit mentality among key stakeholders in the financial sector that results in savings and other non-credit financial services being under-valued and ignored. • SACCOs are weak players at the moment and are likely to undergo a period of consolidation before they can offer a route to mobilising low income savings. MFIs are not yet operating in the savings market, with as yet only limited indication of interest, given the costs required in investing in new systems (in addition to capital from other sources). • Capacity of RBM to fulfil role as Regulator of MFIs and SACCOs is still weak (and overstretched), including MAMN and MUSCCO to whom it has delegated some regulatory responsibilities. • GoM-owned financial institutions, whilst offering some additional outreach (e.g. MSB), have a number of governance and sustainability challenges.

Opportunities

- A potential opportunity for expansion by the formal sector presents itself from Malawi's relative high incidence of overall savings, yet low incidence of savings at formal institutions. A formal product that can be accessed remotely at low cost and marketed to young as well as older adults may enter a market of people already saving.
- Increasing mobile phone ownership (low cost of phones) and focus on mobile money in the last three months offer new options for increasing access and convenience.
- In order to take advantage of some of the benefits of the formal sector, there may be a case to explore linking banks to informal and semi-formal providers, although this should be undertaken with caution.
- Agency development is possible with a relatively dense population, at least in rural towns and trading centres. However, there is a lumpiness in demand for cash – heavy seasonal bias for farming areas and heavy month-end bias for urban area (employed), which can make it difficult for agents to manage this role
- MFI deposit-taking may create a new group of more decentralised deposit takers leading to more options for low income households.
- High development partner interest in mobile money, financial literacy, consumer protection and overall financial inclusion (e.g. FSTAP, FHI360/MMAP, DFID).
- There are some signs from RBM and others like MUSCCO and MSB that low income savings is being more prioritised than before, although this stills lags behind the focus on credit.

Threats

- Malawi is in a period of economic instability and adjustment; its economy is fragile and renewed depreciation and inflationary pressure will adversely affect savings though reducing the value of net incomes.
- Adverse weather/climate leading to major crop losses in one or successive years is always a risk for savings/savers. As a highly agricultural dependent economy, this has a knock on effect to urban areas, though milder impact than on rural areas, where it can be very severe.
- There is a risk of regulatory interference on savings rates, charges and borrowing rates as RBM is frustrated with the low interest rates offered by banks and high charges. This risk is likely to be highest pre-election in May 2014, or post-election with a confident new Government looking to 'do something'.
- Rushed m-banking schemes may fail, eroding trust in such mechanisms in the longer term. The design of such schemes therefore becomes important with a balance between short term profits and building necessary volumes and long term viability.

6.3.1 Recommendations

Recommendations based on this study include:

For policymakers

- Policy makers, FIs and development partners can increase their positive rhetoric on savings. A programme to extol the virtues for households of saving would help address the current strong credit bias. Whilst government and donors tend to focus on economic benefits of a savings pool, it is a relatively small pool and the biggest benefit to Malawi would be a change in household behaviour to saving up, rather than saving down.
- Support, likely to be from development partners, should be provided to the regulator and its delegated partners, MAMN and MUSCCO, to ensure the appropriate level of oversight of MFIs and SACCOs.
- The deposit guarantee scheme should proceed, bringing greater safeguards to deposits.[125] To that end, arrangements need to be made to also cover SACCOs and Deposit taking MFIs in addition to banks.
- Support and strongly promote VSLAs and other informal financial services, which have become a major player in the rural savings landscape.
- Ensure financial literacy focuses beyond banks/formal products and educates people on the benefits of savings and basic cash management.

Savings providers

- With VSLA/ROSCA variants in a lift off phase, there is potential to renew/revisit making linkages with the formal sector that previously did not work well. This might work better with rurally focused MFIs than with banks.
- There is scope for more tailored product design. There is insufficient analysis of lower income savers' needs and behaviours, including segmenting lower income groups – urban traders (regular daily deposits, slightly less regular weekly withdrawals for purchases), farmer input saving products (lump deposit, with occasional top ups, limited withdrawal, time related etc.) - different 'project' savings accounts etc.
- Options and ideas on mobile money uptake would be helpful with dissemination of successful and sustainable business models within Malawi and from abroad.

Research

- VSLAs have flourished in recent years and many respondents have highlighted the importance of the social capital such groups bring. Ethnographic research on the precise dynamics within such communities and these groups may offer interesting insights that other financial providers can use in their own value offering.
- As agent banking and m-banking grow, it will be important to monitor the impact and effectiveness of different types of agent models (e.g. PoS, kiosk etc.).
- A detailed supply-side study of the financial sector could provide further information into the feasibility of different retail banking models (and associated savings products) to meet the needs of low income households. It would also help fill a data gap, identifying which income strata are using which types of accounts and if they are being used to store savings as opposed to only for transactional purposes.
- New compulsory pensions for employed workers will affect some low income households and it would be useful to assess how this may affect individual saving behaviour, especially in light of high inflation.

[125] This is based less on low income clients' views of such banks, which as the study indicated are generally viewed as safe, but rather as a safeguard to their deposits in the case of crisis.

7 South Africa

Some of the key insights from this chapter are summarised in Box 5 below:

Box 5: Summary of the landscape for low income savings in South Africa

Key conclusions in relation to low income savings in South Africa are:

- Demand-side data (FinScope and Findex) show that South Africa's savings rates are low, considering the country's level of economic and financial sector development. Lack of uptake of savings may possibly be due to a culture of consumerism, a lack of discipline, and the perception that saving is not part of South African culture.
- South Africans use a variety of savings providers and products to meet their financial needs – commercial banks and *stokvels* are the most popular. Income affects where people save, with higher income individuals predominantly using formal financial institutions and those on a lower income mainly using informal financial services.
- Social grants constitute a stable and regular source of income for many low income individuals. They seem to be having a mixed effect on savings behaviour.
- Accounts are often used for transactional purposes and where salaries are paid into accounts the majority, or entire, amount is withdrawn almost immediately. There is a blurring between savings and cash for transaction smoothing (i.e. coping with common irregularities in income and expenses).
- Individuals feel banks are expensive and often do not trust them, but they still want bank accounts primarily to keep money safe and to stop themselves being able to access money too easily.
- Most people save for a particular project (e.g. Christmas groceries; farm inputs; school fees) although these savings are often diverted to meet emergencies, resulting in longer time periods to save for the project than intended.
- The 'Big 4' banks are showing an increased interest in targeting the low income market, and most have savings products directed at lower income individuals, and in one case, groups. This is possibly as a result of Capitec's and others' proven success at serving the lower income market.
- *Stokvels* remain a very popular savings mechanism and may be collectively strengthened through their national association (NASASA) which has new leadership and is exploring pooling excess liquidity of groups thus enhancing their collective bargaining power.
- There is a sound regulatory environment governing savings although it is possible that tight regulation may be hampering the development of mobile money which could be used more effectively to increase savings among low income individuals.

7.1 Context

7.1.1 Economic overview

South Africa is a middle-income country and has the largest economy in sub-Saharan Africa. The country has a well-developed financial, legal and physical infrastructure, forming the basis for a sound financial system and for stable economic growth. A track record of macroeconomic prudence and a supportive global environment enabled South Africa's gross domestic product (GDP) to grow at a steady pace during the decade up to the global financial crisis of 2008-2009 (World Bank, 2013). However, economic growth has slowed in recent years (3.5% in 2011 to 2.5% in 2012). 2012 was a turbulent year for the South African economy as labour unrest in the mining sector stifled production. The economy was also affected by the recession in the Euro zone, a major trading partner. Despite this, economic growth did pick up in 2012 but fell short of forecasts as export volumes barely expanded and consumer demand slowed (African Economic Outlook, 2013).

This economic slowdown has had a particularly severe impact on employment. The unemployment rate, which was already high at about 21.9% in 2008, has since risen to 24.9%. Youth unemployment (15-24 years) levels are particularly high (50%) (World Bank, 2013).

South African public spending is relatively pro-poor and this has contributed to improved social development indicators in a range of areas. Millennium Development Goals (MDG) on primary education, gender, several health indicators and environmental sustainability are likely to be achieved. According to South Africa Social Security Agency (SASSA) documents and the budget review by the South African Treasury, social grants expenditure and the number of beneficiaries have quadrupled since 1994, now covering around 16 million people. Social programmes include state old-age pensions, child support grants, conditional grants for school feeding and early childhood development and disability grants. These programmes, which are managed by SASSA, are generally well targeted and provide significant income relief for the poor (World Bank, 2013).

Despite these accomplishments, South Africa's economic transformation remains incomplete. There are still some legacy issues from the apartheid system which undermine economic efficiency and job creation. South Africa remains a dual economy with one of the highest inequality rates in the world, perpetuating inequality and exclusion. An estimated 36.4% of the population is living under US $2 per day (PPP). The black population constitutes 80% of the overall population but accounts for over 90% of the people living in poverty. Women are also disproportionately affected by poverty: female-headed households have a 50% higher poverty rate than male-headed households, with rural women suffering more than urban. With an income Gini coefficient of around 0.70 in 2008 and a consumption coefficient of 0.63 in 2009, the top decile of the population accounts for 58% of the country's income, while the bottom decile accounts for 0.5% and the bottom half less than 8% (World Bank, 2013). There are also some long-standing structural issues, including bottlenecks in transport and energy infrastructure and public service delivery, high concentration in certain economic sectors, labour market rigidities, and fairly high unemployment (MFW4A, 2013).

7.1.2 Financial sector overview

Although South Africa has a relatively sophisticated financial sector, financial services do not adequately reach many poorer segments of the economy, particularly in rural areas where outreach is still low. The South African financial system is dominated by commercial banks which, with assets amounting to 120% of GDP, represent the largest segment of the market. In 2012, the South African banking industry consisted of 17 registered banks, two mutual banks, 12 local branches of foreign banks, and 41 foreign banks with approved local representative offices.[126] The banking sector is highly concentrated, with 'the Big Four' banks accounting for almost 85% of total banking assets. These banks have expanded internationally, especially in the SADC region, including into Lesotho and Malawi, where some of them have acquired substantial market shares. While they remain profitable, well-capitalised and adequately provisioned, the economic downturn, job losses and consumer over-indebtedness caused non-performing loans to increase to 6% of gross loans (MFW4A, 2013).

The MFI sub-sector is relatively weak in South Africa but informal institutions, including *Stokvels*, VSLAs and other savings groups are prevalent. MIX Market lists 18 MFIs (or banks providing microfinance services) with a combined total of 1.6 million borrowers and a gross loan portfolio of US $3.5 billion. Total deposits in MFIs stand at US $217,121.[127] These figures are small compared to other parts of the financial sector. The main player by far in offering microfinance in South Africa

[126] 2012 South African Banking Sector Overview [http://www.banking.org.za/index.php/our-industry/2012-south-african-banking-sector-overview/] accessed 15 November 2013
[127] http://www.mixmarket.org/mfi/country/South%20Africa [accessed 8 October 2013]

is Capitec Bank. Other key players include U-Bank, the Small Enterprise Foundation (SEF) and Protea FSG. In terms of informal providers, there are an estimated 880,000 *stokvels* and a number of organisations promoting various types of informal savings groups, the most active being SaveAct and CARE. Further details of their activities are included in section 6.2.3.

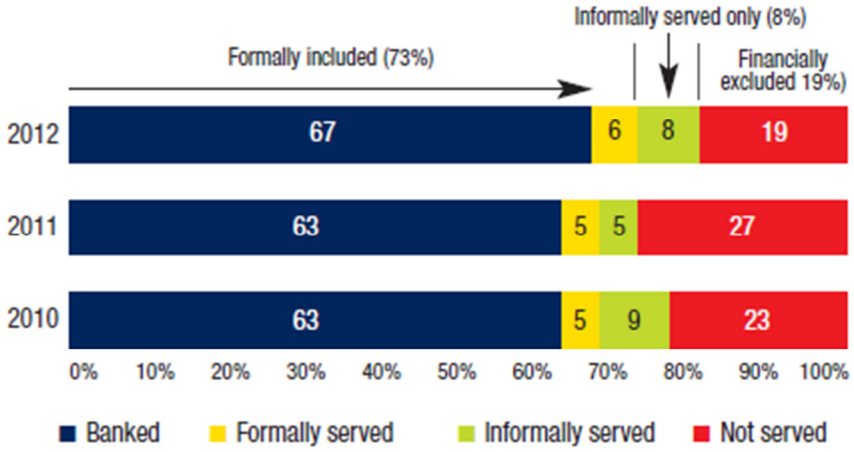
Insurance companies are major players in the South African financial sector. Insurance penetration— measured as premiums to GDP—is among the highest in the world at 16% of GDP (MFW4A, 2013). 17% of FinScope 2012 respondents use at least one insurance product, although these tend to be in the higher income deciles: the figure drops to 3% of people in LSM 1-5 (FinScope 2012). The pension fund system is well developed and covers about 60% of formally employed workers, largely due to the mandatory government retirement savings plan.[128] However, this plan restricts voluntary retirement savings to middle and upper income workers. The combined market share of life insurance companies and pension funds exceeds that of banks, at 192% of GDP (MFW4A, 2013).The provision of housing finance services, dominated by commercial banks, has recently undergone an impressive expansion. However, access to housing loans is largely restricted to higher income brackets.

7.2 The savings landscape

7.2.1 Financial access overview

Overall financial inclusion in South Africa is similar to Lesotho and substantially higher than in Malawi. As shown in Figure 26, financial inclusion has increased since 2010 across all categories. According to the Banking Association of South Africa, in 2011 91% of South Africans lived within 10 kilometres of a transaction point.[129] However, 19% of the population remained financially excluded. Significant challenges exist in expanding access to affordable and reliable financial services: amongst others, there is a major divide between the ability of salaried and non-salaried individuals to open a bank account, lending to small and medium enterprises (SMEs) remains low, and the availability of savings and insurance products is limited (MFW4A, 2013).

Figure 26: Access strand (South Africa)



Source: FinScope South Africa 2012

[128] It is obligatory for anyone who works for a company which has in place retirement products to contribute in terms of the Pension Funds Act and SARS Rules. 15% of salary is the maximum that is deductible for tax purposes, but the member can contribute more if he or she wishes to.
[129] http://www.afi-global.org/sites/default/files/pdfimages/GPF2012%20Summary%20Report_12_13PDF.pdf

Over the past few years, there has been improvement in both access to, and depth of, financial services. There is now a wider range of financial services available to customers, such as mobile money transfer, short-term insurance products, lower cost transactional products, more ATMs and services delivered through retail service centres, taxi ranks etc. However, access to finance in rural areas, particularly where income is earned informally or irregularly, is still limited. Most banks focus on urban areas and middle to high-income households and formal enterprises. More than one third (37.7%) of rural households, half of rural SMEs (50.4%), and 36.6% of small farmers[130] are financially excluded (CIBA, 2012). The current roll out of the new SASSA payment cards linked to the 16 million social grants distributed on a monthly basis could possibly lead to an increase in rural financial inclusion (see section 7.1.1). However, the current scheme uses a closed-loop system in the payment cards which undermines the scope for increased financial infrastructure in rural areas. If this closed-loop system is amended to be more inclusive there would be potential to see an increase in rural financial inclusion.

South Africa also saw the introduction of simple low-cost entry level bank accounts called 'Mzansi accounts' in 2004. These were developed in response to South Africa's Financial Sector Charter and saw the 'big four' commercial banks as well as the state-owned Postbank all launching a standard Mzansi account. These accounts were fairly limited as they only had basic functionality and did not provide account holders with the full range of banking services offered by traditional bank accounts targeted at higher income earners. This situation changed over time due to market demand. Nevertheless over 6 million Mzansi accounts have been opened in South Africa since their launch – although just under half of these accounts have become dormant[131] since they were opened (OPM, 2012). FinScope 2012 noted a drop in Mzansi account usage (6% in 2012, 10% in 2011, 15% in 2010) and 23% of previous Mzansi users dropped out of banking altogether. 49% have up-scaled and 28% have switched to another entry-level product (FinScope 2012). The commercial banks are still marketing Mzansi but have also introduced their own branded entry-level products[132]

Remittances are fairly common in South Africa. According to FinScope 2012, 18% (6.1 million) adults either send or receive money to/from family members, parents and children – 10% receive remittances and 9% send. Of those who receive remittances, 4% receive them from outside South Africa. However, remittances as a share of total income for low income households decreased significantly between 1993 and 2008, from roughly 50% in the bottom income decile to around 5% by 2008.[133] The most common channel for remittances is through family and friends (45%), followed by through the bank/ATM (26%). Interestingly, only 1% of those sending remittances do so using their mobile phone (FinScope 2012) – this represents a significant opportunity for mobile banking providers.

7.2.2 Demand

How prevalent is saving for low income households?

As shown in Figure 4 above, South Africa has the lowest level of savings across the three study countries, despite having higher financial inclusion. This perhaps indicates a poor savings culture in South Africa. According to FinScope 2012, a quarter of respondents save money on a regular basis and one third (11 million people) use savings products. 3.7 million of these save through

[130] 'Small farmers' are defined as those who typically produce some surplus for marketing – estimated at between 10 and 20% of farmers not categorized as 'large scale commercial'.

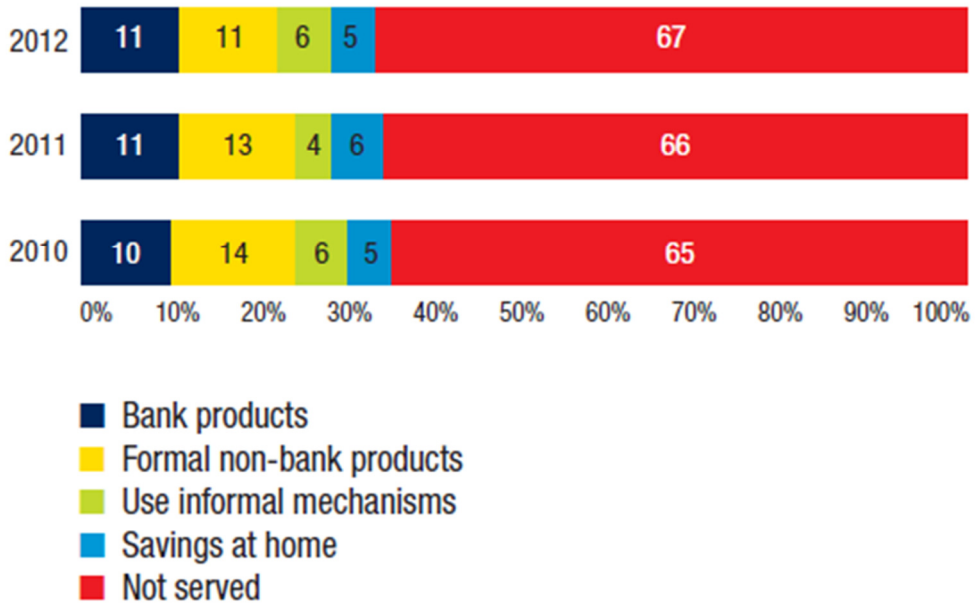
[131] FinScope 2011 estimates that around 3.2 million accounts are still active

[132] See, http://mg.co.za/article/2012-02-17-mzansi-accounts-reach-dead-end

[133] Leibbrandt, M. et al. (2010), "Trends in South African Income Distribution and Poverty since the Fall of Apartheid", OECD Social, Employment and Migration Working Papers, No. 101, OECD Publishing, pp. 26-27.

banks, 5.4 million save through NBFIs and 3.7 million save through informal mechanisms. A quarter of respondents claim to have enough money to save after covering all their spending needs. The FinScope savings strand is shown in Figure 27. It is concerning to note that the overall proportion of those saving has not increased over the past three years.

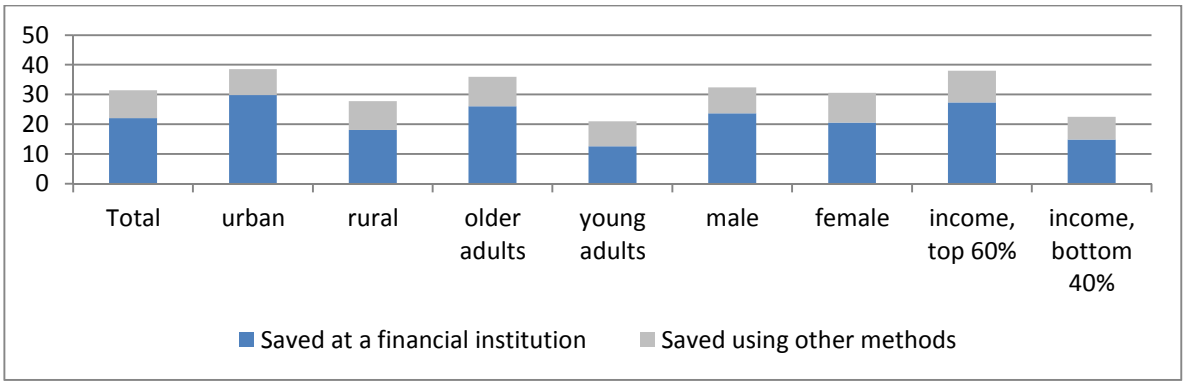
Figure 27: Savings strand (2010 – 2012)



Source: FinScope South Africa 2012

Findex data for South Africa broadly supports the findings relating to percentage of people saving indicated in FinScope data, with Findex indicating a total of 31% of the population saving money compared to 33% in the FinScope data, as shown in Figure 28.

Figure 28: Saved any money in past year (South Africa)



Source: Findex, World Bank, 2011

However, according to Findex, 22% of the population saved at a formal financial institution in the past year, compared to 13.5% who saved using a savings group. These figures look dissimilar to those shown in the FinScope savings strand (roughly double in both instances). Financial diaries research in 2007 found that most savings instruments used tend to be either with formal banks or informal savings groups. Although more sophisticated instruments like savings annuities and unit trusts are sometimes used, *Stokvels* remain the preferred choice (Collins, 2007).

Sources of income

According to FinScope 2012, the main sources of income for South Africans are salary (34%), money from others (33%), and government grants (29%). Other sources include money from informal work, income from own business, borrowed money (3%) and pension/investment returns. 7% of the population do not receive any income – their living costs are paid by family or friends. However, given the extremely skewed income distribution in South Africa the picture differs significantly between the different income deciles. In the bottom income decile 73% of income came from government grants in 2008 and only around 20% from labour market activities/employment.[134]

The FGDs with members of low income households conducted for this study reflect this point with most households reporting grant income as their main source of income. In South Africa, social grants are generally available only to those who are not expected to be economically active, such as children (under 18 years), older persons, those with disabilities and war veterans. They are also usually means-tested, which means that only those that fall below a specified income (and asset) threshold are eligible to receive them.[135] The number of people receiving government grants is rising (24% in 2011, 29% in 2012), with SASSA reporting the dispensing of just over 16 million grants in June 2013.[136] The main types of grants received are the child support grant (roughly 11.3 million) and the old age grant (roughly 2.9 million).[137] The significant expansion of the reach of social grants in recent years, some of which were paid into bank accounts, is contributing to increases in the banked population, especially at the bottom of the pyramid. This may therefore explain the significant increase shown by FinScope 2012 in the formally banked population at the bottom of the pyramid (LSM 1-2 increased from 23% in 2011 to 49% in 2012). Also, as a slight majority of care givers who receive the child support grant are women, financial inclusion increased among women. This trend is likely to accelerate with the introduction of the new SASSA payment cards.

Impact of social grants on savings behaviour

The government grant system has had an interesting effect on savings behaviour in South Africa. On the one hand grant recipients are assured regular income on a monthly basis; on the other hand the child support grant which has by far the furthest penetration has a comparatively low value of R290 (US $30). The FGDs conducted for this study revealed that whilst participants identified regular income as one of the main prerequisites for starting to save, grant income is generally perceived as too low to usefully save. Nonetheless, it does form the basis from which most low income South Africans save, and some participants stressed that the regularity of grant income had enabled them to save in the past.

"I use Mandela's money.[138] I save at least R150 from my grant support".[139]

SASSA has recently re-registered all grant recipients and provided them with SASSA payment cards. This process led to a number of challenges with lapsing grants. The idea behind the switch is that all grants are now paid into a bank account[140] which is linked to the SASSA-branded payment card. The closed-loop payment application on the card may be used as well, so some

[134] Leibbrandt, M. et al. (2010), "Trends in South African Income Distribution and Poverty since the Fall of Apartheid", OECD Social, Employment and Migration Working Papers, No. 101, OECD Publishing, p. 27.

[135] Although this means testing is due to be phased out for the Old Age Grant.

[136] SASSA Fact sheet: Issue no 6 of 2013 – 30 June 2013

[137] SASSA Fact sheet: Issue no 6 of 2013 – 30 June 2013.

[138] Grant money is also sometimes referred to as 'Mandela's money'

[139] FGD in Thembisa

[140] Grindrod Bank holds the account.

funds may be loaded onto the SASSA payment cards. These cards can be used to withdraw money at selected retailers,[141] purchase goods, or save grant income. Withdrawals at cash points and participating vendors are free of charge, whilst normal bank charges apply to withdrawals at ATMs and at retailers not signed up to the scheme.[142] This constitutes a marked shift from previous practice where fewer than half of all grant recipients reportedly had bank accounts and most people accessed their grant income through pay-points. The new system should also constitute a step towards lowering the fees low income earners are typically exposed to, for example by being able to withdraw money for free and avoid the costs of travelling to a pay-point rather than a local shop to access funds.

However, the FGDs revealed that there seems to be some confusion around whether the SASSA cards can be used to save money. Whilst the SASSA website and brochure explicitly state that the new card will enable beneficiaries to save some of their grant income for a 'rainy day', FGD participants reported that they were told that if they saved grant income of up to three months they would forfeit future grant income. From a saving's perspective this is worrying, as it encourages either spending or withdrawal of the entire grant amount. The accumulated value of three months' worth of grant income does not push recipients above the means tested income threshold so it is unclear what is happening here.

"It's not that we can't save the money, we are just not allowed to save on the SASSA account, but we can withdraw it and put it in a different account or other saving schemes. For example, I use part of it to pay for my stokvel."[143]

Similarly, some respondents reported being forced to purchase goods at selected payment vendors, despite SASSA explicitly stating that withdrawal is free and not linked to a need to purchase items.[144]

A recent FinMark Trust study into SaveAct found that the savings group members' primary sources of money for savings are social grants. Remittances are also a key source of income for members. The study also found that most SaveAct members who have bank accounts appear to use them mainly to receive social grants/remittances, withdrawing most of the funds for consumption or to save through SaveAct-initiated savings and credit groups (SCGs). The authors suggest that the channelling of social grants into savings groups 'creates the opportunity to extend the ultimate value of such grants' (Delany and Storchi, 2012), thus encouraging saving. However, anecdotal evidence suggests that the receipt of social grants may constitute a disincentive to save as some recipients may not feel the need to save through other means as they regularly receive a lump sum of money.

Where and how people save

According to FinScope 2012, the overall number of South Africans with savings products declined from 35% in 2010 to 33% in 2012. Of this 33% (11 million):[145]

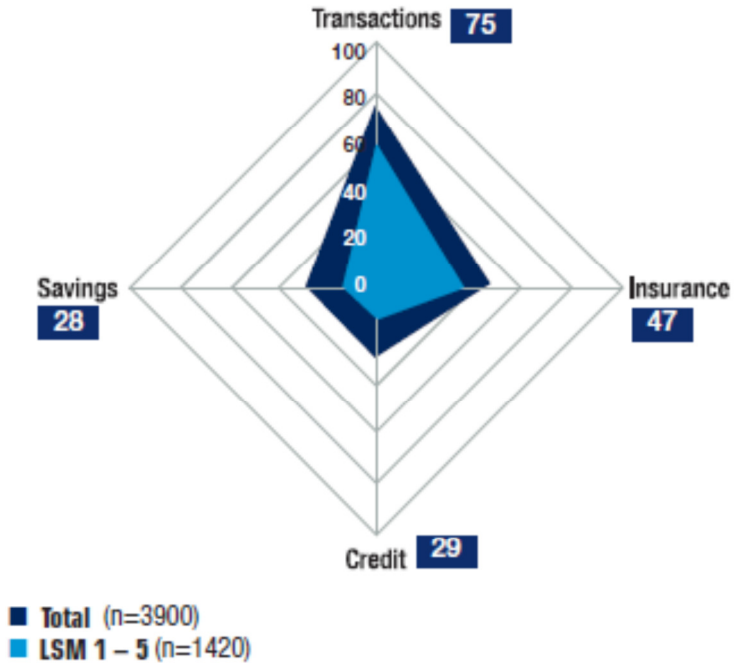
- 3.7 million save through banks, mainly through deposit accounts;
- 5.4 million save through NBFIs (retirement products, investment/savings policy);
- 3.7 million use informal mechanisms such as stokvels and savings clubs; and

[141] A selection of retailers who were signed up by the scheme to provide the extra functionality
[142] http://www.sassa.gov.za/Portals/1/Documents/6bfe6658-f43e-4294-838d-1b95e3cc9143.pdf.
[143] FDG in Dilopye- Hamaanskraal.
[144] FGD in Bergville, KZN.
[145] FinScope results are not mutually exclusive, so it is possible for once respondent to use more than one type of saving service.

- 3 million keep or save their money at home for a specific purpose.

According to FinScope 2012, 28% of respondents have access to savings products which allow them to accumulate money, whether on a contractual or discretionary basis. This is the lowest penetration of the four main categories of financial products, as shown in Figure 29 below, and is particularly low for those in the LSM 1-5 bracket.

Figure 29: Landscape of access (South Africa)

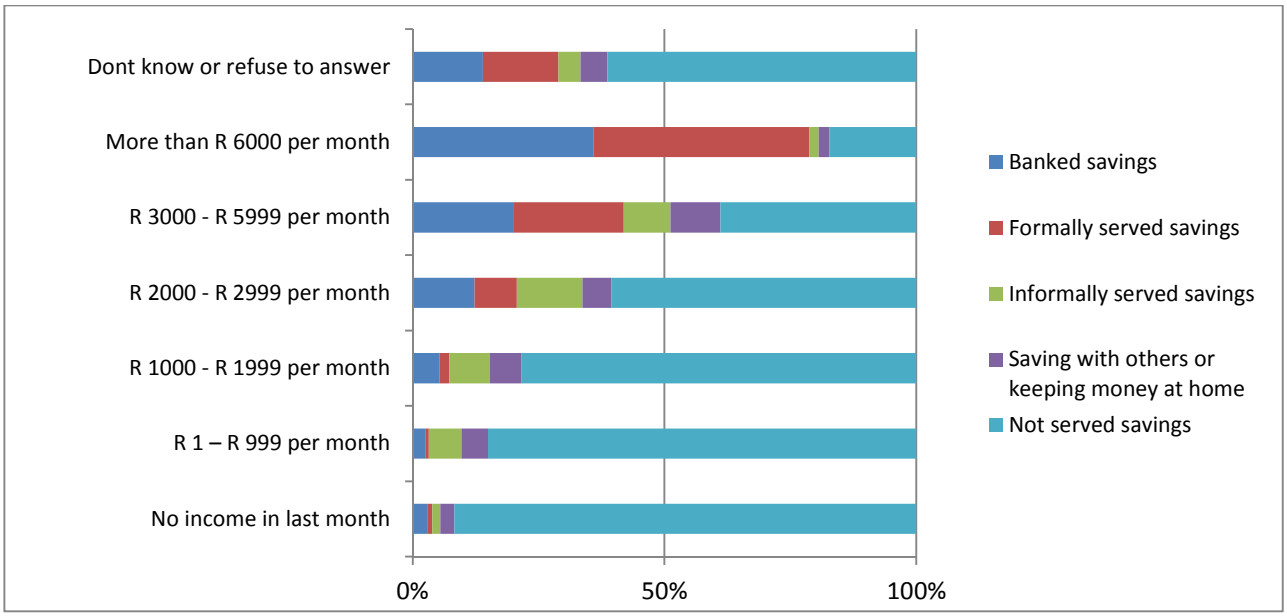


Source: FinScope South Africa, 2012

In terms of savings-related financial services products, among FinScope respondents, savings accounts are the most common (39%, up from 30% in 2011) followed by membership in a burial society (29%). 12% of respondents were members of *stokvels* or savings club, 12% had a pension fund and 9% claimed to keep cash or savings at home. Only 4% have an investment/savings policy and only 2% have a Postbank savings/transaction account or a savings book at a bank. 2% also give money to someone for safe keeping. The findings from the FGDs broadly support this picture, with low income households typically having a bank account, investing in *stokvels* and burial societies, and keeping some cash at home. Post offices were also mentioned as a place to save.

FinScope data also suggests that savings behaviour is directly linked to particular groupings. Low income individuals (with an income of less than R3,000 (US $300) per month) either tend to not save or save at home, with other people, or informally. However, those in the next income bracket up (R3,000 to R7,999 (US $799)) tend to use formal products more than informal products or saving at home. Further detail is provided in Figure 30.

Figure 30: Savings behaviour by income bracket (South Africa)



Source: FinScope 2012 data, author's calculations

Those in formal employment appear to have access to a wider range of savings products. Financial diaries research found that many South Africans with formal jobs have a provident fund, but they tend to know little about how it works and are unsure how much money they have accumulated. Many households said they were afraid to ask too much about these funds for fear of losing their job. Retirement annuities are popular with teachers and salespeople from investment companies periodically come to the schools to make presentations on their products. Only 12% of the households in the financial diaries sample actively look for savings products (e.g. fixed deposit accounts, education savings plans or unit trusts) if they are not connected to their job (Collins, 2007).

According to FinScope, males tend to favour formal mechanisms whereas females tend to use informal groups. This is also suggested by Findex data (see figure 28). No clear picture emerges around gender influences on decision-making with most FGD participants reporting that decisions around saving are made jointly, whilst some explaining that the breadwinner has the ultimate say. However, the question of single parent households emerges during discussions of who decides where and how to invest money.

"I'm the one who makes decisions because I'm the household head. I'm the father and I'm the mother, I'm the one who decides on how to save or spend the money. If it's finished, I must make a means and either go and borrow, and if there is anything left I must decide on how to save. I am the one who also goes and faces the money lenders. It's really bad".[146]

Black South Africans make more use of s*tokvels*/savings groups whereas white South Africans either save at home or in formal institutions. There were also marked ethnic differences in savings account uptake[147] (FinScope 2012).

Many low income South Africans do not have a positive perception of formal financial institutions. According to FinScope, 30% 'completely agree,' 23% 'strongly agree' and 21% 'agree' that banking fees are too expensive – although it is also worth noting that only around 5% claim that high fees

[146] FGD in Cosmo City

[147] Black = 36%, white = 58%, coloured = 40%, Asian = 38%

are the reason they do not open bank accounts.[148] During the FGDs carried out for this study, we were constantly told that *'banks eat money'.* Bank accounts are also perceived as only being for those who receive money *'regularly and reliably.'*

"When we save, where ever we save our money, it is at our own risk because banks have lot of fraud and societies/stokvels can also experience some problems. So there's nothing that is guaranteed in all of these places and we end up regretting when our money has been defrauded."[149]

"Societies and stokvel is the right way because if our money goes straight to banks they end up eating our money."[150]

As shown in Figure 27, at least 5% of respondents keep all their savings at home (i.e. they do not use formal or informal savings products). Several FGD participants told us they save money at home, or in a purse carried around for reasons of safety.

"I just put it in my purse; it's safer there because I have never experienced any bad encounter."[151]

Financial Diaries research found some of their sample using a 'money guard' (Collins, 2007). This is when households hand over a lump sum of money to a relative, neighbour or friend and ask them to keep it. The FGDs revealed that some participants do indeed resort to this in order to ensure that their savings are less easily accessible for themselves[152]; and tends to be for safeguarding money rather than accumulating it. Other FGD participants told us that the question of safety is one of the main arguments for not keeping money at home or on the person, and the security of savings is one of the advantages of using more formal financial services.

Barriers to saving

As mentioned above, a concern is that there has been no increase in savings since 2010. According to FinScope 2012, 4.5 million South African adults are no longer saving. The reasons given for this are that they cannot afford to save (79%), have used money to pay for something (26%), now have enough savings (20%), or have cut back during the recession (17%). Those who are under 30 years old and are underbanked are less likely to have savings (FinScope 2012). The main reasons mentioned for not saving during the FGDs were not having enough income and a lack of discipline that leads to unnecessary purchases:

"I have a serious problem, because I buy things I don't need. When these house-to-house vendors come by, I don't even think twice to buy a teddy bear that I don't even use. I have many of them, and later I feel so bad why I bought it. It's bad. I hate it and it's like a sickness to me".[153]

"For me, it's an addiction. I don't think it's money, it's discipline. Even if I earn double what I get now, I think I will still continue to buy useless things".[154]

"This is very bad because I even use money saved for my child's school fees. When I am broke I will go and withdraw it and use it for something even something unnecessary. It stresses me a lot

[148] According to Roelof Goosen, Director of Financial Inclusion, South African National Treasury. It is also worth noting that, when asked a direct question, people are generally likely to say that fees are too high.
[149] FGD in Cosmo City.
[150] FGD in Cosmo City
[151] FGD in Bergville, KZN.
[152] FGD in Cosmo City.
[153] FGD in Drammond.
[154] FGD in Drammond.

because I would spend a lot of time saving the money, but I never use it for the purposes it was intended for."[155]

This point was also highlighted at a recent conference discussing savings practices among South African youth. According to Olano Makhubela, Chief Director of Financial Investments and Savings at the National Treasury:

"while savings is a behaviour it is also a matter of discipline. If you struggle with discipline then savings is very difficult to maintain."[156]

In addition to the emphasis placed on exerting the necessary self-discipline when saving, during our FGDs budgeting emerged as a way to save despite low levels of income. Similarly, there was a feeling that a lack of budgeting can lead to a failure to save regardless of income levels. Participants described an ability to budget as being key to successful saving.

Rising prices and levels of unemployment seem to have led to an increasing reliance on grant income. Low levels of income are paired with a consumption behaviour that typically sees savings being depleted for unnecessary purchases.

Another reason cited by low income persons for the inability to spend the saved amount on the intended goal is the prevalence of extended families that often lead to high dependency ratios within families and communities. The FGD participants cited close community and family ties as one reason that did not allow them to accumulate funds, whilst other friends or family members were in need of financial support.

"We aspire to save more. The more you earn the more you can save. But in order for us to save we need to be stingy[157] *even towards ourselves. If you are disciplined, then you'll save more and hold on to your money and not give more to people. My cousin's child is my child. Other races are not too much into helping their family. That is why they can save as much as they want to. White people, they have boundaries with their money. It is unlike us. I think we are too generous and that's why we can't save. We have extended families that we must cater for. To be able to save you must be "Stingy". To say that I have R1,000 saved away when someone next door doesn't have bread to eat. There is something wrong with that picture."*[158]

"Generosity makes us fail to save."[159]

"It's important to save for the future so that when we die our kids may benefit from that saved money. But it's a pity, because we were never introduced to the culture of saving money like other races.[160]

A further worrying reason that might explain decreases in the amount saved in recent years is the spiral of debt that many low income households report facing. Reliance on loan sharks is widespread and has left low income households in a situation where they are constantly struggling to manage their debt.

"Our salaries are small. That's why we depend to loan sharks[161] *to get more money because we can't save on our small income."*[162]

[155] FGD in Thembisa.

[156] Quoted in 'Savings: a challenge for South Africa's youth' (Youth Savings, the Mail Guardian, 12 – 18 July 2013)

[157] The word stingy was typically used to describe disciplined saving behaviour. This choice of word is perhaps revealing of how saving is being perceived in low income communities.

[158] FGD in Newclare.

[159] FGD in Newclare

[160] FGD in Cosmo City.

"We can't even do a budget or save because we pay lots of loans around us and that makes us not save as much as we want to."[163]

"I've even changed my name on the phone, because they call me every day, and I even change my voice."[164]

The process of managing debt and low levels of income through accessing credit and accumulating more debt was described as *"borrowing from Peter to pay John."*[165] The fact that almost all 92 FGD participants were either using money-lenders or had used them in the past poses a real threat to the likelihood of future high levels of savings in low income households in South Africa. However, it also presents an opportunity, as the anger against money-lenders is widespread and people are aware that turning to money-lenders to meet short term needs or finance consumption spending is detrimental in the long run.

"Mashonisa are ruthless people. Don't even start. Once you start you won't be able to stop and I told myself that I would rather starve than to borrow money to buy food. That's how much I hate them."[166]

"Mashonisa are another forms of oppression. Unless you break away from the habit of borrowing you will never own anything. Stop borrowing, start saving."[167]

"I use "mashonisa" because I fail to budget. That's why I can't save. We need advice on how to save. Maybe then it will be better."[168]

Furthermore, FGDs suggest that foreigners struggle to access both formal and informal financial instruments.

"Some of us can't access such schemes. They said I'm a foreigner so I can't be a part of it, even though I have a permit. I just want to be able to save. I'm not saying that they must transport my deceased family member to Zimbabwe, but the same amount that they pay everyone, I will also take that. At least it will help me. The desire is there to save, but I'm limited."[169]

Frequency of saving

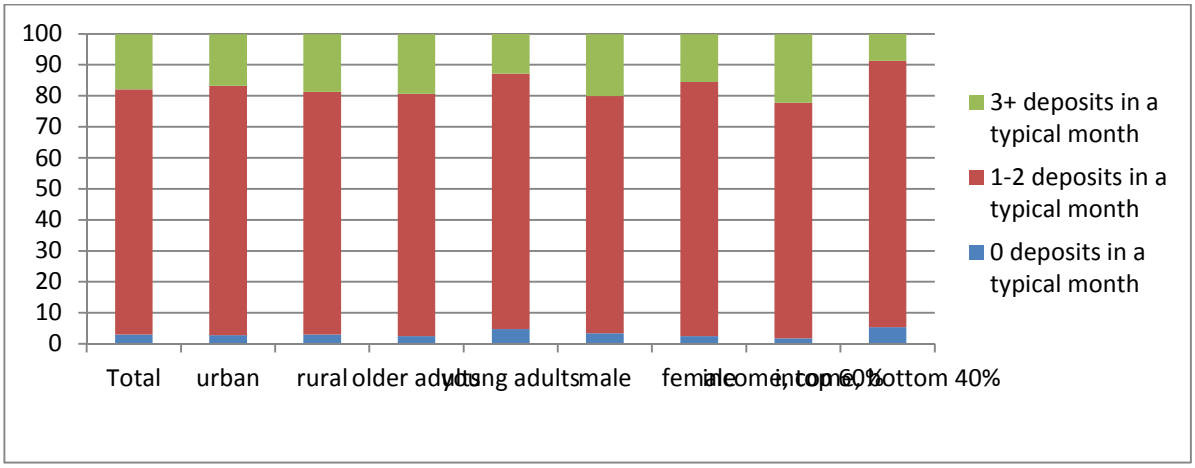
Financial diaries research among households in South Africa found that although many have a bank account they tend to be used as a transaction account rather than a means for accumulating savings (Collins, 2007). There is a tendency among poorer South Africans to withdraw all money from a bank account as soon as it has been deposited. FinScope 2012 found that 34% of people did this, mainly those from lower LSM groups, living in rural areas, female, earning irregular income and also receiving social grants. Financial diaries research found that nearly half of all sample households had a savings account that they use but questions whether they are really using it to save. The data collected on withdrawals suggests that most households whose salary is paid into an account withdraw their entire payment in one withdrawal, or leave a small amount over the month for further withdrawals. Part of the reason for this may be the costs - both direct (the fee to withdraw cash, the bus fare to reach the bank/ATM) and indirect (the time spent travelling to the bank/ATM which could have been spent earning income) – of withdrawing funds. Furthermore, if

[161] Also sometimes referred to as Mashonisas.
[162] FGD in Drammond.
[163] FGD in Drammond.
[164] FGD in Newclare.
[165] FGD Cosmo City.
[166] FGD in Dilopye-Hamaanskraal.
[167] FGD in Sedibeng.
[168] FGD in Cosmo City
[169] FGD in Newclare.

there is an emergency, it is too far and too costly to withdraw money from the bank/ATM. Therefore, most households prefer to keep the money in the house, even if it is less secure to do so. However, if money is on hand, most households find it difficult not to spend it (Collins, 2007).

In terms of frequency of savings, according to Findex, the vast majority (79%) of South Africans make one or two deposits in a typical month, as shown in Figure 31. Young adults, females, and those in the bottom 40% income bracket are less likely to make more than three deposits per month. 25% of FinScope 2012 respondents save money on a regular basis, although 'regular' is not defined in terms of number of deposits per month. As is the case in Lesotho, the number of deposits per month is surprisingly high, for both salaried and non-salaried income earners, and backs up the FinScope finding that banking is highly transactional.

Figure 31: Number of deposits in a typical month (South Africa) (%)



Source: Findex, World Bank, 2011

Why are people saving?

The main reasons cited for saving in the FinScope 2012 survey responses include having money available in case of an emergency (58%), providing for family in the event of death (47%), funeral expenses (41%), old age (37%) and education/school fees (34%). Other reasons cited were: buying a house/car, buying household goods (e.g. furniture), buying clothes (20%), paying back loans (17%), paying for wedding/lobola (13%). Although investment in retirement products has increased since 2007,[170] 83% of respondents do not own a retirement, pension or provident product. Hopefully this will increase as the government is now actively promoting saving for retirement, including discussing ways of expanding social security to informal workers and making saving for retirement mandatory. Findex data shows that 25% of South Africans saved for emergencies and 18% saved for future expenses in the past year. Financial diaries research found that there is a strong tendency to use s*tokvels* but these tend to be used to save for a specific time or event. Similarly, ASCA and ROSCA members tend to save for very specific purposes: the most popular reasons for saving were for groceries (26%), school fees/uniforms (15%), and Christmas (13%). In contrast to FinScope and Findex findings, saving for emergencies was rare (4%) (Collins, 2007).

The FGDs conducted for this study suggested that people struggled to save for emergencies, despite trying to do so. As described above, savings typically get depleted before emergencies arise and people then either turn to relatives or money lenders to cover unexpected expenses. Participants also reported that they were saving for retirement, despite the existence of the old age

[170] This has increased from 13% in 2007 to 17% in 2012.

grant. Saving for education related expenses or tertiary education also featured heavily. Basic education is free for low income households at so called fee-free schools, but participants reported to either save for further education or pay for fee schools in the hope of accessing better quality education.

"It's about using some of your money and leave some of it for future and for my children education."[171]

"Most of us here only have up to matric (Grade 12) because of financial support. We have ambitions to be better and to be able to afford more than we can now. Without any qualifications we will forever be stuck here in this village relying on government grants. So I would like to be able to go to school and improve my life and that of my family."[172]

Why people have difficulty with saving

When one compares the Findex data on saving during the year 2010/2011 in Lesotho with the country's income status and per capita consumption an interesting picture emerges. In Figure 21 (in the Malawi section) countries are plotted by where on the development spectrum they appear (GDP-per capita along the horizontal axis and per capita consumption on the main, left-hand, vertical axis with each country's position indicated by the relevant country flag) but then below each of these positioning plots the Findex data for the percentage of adults saving during the year up until the survey date are plotted against the secondary right-hand vertical axis. The average for all adults is shown by the thick horizontal bar with the contrasting percentages for older/ younger adults, better-off/bottom-end and urban/rural shown as vertical ranges above and below this.

The three countries covered by this study represent the full spectrum of low and middle income developing countries. However, it is striking that according to Findex data the incidence of savings in South Africa is the same in Malawi despite far higher overall access and income (see Figure 21 in Section 6). What we have called the Middle-Income Savings Paradox – i.e. *Why doesn't the prevalence of current savings rise with income level until a country gets into the high income bracket?* – clearly applies to South Africa.

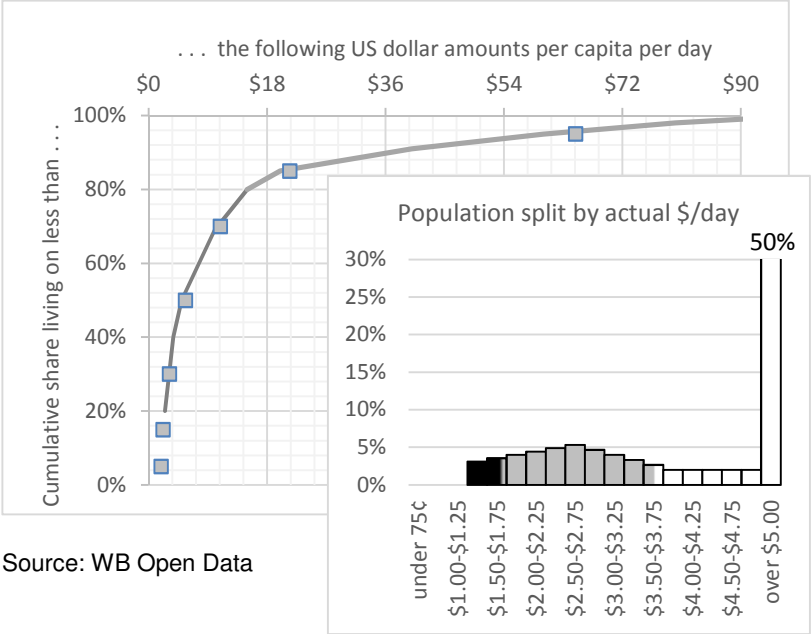
It is well known that saving in low income countries is very short-term in nature; money moves in and out of the family budget and around various financial mechanisms all the time. Once a country starts to move up the poverty spectrum, however, one would have thought that savings would start to become a longer term phenomenon as well. This distinction seems to matter a lot in Lesotho (see earlier discussion) but not in South Africa. One possibility is that once the poverty reduces, the focus on saving becomes more aspirational but also more consumption-led and therefore shorter-term. This is an area where new data (such as Findex) is beginning to yield interesting pointers but as yet, few firm conclusions. In addition, none of the supply-side (pricing) issues that seem to drive a wedge between having savings and currently saving in Lesotho apply in South Africa, as the gap between what it costs to save and what people can afford to pay to save is less in real terms in South Africa than Lesotho. This suggests that it is something else that is affecting behaviour, and needs to be explored further in future research.

Income is a major driver of current ability to save in South Africa, and this is reinforced by Figure 30 above, which shows having any savings by income level. The numbers are very low for those below R 2,000 per month, which is hardly surprising given that R2,000 per month is probably the cut-off below which a main income will be insufficient to keep a household out of poverty. Against

[171] FGD in Dilopye-Hamaanskraal.
[172] FGD in Diloye-Hamaanskraal.

this background, monthly account fees that can total half a poor person's daily living expense or withdrawal fees of the same suggest that the poor really are locked out of active saving via individual bank accounts, and that is why the supply-side and survey evidence shows them using NBFIs and informal financial services disproportionately.

Figure 32: Lorenz curve for actual spending (South Africa)

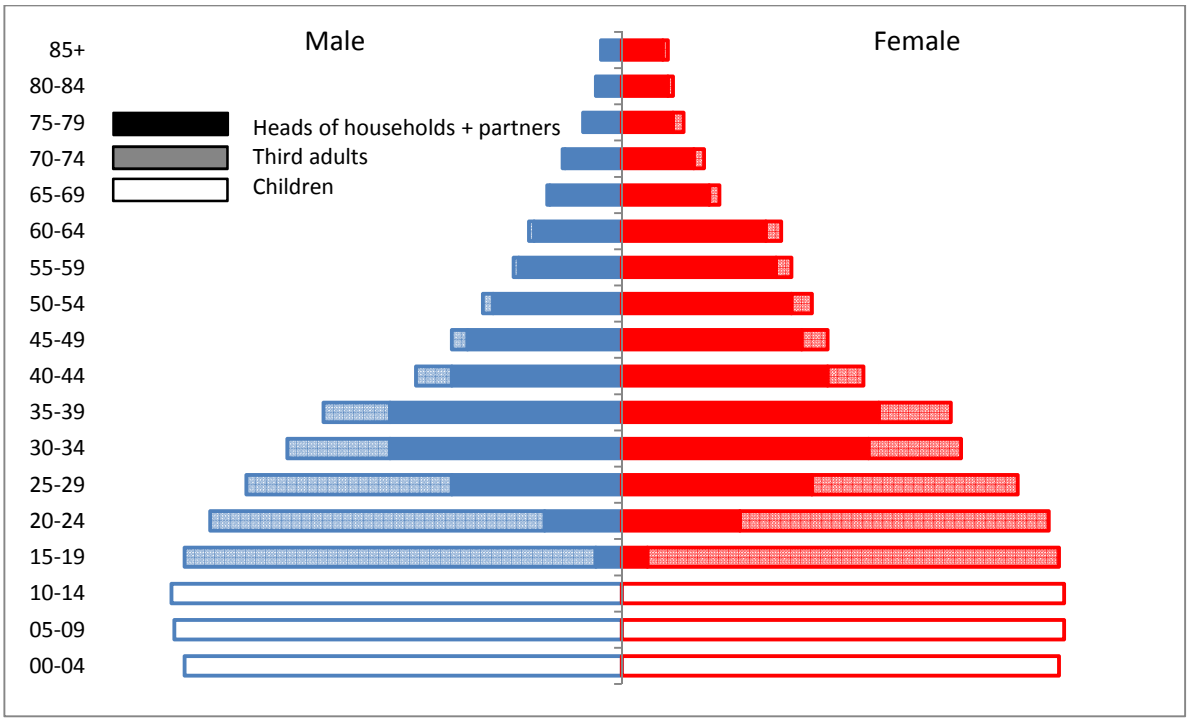


Source: WB Open Data

In South Africa, the average consumption spend is $3/day (Lesotho $2.40), with those at moderate poverty by international definitions constituting the start of the lower mass-middle and low income markets (i.e. the bottom 40% of households). Whether banking already penetrates into the top end of this group – moderately poor households living on PPP ~$1.25-2.50 per day – depends on the spread of banking *within* households that increasingly contain almost as many stay at home young adults as children.

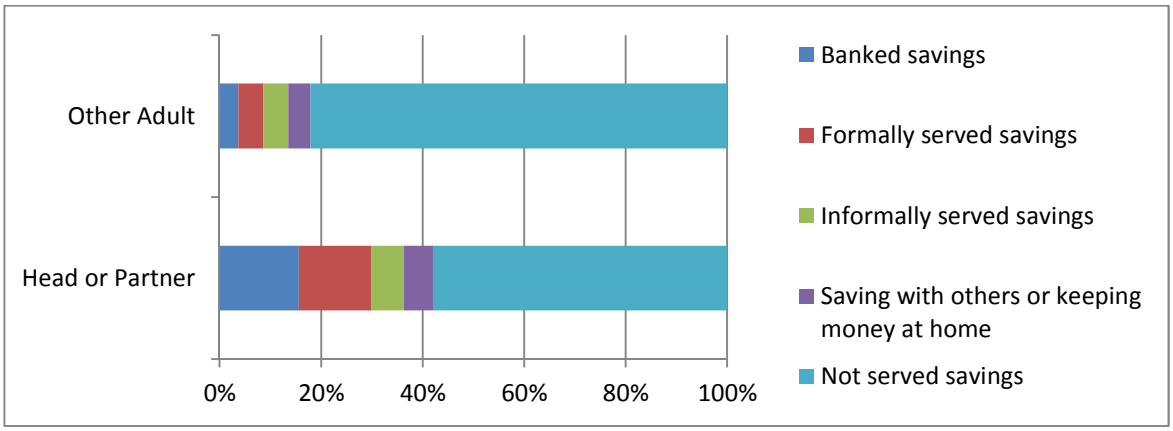
This is addressed in Figure 33, which takes the classic population pyramid for South Africa but then differentiates between heads of households and their spouses/partners (dark shaded), third adults living in the same home (light shaded areas from 15upwards), and children (from 14 downwards, shown in outline only). South Africa passed through its peak baby boom decades ago, and the young adult issue is increasingly a twenties not a teen phenomenon. All three groups drive spending, but position in household has a crucial influence on how personally monetised a person is, with heads of household and their spouses/partners handling much more money than they spend on themselves, children handling virtually none, and third adults somewhere in between. This may have a significant effect on the amounts and timing of likely savings flows.

Figure 33: Population pyramids for South Africa with householder differentiation (2011)[173]



As shown in Figure 34, 'other adults' (or 'third' adults) are generally more financially excluded than heads of households or their spouses/partners.

Figure 34: Access strand by status in household (South Africa)



Source: FinScope 2012 data, author's calculations

Alternatives to savings services

Some of our FGD participants felt disappointed by the returns received from banks and therefore speculated about the use of alternative forms of savings, such as livestock:

[173] *Comprising: 21 million heads of household and their spouses/partners, 2 million elderly parents and older third adults, 12 million younger third adults still in parental home, and 16 million children.*

"I once put R15000 over a few years (into a bank account). I was shocked and disappointed at the kind of returns I got. If I had bought three cattle with that money, today they would have doubled and I would be sitting with more than 200% return on my investment".[174]

On the other hand, other FGD participants stated that there were also disadvantages to using livestock as savings or a longer-term investment:

"The problem with livestock is that most often it belongs to the whole family. For example we have 10 cattle, but I can't really say that it belongs to me or my siblings. I can't just sell one when I need the money without the approval of my family first. But if there is a death in the family for example, we sit and decide and agree to sell one and raise some money to pay for the funeral".[175]

One of the respondents in the FGDs pays a varying amount of money to her butcher every month. At the end of the year, she is then able to purchase meat for the accumulated amount. She viewed this as a form of saving, as it ensured that she would not spend the money elsewhere, but one might also consider this an interest free loan to the butcher.[176]

7.2.3 Supply

Commercial banks

Commercial banks (including Postbank) offer a wide range of savings products, mostly of a fairly traditional nature, i.e. with higher or lower interest rates, transactions costs and notice periods. Further product information is provided in Annex D. Most banks also offer group savings facilities. Although the accessibility of these products is still greatest for people in larger urban centres, the larger banks and some of their smaller competitors, especially Capitec Bank, now have an extensive presence in smaller urban centres, through branches, agents and ATMs. Standard Bank, in particular, has given great emphasis to increasing its outreach through its more than 7,000 AccessBanking agents, typically small informal 'spaza' shops in low income communities. Among the products marketed through these agents are AccessSave accounts, with no monthly fees, aimed at low income savers. So the accessibility of formal savings facilities (as measured by physical proximity) is high, even for rural households. However, as FinScope's findings reveal, while the percentage of the banked population is also high, transmission accounts outnumber savings accounts almost 3 to 1, with less than 30% of households in all income categories having savings accounts (see section 7.2.2)[177]Whilst we acknowledge that people can also save in transactional accounts, it is unknown what percentage of low income households has specific savings accounts.

At the current rate of inflation (about 6%), few formal savings accounts offer a positive real return, even ignoring transactions costs, so it is important to ask why, when most informal savings and credit groups offer substantially positive real returns (see below), low income savers who make up the vast bulk of informal financial institutions' members would save through banks at all? Clearly, it is because there are characteristics of banks' savings products, other than net financial returns, that low income savers value, e.g. security, access to card/mobile phone-based transmission facilities, savings discipline induced by notice periods and negative financial incentives to withdraw etc. These reasons are also explored in section 7.2.2.

[174] FGD in Cosmo City
[175] FGD in Dilopye-Hamaanskraal
[176] FGD in Bergville, KZN.
[177] It is worth noting, however, that according to the South African National Treasury there has been a convergence between savings and transaction account products in banks over the last few decades.

However, banks have been very slow to compete with one of the key features that attract low income households to informal savings and credit groups: access to credit. It appears that only Nedbank (in partnership with Old Mutual and Wiphold women's empowerment investment initiative) has so far been experimenting in a very limited way with using savings as collateral for loans, although Postbank reports that it is considering doing this. Nedbank's 'Zakheleni' pilot (in the rural Centane district of the Eastern Cape) uses demonstrated savings by groups (mainly of rural women) of a certain minimum monthly value over six months as the basis for advancing loans of up to two years to the group, with group responsibility for repayment. If the product is rolled out nationally, it will constitute a significant new relatively low-cost, long-term credit option for most informal savings and credit groups, whose internal lending policies generally allow credit for up to three months and charge interest at 10% per month (against Zakheleni's 19% per annum).[178] With about 500 groups of savers of between five and 12 people, loans totalling about R20 million (US $2 million) are reported to have been advanced to about 200 groups over the past five years. Default rates have been negligible so far, and most loans are said to have been repaid in less than two years. Nedbank reports that it is planning to scale up the pilot and to ease the requirement for local loan officers to be personally acquainted with and directly monitor borrower groups, which has generated high de facto transaction costs for the bank.

As in Lesotho (see section 5.2.3), South Africa's Postbank is particularly well placed to go a similar route. Though it does not offer loans at present, it is in a corporatisation phase with the intent to acquire a banking licence. While this may take some time to materialise, once it is in place and the systems and human resources have been developed, it will almost certainly wish to enter the lending market because of its need for higher yielding investments. Furthermore, it should have no difficulty in meeting capital adequacy requirements, given its disproportionate share of the low income and rural savings markets.

Commercial banks are aware of the substantial pool of savings in the informal sector: annual savings in *stokvels* are estimated at about R44 billion (US $4.4 billion) and their accumulated assets could be as much as twice that amount, according to the National Stokvels Association of South Africa (NASASA). Banks' treasuries also are aware that retail savings are the cheapest form of capital in terms of interest paid.

However, to date, the costs of tapping determinedly into this market have clearly been seen as exceeding the benefits, given the enormous number and wide dispersion of informal savings and credit groups, mostly with only relatively small amounts to deposit. Absa, the largest player in the overall savings market with about a 40% share, reports sourcing only about 2.5% of its savings deposits from low income savers, about half of which is through its club/group account aimed at *stokvels*. Absa's rule-of-thumb is that it costs the bank R800 (US $80) to open a savings account and R15 (US $1.5) per month for the bank to operate it. For accounts with small average monthly balances – which can be estimated at less than about R3,000 (US $300) – it is cheaper for Absa to use wholesale funds. Probably only a small percentage of low income individuals – though perhaps more group savers – maintain balances of this order.

Despite the higher interest payable, wholesale deposits, which are readily obtainable on capital markets, have so far been seen by commercial banks as cheaper and easier to use to meet capital adequacy requirements. However, commercial banks are expected to place a premium on the collection of retail deposits in response to the Basel III requirements that are expected to become effective in 2015 (given that retail deposits are less susceptible to capital flight than wholesale deposits in unfavourable market circumstances). As a result, commercial banks may reassess their

[178] It should be borne in mind that the interest charged by informal groups to their members accrues to the group, not to a bank.

strategies to competing in informal savings markets and explore innovations like attaching access to credit to savings deposits, as Nedbank's Zakheleni is doing.

A different approach, being considered by NASASA, is to create incentives for *stokvels* to deposit excess liquidity in a central pool that will both (1) increase their collective bargaining power with banks and other service providers, e.g. mobile phone companies, and (2) make it easier and cheaper for banks to tap into the low income savings market on a large scale. If this materialises, it should offer informal groups a better return on their formal sector deposits than the group accounts offered by most banks presently do (all negative in real terms at present), which may, in turn, either increase their propensity to save or alter their savings patterns.

Mutual banks

There are currently only three mutual banks operating in South Africa, two of which appear primarily to address the financial services needs of middle income savers. The third offers products targeted at low income savers and savings groups, but it has only a head office and two branches operating in a limited part of Limpopo province, and it does not seem likely to expand its product range or outreach significantly in the foreseeable future.

Cooperative banks and SACCOs

There are presently only two cooperative banks in South Africa, one of which focuses on serving the needs of low income savers in mainly rural North-West province. Another 15 SACCOs are reported to meet the minimum requirements for registration as cooperative banks - savings of R100,000 (US $10,000) and at least 200 members - and have applied for registration. The minimum capital requirement was recently reduced to R1 million (US $100,000) to make it easier to become a cooperative bank. Between them, the 17 institutions are believed to represent about 85% of the sector's estimated R220 million (US $22 million) in assets. SACCOs and cooperative banks generally offer their members better returns on savings (5-6% p.a.) than banks and readier access to credit. While membership is widely used for consumption borrowing, SACCOs are also understood to emphasise longer-term saving and asset accumulation.

Beyond regulation, one of the main tasks of the National Treasury's Cooperative Banks Development Agency (CBDA) is to help build the governance and administrative capacity of financial cooperatives, which are required to have experienced, qualified managers and trained staff – a requirement that many evidently find it difficult to meet. The lowering of the minimum capital requirement may make it still more difficult, as smaller entities may not be able to generate the income to employ such staff. Most such cooperatives operate in the large company salaried employee market, where the CBDA believes that most growth potential lies. Ironically, neither of the two existing cooperative banks has such a membership base, but both are reported to be growing at around 30% p.a. at present.

Informal savings groups

The informal savings and credit market is completely dominated by the 880,000 *stokvels* reported to exist by NASASA. These take a range of forms, though in the main, they are thought to be mostly ROSCAs that pay members out in rotation. However, NASASA says that there are many that operate on lines similar to ASCAs, i.e. they distribute all of their savings and interest on a pro rata basis to their members once a year. Not all are low income institutions: a few have mainly or mostly urban middle class membership. As already mentioned, their combined annual savings are estimated to amount to about R44 billion (US $4.4 billion) and their accumulated assets to perhaps as much as twice that amount.

Structures, processes and governance among the enormous number of *stokvels* evidently vary considerably, as do track records in respect of default rates, security of savings and rates of return. Levels of trust therefore also vary.

Partly to address these shortcomings, the response to initiatives by groups such as SaveAct and the Lesotho-based Moliko Micro-Credit Trust to introduce ASCAs has been very positive (see section 5.2.3 for further details on the characteristics of ASCAs and their emergence in Lesotho in response to the demise of SACCOs). Though still small, with combined membership numbering only in the tens of thousands, they are growing rapidly and are set to continue to do so, in SaveAct's case with the assistance of a large grant from Barclays/Absa. Their approach is based on *stokvel* models familiar to most low income households, while adding substantially to rigour and transparency but still retaining simplicity.

Moliko's South African operations have mainly been in the eastern Free State, close to Lesotho. Most of SaveAct's groups are in rural communities, with women making up around 90% of members. Having established a firm base in KwaZulu-Natal and the north Eastern Cape, SaveAct is now expanding into other provinces and some urban areas. Moliko reports having 639 savings groups in South Africa.

SaveAct has helped establish more than 1,000 groups with a total membership of over 20,000 and combined annual savings of about R20 million (US $2 million) (averaging about R1,000 (US $100) per member), about two thirds of which is mobilised in the form of loans to group members (mostly individual loans) at any moment. It reports default rates of near zero, although groups sometimes agree to reschedule loans, and a similarly low membership attrition rate. The demand for SaveAct to help set up groups has long since made active marketing of the ASCA approach unnecessary. Rates of return in SaveAct groups are reported to be typically in the 30-40% p.a. range (comparable with that reported for CARE and CRS ASCAs across Africa – see for example section 5.2.3 for Lesotho).

Encouragingly, about 50% of SaveAct groups' loans were found by recent research (based on a statistically reliable random sample in two districts) to fund investment (as opposed to consumption smoothing), and income from small businesses operated by members was found to be among the top three sources of savings flowing into groups' pools, along with social security grants and remittances (Delany and Storchi, 2012).

SaveAct has been using partnerships with other NGO/non-profit organisations with appropriate track records to provide the institutional infrastructure to support scale-up. If this approach proves successful (it is too soon to say yet), the trajectory for ASCA expansion – and for savings levels and patterns – in low income rural communities looks promising.

Self-help movements add another dimension to the low income savings arena, also mainly in rural areas. HiH's Southern Africa base is in South Africa (see also section 5.2.3 for Lesotho). Another self-help group promoter is Zimele Trust, which reports having about 4,500 members organised into about 350 groups throughout KwaZulu-Natal and combined savings capital of about R800,000 (US $80,000) (averaging about R180 (US $18) per member). With perhaps more emphasis on developing community social capital than SaveAct, these groups also save on a monthly basis, but lend mainly for group-based small enterprises, such as bakeries and poultry operations.

The Small Enterprise Foundation's (SEF) groups also promote saving in low income communities. While SEF emphasises that is primarily a micro-credit not a savings organisation, it requires all of its groups (mostly smaller than SaveAct's and Zimele's at about five members per group) to develop proven savings track records by depositing every two weeks into a Nedbank or Postbank account before the Foundation will lend to them. Loans may be used by individuals but are co-

guaranteed by groups. Like the ASCA-based and the self-help movements, SEF operates mainly in rural and peri-urban communities, with a strong provincial focus in Mpumalanga and Limpopo. Founded in 1992, it reports having provided loans over the years to groups with a total of 96,000 members. There are currently about 3,000 such groups. Loans advanced to date total roughly R176 million (US $17.6 million) (averaging about R9 million/year), against savings over the same period of about R35 million (US $3.5 million) (averaging about R1.75 million/year), indicating average savings per member of about R365 and gearing of about 5.

Mobile money services

Only registered banks may issue electronic money (e-money).[179] As a result, MNOs and other payment service providers that wish to offer e-money services must partner with a registered bank. For example, Vodacom M-Pesa is offered in partnership with Nedbank, while MTN MobileMoney and WIZZIT are offered in partnership with the South African Bank of Athens. MTN's MobileMoney service has grown dramatically since MTN switched partner banks, moving from Standard Bank to South African Bank of Athens. In its first nine months of operation, the new MobileMoney service processed over R1 billion in transactions on behalf of over 1 million customers.[180] So far, most e-money transactions have been payments and airtime top-ups. In the future, however, the requirement to link with a bank to offer e-money services could facilitate the use of mobile wallets for saving small sums, as the service is already a bank-based service. WIZZIT does enable its clients to make deposits (into South African Bank of Athens accounts) but uptake of this product has been slow. Other than WIZZIT, no mobile phone-based facilities in South Africa have included a savings-explicit product, such as Kenya's M-Shwari, although transmission accounts can, in principle, be used for this purpose.

7.2.4 The Policy, legal and regulatory environment

Macroeconomic challenges

The macro-economic environment inevitably has some impacts on savings. In general, South Africa's economy has struggled in recent years, with rising inflation and unemployment and weakening exchange rates. South Africa has grown at a significantly slower pace than the region as a whole, reflecting both post-apartheid challenges and the reduced opportunity for "catch-up" given already high productivity levels (IMF, 2013b). Furthermore, unemployment currently lies at 25.6%.[181] Roughly 3.4 million (32.9%) 15 to 24 year olds are currently not in employment, education or training. Inflation is running at around 6%. Rising prices and levels of unemployment seem to have led to an increasing reliance on grant income. Social grants get adjusted roughly in line with inflation on an annual basis. However, inflation for low income households is typically higher than the CPI. This is due to the fact that food, petrol and transport, which constitute major expenditure items for low income households, have seen higher than average levels of inflation. As a result, the actual purchasing power of the social grants has decreased in recent years.

Policy

The main document guiding financial inclusion in South Africa is the Financial Sector Code, which replaced the Financial Sector Charter in 2012. The Financial Sector Code, which is regulatory in nature rather than voluntary like the Charter, was gazetted in November 2012. The Charter came

[179] *See* http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/Legal/Documents/Position%20Paper/PP2009_01.pdf.

[180] *See* http://mobilemoneyafrica.com/details.php?post_id=1431.

[181] Although this is using a narrow definition which does not include discouraged work seekers, so the actual number is likely to be higher.

into effect in January 2004 as a transformation policy based on the terms of the Broad-based Black Economic Empowerment (BBBEE) Act (53 of 2003). It was a voluntary agreement by all members of the National Economic Development and Labour Council (NEDLAC). NEDLAC is a forum on social, economic and labour policy and part of its mandate is to promote access to the financial services sector. Its members are from the financial services sector, government, organised labour and community representatives. Participants in the FSC committed to *'actively promoting a transformed, vibrant, and globally competitive financial sector that reflects the demographics of South Africa, and contributes to the establishment of an equitable society by effectively providing accessible financial services to black people and by directing investment into targeted sectors of the economy'*[182]. The Charter did this by: creating a framework and establishing principles for BBBEE implementation in the financial sector; providing a platform for stakeholder engagement with the financial sector; establishing principles, targets and responsibilities; and outlining processes for implementation for the Charter as well as mechanisms to monitor, measure and report on progress. Among other things, the Charter drove the launch of Mzansi accounts (see section 7.2.1). The FSC was in place from 2004 to 2008, although some reporting requirements continued beyond 2008.

The Financial Sector Code is built on seven core pillars of empowerment in which financial institutions are scored. The pillars are:

1. Human Resources Development
2. Access to Financial Services
3. Empowerment Financing
4. Procurement & Enterprise Development
5. Corporate Social Investment
6. Ownership
7. Management Control.

Of most relevance to this study is the 'access to financial services' pillar. The Charter acknowledges that access to high quality retail financial services is fundamental to BEE and to economic development. These financial products and services are defined as *'basic and secure means of accessing and transferring cash for day-to-day purposes; savings products and services for accumulating funds over time such as savings accounts, contractual savings products, collective investments and community-based savings schemes; credit for low income housing, financing agricultural development, or establishing, financing or expanding a black SME; and insurance products and services for mitigation of risks such as life insurance, funeral insurance, burial society, household insurance and health insurance'.* Effective access to financial services is defined in terms of availability and proximity of a sufficiently wide range of financial products and services. Access to financial services seeks to provide affordable and sustainable access to banks, ATMs and other outlets within 20 km of all individuals in LSM 1-5. In addition, accessibility seeks to dispense appropriate and affordably priced products and services in a non-discriminatory way by structuring and describing financial products and services in a simple and easy to understand manner (Banking Association of South Africa, 2013).

The South African National Treasury has a dedicated Directorate for Financial Inclusion, which can be considered indicative of the importance of this issue. The Treasury has produced a policy document for financial sector reform entitled 'A Safer Financial Sector to Serve South Africa Better'. The policy framework of this reform includes ensuring financial services are appropriate, accessible and affordable. The proposed reforms include a shift to a 'twin peaks' regulatory framework of prudential regulation and consumer protection, with the Treasury retaining responsibility for formulating and implementing policy (AFI, 2012).

[182] Banking Association of South Africa [http://www.banking.org.za/index.php/consumer-centre/financial-sector-charter-code] accessed 10 October 2013

The government is currently working on creating further tax incentives for saving. The Minister of Finance in the 2013 Budget Review outlined plans to introduce tax-preferred savings and investment accounts by April 2015. Withdrawals and returns accrued in these accounts would not be taxable. The initial annual limit is said to be set at R30,000, with R500,000 as a lifetime limit – to be adjusted in line with inflation. Government is also actively promoting saving for retirement, including discussing ways of expanding social security to informal workers and making saving for retirement mandatory. Individual contributions to provident funds are currently tax deductible and will increase further. The annual cap on deductible contributions currently lies at R350,000.[183]

Legal and regulatory issues

South Africa benefits from a strong and well developed supervisory framework. Bank and non-bank regulators are well established and cooperate and exchange information regularly. Authorities regularly conduct liquidity risk reviews and simulation exercises and are working on developing a framework to analyse macro-prudential risk (MFW4A, 2013).

South Africa permits very few formal types of deposit-taking institutions: only registered commercial banks, PostBank, mutual banks and cooperative banks. There are presently only four large and a number of smaller commercial banks, Postbank, three mutual banks and two or three functioning cooperative banks. Commercial banks account for about 99% of formal savings, but have almost no savings-led credit products, despite dominating the low-income lending market. There are several MFIs in South Africa, but these are not currently permitted to take deposits (other than for repayment of loans), i.e. they are not permitted to become savings-led credit providers. Regulations to become a deposit-taking institution require levels of minimum capital and administrative/compliance capabilities that entail costs that only quite high volumes of deposit-taking can cover, especially given the fairly slim income-cost margins attainable in highly competitive capital markets.

For these reasons, few MFIs appear to have paid much attention to deposit-taking as a source of capital. All rely entirely on shareholder capital. South Africa has had draft legislation in waiting since 2004 that could have reduced minimum capital requirements for smaller deposit-takers, but there does not seem to have been much pressure to place it before Parliament. Given Basel III's additions to banks' minimum capital requirements, it seems less likely than ever that MFIs will press to become deposit-takers.

Commercial Banks are regulated by the Banks Act, 1990 (as amended) and subsidiary regulations. Mutual banks are regulated by the Mutual Banks Act, 1993 (as amended) and subsidiary regulations. Commercial banks and mutual banks are regulated by the South African Reserve Bank (SARB). The PostBank, which offers transactional, term deposit, and savings accounts,[184] is in the process of transforming into a banking entity that will be directly regulated by the SARB.

Cooperative banks are regulated by the Cooperative Banks Act, 2007 (as amended) and subsidiary regulations. Cooperative banks with more than R20 million in deposits are regulated by the SARB. Cooperatives with R1 million – 20 million in deposits are regulated by the Cooperative Banks Development Agency. SACCOs with less than R1 million in deposits must register with a self-regulatory organisation such as the National Association of Co-operative Financial Institutions in South Africa (NACFISA).

Certain regulatory exemptions offer some flexibility with respect to customer identification requirements for low-value bank accounts. *Exemption 17 to the Financial Intelligence Centre Act*

[183] National Treasury, Budget Review 2013, chapter 4.
[184] *See* http://www.postbank.co.za/Products/.

(as amended in November 2004) eliminates the requirement to obtain proof of residential address for individuals who are South African citizens or legal residents, provided that their accounts are subject to certain limits. These limits include: (1) Maximum daily withdrawals and/or transfers: R5,000 (approximately USD 500); (2) Maximum monthly withdrawals and/or transfers: R25,000; and (3) Maximum account balance: R25,000. There are other restrictions, including a prohibition on virtually all cross-border transfers.

The 2008 *Guidance Note on Cellphone Banking* further facilitates the opening and use of low-value bank accounts by allowing such accounts to be opened without face-to-face verification. However, clients still must provide a valid national identity number, which must be verified using a third-party database that contains information from the Department of Home Affairs. Such accounts fall under Exemption 17 and are subject to the above limitations. In addition, however, such accounts are subject to a daily debit limit of R1,000 (US $100), as opposed to the R5,000 (US $500) limit for ordinary Exemption 17 accounts. If a client wishes to exceed this limit, (s)he must go through a face-to-face verification process.

Only registered banks may issue electronic money (e-money).[185] As a result, mobile network operators and other payment service providers that wish to offer e-money services must partner with a registered bank. For example, as explained in section 7.2.3, Vodacom M-Pesa is offered in partnership with Nedbank, while MTN MobileMoney and WIZZIT are offered in partnership with the South African Bank of Athens. MTN's MobileMoney service (which opens basic accounts under the Cellphone Banking and Exemption 17 dispensations discussed above) has grown dramatically since MTN switched partner banks, moving from Standard Bank to South African Bank of Athens. So far, most e-money transactions have been payments and airtime top-ups. In the future, however, the requirement to link with a bank to offer e-money services could facilitate the use of mobile wallets for saving small sums, as the service is already a bank-based service.

In general, the regulatory environment in South Africa makes low cost banking, and in particular branchless or mobile banking, difficult. The regulatory environment is protection-oriented and focuses on protecting existing customers rather than expanding access to finance for the rest of the population. Acts such as the Dedicated Banks Act, which would make operating a lower cost second tier bank more viable, do not seem to have made it very far through the political system and still have some way to go before being passed. Amendments to the Financial Intelligence Centre Act (FICA) which came into effect in 2010 have also introduced further difficulties for the models that target low income customers, as these have required customers to produce documents proving their identity and require the financial service provider to keep copies of these documents. Without easily accessible back-office infrastructure for producing these copies, agents find it difficult to open accounts for new customers, particularly in remote areas (OPM, 2011).

According to MoneyWeb, a South African financial news website, writing about why M-Pesa in South Africa did not reach the same level of penetration as it did in Kenya: *'a tough regulatory environment with regards to customer registration and the acquisition of outlets also compounded the company's troubles, as the local regulations are more stringent in comparison to our African counterparts. Lack of education and product understanding also hindered efforts in the initial roll-out of the product.'*[186] There is much debate globally about the merits of requiring mobile money transfer services to be bank-led, with a number of regulators and analysts arguing that such restrictions may tend to limit innovation and hamper the development/outreach of mobile financial services (including savings services). Kenya's experience suggests that there is much to be gained

[185] *See* http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/Legal/Documents/Position%20Paper/PP2009_01.pdf.

[186] VodaCom, Nedbank present a new game plan on M-PESA: http://www.moneyweb.co.za/mw/content/en/moneyweb-financial?oid=545137&sn=2009+Detail [accessed 28 June 2012]

by allowing mobile phone operators to take the lead, provided that close contact with the regulator is maintained.

Annex E provides details of the laws governing each type of financial institution and who is responsible for their regulation and supervision.

7.3 Conclusions and recommendations

SWOT Analysis for promoting low income savings in South Africa	
Strengths • Relatively high financial inclusion and well developed financial sector • Social grants provide cash injections into accounts with a payment card linked to account: potentially increases ability to save • Most people have regular income (from wages/remittances/ grants): pre-requisite/facilitator for saving • Mobile phone- and agency-based banking increasing outreach of formal banks and reducing transactions costs • Remarkably astute choice/use of financial services for different purposes • Most people can meet KYC requirements of FIs as the national ID system is well established. • Financial literacy initiatives in schools etc. – some familiarity with terminology e.g. budgeting • Commercial banks offer a range of savings products • Nedbank piloting group savings-based lending products • Some interest in linkage banking • Stokvel savings culture very strong, widespread • ASCA-type savings and credit groups wide-spread; provide ready source of loan/savings capital as well as excellent returns on savings; risk of default on loans is often low due to social capital of groups • Good support mechanisms in close knit communities (rural, townships)	**Weaknesses** • Limited outreach of banks in rural areas • Lack of perceived incentive for low income households to save at formal FIs: high bank fees, difficulty/cost of reaching bank branch/ATM, savings unlikely to increase access to credit, etc. • Banks have been slow to compete for low income savings; costs seen to be too high relative to higher income and wholesale deposits • Weak oversight of money lenders • Consumerism/entitlement culture • Lack of discipline when it comes to saving • Weak current state of global economy, and its knock-on effect on local economy, keeps employment, income, savings low • Perception that saving is not part of own community's culture, paired with high dependency ratios within historically disadvantaged communities • Tendency to use loan sharks to pay for emergencies • Stringent regulation - .e.g. requirement for bank-led mobile money - perhaps holding back development/outreach of mobile financial services (including savings services) • Little interest among MFIs in taking deposits: regulations to become a deposit-taking institution require levels of minimum capital and administrative/compliance capabilities that entail costs that only high volumes of deposit-taking can cover • Structures, processes and governance among stokvels vary considerably between groups, as do track records in respect of default rates, security of savings and rates of return → levels of trust also vary • Low financial literacy in respect of knowledge of formal financial products/services • Limited use of social grant accounts
Opportunities • Basel III capital adequacy requirements may encourage banks to move down market to increase retail deposits • Capitec and others have proved there are good opportunities for banks to attract low income savings, and other banks showing more interest in low income market • Pontential increased incentive to save to avoid needing to use loan sharks • New head of Stokvel association is an influential figure, and has plans in place to increase bargaining power of stokvels. Stokvels beginning to realize, capitalize on enormous potential collective bargaining power – may	**Threats** • False information/perceptions about social grants: will be taken away if savings left in accounts for more than 3 months, and that grants must be used to purchase specific goods even at registered vendors. • Social grants can potentially provide a disincentive to save • Perception that need large amounts to save and social grants too small for this • Debt spiral: inability to save because servicing debt • Resumption of high rates of inflation hitting low income households: less money available to save

increase low income savings, return on savings • SASSA e-payment cards: more low income people will have cards to save • Deep penetration of mobile phone network and of mobile phones providing foundation for spread of mobile-enabled savings products, once launched	• Perception that informal savings institutions offer inferior savings options, that they should not be seen as offering valuable alternative vehicles for saving, and that they should be replaced as rapidly as possible by formal savings services • Dependence of scale-up of ASCAs on donor support

7.3.1 Recommendations

Policy makers/regulator

- The roll out of SASSA e-payment and the impact they have on savings behaviour should be tracked.
- Continue implementation and prioritisation of National Financial Literacy Strategy. There is a particular need for increased financial literacy training to enable more discipline around savings and awareness of savings products, and for banks to communicate better, especially with the youth.

- Formal and informal savings institutions both have substantial advantages to offer to low income savers. Providing low income households with an adequate range of formal and informal savings options and channels should be a key goal of policy (as opposed, for example, to maximising the proportion of low income savings deposited in formal financial institutions).

- Investigate ways of making informal savings services more stable and sustainable, and how consumers using these services can be better protected.

Providers (private sector, NGOs, informal sector)

- Banks should reconsider their strategies for attracting low income savings, especially to help meet upcoming Basel III capital adequacy requirements. Using a solid track record of group (and possibly individual) savings as the collateral basis for loans seems to offer a promising new option.
- Capitec and others have proved there are good opportunities for banks to attract low income savings, and as a result other banks are showing more interest in the low income market. Peer learning should be facilitated where there are not obvious competitive constraints. Actors such as FinMark Trust can play a role in disseminating market information and case studies of successful business models.
- Given the rapid spread of mobile phone network and of mobile phones, providers should experiment with mobile-based savings products.
- Stokvels should work towards capitalising on their enormous potential collective bargaining power, thereby increasing low income savings and potential return on savings.
- The voluntary registration of stokvels and the pooling of excess liquidity in a central account also seems to offer promising possibilities for increasing low income households' formal savings deposits on a substantial scale. Measures to assist this should be a priority both for banks and for the National Stokvel Association of South Africa (NASASA).
- Support for the growth and development of informal savings and credit institutions by government, private sector financial service providers, multi-/bilateral aid agencies and NGOs should be deepened for those, such as the ASCA movement, displaying a promising track records.

Research

- Ensure further FinScope surveys to track progress towards increasing savings in South Africa.
- Commission a detailed supply-side study of the financial sector in South Africa in order to provide further information into the savings products available to low income households.
- Commission further research into the 'middle income savings paradox' and its implications on savings behaviour.
- Commission further research into the 'third adult' phenomenon and its implications on savings behaviour.
- Investigate the impact of informal savings on development and low income communities including through commissioning rigorous impact assessments.

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Annex A Terms of reference

1. Introduction

FinMark Trust, an independent trust based in Johannesburg, South Africa, was established in 2002, and is funded primarily by UKaid from the Department for International Development (DFID) through its Southern Africa office. FinMark Trust's purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration' as well as institutional and organisational development, in order to increase access to financial services for the un-served and un-deserved. FinMark Trust commissions research to identify the systemic constraints that prevent financial markets from reaching out to these consumers and by advocating for change on the basis of the research findings. Thus, FinMark Trust plays a catalytic role, driven by its purpose to start processes of change that ultimately lead to the development of inclusive financial systems that can benefit all consumers.
FinMark Trust is committed to improving access to financial services in the SADC region through different strategies as well as by identifying and addressing the constraints that hinder access to financial services. FinMark Trust, in partnership with the UNCDF, UNDP in Malawi as well as through the "Support to Financial Inclusion in Lesotho" (SUFIL) (a project jointly funded by the UNCDF and UNDP as well as the Government of Lesotho) recognises that the mobilisation of funds into savings plays a very important part in the livelihoods of low income households. Savings also plays an important function in financial intermediation and economic growth of a country, contributing to the sustainability and mobilisation of investment resources in a country. The channelling of funds for investment provides a good source of capital to financial institutions, and for the poor, provides a mechanism to manage cash flow in the face of uncertain cash demands, helps build financial discipline and contributes to the creditworthiness of individuals.

There is evidence that even when people have extra money, there may be little incentive to save. As per various FinScope survey reports, although banking services are used, it is mainly used for transactional purposes. There is also evidence that the low income individuals prefer to save in the informal sector through different vehicles like burial societies and savings and credit groups, amongst others. This implies that while many households may have notable savings, these savings are being held by informal financial services providers.

The challenge to policy makers, and formal financial services providers, is to develop formal savings mechanisms that maximise the efficiency of savings for savers, while also supporting the broader macro-economic goals that formal savings can achieve. In order to achieve this, there is a need to understand why individuals choose to use the informal sector.

The parties are interested in understanding the savings landscape in various SADC countries and identifying barriers, obstacles and opportunities to greater expansion of savings to low income households. The purpose of this study is to diagnose the factors that help and hinder the availability and quality of savings in high inclusion, middle level inclusion and low inclusion countries. The following countries have been identified as potential countries for this study, South Africa; Malawi, in partnership with UNCDF/UNDP Malawi, as well as Lesotho, in partnership with SUFIL. This outcome of this study is to provide support to the respective governments in defining appropriate programs or policy interventions, and to provide support to financial service providers in the design and implementation of savings-related products appropriate to the needs of low income households.

2. Project objectives

The purpose of this study is to comprehensively document the savings landscape in the following SADC countries; Lesotho, Malawi and South Africa. Included in the study is an understanding of

the various savings mechanisms (both formal and informal) currently used by low income households, an identification of the barriers/obstacles/opportunities for greater expansion of savings to these households as well as a diagnosis of the factors that help and hinder the availability and quality of savings in these countries, taking explicit account of country-specific dynamics. The study should include recommendations for action by all stakeholders. Furthermore, the study should take into account the extent of knowledge, awareness, perceptions and attitudes to savings and savings related instruments.

This study will be used to assist government and financial service providers to define appropriate programs/policy interventions, or savings products that meet the needs of low income households.

Savings products and services are defined as financial instruments that allow individuals to store/keep funds safe (current account, e-wallets, store voucher), to put monies in a non-cash form on a regular basis for the purposes of accumulation for future use (livestock, building materials and housing, burial societies, bank account, pension), to earn a return (deposit account, savings and credit groups, property appreciation, unit trusts/ETF).

In addition to the traditional formal financial service providers offering savings products (e.g. banks), the study should address savings products provided by informal service providers and insurance products that address the low income market, the more complex insurance products should be excluded. It should take a wide approach to the definition of savings but should justify the inclusion of each category of savings products and providers. The study should focus on lower-income individuals.

3. Project Scope

Scope 1: In respect of each country, analyse the opportunity and potential for low income individuals to save: document consumer demand characteristics:

The study should shed light on:

- use of savings products, both formal and informal, by formally employed, informally employed as well as individuals with irregular income;
- the savings culture and specific purpose savings (saving for dowries or education), practices, propensity and ability to save, and asset management strategies, including savings in land, housing, and livestock;
- challenges and constraints;
- consumer attitudes towards savings and borrowing
- the ability to save in terms of the hierarchy of needs.

Scope 2: In respect of each country, determine the extent of availability and appropriateness of saving products: define and assess the providers of financial services for formal, informal and private providers:

- Identify the key providers of savings products and services both formal and informal (also considering private “savings” mechanisms, where a saver designs his or her own mechanism for savings);
- Analyse these “products” (formal, informal and private) and consider the relative efficiency of each, identifying gaps;
- Assess the accessibility of these products;
  - Physical reach in terms of sales and on-going servicing
  - Electronic reach – both sales and on-going servicing

- Assess the levels of penetration of the products;
- Determine the extent to which the savings products meet their intended needs (based on the demand side analysis), looking at the quality/appropriateness of the products;
- Comment on whether market domination exists and if so how this impacts costs, innovation and penetration into the low income market as well as potential for market abuse but at the same time examine whether dominance has the potential for a positive spin in terms of stability, trust, effective market literacy campaigns and access to customer recourse;
- Cost of savings
  - Cost to operate account
  - Real return on savings
- Risk products are not explicitly included but should not be entirely ignored.

Scope 3: In respect of each country, examine other forms of savings provision

Extent and influence of alternatives like

- State care
- Family care
- Crowding out (or support), e.g. provision for housing can crowd out pension savings

Scope 4: In respect of each country, determine policy and regulatory issues and make recommendations

- Comment on policy and regulatory impact on savings:
  - Permitted deposit-taking institutions
  - Deposit protection
  - Adequacy of oversight of deposit institutions
  - Know your customer requirements
  - Policy incentives or disincentives to save
- Comment on the manner in which the macroeconomic and/or socio-political context impacts savings:
  - Inflation
  - Currency management and exchange rate controls
  - Use of dual currency
  - Government savings programmes
  - Taxation
  - Impact of the pressure to ‘send money to others’; i.e. domestic or international remittances
  - Determine the limitations to increased take-up
  - Make reference to international best practices

- Make recommendations relevant to policymakers

Expected components

1. Demand side: Customer segmentation: estimate of unmet demand for more formal savings, client segmentation based on demographics, needs, preferences and capability

2. Supply side: industry segments, product descriptions, distribution channels, role of housing finance, interest in low income savers

3. The regulatory environment that governs savings: - government policies and key legislation, tax, market conduct regulation as well as compliance related commentary

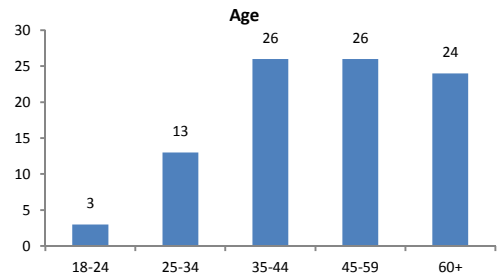
4. Challenges and constraints: - how do savings cultures match the savings products that are available, identify barriers and issues to both demand side and supply side in support of the market for increasing the provision of savings facilities

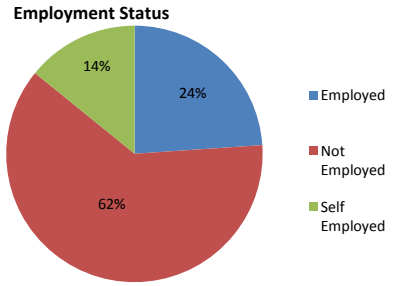
5. The role of innovative technologies and other non-traditional distribution channels.

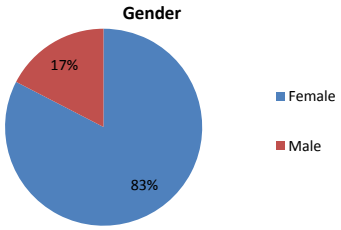
Annex B Focus group discussions: Respondent characteristics

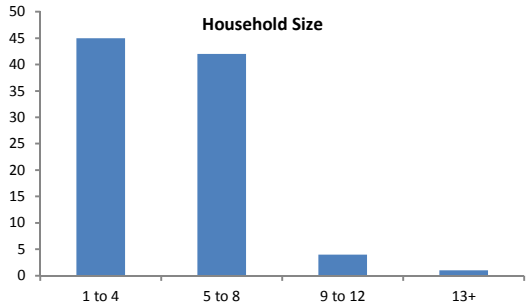
Lesotho

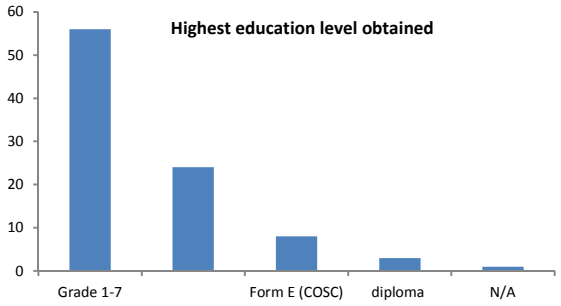
Total number of respondents = 92





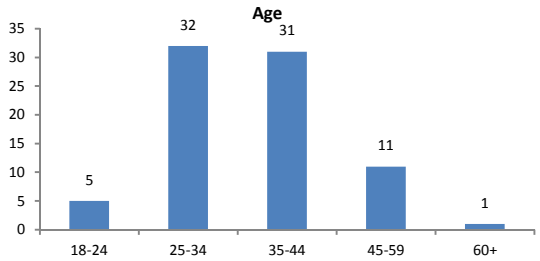


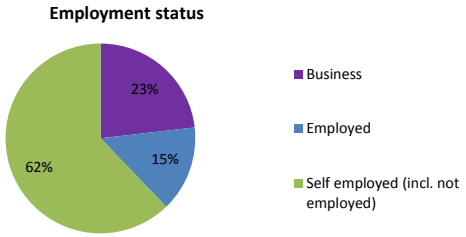


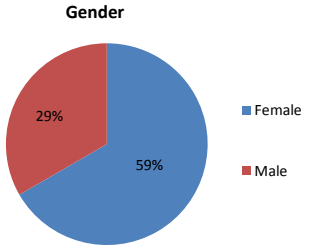


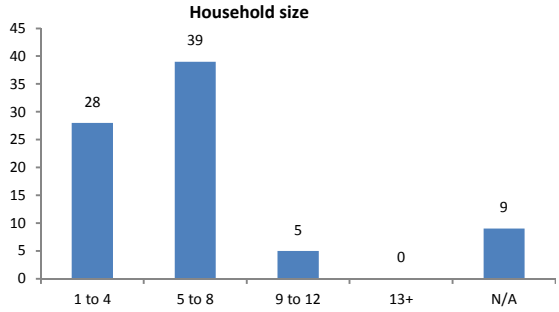
Malawi

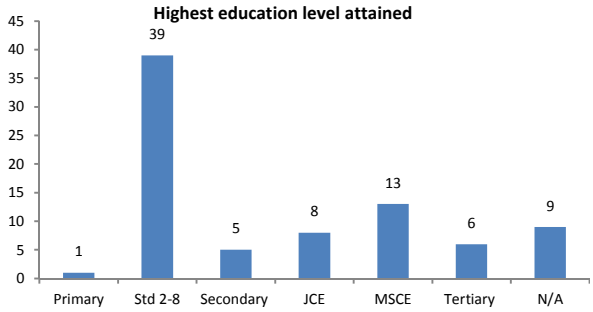
Total number of respondents = 82





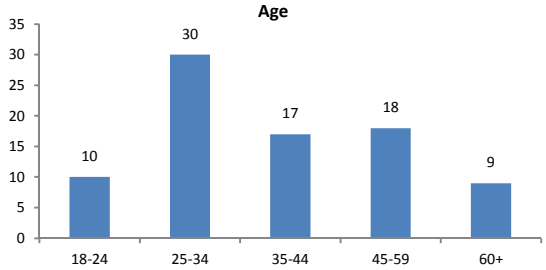


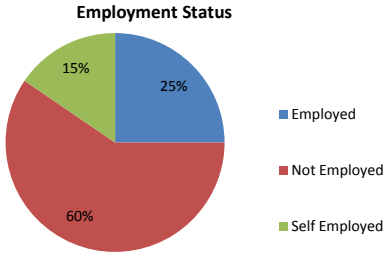


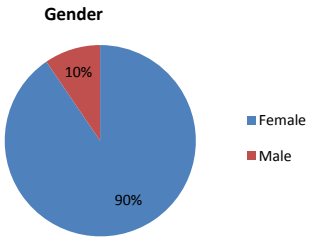


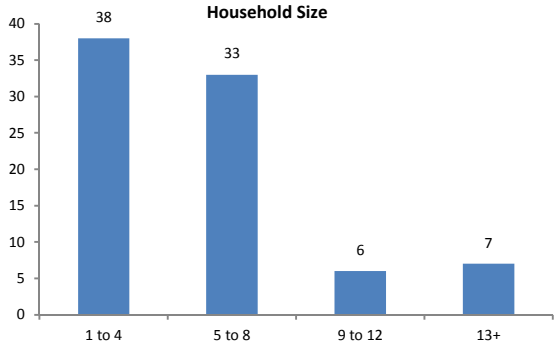
South Africa

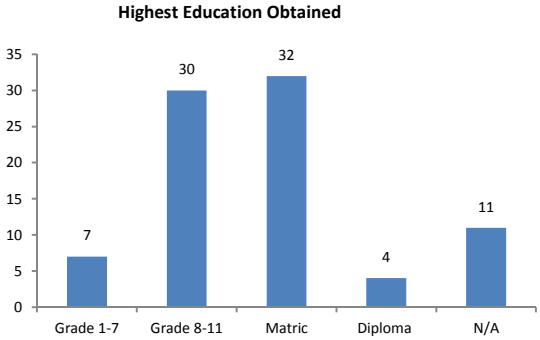
Total number of respondents = 84











Annex C List of key informants met during fieldwork

Interviewee	Organisation	Position
Lesotho		
Maseeiso Lekholoane	Ministry of Finance	Director, Private Sector Development
Florence Mohasoa	Ministry of Finance	Project Manager, SUFIL Programme
Reitumetse Elias	Ministry of Finance	Manager, Private Sector Development
M.P. Makhetha	Central Bank of Lesotho	First Deputy Governor
Ntee Bereng	Central Bank of Lesotho	Head Non-Banks Supervision Division
Nsaburo Moshoeshoe	Central Bank of Lesotho	n/a
Refiloe Lehohla	Lesotho Postbank	Acting Chief Executive Officer
Mamahapela Mokuoane	Lesotho Postbank	Marketing Manager
George Moqasa	Lesotho Postbank	Research and Product Development Officer
Khauhelo Ramakongoana	Standard Bank, Lesotho	Head, SME Banking
Samuel Seboka	Nedbank, Lesotho	Chief Financial Officer
Mpho Seola	First National Bank, Lesotho	Service Advisor
Lesole Mokheseng	Boliba Savings and Credit	General Manager
Alter Muchipisi	Moliko Micro Credit Trust	General Manger
Kikine Kikine	TEBA	Regional Manager, Lesotho
Paseka Ramokoatsi	Hand-in-Hand	Project Manager, Lesotho
Sekoala Molapo	RUFIP	Programme Coordinator
Mabulara Tsuene	UNDP/SUFIL	n/a
Thuloane Tsehlo	UNDP/SUFIL	n/a
Mapalo Moejane	Irish Aid	Programme Advisor
Tumelo Kepa	Lesotho National General Insurance Company	Assistant General Manager
Q.L. Mahao	Lesotho National Insurance Group	Sales Manager, Life
Angus Yeats	Alliance Insurance	Chief Executive Officer
Mamohau Mapota	EcoNet	Manager: Eco-cash
Nthatisi Qheku	Vodacom, Lesotho	Specialist m-pesa Partnerships
Lineo Mona	Department of Cooperatives	Programme Manager: SACCOs
Leah Berkowitz	CARE South Africa-Lesotho	Assistant Country Director – Programme
Michelle Carter	CARE Lesotho	Country Director
Buhle Phiri	CARE International in South Africa and Lesotho	Economic Development Coordinator
Eddie Palula	World Vision, Lesotho	Grants and Acquisition Manager
Malawi		
Eldin Mlelemba	Banking Supervision, Reserve Bank of Malawi	Director of Banking Supervision
Dickson Chidimu	Banking Supervision, Reserve Bank of Malawi	Director of Economic Development
Mr. Geoffrey Kumwenda	Care International	VSL Specialist
Jones Singini	Catholic Relief Services/WALA	VSL Specialist
Ms. Simpson	Catholic Relief Services/WALA	Deputy CoP
Chimwemwe Kadewele	COMSIP Cooperative Union	n/a
Kile Kanjo	FHI 360	n/a
Fletcher Chilumpha	FIMA/UNCDF @UNDP	n/a
Mr. K. Mukewa	Finance Cooperative	n/a
Mr. Suwadi	Finance Cooperative	n/a
Mr. McMillan Nankhonya	Finance Cooperative	n/a
Kayisa Sadala	Malawi Savings Bank	n/a

Teddie Chanza	Malawi Savings Bank	CEO
Mafuteka Mthwalo	Malawi Microfinance Network	Finance Administration Officer
Chimwemwe Kaphagawani	Malawi Microfinance Network	n/a
Likonde Suminie	Malawi Microfinance Network	n/a
Mrs. Thandie Phulusa	Malawi Union of Savings and Credit Co-operatives	n/a
Jonathan Zainga	Malawi Union of Savings and Credit Co-operatives	n/a
Luckwell N'gambi	Opportunity Bank of Malawi	Head of Sales and Marketing
Dickson Chidumu	RBM Microfinance Department	n/a
Dr. Macdonald Mwale	Reserve Bank of Malawi FSTAP	n/a
Linda Mkandawire	TNM	n/a
South Africa		
Nkosana Mashiya	South African Reserve Bank	Deputy Registrar of Banks
Roelof Goosen	National Treasury	Director: Financial Inclusion, Financial Sector Policy
Thendani Mathobo	National Treasury	Director: Financial Inclusion
David de Jong	National Treasury	Director: Supervision, Cooperative Banks Development Agency
Robert Mbeza	National Treasury	Director: Capacity Building and Information, Cooperative Banks Development Agency
Matthew Hunter	Absa Bank	Head: Savings
Gerhard Coetzee	Absa Bank Centre for Inclusive Banking in Africa	Head: Inclusive Banking Director
Audrey Mothupi	Standard Bank	Head: Inclusive Banking
Lloyd Singh	Standard Bank	Manager: Value Proposition and Design
Gundo Dzivhani	Standard Bank	Senior Manager: Savings, Inclusive Banking
Leon Daniels	Nedbank	Head, Funding
Wayne Lesch	Nedbank	Senior Business Analyst
Lebo Magano	Nedbank	n/a
Jake Oosthuizen	Nedbank	Head, Black Business Partners and Alternative Segments
Christopher Philip	Postbank	Head, Products
Hennie Ferreira	MicroFinance South Africa	Chief Executive Officer
Anton Krone	SaveAct	Director
Rosetta Stander	Zimele	Founder/Director
Audrey Matamelo	Zimele	Programme Director
Buhle Phiri	CARE International in South Africa and Lesotho	Economic Development Coordinator
David Kombanie	VisionFund International	Regional Director, West and Southern Africa
Elizabeth Lwanga-Nanziri	South African Savings Institute	Chief Executive Officer
Phetsile Dlamini	Hollard Insurance	Portfolio Manager (Microinsurance)
John de Wit	Small Enterprise Foundation	Managing Director
Stephen Japp	National Stokvels Association of South Africa	Deputy Chairman
Kim Dancey	FinMark Trust	Head: Policy, Regulation and Consumer Financial Education
Kecia Rust	Centre for Affordable Housing Finance in South Africa	Director
Andre Ferreira	Inter-Africa Bureau de Change	Managing Director

Annex D Savings products[187]

Lesotho: Selection of savings products				
Bank	**Name of product**	**Key characteristics**	**Interest rate offered**	**Minimum balance required**
Standard Lesotho Bank	PureSave Account	Interest is paid on a tiered basis (interest rate increases as the balance increases) No monthly management fee No fee for transfers from Standard Lesotho Bank transactional accounts Free cheque and cash deposits Fees are charged if money is withdrawn from a PureSave account.		Minimum opening deposit of M200
	ContractSave	Savings period of 1-3 years Incremental yearly interest rates Additional deposits at any time No management fees, no service fees or commissions payable No penalties if the customer is forced to stop deposits for any period Interest is calculated daily and paid monthly into the ContractSave account		Monthly debit order of at least M200
First National Bank (FNB)	Savings Account - Future Account	Savings Account for children under 12 Debit card Free Cellphone Banking subscription	M 1 - M 9,999: 0.05% M 10,000+:0.15%	
	Savings Account - Future Forward Account	Exclusive youth savings account VISA electron card First four withdrawals free every month Free Cellphone Banking subscriptions	M 1 - M 9,999: 0.05% M 10,000+:0.15%	
	Fixed Deposit Account	Investment period can be chosen Interest can be paid on a monthly, quarterly, half-yearly basis or on maturity	Varies between 0.7% and 4.75% depending on longevity and amount of deposit	
Lesotho Postbank (LPB)	Ordinary Savings Book	Interest for Ordinary Savings Pass Book is earned on balances above M500 On termination of savings book account, the minimum balance is forfeited.		For individuals: M 20 For organisations: M 80
Boliba Savings and Credit	Savings Account	No charges for depositing except for coins amounting to more than M200 Interest earned at the year-end depending on the use of the savings account		Amount required to open an account is M100

Malawi: Selection of savings products				
Bank	**Name of product**	**Key characteristics**	**Interest rate offered**	**Minimum balance required**
Malawi savings	Savings Account	Customers issued an ATM card	Interest rates currently at 8%	Lowest book balance currently at K500.00

[187] The information contained in the table was publically available from the banks' websites. There are many gaps in this data which meant it was not possible to undertake comparative analysis on the 'total' costs of each account. This could be explored further in future supply side studies in each country.

Bank	Premium Savings Account	Account is used as collateral for a loan up to 75% of the account balance Account accepts all deposits (No fixed period for deposits)	Interest rate is currently at 10%	Min. balance is K10,000
	Current Account	Possibility to use a cheque book Customers given ATM card Selected customers given cheque guarantee cards Allows an overdraft facility on the account	Interest of up to 1.00% on daily account balances of K500,000 and above	
	Fixed deposit Account	Funds are invested over an agreed fixed period 1 month, 2, 3, 6 months or more Customer can use account as collateral for a loan up to 75% of the deposit balance	Interest rates vary according to the contract period: e.g. 1 month – 15.00%, 6 months – 25.00%	
NBS Bank	Savings Account	All accounts can be linked to NBS EazyBank card.		Youth and Easy Save Account: K500 Ordinary Savings Account: K1,000 Corporate Savings Account: K50,000
	Current Account	Negotiable overdraft facility Linked to EazyBank card Get up to K10,000 cheque guarantee facility		
	Notice Account	30 days' notice account- minimum K10,000		Min. Balance is K10,000
	Fixed deposit Account	Linked to loan facility Interest calculated on daily balance		Min. Balance is K10,000
Opportunity Bank of Malawi (OIBM)	Ordinary Savings Account	No withdrawal or deposit forms required Credit interest paid monthly	6% interest rate per annum	Min. account balance is K500
	Premium Investment Account	Designed for persons who want to keep lump sums of money for 7 or 21days. No limit to the number of withdrawals Interest changes are instituted immediately		Min. Balance is: K250,000
	Kasupe Account	For customers who do not regularly transact from their accounts. Can be accessed at any outlet including mobile outlets Pay as you use the account		No min. account balance
	Fixed deposit Account	Interest paid on maturity date Account can be used as security for loan Six contract terms are available from 1 to 12 months	Interest rates of up to 7% per annum	Min. account balance is K10,000
	Mthandizi Account	Earns interest on monthly basis and has funeral insurance cover benefits It runs for up to 12 months and rolls over automatically. No premium paid for the insurance.		Opening balance is MK10,000

	Tsogolo Langa Account	A savings account designed for parents and guardians with school-going children. The account allows parents to build up their savings to cover school fees and other related expenditures. Contract agreement between parents and the bank Fee payments are made directly to school Premium interest is payable monthly		Operating Min. balance is K300
	Save Plans	Commitment savings in which clients save a specified amount periodically. Interest is accrued on daily balance and capitalized monthly Outstanding balance can be used as collateral for loans such as Mphamvu loan.		
First Merchant Bank	Savings Account	Cheque book facility available on request when account balance above K20,000 Allows for immediate access to the customer's funds through ATM Card Access to loans	Interest rate of 11.0% per annum	minimum of K5,000
	Gold Savings Account	Personal Accident Insurance up to a maximum sum of K500,000 Cheques issued to a third party from a Gold Savings Account will be guaranteed Access to loans and overdrafts		Minimum balance required of K100,000
	Smart Save	Available to both salaried and self-employed individuals It is a combination of a Fixed Deposit account and an automatic overdraft The automatic overdraft is up to 30% of the fixed deposit amount The minimum tenure for holding the Fixed Deposit account is 3 months There is no maximum limit to the deposits that can be made to this account		
	Current Account	Cleared deposits may be drawn anytime by using Cheques and ATM Card Customers have access to loans and overdrafts Access to cheque book and guarantee card	Interest rate of 1.0% on any Current Account in excess of K250,000	
	Fixed deposit Account	Maturity ranges from 3, 6, 9, 12 or 24 months. Interest rate is guaranteed for the term of the investment		Minimum deposit of K10,000

South Africa: Selection of savings products

Bank	Name of product	Key characteristics	Interest rate offered	Minimum balance required
Standard Bank	SharePlus - Savings Account	24 month investment account Returns are linked to the growth in the FTSE/JSE Africa Index Series Top 40 Initial capital guaranteed		
	Bonus Plus - Goal-oriented savings account	Account that requires monthly investments over a fixed period Set investment period of 1,2 or 3 years A bonus is given at the end of the investment period, as long as no deposit was missed or delayed. This bonus is a percentage of the interest received at the end of the investment period.	Bonus rates in percent of interest accrued: 1 year 5%, 2 years 10%, 3 years: 20%. Effective interest rate: R50-R499: 0.25% R500 - R999:0.5% R1,000-R4,999: 1% R5,000-R9,999:1.5% R10,000 +:2.5%	Opening deposit of between R50 and R1,000 Monthly deposits must be equal to - or more than - the first deposit

	Pure Save	Withdrawal or additional deposits can be made anytime PureSave accounts may be linked to an ATM card	R0-R9,999: 1.51% R10,000 - R19,999:2.02% R20,000+:2.27%	
Absa	Target Save	Tiered interest rates that grow with the balance and the length of time of the investment period Bonus interest is earned when the investment period exceeds the minimum investment period Funds are available on 32 days' notice and for 10 days at maturity after the 6 month investment period Deposits can be made via ATM, and transfers can be done via Internet, Cellphone and Telephone Banking	2.65% to 3.10% depending on the balance	A minimum initial deposit of R100 to open the account A minimum monthly deposit of R100 for at least 6 months
	Fixed deposit	A guaranteed interest rate for the entire term of the investment Investment periods range from 8 days to 60 months Interest payments can be paid out on maturity, monthly, quarterly, bi-annually or annually Additional interest on balances less than R100 000 for 12 months and longer (if 55 years or older) Investment can be used to secure an overdraft or loan up to 80% of its balance	Interest for 12 month term deposit: <R1,000: 4.69% R1,000-R49,999: 4.73% R50,000-R99,999: 5.23% R100,000+: 5.42%	
	32 day notice deposit	Funds are available on 32 days' notice Interest can be paid at any time of the month Funds can be withdrawn immediately, subject to an applicable penalty amount. The account can be used as security for a loan or overdraft	Interest for a 12 month deposit: R100-R499: 1.45% R500-R1,999: 2% R2,000-R9,999: 2.15% R10,000-19,999: 2.20% R20,000-24,999: 2.7% R25,000+: 3.15%	
Capitec	Transaction/savings account	Paperless transactions Access to Global One card, Mobile Banking or Internet Banking	R0 – R9 999: 5.00% R10 000 – R24 999: 4.25% R25 000 – R99 999: 4.25% R100 000+: 4.25%	R25
	Flexible savings account	Can choose your deposit amount and frequency Can access plan through Mobile Banking, Internet Banking or ATMs No monthly admin fee	R0 – R9 999: 5.00% R10 000 – R24 999: 4.25% R25 000 – R99 999: 4.25% R100 000+: 4.25%	No minimum balance
	Fixed-term Savings Account (Single Deposit Option)	6 – 60 months R5 million maximum investment Reinvest the interest or transfer to transaction/savings account Interest rate fixed for the full term Money available on the maturity date No monthly admin fee	Between 5.5% and 8.5% depending on term and amount	R10,000
	Fixed-term Savings Account (Multiple Deposits Option)	6 – 24 months R1 million maximum investment Other conditions same as single deposit option	Between 5.3% and 6.5% depending on term and amount	R10,000

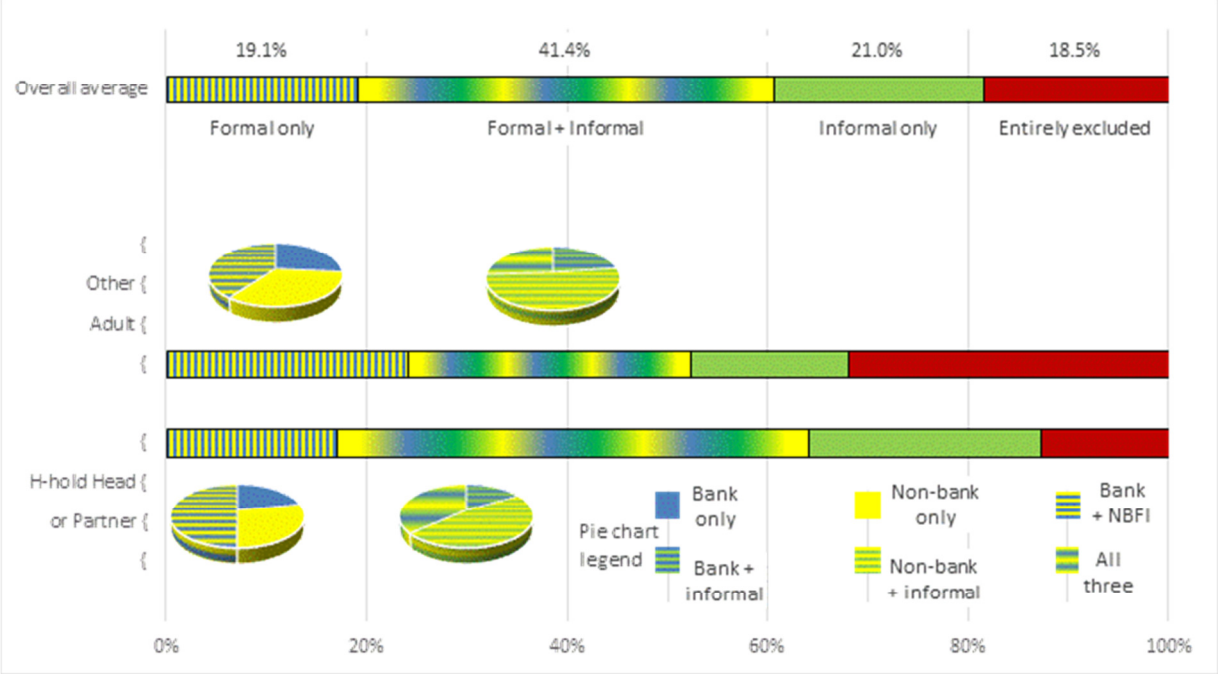
Annex E Regulation of financial institutions

Lesotho			
Types of institution	**Structure of laws**	**Who regulates**	**Permitted financial services**
Commercial banks (including Post Bank)	Financial Institutions Act (2012)	Central Bank of Lesotho (CBL)	Full banking services
Deposit-taking MFIs	Financial Institutions Act (2012)	CBL	Lending, deposit-taking
Credit-only MFIs, which may include moneylenders	Moneylenders Act (1999), Financial Institutions Act (2012)	CBL	Lending
Large financial cooperatives/SACCOs	Cooperative Societies Act (2000)	CBL (large); Registrar of Cooperatives in the Ministry of Trade and Industry, Cooperatives and Marketing (small/medium)	Lending, deposit-taking
Insurance companies and insurance brokers	Insurance Act (1976)	CBL	Insurance services
Malawi			
Banks	Banking Act 2010	Reserve Bank of Malawi	Full banking services
Microfinance Institutions	Microfinance Act 2010 (This provides for a number of regulatory tiers: a deposit-taking tier; a tier for non-deposit taking MFIs; and a tier for micro-credit lenders.	Reserve Bank of Malawi (although MAMN inspects its members on behalf of RBM for non-deposit taking institutions)	Lending and deposit taking (if licensed)
SACCOs	Financial Cooperatives Act 2011	Reserve Bank of Malawi and MUSCCO (SACCOs with assets above MK75m are regulated by RBM).	Lending and deposit taking
Insurance	Insurance Act 2010	Reserve Bank of Malawi	Insurance
South Africa			

Commercial banks	Banks Act 1990 & Usury Act	South African Reserve Bank (SARB)	Full banking services
Mutual banks	Mutual Banks Act 1993 (as amended) and subsidiary regulations	South African Reserve Bank	Full banking services
Microlenders	National Credit Act 2005	National Credit Regulator	Lending
Insurance firms/brokers	Short-term Insurance Act (1998); Long-term Insurance Act (1998)	Financial Services Board (registrar of insurance)	Insurance services
Cooperative Banks and SACCOs	Co-operative Banks Act 2007 Co-operatives Act 1981	Cooperative Banks with more than R20 million: regulated by SARB Cooperatives with R1 million – 20 million in deposits: regulated by Co-operative Banks Development Agency SACCOs with less than R1 million in deposits must register with a self-regulatory organization such as the National Association of Co-operative Financial Institutions in South Africa (NACFISA).	Lending and deposit taking

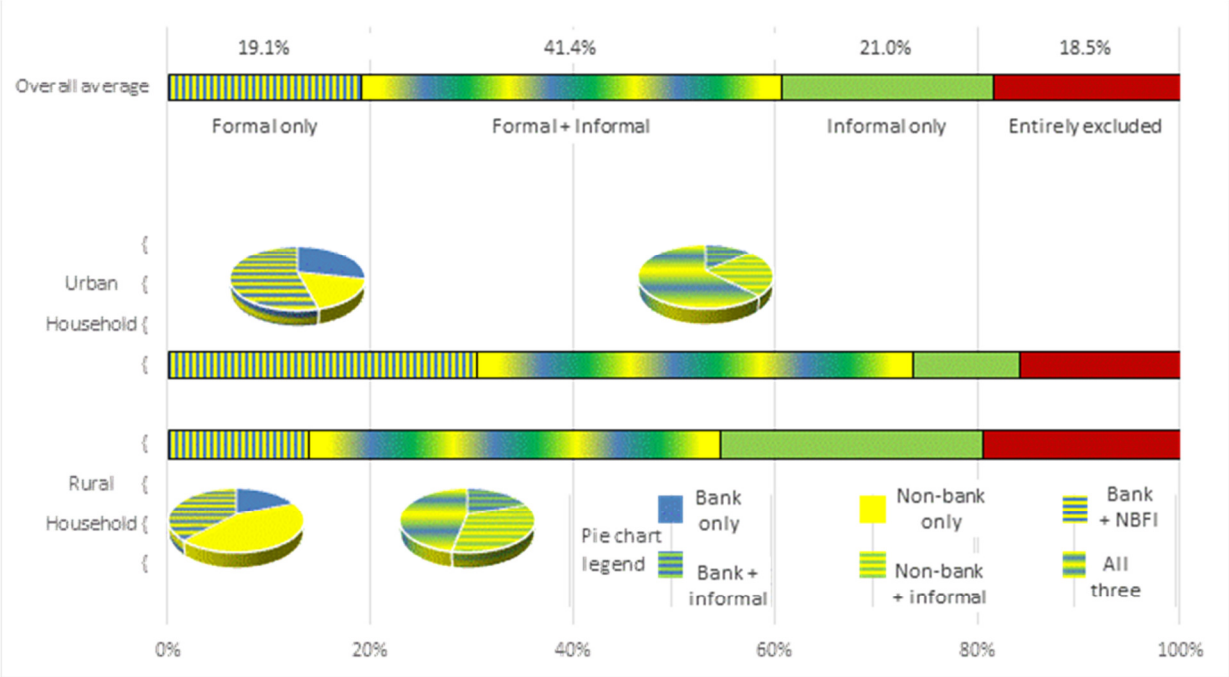
Annex F Overlaps in financial services usage by income bracket (Lesotho): additional binary tabulations

F.1 Status



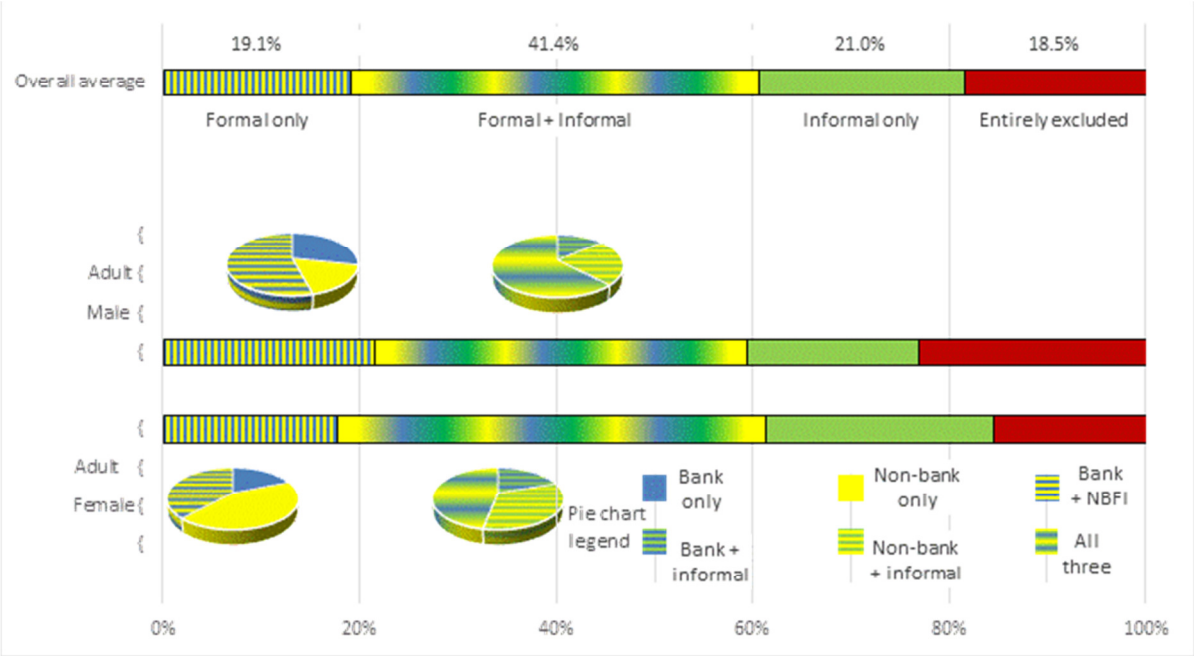
Source: Findex and WDI data, author's calculations

F.2 Location (urban/rural)



Source: Findex and WDI data, author's calculations

F.3 Gender



Source: Findex and WDI data, author's calculations