

Mobilizing Savings from the Urban Poor in Pakistan

Research Paper 01

An Initial Inquiry

JAN 2008

Researched & Authored by

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ShoreBank International Ltd. (SBI) is the consulting arm of ShoreBank Corporation and part of the family of ShoreBank companies (the “ShoreBank Group”) dedicated to working with financial institutions globally to create access to capital for underserved clients and to generate economic wealth within target markets.

ShoreBank International’s branch office in Pakistan is the implementing partner for the USAID-funded WHAM Project, which began in 2005 and continues through 2008.

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ACRONYMS AND ABBREVIATIONS

BRI	Bank Rakyat Indonesia
KB	Khushhali Bank
IDR	Indonesian Rupee
MFB	Microfinance bank
MFP	Microfinance provider
PKR	Pakistani Rupee
PMN	Pakistan Microfinance Network
PRA	Participatory Rapid Appraisal
RLCC	Rana Liaquat Ali Community Centre
ROSCA	Rotating Savings and Credit Association
SBI	ShoreBank International Ltd
USAID	United States Agency for International Development
WOCCU	World Council of Credit Unions

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INTRODUCTION

“Mobilizing Savings from the Urban Poor in Pakistan: An Initial Inquiry” is a research report that hopes to support the development of market responsive, manageable and viable saving products by deposit oriented financial institutions.

The research explores the demand side equation of saving mobilization from the poor In order to develop and market savings products that are relevant to the needs of the the urban poor, there is a need for demand-side information on the saving behaviours, needs, and preferences of target clients, specifically low income savers in urban areas. Discussions with senior managers of microfinance banks (MFBs) have indicated that MFBs are in the process of planning for micro-saving products and would therefore benefit from information about client demand. To understand savings needs, practices, and preferences of low income savers, qualitative research methods such as in-depth interviews and Participatory Rapid Appraisal (PRA) discussions were conducted. Because the majority of microfinance bank branches are concentrated in urban areas, especially in Karachi and Lahore, the latter two urban centres were selected as the sites for the study so that the findings could be immediately relevant to MFBs for savings

mobilization from low income population. Data was collected in two communities in Karachi (Orangi Town & Korangi) and two in Lahore (Icchra and Bhagbanpura) each. In total, 35 in-depth interviews (18 with females and 17 with males) and 24 group discussions (13 with female groups and 11 with male groups) were conducted. For a detailed description of the methodology used for the study, please refer to Appendix 1.

The study focuses on the poor in urban catchments as a market segment.

The urban poor, for the purposes of this study, were individuals living in the catchment area of at least one microfinance bank in the sites studied in Karachi and Lahore. Purposive sampling was used to ensure some diversity in terms of ethnicity, occupation, education, and income. **Exhibit 1, 2 and 3** show the profile of urban poor interviewed.

The data that emerged from the study was consistent between the two cities studied and therefore the data has not been

Exhibit 2: Occupation Types of In-Depth Interview Participants

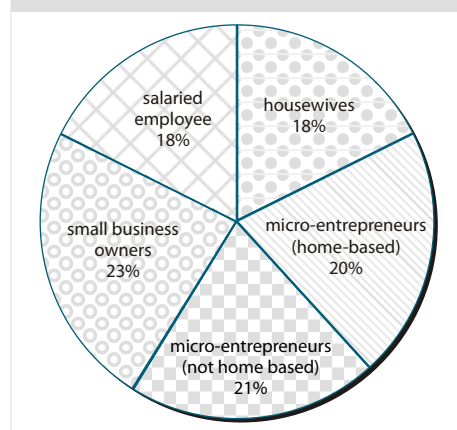
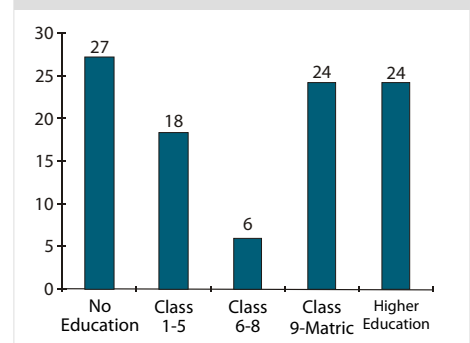


Exhibit 1: Profile of In-Depth Interview Participants

	Low	Median	High
Age	20	33	55
Family Size	2	6	14
Monthly Household Income (PKR)	3,500	10,000	40,000
Monthly Per Capita Income (PKR)	703	1,708	12,500

Exhibit 3: Educational Levels of In-Depth Interview Participants



disaggregated by city. Indeed, one of the findings is that savings demand in these two cities is remarkably similar.

There are many social reasons for offering savings opportunities to the poor. Saving, as a risk management tool, plays a key role in mitigating the worst effects of poverty the vulnerability of the poor to go deeper into poverty in the face of risk-induced losses.

...small deposits if mobilized successfully have a potential to contribute significantly to total savings mobilized.

But there are considerable commercial reasons for microfinance providers to offer savings services to the poor as well as the rich. If micro-credit clients are vulnerable to risks, the lender is vulnerable. By providing the poor a financial buffer, savings reduce the credit risk for the microfinance provider. Savings products broaden customer relationships and have known to stem the micro-credit client drop-out rate. Savings can fuel loan portfolio growth as source of funds for the microfinance provider and even lower cost of capital. Although microfinance providers that can mobilize and intermediate savings need to broaden their saving clientele to high net-worth sources to mobilize the volume of savings that renders their savings operations viable; small deposits if mobilized successfully have a potential to contribute significantly to total savings mobilized. A 2002 survey by World Council of Credit Unions (WOCCU) of 85 credit unions revealed that depositors with an average account size of only US\$33 (PKR1,980/-)¹ made up 26 percent of the total savings volume with the participating credit unions.²

Since the low income urban catchments / settlements offer a cluster of potential depositors, the poor living in urban catchments may constitute an attractive enough proposition for microfinance banks (MFBs) in terms of lower marketing and

delivery model cost ratio, to roll out sustainable small deposit mobilization operation.

The study aims to facilitate groundwork in saving mobilization now, for deposit volumes in the future. Global experience tells us that for deposit oriented institutions to succeed in mobilizing deposits in volume that makes savings operations viable, the institutions need to build trust. And this takes time. Research shows that institutions oldest in mobilizing deposits tend to have the largest volumes and lowest associated administrative cost: less than 3 percent. In WOCCU's experience, deposit mobilizing institutions take at least 5 years before they can mobilize volumes large enough to recover full costs.³ Pakistan has seen a rapid expansion of its microfinance sector since 1999, from approximately 60,000 active borrowers, to more than 1.4 million active borrowers by September 2007.⁴ As the sector looks to grow to 3 million active borrowers by 2010, and maintain a high growth pace, the

...deposit mobilizing institutions take at least 5 years before they can mobilize volumes large enough to recover full costs.

sector cannot but begin to prepare to turn to savings / deposits as an alternative source of funds for growth. For the microfinance sector to harness the strength of deposits for growth beyond the next five years, MFBs need to begin the groundwork now.

A key component of mobilising savings of the poor will be the introduction of micro-savings products that not only benefit low-income clients, but mobilise savings at a total cost per deposit mobilised that is less than the total cost of alternative sources of funds with similar terms.

¹ US\$1=PKR60

² Edited by Madeline Hirschland. 2005. "Savings Services for the Poor: An Operational Guide"

³ Ibid.

⁴ PMN-SBI. 2007. MicroWATCH - A Quarterly Update on Microfinance Outreach in Pakistan 5

The report endeavours to link the demand side findings to practical, supply side considerations that affect the sustainability of savings operations.

The report is structured into two broad sections. Section 1 gives an objective overview of the saving needs and practices of the urban poor that emerged from the study. This section delves into reasons why the poor may want to save; the coping mechanisms they use currently to meet lump sum cash needs that exceed their regular cash inflows, and various attributes they consider when deciding between the saving options available.

The ideas suggested here should be complemented by financial institutions' own assessment of product viability, manageability, and strategic fit.

Section 2 links the demand research findings to practical, broad supply side parameters (product type and design, marketing, and delivery models) that determine the value proposition to clients on one hand, and the viability of the savings operations on the other.

Although we hope that the research findings, analysis, and recommendations presented contribute to market responsive saving product development, we do not intend to replace the research that financial institutions should undertake themselves. The ideas suggested here should be complemented by financial institutions' own assessment of product viability, manageability, and strategic fit.

THE SAVINGS NEEDS AND PRACTICES OF THE URBAN POOR

This section provides an overview of the research findings regarding the savings needs of the urban poor, the coping mechanisms that they use to meet these needs, and their preferences related to savings service attributes.

FINDING 1: THE URBAN POOR NEED TO SAVE

The study shows that the major drivers of the urban poor's need to save are events and experiences that require lump sum cash beyond their routine income and expenditures. Such needs occur throughout the life cycle and require a sum that is greater than the excess income the poor have at any given time. Broadly speaking, the need for lump sum cash arises because of the following economic stressors:

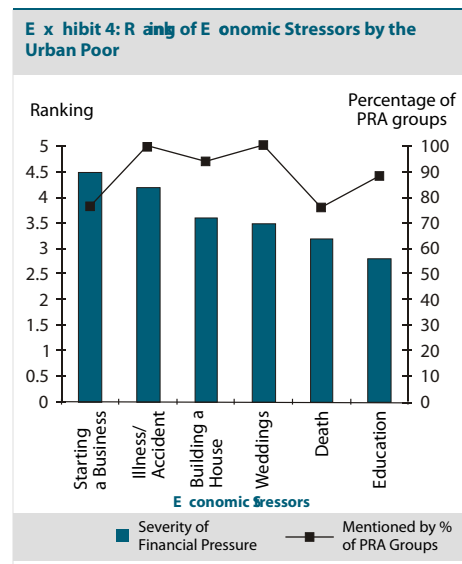
- 1. Emergencies:** These include accidents, deaths, illnesses, and natural disasters.
- 2. Life cycle events:** These include births, education, marriages, and recurrent festivals like Eid or Christmas.
- 3. Asset-building opportunities:** These include new business investments, business expansion, working capital, purchasing other

productive assets such as land, home construction, and home improvement.

Exhibit 4 shows the average ranking by participants of the relative financial pressure (from one to five, with five being the most financial pressure) exerted by the most commonly-cited economic stressors mentioned, and the frequency with which each economic stressor was mentioned by the participant groups. Weddings and illnesses/accidents were the most frequently cited economic stressors, mentioned by 100 percent of the discussion groups; followed by building a house, which was mentioned by 94 percent of the discussion groups. Starting a business was ranked as exerting the most financial pressure, followed by illnesses/accidents, building a house, weddings, deaths, and education.

Emergencies

Emergencies refer to situations that are unpredictable, for which lump sums of cash are suddenly required. These can include shocks that affect the wider community such as floods or other natural disasters; and personal shocks such as unemployment, death, or illness. In case of emergencies, the required amounts must be raised immediately, exerting significant financial pressure on families. Participants most commonly cited illness/accidents, the death of a family member, and unemployment or business loss as emergency situations that impose a financial burden on their households.



In case of emergencies, the required amounts must be raised immediately, exerting significant financial pressure on families.

Illness/ Accident

Illnesses or accidents were cited as economic stressors that exert financial pressure by each of the 17 life cycle analysis PRA group discussions conducted in Karachi and Lahore. Moreover, of all the economic stressors, illnesses/accidents were ranked as producing the second-most severe financial pressure, behind starting a business.

Illnesses/accidents result in emergency situations in which families have to raise money immediately. Hospitals do not give treatment to patients until they have received the lump sum required up front. A woman in Orangi said that her brother-in-law was seriously injured in an accident and the treatment required PKR 100,000 but the hospital refused to treat him until the money was given. While the family was trying to

...of all the economic stressors, illnesses/accidents were ranked as producing the second-most severe financial pressure, behind starting a business.

raise the lump sum, her brother-in-law died. The costs of medical expenses vary with the nature of the illness or treatment. Chronic illnesses are particularly burdensome, as the costs are recurring.

Death

A death in the family was described as the fifth most severe economic stressor. Funeral costs include feeding guests, payments to

"In an [illness or accident], even if we have to sell something in our house, we just want to save the person so there's a lot of tension. Even if you have to sell your house, a person just thinks that they want to save their family member."

A male from Ichra, Lahore

gravediggers, the cost of the grave, paying individuals to read the Qur'an, and the food costs on the 40th day of mourning. Guests from out of town often stay for up to ten days, imposing significant stress on the family of the deceased who have to feed them for this duration. If a death takes place out of town, families have the additional travel costs

required to pay their last respects. The cost of a funeral usually ranges from PKR 10,000 to PKR 35,000 (or one to three-and-a-half times the median monthly household income of in-depth interview participants). However, the costs of a death can go up to over a PKR 100,000, depending on the traditions of the family and the number of guests that attend

The cost of a funeral usually ranges from PKR 10,000 to PKR 35,000 (or one to three-and-a-half times the median monthly household income of in-depth interview participants).

the funeral. The long term financial pressure imposed by a death increases significantly if the deceased is an income earner.

Unemployment/ Business Loss

Unemployment or a loss in one's business imposes a significant financial burden on families. It becomes difficult to meet regular household expenditure, including food and rent.

LIFE CYCLE EVENTS

Life cycle events are predictable and therefore can be planned for, reducing some of their shock effect. The most common life cycle events that create financial stress are weddings, education expenditures, child birth, and the festival of Eid.

Weddings

Weddings were mentioned in each of the 17 life cycle analysis group discussions. Weddings are stressful because they entail significant cost. A son's wedding involves feeding the guests, purchasing clothes for

"[During weddings] the in-laws demand that we should give them this or that they want a television or a refrigerator, and jewellery... These poor people become debtors. It takes them ten years to pay off one daughter's wedding."

A female entrepreneur from Ichra, Lahore

the groom and his family to wear for the festivities, renting a venue and purchasing decorations, and buying gifts and jewellery for the bride. A daughter's wedding is perceived to be more stressful on the household because, in addition to the costs involved in a son's wedding, there is the cost of purchasing items for the bride's dowry

...A son's wedding usually costs a minimum of PKR 100,000, [...] while a daughter's wedding costs a minimum of PKR 150,000 (or fifteen times the median monthly household income of in-depth interview participants).

including crockery, household electronics such as a refrigerator and television, furniture, clothes, and jewellery. Often, the bride's in-laws place significant demands on her family about the items which they would like to receive as part of her dowry. Research participants said that a son's wedding usually costs a minimum of PKR 100,000, (or ten times the median monthly household income of in-depth interview participants) while a daughter's wedding costs a minimum of PKR 150,000 (or fifteen times the median monthly household income of in-depth interview participants). While the cost of a wedding is high, the fact that it can be planned for or postponed if necessary somewhat reduces the financial pressure imposed.

Educational Expenses

Educational expenses are also a source of financial pressure. While monthly educational expenditures are managed through regular

The annual expenditure on a child's education can be between PKR 500 and PKR 3000 (or one-twentieth to three-tenths of the median monthly household income of in-depth interview participants), although there is a lot of variation.

income flows, the expenditures incurred at the beginning of each school year are fairly burdensome. At this time, parents are expected to pay two to three months of fees at once, and purchase textbooks and uniforms. This annual cost can often be burdensome for a family, as it entails a lump

sum payment. The cost varies based on whether the school is a public or private school, the medium of instruction in the

"All my jewelry got sold for [my children's] education. What can you do?...If you don't collect the money, then you can't put them in school."

A woman in Orangi, Karachi

school, and the location of the school. The annual expenditure on a child's education can be between PKR 500 and PKR 3000 (or one-twentieth to three-tenths of the median monthly household income of in-depth interview participants), although there is a lot of variation. Moreover, the burden imposed also increases with the number of school-going children in a given household. Higher education and technical training is more costly.

Child Birth

Child birth also imposes financial stress on a family. Participants said that a home delivery can cost approximately PKR 5000 (or half the median monthly household income of in-depth interview participants), which includes the fee for the mid-wife and any required medication. A normal delivery at a hospital costs approximately PKR 10,000 (or the median monthly household income of in-

"Once we know we will be having a baby, we start putting money in a gulla. But we don't tell anyone that we're Target market definition; -Qualifying criteria saving."

A woman from Korangi, Karachi

depth interview participants) and a caesarean section from PKR 25,000 to PKR 40,000 (or two-and-a-half to four times the median monthly household income of in-depth interview participants).

Eid

Eid is a bi-annual expense, which requires additional lump sums of cash. The costs include food, new clothes for the occasion, and gifts for relatives. While the costs are low compared to other life cycle events, Eid occurs twice a year, which increases its significance as an economic stressor.

ASSET-BUILDING OPPORTUNITIES

Asset-building opportunities are investments made in order to secure assets such as a business or a house that requires large lump sums of money. These situations provide a financial return to families and therefore are perceived to be important investments of accumulated family wealth. The major asset-building opportunities cited by research participants are business / job-related expenses, and house-related expenses.

Business and Job-Related Expenses

Of all the economic stressors mentioned during the study, starting a business was said to exert the most financial pressure on households. The businesses mentioned range from, small home-based businesses such as embroidery or stitching to larger businesses such as small shops. The cost of starting a home-based business was estimated to be between PKR 20,000 and PKR 50,000 (or two to five times the median monthly household income of in-depth interview participants), while the cost of starting a small shop outside the home was estimated to be a minimum of PKR 100,000

The cost of starting a home-based business was estimated to be between PKR 20,000 and PKR 50,000 [...] while the cost of starting a small shop outside the home was estimated to be a minimum of PKR 100,000.

(or ten times the median monthly household income of in-depth interview participants). Participants also mentioned expanding one's business as an event that entailed a large lump sum of cash. Finally, bribes to secure jobs was another expense that was mentioned and the costs required for such bribes could range from PKR 10,000 to PKR 100,000 (or one to ten times the median monthly household income of in-depth interview participants) or more. For example, a participant in Ichra, Lahore mentioned that she had to give PKR 85,000 for her son to get a job as a policeman, despite the fact that he had all the required qualifications and training.

House-Related Expenses

House-related expenditure is another commonly cited economic stressor. House-related expenditures include building a house, expanding an existing house, buying a plot of land, and making repairs and renovations to a rented house. Buying a plot of land is expensive, usually costing hundreds of thousands of rupees. This is unaffordable for most of the urban poor. Thus, the majority of participants mentioned building

...a one-bedroom house costing a minimum of PKR 50,000 to PKR 100,000 (or five to ten times the median monthly household income of in-depth interview participants).

or expanding a house on land that was acquired years ago by the family as an economic stressor. Building or expanding a house can be expensive, with a one-bedroom house costing a minimum of PKR 50,000 to PKR 100,000 (or five to ten times the median monthly household income of in-depth interview participants). The cost of adding rooms or renovating a house varies with the scope of the renovations. Finally, renters also mentioned that they often have to renovate or repair their rented house in order to accommodate large families because the landlord refuses to do so. The cost of this varies based on the scope of the renovation or repair.

FINDING 2: THE URBAN POOR DO SAVE

Contrary to some perceptions, the urban poor do, in fact, save. In order to cope with the various needs for lump sum cash, the urban poor set aside cash for future consumption (i.e. they save up); they borrow an amount and pay it back at a future date (i.e. they save down); or they make regular deposits towards accumulating a lump sum of cash, which is usually received before they have deposited the entire amount (i.e. they save through). In the absence of these

opportunities, they also use alternate coping mechanisms such as forgoing consumption or investment. Since they have limited access to formal financial services, the urban poor rely primarily on informal mechanisms for saving.

The most commonly used savings mechanisms by the urban poor are committees and home savings. In fact, 94 percent of the in-depth interview participants save through either or both of these savings mechanisms. Saving in kind and family gifts are also frequently used. Exhibit 5 below provides an overview of the major saving mechanisms utilized by the urban poor.

desired lump sum until the entire amount has been accumulated. The most common form of saving up cited by participants in the study was setting aside cash at home followed by saving in kind. Saving with an MFP, purchasing gold, bank savings, purchasing land, and contractual savings products were used less frequently. Each of these saving up mechanisms is described in detail below.

Home Saving of Cash or Cash-like Products

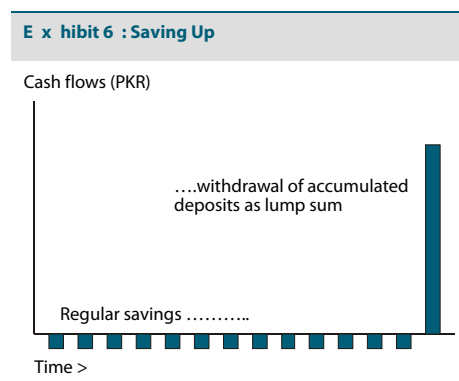
Saving at home is very common. Fifty three (53) percent of the in-depth interview participants claimed that they saved at home. Women are usually responsible for this and it is done by setting aside any extra money,

		Life-Cycle Event		Asset Building		Emergencies	
		Weddings	Education Expenses	Building a House	Investment	Accident / Illness	Death
Saving Up	Saving in Kind	Shaded					
	Home savings		Shaded				Shaded
Saving Down	Interest-free loan from friends, relatives, or employers	Shaded	Shaded	Shaded	Shaded	Shaded	Shaded
	Loan from an MFI						
	Supplier's Credit	Shaded					Shaded
	Loan from moneylenders					Shaded	Shaded
Saving Through	Committees	Shaded	Shaded	Shaded	Shaded		
	Family Gifts	Shaded				Shaded	Shaded

The shaded box indicates the coping mechanism used by the urban poor for each economic stressor.

SAVING UP BY THE URBAN POOR

To save up, one stores cash in a safe place until he/she has accumulated the desired lump sum. See Exhibit 6 for the concept illustrated.



The advantage of saving up is that it enables access to a lump sum without any repayment obligations or interest. However, the disadvantage is that one cannot acquire the

after household expenditures, in a safe location within the house. Some women collect their savings in a gulla, or a small clay or wooden container. Other women store their money in safe locations in their house, such as a cupboard or a dresser. The amount saved at home is usually small, ranging from a few hundred rupees to PKR 6000. Home savings are mainly used for emergency expenditures such as illness or death, as well for small life cycle events, such as Eid or education expenditures incurred during the start of the school year.

The amount saved at home is usually small, ranging from a few hundred rupees to PKR 6000.

In addition to saving in cash at home, many of the urban poor purchase government-issued prize bonds which are considered to be exactly like cash, with the additional attraction of the possibility of winning a

Prize bond of PKR 200 denomination is the one commonly used by the low-income households studied.

prize. Prize bonds are government-issued bonds with a quarterly prize draw, and are a hybrid between a lottery and government backed, fully liquid IOU that earns no interest. While the prize is determined through a lottery, investors are returned their principal amount. Prize bonds come in denominations of PKR 200, PKR 750, PKR 1,500, PKR 7,500,

"For 30 years my husband has been trying [to win a prize from prize bonds] but it has never happened."

A female housewife from Orangi Town, Karachi

PKR 15,000, and PKR 40,000. Prize bond of PKR 200 denomination is the one commonly used by the low-income households studied. The pay-offs for the lucky prize winners are

...the probability of getting a prize is only 0.15 percent on a single ticket.

significant but the probability of getting a prize is only 0.15 percent on a single ticket. There are one million 200-rupee bonds issued in each series, with one prize of PKR 500,000, three of PKR 150,000, and 2300 of PKR 1,000. The total prize money amounts to approximately six and a half percent of the total money raised. Prize bonds are usually kept in small amounts of PKR 200 to 400 at a time by the urban poor. They can be easily

"We don't save at home because if I have money at home, in any small need, I'll spend it."

A 32-year old male nurse's aid from Orangi Town, Karachi

sold and many shopkeepers also accept them in lieu of cash.

Participants described home savings as being beneficial because they offer liquidity and

can be used on short notice. Some participants said that home savings are beneficial because they allow them to save up for their committee payments and ensure that they are able to make these payments in a timely manner. However, home savings are also perceived to have a number of disadvantages, the biggest being that it is difficult to keep the money aside, rather than use it for small household expenditures that come up. Another disadvantage is the fear of theft if there is a large amount of money at home, which is why most participants keep only small amounts at home.

Saving in Kind

Saving in kind is also a commonly used method of saving. It entails purchasing goods which are set aside for future use, such as buying cement and setting it aside until the time of actual construction work.

Amongst the urban poor, saving in kind is most commonly used for a girl's dowry. From the time a girl approaches marriageable age, her parents begin collecting small items for her dowry such as crockery, furniture, or small jewellery. Saving in kind is also used by small business owners who use access cashflow on stock for their business.

Saving in kind off-sets some of the stress that arises during weddings. During weddings, parents have a number of large costs to deal with, so if smaller dowry items have already been purchased then this reduces some of

Amongst the urban poor, saving in kind is most commonly used for a girl's dowry.

the financial pressure. Moreover, goods can be a means of hedging against inflation. If goods are purchased for small businesses, the investor can make a profit on the goods when they are sold. The draw-back of saving in kind is that household items cannot be easily sold and are often sold at a discount.

Saving with an MF I

Some microfinance institutions offer voluntary saving services to their borrowers.

These services allow borrowers to deposit and withdraw their savings either at their group meetings or at the branch office. While these services are not widely used, they are used by borrowers of MFIs. Savings kept with microfinance institutions are often used to pay loan instalments during times when money is tight. They are also often used for emergencies or for small expenditures such as education. Savings deposited with an MFI are usually for a small amount, ranging from PKR 20 to a few hundred rupees.

While saving through an MFI is perceived by the respondents to be a fairly liquid means of saving it is not as easily spent as home savings because the money is not stored in the household, and therefore is more conducive for saving. On the other hand, if the money is needed immediately, then it must be withdrawn at the branch office during office timings and therefore is less accessible than savings at home.

Saving in gold is practice observed amongst the urban poor. Gold, while often bought for ornamental purposes can be sold during times of need such as a wedding, illness, or even for educational expense. Moreover, gold can also be used as collateral for loans from shopkeepers or other people in the community.

Gold is easily sold and is therefore useful during emergencies. Moreover, gold in the form of ingots is an asset that can hedge against inflation and can be sold for a profit given the steady incline of gold rates

observed. However, because gold is costly, it is difficult to purchase and therefore it is not a major savings mechanism used by the urban poor. In addition to its prohibitive cost, there is also a risk of theft. Gold, however is more commonly bought in the form of jewellery with savings intention being only secondary in the purchasing decision. In an emergency, gold ornaments are often sold for a lower price that takes into account the value of gold only and not that of the "making" that ranges from 15 percent to 30 percent of the original price of the gold ornament.

Bank savings are an uncommon means of saving for the urban poor. Banks are used mainly when one has a large lump sum (such as committee earnings), that needs to be deposited safely; or by individuals with small businesses that require banking facilities, such as cheques, for their business operations.

Banks are seen by the urban poor to offer an accessible and secure means of storing a large lump sum of cash. For example, a male embroidery worker in Orangi said that he uses a friend's bank account to deposit his committee lump sum for safety reasons until he spends them. Moreover, for individuals with large businesses, banks are valued for their transaction facilities, specifically money transaction through cheque.

Participants in the study do not have a great deal of knowledge about banks and the services they offer, and see few

in Orangi said that whenever someone in the area needs to go to the bank, he/she feels that they have to be dressed in a suit and tie to be admitted and treated fairly.

Banks are seen by the urban poor to be intimidating.

Participants also feel that the staff at banks does not treat them with respect. A man in Ichra, Lahore said, "Banks don't support poor people, just rich people."

"We don't see any advantages to saving in a bank. You need to have a lot of money to open an account and then there are a lot of problems--and we are not educated. For banks you need people to back you up you don't need that [in Bcs]. You need guarantors for banks."

A 32 year old housewife from Korangi, Karachi

Banks' account opening and minimum balance requirements are prohibitive for micro-savers. In particular participants expressed frustration with money being cut from their accounts when the balance falls below the minimum balance required, some times resulting in them losing their entire savings without warning. Savings accounts with banks are also taxed and zakat is cut from these accounts. Banks are also seen to have complicated procedures that are not easily understood and strict requirements such as the need for guarantors that make opening accounts difficult. Banks are often located far from low-income areas, limiting their accessibility by the urban poor.

"Banks close down in the evening so it's not possible to withdraw from them at night. Emergencies can occur any time."

A male salaried worker from Bhagbanpura, Lahore.

Furthermore banks close their operations after a certain hour, providing lower access to their savings than home savings in case of emergencies. Furthermore, for small savers, the possibility of earning profit is not a significant incentive to save with banks, as return in absolute amount on their deposits will be very small. The less poor respondents

such as traders and entrepreneurs said that they do not think that the profit offered by banks is the best return that they could receive and prefer to invest their earnings in more potentially profitable ventures, such as their business or in land.

One participant who used a savings product offered by a microfinance bank found it to mitigate a number of difficulties associated with commercial banks. The microfinance bank is located in her neighbourhood, has no minimum balance requirements, has longer timings than commercial banks, and allows her to use cheques to make payments for her small business. However, she continues to use committees for her major savings needs.

Land

Saving by buying land is a potentially profitable means of saving but is uncommon amongst the urban poor. Land is either bought explicitly for the purpose of making a profit, or is used for constructing a family home, which can be sold during a time of need.

Land prices in the communities surveyed have risen significantly over the past few years. A shop owner in Orangi Town, Karachi recently bought land for PKR 150,000 and its value has increased to PKR 225,000. He anticipates that the value will appreciate further over the coming months. Land is also beneficial because it can be sold in times of need to finance any emergency. However, saving by buying land is very limiting because its costs are prohibitive. Another risk of saving through land is that one could be subject to fraud and the same land could be sold to multiple parties without clear land titles. Finally, saving by buying land can also be risky because it requires some knowledge of the land market in order to speculate.

Contractual Savings Products

Contractual savings products, although infrequently used, are also another saving service available to low-income communities in Karachi and Lahore. Because these are offered by insurance providers, they are often referred to as insurance. These products are

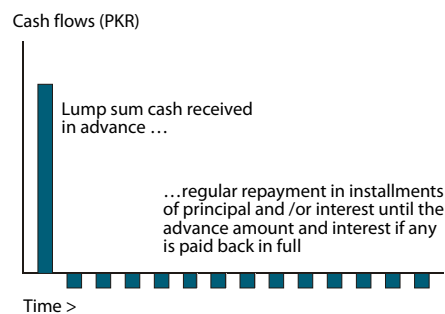
often purchased when the child is young and users pay a fixed amount each year for a number of years in order to receive a lump sum, including some interest, at the end of the term. Often, these products are sold door-to-door by a female salesperson.

The research respondents seemed to like the concept behind Contractual savings product as it enables one to save in small instalments to off-set the burden of large life cycle events such as weddings and education. Moreover, the additional profit received is also viewed positively. However, the respondents fear that the organizations offering these products are fraudulent and cite examples where people they know have been known to lose their entire savings in contractual saving product related frauds. As a result, participants said that they do not have a lot of faith in these products. Participants also said that they do not understand how contractual savings schemes work. Moreover, if one withdraws money early from a contractual savings product, he/she loses a certain amount, which is also viewed very negatively.

SAVING DOWN (BORROWING) BY THE URBAN POOR

Saving down is what we usually understand as credit. The lump sum is received at the beginning of the cycle and is repaid either in instalments or as a lump sum thereafter, often with interest. See Exhibit 7 for the concept illustrated.

Exhibit 7 : Saving Down



In saving down, the urban poor can receive the lump sum cash required immediately. However, it is often difficult to find a willing

lender. The most commonly used saving down mechanisms cited by the participants of the study were interest-free loans from friends, relatives, or employers and loans from moneylenders, which were sought only when there were no alternatives. Loans from MFIs and suppliers' credit were also used frequently, particularly for business investment.

“Sometimes relatives give [loans], sometimes they don’t. There is no guarantee.”

A female entrepreneur from Orangi Town, Karachi

Interest-Free Loans from Friends, Relatives, and Employers

A common way of coping with lump sum cash needs is securing interest-free loans from friends, relatives, or employers. These

The challenge with securing such loans is finding a willing lender and the resulting social obligations to reciprocate against similar requests.

loans are often sought during times of emergency, or to make up shortfalls for life cycle events or asset-building opportunities. The challenge with securing such loans is finding a willing lender and the resulting social obligations to reciprocate against similar requests. Often it is not possible to secure such loans and therefore they are not a predictable means of coping with economic stressors.

Moneylenders charge approximately 10 percent per month (120 percent per annum).

Loans from Moneylenders

Moneylenders are used as a last resort to raise money for immediate needs such as illnesses. They are often referred to as *Pathans* and their loans are referred to as *suud*. Moneylenders charge approximately

"When you're desperate, you go [to moneylenders]."

-A housewife from Korangi, Karachi

10 percent per month (120 percent per annum). The interest rate has to be paid each month until the principal is repaid. The money is not usually accepted in installments and the entire lump sum must be returned at one time. A family in Ichra, Lahore

The urban poor go to moneylenders as a last resort.

experienced a variation of this. They had borrowed PKR 200,000 from someone to raise money for the medical treatment and funeral costs of a family member. In repayment, the lender was given the upstairs section of their house, rent-free. He will be allowed to use this section until the family returns the PKR 200,000 as a lump sum payment. It has been six years and they have been unable to pay him back and are losing PKR 2,000 to PKR 3,000 per month in potential rent receipts.

The urban poor go to moneylenders as a last resort. They can be accessed immediately and are therefore often used for emergency situations. The cost of the loans is extremely high and results in a high burden of debt from which it is difficult for the urban poor to recover.

Loans from MF B

Because the majority of the recruitment for the study was done through organizations offering microcredit, most participants were borrowers of MFs. Thus, loans from MFs were a commonly-cited saving down mechanism. These loans are ostensibly given for productive investment and have to be paid back in instalments with interest. Because the loans are set up for productive investments, they are often used to start or expand a business. However, some participants indicated that, since the loan size is often not adequate to meet their business needs, these loans are often used for consumption purposes such as emergencies or life cycle needs.

The advantage of loans from MFs is that they enable the urban poor to have access to lump sums of cash immediately, and can be paid off later in instalments. Moreover, these loans are free of the cumbersome

"[MFs] give small loans of PKR 10,000 to PKR 20,000 this is not a significant loan. This is just for small needs, but you can't do business with this. It's a formality that we say that we're using it for business. It's a type of a small lie."

A woman with a small home-based business in Ichra, Lahore

requirements of loans from commercial banks such as collateral, which are difficult for the urban poor to meet. However, the disadvantage is that these loans must be paid back with interest, which increases the cost to the poor, particularly if used for consumption needs. Finally, clients of group lending loans often find the transaction costs of attending group meetings to be high, as it often means forgoing earnings for that day.

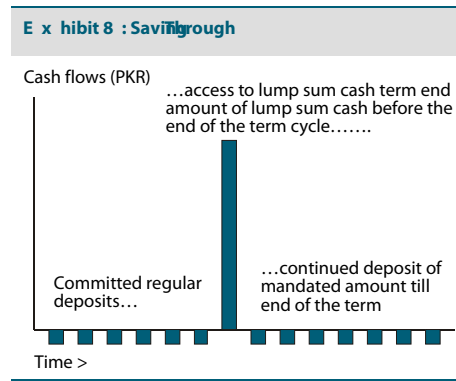
Suppliers' credit

Suppliers' credit is also another savings down mechanism used by the urban poor. Entrepreneurs often develop a relationship with their suppliers that enable them to take goods on credit and make the payment after the goods are sold. Similarly, community members often have relationships with retailers who are native to the community and therefore can take goods on credit for life cycle events that require lump sums. This credit is usually charged with interest and borrowers are allowed to pay back the money in instalments. Suppliers' credit is commonly used for starting a new business, weddings and funerals.

The advantage of suppliers' credit is that it enables the urban poor to access the goods that they require and pay these off over a long duration in instalments. However, since interest is often charged on suppliers' credit, this can be fairly costly to borrowers, particularly when the credit is sought for consumption needs.

SAVING THROUGH BY THE URBAN POOR

Saving through allows people to make regular deposits and receive an agreed lump sum amount before the end of the savings term. See Exhibit 8 for the concept illustrated.



With some mechanisms there is a trigger event for the payout, while with others it is determined through a lottery or at the beginning of the cycle. Saving through enables the urban poor to receive a lump sum before they have saved the entire amount and allows the lump sum to be timed with certain events. Moreover, regular deposits help the poor maintain savings. The most commonly used savings-through mechanism is saving in a committee (ROSCA). This practice is the most prevalent form of saving amongst the urban poor.

Committees

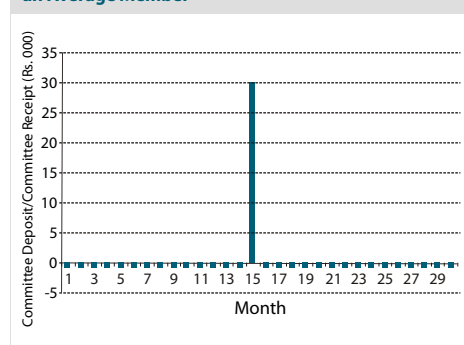
Committees, as they are most commonly referred to, are the most common saving mechanism used by the urban poor. 79 percent of the interview participants use committees. A participant in Korangi, Karachi said, "The committee is our bank."

79 percent of the interview participants use committees.

Committees are so common that one committee owner in Orangi Town, Karachi said that some of her clients are children who share a small committee with a deposit of PKR 25 per week.

A committee is a Rotating Savings and Credit Association (ROSCA) in which all members are both savers and borrowers. Each member has to contribute a fixed instalment each day, week, or month (depending on the structure of the committee) and the lump sum accumulated is given to one member. The committee lasts as many days/weeks/months as there are members (or if a member puts multiple instalments, then as many days/weeks/months as there are instalments). For example, if there is a monthly committee in which each member contributes PKR 1,000 per month and there are 50 members, the members will receive PKR 50,000 when it is their turn, and the committee cycle will last 50 months, with a different member receiving the lump sum each month. Committees that are run within a neighbourhood are usually made up of women and are used for household needs such as weddings, house building or expansion, or for small home-based businesses. Committees that are run in the marketplace or in offices are usually made up of men and are primarily used to invest in businesses or major life cycle events. If people can afford to, they often save through multiple committee instalments, sometimes depositing multiple instalments with the same committee and, at other times, saving

Exhibit 9 : Monthly Committee-Related Cashflows of an Average Member



with multiple committees with different instalment sizes, members, and managers. Approximately 36 percent of interview participants who use committees reported that they save through multiple committee instalments.

Committees are usually used to finance predictable life cycle events such as weddings, house renovation, starting or

Approximately 36 percent of interview participants who use committees reported that they save through multiple committee instalments.

expanding a business, education, or birth. Furthermore, people also borrow money against future committee earnings in an emergency by promising to repay the loan when they receive their lump sums.

Most participants in the study perceived committees to be indispensable because they allow their members to acquire a lump sum of cash to meet needs that they otherwise would be unable to afford. Moreover, they offer a means of regular saving that enables people to save money that would otherwise get spent in everyday expenditures. Another benefit that was often cited by participants is that, on average, members receive their lump sums before they have saved up the entire amount and this therefore allows them to receive their lump sums earlier than they would through alternate savings mechanisms such as banks

“If I deposit money for six months at PKR 2000 per month [in a bank], then I’ll get PKR 12,000. If I put that money in a BC for 50,000 and I have a need, I’ll get 50,000.”

A male from Orangi Town, Karachi

or home savings. Finally, if a the committee is flexible, committee members are able to receive their lump sums during times of extreme need.

A shortcoming of savings is that members may have not complete control in accessing the lump-sum cash for a specific need at a specific time. Often, the members plan their

...on average, members receive their lump sums before they have saved up the entire amount and this therefore allows them to receive their lump sums earlier than they would through alternate savings mechanisms such as banks or home savings.

expense to incur when they are due to receive the lump sum from their committees. For example, a female participant from Ichra,

Lahore who has a PKR 70,000 committee which she is hoping to use to expand her house said, “It’s been four years since I started saving through a committee but my name hasn’t been picked yet. I requested them to give the money but they won’t give it. So this has been a problem. We have been extremely stressed.” Another disadvantage of committees can be the manager fleeing after receiving his/her lump sum or when a member defaults on his/her payments. In Lahore, however, a few participants cited examples where the owner of the committee fled, resulting in significant losses to

A shortcoming of savings is that members may have not complete control in accessing the lump-sum cash for a specific need at a specific time.

committee members. However, often the other members who have received their lump sums slowly make payments, but these are made in small instalments which defeats the purpose of accessing a lump sum. Despite the possibility of an owner fleeing the committee, participants in Lahore also said that they used committee savings but were careful about the reputation of the owner of a committee. In committees that do not have any flexibility for their members getting their lump sums before their turn, the money is not accessible during times of financial stress.

“If we keep PKR 1000 at home to save, expenses keep coming up and it doesn’t stay. BCs are good because they force us to save....”

A woman from Orangi Town, Karachi

Because the committee system is so ubiquitous amongst the urban poor, Box 1 (next page) provides a primer on some of the operational facets of committees.

BOX 1: PRIME RANK CHARACTERISTIC SUBCOMMITTEE SUBSET

What is the Range of Committee Size and Duration Observed?

Committees vary greatly in size, from PKR 2 per week for a lump sum of PKR 650, to PKR 15,000 per month for a lump sum of PKR 300,000. Most committees used by the study participants, however, ranged between PKR 500 to PKR 1500 per month. The size of the committee depends not only on members' ability to pay, but also the needs for which they are saving. For example, for large expenses such as weddings, people save in large committees of PKR 100,000 to PKR 150,000. However, smaller committees with a shorter duration are used for small expenditures such as Eid, to purchase household items, or to save up for education fees incurred at the start of each school year. Committees also vary in their duration, with some weekly committees lasting as little as three months, and monthly committees varying from one to four years.

Profile of Committees Used by Interview Participants

	Deposit Size (Per Month)	Lump Sum Received	Duration (Years)
Low end	80	1800	0.33
Median	1000	30,000	2.78
High end	15,000	300,000	6.66

How Are Committee Members Selected?

The committee manager is the person who starts and runs the committee and selects the members. The committee manager is usually either someone whose parent used to run a committee before her/him, someone who is relatively well-educated, or someone who is well-respected within the community. Committee managers select people that they know or who come with strong references. A committee manager usually begins a new committee after a complete cycle has been completed and all the members have received their lump sums. Members who have been regular with their payments are invited to join the next cycle of the committee. One committee manager said that she starts off new members in a small committee before graduating them to larger

committees after they have proven to be reliable with their payments.

How is the Timing of the Lump Sum Received by a Committee Member Determined?

The study came across four main methodologies of determining the timing of the lump sum received. The methodologies in fact are the distinguishing factor between the four types of committees most prevalent amongst the urban poor studied:

1. Repeated Lottery Committees:

Repeated lottery committees are committees in which a lottery is conducted each day, week, or month to determine which member will receive the lump sum. Some repeated lottery committees have meetings during which the lottery is conducted. In others, there are no meetings. Instead, members drop off their payments at a pre-determined date to the committee manager, who conducts the lottery and notifies the member whose name is picked that they have received the lump sum. However, it is difficult for members to plan with repeated lottery committees, as they do not know when they will receive their lump sum.

2. One-Time Lottery Committees: One-time lottery committees are committees in which multiple lotteries are conducted at the beginning of the cycle to determine when each member will receive his/her lump sum. Once the turns have been decided, there are usually no more meetings. Instead, at the given date, each member gives his/her payment to the committee manager, who then gives the lump sum to the member whose turn it is.

3. Name Committees: Name committees are committees that are not determined by lottery. Instead, a member's turn is determined by the number of instalments s/he deposits into the committee. For example, in a 30-month committee that requires a payment of PKR 1,000 per month (with a payout of PKR 30,000), some

members may choose to deposit multiple instalments. If a member chooses to deposit three instalments per month, or PKR 3,000 every month, s/he will receive three lump sum payments of PKR 30,000 over the 30-month cycle. The rule with name committees is that if a member puts in three instalments, s/he will receive one lump sum at the beginning of the cycle (so in the example above, during the first 10 months), one in the middle of the cycle (the second ten months), and one at the end of the cycle (the last ten months). Similarly, if a member puts in two instalments, s/he will receive one lump sum at the beginning of the cycle and one at the end. Finally, if a member puts in just one instalment, s/he will receive his/her instalment in the middle of the cycle. The exact position of where the member's turn will come in the beginning, middle, or end of the committee depends on the availability of positions when the member decides to join the committee, and is decided through mutual agreement between the member and the committee manager. Members may request that their position be determined based on the dates of any upcoming need, such as a wedding. As with one-time lottery committees, name committees do not have monthly meetings and members just deposit their payments with the committee manager.

4. Auction (Boli) Committees: Auction committees, or boli committees, are committees in which members bid to receive their lump sums. Members bid down the price of the lump sum and the person with the lowest bid receives the amount that they bid, and the remaining money is divided amongst the remaining members. For example, in a committee with 50 members in which members contribute PKR 2000 per month, the lump sum of PKR 100,000 is put up for auction each month. If the lowest bid on the PKR 100,000 is PKR 30,000, the bidder receives that amount immediately and the remaining PKR 70,000 is divided amongst the remaining 49 members. The members who receive their lump sums at the end of

the committee cycle make a profit, while those who receive their lump sums earlier make a loss (or effectively pay a fee for receiving their lump sums in the beginning). Boli committees often run in markets and are used for business investments, and are not as commonly used as other types of committees. Moreover, they were found in the communities studied in Lahore, but not in those in Karachi.

Are Members Able to Access their Lump Sums Early if a Need Arises?

The flexibility of committees in giving members their lump sums during times of need such as weddings or illnesses varies from committee to committee. Some

"If you want to get [your lump sum] early then you can talk to the person whose turn it is and say that from this I'll give you some and I'll keep some. If it's a PKR 21,000 committee and he'll get a PKR 2,000 to 3,000 profit, then he'll happily give it to you."

A male shop owner from Ichra, Lahore

managers of repeated lottery committees have an unwritten rule that if a member has an immediate need such as a daughter's wedding or an illness in the family, he/she will receive the lump sum at that time and no lottery will be drawn. However, in other lottery committees, managers do not allow members to receive their lump sums before their turn. In committees in which the time at which a member will receive the lump sum is determined in advance, members can request the person whose turn it is to receive the lump sum to switch with them. It is up to that person whether or not he/she agrees to the switch. Some participants also gave examples of committees in which one could pay a sum, often up to ten percent of the lump sum, in order to receive the lump sum during someone else's turn. The payment is either given to the member with whom the date of receipt of the lump sum has been switched, or is split between the committee manager and that member. The flexibility of the committee is dependent on the

Committee manager and the members, although a number of committees were said to be quite flexible if a member has a pressing need.

How are Late Payments and Defaults Treated?

Timely committee payments are strongly emphasized. Some committees charge penalties from their members for late payments, ranging from PKR 10 to PKR 100 per day that the payment is late. In some committees this payment is given to the committee manager, while in others it is given to the person whose turn it is to receive the lump sum that month. Other committees do not charge penalties but exert a significant amount of social pressure on members who are late with their payments, with the committee manager or members visiting the homes of members who are late with their payments to solicit the money. Some committees ask a member who is repeatedly late with his/her payments to leave the committee and induct a new member to make up for the vacancy. The

"I saved with a committee but I couldn't pay the installments so they disqualified me. I will get the money that I already paid at the end of the committee term."

A male from Bhagbanpura, Lahore

"[If there is any default in a committee], then nobody would ever put a committee with [the committee manager] again. It is always the group leader's responsibility to make sure nothing like that happens."

A woman who has a home-based tailoring business in Bhagbanpura, Lahore

member who has been asked to leave the committee will be returned his/her payments to date, although this money is sometimes not returned until the end of the cycle. However, there is some flexibility for late payments if someone has a genuine reason such as a family illness or death. In such cases, the person whose turn it is for the lump sum may waive the fine or, if there is no fine, agree to receive the payment late.

Since committee managers always receive the first lump sum in every committee, in some committees, they are expected to finance any late payments so that the committee member whose turn it is to receive the lump sum is able to get the lump sum at once. Similarly, in such committees, if members default on their payments, the committee manager is expected to put in the payments. If they do not do so, their reputation is tarnished as a manager and they have difficulty recruiting members to future committees. This onus on committee managers was particularly prevalent in Lahore. In such committees, the only risk to the members is if the committee manager flees without making his/her payments. In committees where this onus is not on the manager, the risk of late payments and defaults are borne by the member who is to receive the lump sum in a given month.

There is a lot of social pressure on members to make timely committee payments and participants in the research said that they sometimes reduce household consumption or borrow from friends and relatives in order to ensure that their committee payments are made on time. Because members are often from the same neighbourhood or workplace, timely committee payments are seen to be a matter of honour.

FINDING 3 : SAVINGS ATTRIBUTE PREFERENCES OF THE URBAN POOR

As mentioned above, the study revealed that the urban poor, like other savers, use different savings mechanisms to meet their varying needs for lump sum cash. Savings mechanisms are selected based on how appropriate their attributes are for the needs being addressed. In general, participants diversified their savings mechanisms in order to include one mechanism for predictable events that require large lump sums of cash and one to be used for emergencies and predictable events that require smaller lump sums. In fact, 50 percent of the in-depth interview participants in the study had a combination of committee savings, which are fairly illiquid and can be used for long-term saving, coupled with a liquid saving mechanism for short-term savings for emergencies represented by either home savings or a checking account in a bank. The savings service attributes desired by the urban poor for predictable, large lump sum cash needs vary from savings attribute preferences for emergencies or small lump sum cash needs.

In general, participants diversified their savings mechanisms in order to include one mechanism for predictable events that require large lump sums of cash and one to be used for emergencies and predictable events that require smaller lump sums.

SAVINGS PRODUCT ATTRIBUTE PREFERENCES FOR PREDICTABLE NEEDS FOR LARGE LUMP SUMS OF CASH

For predictable needs and opportunities requiring large lump sums of cash such as weddings or business opportunities, the urban poor value timely receipt of required lump sum, being “forced” to save, security of their savings, and liquidity for emergencies. Committees are the preferred savings mechanism to meet these needs of the urban poor.

Timely Receipt of Lump Sum

Because the cash need is often so large that the urban poor cannot save up by the time the expenditure arises, the urban poor value an opportunity to receive their lump sum savings before they have accumulated the entire amount. Committees provide the

...the urban poor value timely receipt of required lump sum, being “forced” to save, security of their savings, and liquidity for emergencies.

urban poor the opportunity to do this, with the amount received by a member before the end of the committee term similar to an interest-free loan. Because people often begin saving for weddings after the engagement, this enables them to accumulate the required funds in a timely manner; after one or two years, rather than having to postpone the wedding to even later until they accumulate the required lump sum.

Security

Security is also of paramount concern when selecting a saving mechanism for high value predictable needs. Participants who used committees said they are careful about the committee that they select and the reputation of the manager. Some participants shared stories about how they lost a significant amount of money when a committee that they were a part of disbanded and, as a result, they switched to committees that had better reputations. However, although banks were perceived to be very reliable and secure, but because they did not fulfil participants' other long-term savings preferences, they were not used for long-term savings.

Forced Savings

Forced saving is an important factor for participants in selecting their savings products. Without any compulsion to save,

participants felt that any additional money would get spent on regular household expenses and would not be saved. Due to the numerous expenses incurred by households, participants said that it is difficult to maintain the discipline required to accumulate large savings. As a result, committee savings are popular, as they require a regular monthly or weekly payment, enabling people to save money that would otherwise get spent on regular household expenditures. Similarly, home savings, for the most part, are not used for saving large amounts of money because deposits and withdrawals are controlled by the saver, therefore making it difficult to accumulate a large lump sum.

Liquidity for Emergency Needs

Due to the uncertainty in the lives of the poor, unpredictable shocks can occur at any time, requiring people to redirect savings intended for long-term needs to address the financial pressure exerted by the shock. These shocks can include illness, death, unanticipated home repairs, inflationary pressures, or the loss of employment. Because these shocks can arise at any given moment, some level of flexibility in long-term savings products is desired. For example, participants cited the flexibility that some committees offer during times of need as an important attribute for saving with them. Committees that do not offer this flexibility were cited to be at a significant disadvantage. In such situations, participants said that they often borrow against future committee earnings in the face of unpredictable stressors when committee earnings are not accessible.

SAVINGS PRODUCT ATTRIBUTE PREFERENCES FOR EMERGENCIES OR PREDICTABLE NEEDS FOR SMALLER LUMP SUMS OF CASH

In order to meet their needs for small emergencies or predictable events requiring smaller lump sums of cash such as educational expenditures, the urban poor value saving mechanisms that offer liquidity

and low transaction costs. The predominant saving mechanism used for this is home savings.

Liquidity

Liquidity is an important concern for participants in selecting a savings mechanism for emergencies and predictable events requiring smaller lump sums of cash. Because of the events financed by such savings are unpredictable, participants required savings mechanisms allowing timely access to their savings. As a result, home savings, which can be accessed at any time, day or night, are a very popular form of saving. Checking accounts are also used by individuals with small businesses, as they are fairly liquid and the money can be accessed at any time during banking hours or 24 hours with ATMs.

...the urban poor value saving mechanisms that offer liquidity and low transaction costs.

Low Transaction Costs

Because the small cash amount involved in an average deposit or withdrawal transaction is small, transaction costs such as distance, convenience, and paperwork are important considerations for small emergencies and short-term savings. Participants wanted saving deposit and withdrawal points to be located close by; timings for accessing their savings to be convenient, and minimal paperwork. Home savings are a very popular saving mechanism because they entail virtually no transaction costs. They are located in one's home so it is very easy to withdraw or deposit money.

The study provided important insights into the savings needs of the urban poor and the mechanisms used to address them, as well as their perceived advantages and disadvantages. Exhibit 10 (next page) provides a summary of the major findings of the study discussed in this chapter.

Exhibit 10: Summary of the Advantages, Disadvantages and Major Uses of Savings Services Used by the Urban Poor in Karachi & Lahore

SAVING MECHANISM	ADVANTAGES	DISADVANTAGES	MAJOR USES
Committees	<ul style="list-style-type: none"> ■ Allow accumulation of a lump sum of cash ■ Ensure regular saving ■ Lump sums are usually received before one has accumulated the entire amount ■ Committees are sometimes flexible in that they allow members to receive lump sums during times of need 	<ul style="list-style-type: none"> ■ Members who receive their lump sums towards the end of the committee cycle have to wait to fulfil the purposes for which they are saving ■ Defaults by members or managers can result in the collapse of the committee ■ Lack of liquidity 	<ul style="list-style-type: none"> ■ Weddings ■ House building or expansion ■ Business investment ■ Education costs ■ Expenses incurred during Eid
Home Savings of Cash and Cash-like Products	<ul style="list-style-type: none"> ■ Liquidity ■ Convenience ■ Prize bonds offer the additional, albeit minute, possibility of a prize 	<ul style="list-style-type: none"> ■ Difficult to save because of household needs that may arise ■ Risk of theft 	<ul style="list-style-type: none"> ■ Illness/Accident ■ Education costs ■ Expenses incurred during Eid ■ Death
Saving in Kind	<ul style="list-style-type: none"> ■ Offsets pressure during wedding ■ Goods can be used or sold when needed ■ Goods can be sold for a profit ■ Hedge against inflation 	<ul style="list-style-type: none"> ■ Household items sell for a low price in case of emergency ■ Goods can get broken or damaged 	<ul style="list-style-type: none"> ■ Saving up for daughter's dowry ■ Business investments ■ Household goods sold in case of accident/illness ■ Expenses incurred during Eid
Saving with an MFP	<ul style="list-style-type: none"> ■ Liquidity ■ Less likely to be spent on regular expenditures than cash 	<ul style="list-style-type: none"> ■ In an emergency, have to go to MFP branch to withdraw money ■ Difficult to save because of household needs that may arise ■ Need to be a credit client of the MFP 	<ul style="list-style-type: none"> ■ To pay loan instalments ■ Illness/accident ■ Small expenditures
Gold	<ul style="list-style-type: none"> ■ Liquidity ■ Possibility of profit ■ Hedge against inflation 	<ul style="list-style-type: none"> ■ Expensive ■ Risk of theft ■ Can be bought at a low price by buyers taking advantage of people needing cash in an emergency 	<ul style="list-style-type: none"> ■ Illness/Accident ■ Death ■ To make up shortfalls for weddings, education, and other major expenditures
Banks	<ul style="list-style-type: none"> ■ Liquidity ■ Security ■ Convenience of cheques 	<ul style="list-style-type: none"> ■ Opening/minimum balance requirements ■ Difficult/complicated procedures ■ Limited timings ■ Often located far from low-income areas ■ Taxes and zakat are cut from savings accounts ■ Banks are perceived to be intimidating 	<ul style="list-style-type: none"> ■ Business transactions ■ Storage of lump sums of cash
Land	<ul style="list-style-type: none"> ■ Profit ■ Can be sold in an emergency 	<ul style="list-style-type: none"> ■ Expensive ■ Possibility of fraud ■ Requires some understanding of the market 	<ul style="list-style-type: none"> ■ Illness/Accident ■ Business investment
Contractual Saving Products	<ul style="list-style-type: none"> ■ Enables regular saving ■ Profit 	<ul style="list-style-type: none"> ■ High risk as schemes are often fraudulent ■ Lack of understanding of these schemes ■ Lack of faith in these schemes 	<ul style="list-style-type: none"> ■ Life insurance ■ Education ■ Weddings

CONSIDERATIONS FOR SAVINGS PRODUCT DESIGN AND DELIVERY

The research findings in Section 1 indicate that there may be a significant potential demand for formal savings services amongst the urban poor. To what extent the potential is translated into a viable volume of deposits depends on the design considerations of the financial institution's savings operations. Financial institution thinking of offering savings service to the urban poor would need to determine the value it proposes to the low income saver through its saving products by examining both the potential demand and institutional capacity and strategic fit.

Derived from the observed saving needs, behaviour and the preferences of the urban poor, this section provides certain parameters within which banks can begin to think about developing their urban poor target market, product design, marketing, and distribution and servicing strategies. Our aim in this section is not to recommend specific tailor made product designs or modes of delivery. Instead, we hope to identify some pre-requisites for the four broad decision areas involved in savings product (target market, savings product, marketing, and distribution) for the urban poor.

CONSIDERATION 1-WHAT IS THE TARGET MARKET FOR THE FINANCIAL INSTITUTION'S SAVINGS PRODUCTS?

While the target market being addressed in this report is broadly the urban poor, this market can be further segmented if financial institutions want to meet specific saving needs or target specific behaviour. This segmentation can be done based on a variety of factors such as income, age, occupation, family structure, savings behaviour, and gender. It must also be noted that the market for saving services is often broader than that for credit services, as it can also include the children, elderly, and individuals who are net savers.

The aim of identifying possible target segments is to assess for each type of market segments the potential volume of deposits for given cost and within a given period so as to choose the target segment that fits the strategic and / or financial need of the institution.

An important thing a financial institution needs to remember is that it does not need

The key is to identify an overlap between saving needs / potential demand and the organizational capacity, strategy and systems to service that need.

to fulfil every saving need. The key is to identify an overlap between saving needs / potential demand and the organizational capacity, strategy and systems to service that need.

Once the specific target market has been defined, financial institutions must conduct market research to understand the particular customer preferences and needs regarding product design elements (such as average deposit size, deposit periods, deposit term, acceptable conditions regarding withdrawal, fee absorption capacity, transaction cost acceptability...etc.) to have some parameters within which the financial institution can play with service terms and conditions to add value to the customer and minimise the cost of savings product to the institution.

...financial institutions must conduct market research to understand the particular customer preferences and needs regarding product design elements

CONSIDERATION 2-WHAT PRODUCT TYPE SHOWS ULTIMATE FINANCIAL INSTITUTIONS USE TO TAP THE SAVINGS OF THE URBAN POOR?

There are three basic types of formal savings products that offering varying liquidity and terms. These products are demand deposits (liquid/ semi-liquid deposits), contractual savings products, and time deposits. Research findings imply that given the lack of trust amongst the urban poor; and given the lack of long term financial planning habits amongst the urban poor observed, financial institutions may find it easier to enter the urban poor market with liquid and semi liquid savings products. Less liquid, long term deposits (such as contractual and time deposits) may be easier to offer once sufficient trust and awareness of savings in financial systems exist amongst the target urban poor market. We explain below.

Demand Deposits:

Demand deposit accounts (e.g. current accounts, chequing accounts) allow the account holder to deposit or withdraw any amount at any time without notice. Holding a demand deposit account often requires the account holder to maintain a minimum required balance in the account. Transactions from the account can be made via a pass-book, ATM cards, or cheques.

Demand deposit products offer liquidity, security, and some level of convenience, depending on the location of bank branch relative to the client and its banking hours. They allow the urban poor, both with regular and irregular incomes, to save small amounts over a period of time for emergencies, and offer the convenience of money transactions through cheques.

Since the urban poor can withdraw their savings at any time from a Demand deposit account, a financial institution can use Demand deposits to build trust between the clients and the bank because, instead of making a large and long term commitment, the urban poor can try out the bank's savings services in a relatively risk-free manner.

Because of the unrestricted / semi-restricted deposits in and withdrawals from Demand deposit accounts, financial institutions have to manage numerous transactions albeit involving small amounts each. Thus the administrative cost for a financial institution of managing demand deposits tends to be significantly higher relative to administrative costs of managing contractual savings and time deposits. In order to reduce costs, financial institutions can explore various design elements such as restricting the

...transaction costs for these small deposits and withdrawals must be kept low.

Exhibit 11: Considerations for Offering Demand Deposits to the Urban Poor

Demand Deposits	CLIENT		MFI	
	Value	Costs	Management	Design Decisions
	<ul style="list-style-type: none"> Meet unexpected needs/opportunities Smooth consumption Store excess cash Receive transfer payments Do not require regular income 	<ul style="list-style-type: none"> Large number of accounts, small average balance Least profitable: low financial costs but high administrative costs Stable, though current (check) accounts are more volatile Requires less trust-building because clients can test out the reliability of the institution by making repeated transactions 	<ul style="list-style-type: none"> Heavy demands on staff, MIS and internal controls Constant liquidity management 	<ul style="list-style-type: none"> Minimum opening deposit Deposit size allowed (minimum and increments) Number of deposits allowed monthly Notice requirement for withdrawals

Adapted from "Savings Services for the Poor: An Operational Guide".2005. Edited by Madeline Hirschland

number of transactions; setting a high minimum balance requirement, while keeping in account client demand; and introducing semi-liquid accounts to credit clients by requiring the latter to maintain a minimum or a certain percentage of outstanding loan as compulsory savings over and above which the savings are fully liquid.

The research indicates that financial institutions can channel the small cash savings kept for emergencies by the urban poor as demand deposits. In order to do that, the research findings imply that the transaction costs for these small deposits and withdrawals must be kept low: the point of service delivery/transaction must be reasonably close to the target client and the process of completing a transaction (both deposit and withdrawal) must be simple and swift.

Exhibit 11 provides a synopsis of variables that a financial institution should consider in offering demand deposits to the urban poor.

Contractual Saving Products

Also known as programmed savings, contractual saving products allow the saver to commit to a fixed deposit amount of their own choosing for a specified period of time. The terms and conditions for each contractual savings product are unique to the client and are determined through negotiation between the client and the financial institution based on the client's needs and ability to pay. After the maturity date, the saver can withdraw the entire amount plus interest. Early withdrawals are often prohibited or penalised. Contractual savings products can be used for predictable events such as weddings or educational expenses.

The findings of this study imply a potential for contractual saving products to compete with committees for saving for medium to high cost, predictable needs such as weddings, business expansion, and, to some extent, education.

Contractual savings offer institutional security, opportunity for forced savings, profit, and, if early withdrawals are allowed, some level of flexibility in accessing savings for emergency needs. They allow the saver the opportunity to save up small regular amounts until the savings plus interest accumulate to the required lump sum. Because they are tailored differently for each client, clients can be sure that they will acquire the required lump sum in a timely manner to meet their needs.

Keeping in mind the demands and preferences of the urban poor, a bank can manage the cost of this service through design decisions regarding deposit amounts and frequencies, the consequences of late payments and early withdrawals, and the triggers/timing of lump-sum pay out versus payment in streams.

The findings of this study imply a potential for contractual saving products to compete with committees for saving for medium to high cost, predictable needs such as weddings, business expansion, and, to some extent, education.

a financial institution pioneering in offering contractual savings products to the urban poor will have to make substantial upfront investment in marketing.

The study, however, also reveals some challenges in introducing contractual savings products in the short term when entering the almost untapped urban poor communities for savings mobilization. These include the heir thin practice of financial planning for long term needs. The general distrust of banks may also be exacerbated by the perception of fraudulent contractual savings products currently being offered in low income communities.

At this point in time, a financial institution pioneering in offering contractual savings products to the urban poor will have to make substantial upfront investment in marketing to promote an image of trust and security,

Exhibit 12 Considerations for Offering Contractual Savings Products to the Urban Poor

Contractual Saving Products	CLIENT		MF I	
	Value	Costs	Management	Design Decisions
<ul style="list-style-type: none"> Meets expected needs Store long term surplus Transfer payments High interest earned 	<ul style="list-style-type: none"> Longer term funds Larger average balances More profitable: Lower administrative cost higher financial cost (typically) May be volatile Require a high level of trust-building because of the long-term nature of contracts 	<ul style="list-style-type: none"> Fewer administrative requirements Cash flow nearly predictable 	<ul style="list-style-type: none"> Deposit amounts and frequencies Possible terms Consequences of late payments/early withdrawals Payout: lump sum or stream of payments 	

Adapted from "Savings Services for the Poor: An Operational Guide".2005. Edited by Madeline Hirschland

and train potential clients in financial planning.

Exhibit 12 above provides a synopsis of variables that financial institutions should look into when offering contractual savings product to the urban poor.

Time Deposits

Time deposits are fixed deposit accounts. A client makes a single deposit that is locked and cannot be withdrawn (without penalty) for a certain period of time. Financial institutions offer a range of possible terms with a higher interest compared to the interest paid on demand and contractual saving products. However, these are standard products that do not cater to the specific needs of each client. Time deposits meet the demand for the less poor and micro-entrepreneurs, or for poor households wanting to store a large sum of transfer payment (remittance, grants, etc). Unless the value and the term of time deposits are small, they are less applicable to the poorer market segment.

The research findings indicate the possibility of mobilizing fixed deposits from the relatively better off people in the urban poor community, such as traders, shopkeepers, and entrepreneurs.

Like Contractual savings products, Time deposits offer institutional security, opportunity for forced savings, and profit. They can also allow for early withdrawals with a penalty, facilitating flexibility for unforeseen

emergency needs. Like contractual savings products, they enable the saver to acquire his/her required lump sum through a steady stream of smaller payments. Moreover, Time deposits usually offer a higher rate of interest than contractual savings products, the differential in profits enables savers to accumulate their required lump sums sooner with the former. In order to manage costs,

...trust requires time and investment to build and banks may find mobilizing savings through liquid accounts much easier than through fixed deposits in the short term.

financial institutions can explore various design decisions such as the amount and term of the deposit, early withdrawal options and consequences, and payout methods, keeping in mind client needs.

The key to mobilizing fixed term deposits from the urban poor is ensuring that the Time deposits are offered in affordable denominations and for shorter (three and six months) to medium terms (one year) in addition to long terms. The research findings indicate the possibility of mobilizing fixed deposits from the relatively better off people in the urban poor community, such as traders, shopkeepers, and entrepreneurs. On the other hand, in attracting time deposits from the less poor and institutional depositors, the financial institutions have to compete hard with mainstream financial institutions.

Exhibit 13 Considerations for Offering Time Deposit Products to the Urban Poor

Time deposits	CLIENT		FIN	
	Value	Costs	Management	Design Decisions
	<ul style="list-style-type: none"> Meet expected needs Store long term surplus Transfer payments Earn highest interest 	<ul style="list-style-type: none"> Longer term funds Largest average balances (fewer accounts) Most profitable: lowest administrative costs, highest financial costs Most volatile Requires a very high degree of trust-building because of the length of deposits 	<ul style="list-style-type: none"> Requires little management: two transactions per account Volatility means that liquidity management is important 	<ul style="list-style-type: none"> Deposit amounts Options for term Early withdrawal options and consequences Payout: Lump sum or stream of payments

Adapted from "Savings Services for the Poor: An Operational Guide".2005. Edited by Madeline Hirschland

The main challenge for the banks to mobilise fixed deposits from the urban poor is to build trust in this market. This challenge can be overcome by a focused marketing strategy. However, trust requires time and investment to build and banks may find mobilizing savings through liquid accounts much easier than through fixed deposits in the short term.

The Exhibit 13 above provides a synopsis of variables that financial institutions should consider when offering Time deposit products to the urban poor.

PROPOSED VALUE PROPOSITION OF FINANCIAL INSTITUTIONS' SAVING PRODUCTS TO THE URBAN POOR

While the basic saving product types (demand deposits, contractual saving products and time deposits) offer different base value propositions to a potential saver, financial institutions can add on and create market specific value propositions by varying

the design elements of each product type. Design elements include the price, term, distribution channels offered, access to other products such as credit or emergency funds, and the size and frequency of payouts. These design elements also impact the cost to the financial institution of offering the product. Often, the choice regarding the design elements pushes the value proposition to the client and the cost to financial institution in the opposite direction. Exhibit 14 below

Design elements include the price, term, distribution channels offered, access to other products such as credit or emergency funds, and the size and frequency of payouts.

illustrates the product design elements as preferred by a typical saver and as preferred by financial institution to manage costs.

BOX 2: KEY CONSIDERATIONS FOR PRODUCT DESIGN

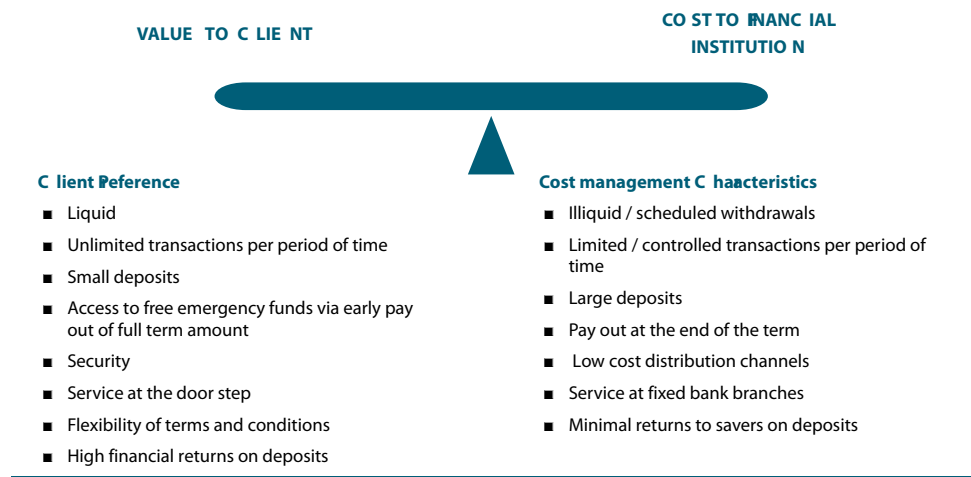
- What type of a savings product will the potential saver in the bank's specific target market benefit from?
- Is it technically feasible to offer this savings product? If launched, will the product be manageable? In other words, the financial institutions will need to assess existing internal systems including staff capacity and compare it with what would be required to support the product. Having identified the gap, the institution would need to be aware of the costs and benefits of gearing up existing systems to meet the support standard required by the product.
- Is the product viable? Will the product be profitable when offered and delivered to the customer at the target price?

The key to striking a balance between value proposition to saver and cost to financial institution would be to identify and rank the preferences of target savers so that the financial institution can offer what the savers prefers and try to minimise cost to itself by tweaking a design element that the target saver is relatively indifferent to.

Furthermore, financial institutions can determine how they want to add value for

members or managers can result in the collapse of the committee. In competing with committees, formal financial institutions can offer savings products that, like committees, mandate regular savings with, but also provide additional value such as institutional security, anonymity to the saver, and access to emergency loans. Similarly, for small deposits which are now informally saved at home, financial institutions can offer

Exhibit 14 Value Proposition to Client versus Financial Institution's Cost Management of Saving Operations



the savers against the informal saving mechanisms being currently used by identifying the perceived gaps / disadvantages (See Exhibit 10: Summary of the advantages, disadvantages, and major uses of savings services used by the urban poor of Karachi & Lahore) and matching them against the needs and preferences of the low income urban market for savings. For example, the urban poor find committees to offer opportunity for mandated, regular saving with a lump sum payout most probably before the term end of the committee, but they also acknowledge that committee members who receive their lump sums towards the end of the committee cycle have to wait to fulfil the purpose for which they are saving. One cannot withdraw savings deposited unilaterally and defaults by

highly liquid demand deposits coupled with a distribution system that allows clients to frequently save variable amounts, with minimum transaction costs to the saver. The advantage that financial institutions can offer over home savings is the security of deposits.

Hence, the clue to cracking the low income urban market segment for savings may be in replicating the characteristics that make informal mechanisms ubiquitous and proposing a value in addition to what these popular coping mechanisms offer.

Exhibit 15 above shows some examples of savings product ideas, including product add-on ideas, which can meet various needs and attribute preferences of the urban poor. However, financial institutions that consider the product ideas put forth below must do their own analysis of their specific target market's needs, tailor the products to these particular needs, and pilot test them before they are launched.

...financial institutions can determine how they want to add value for the savers against the informal saving mechanisms...

Exhibit 15 : Ex-ante Product Design Elements for Cash Needs with Varying Predictability and Value

PREDECTABILITY AND VALUE OF NEED	CLIENTS' DESIRED ATTRIBUTES	COPING MECHANISMS USED	SUITABLE SAVINGS PRODUCTS	PRODUCT ADDENDAS
High predictability, high value (i.e. weddings, house building, business investment)	<ul style="list-style-type: none"> Timely access to lump sum cash Forced saving Security Flexibility 	<ul style="list-style-type: none"> Committees Savings in Kind Family Gifts Interest-free loans from friends, family, or employer 	<ul style="list-style-type: none"> Time deposits Contractual deposit schemes 	<ul style="list-style-type: none"> Payouts to the saver are triggered by events such as wedding, or educational expenses Early withdrawal or exceeding the limited withdrawals is permitted but with a penalty Clients have access to emergency loans
High predictability, low value (i.e. education expenses, Eid, child birth)	<ul style="list-style-type: none"> Low transaction costs Forced saving 	<ul style="list-style-type: none"> Home savings Weekly committees with short durations 	<ul style="list-style-type: none"> Semi-liquid demand deposits with limited withdrawals Contractual deposit schemes with a stream of regular payouts (i.e. for education fees) 	<ul style="list-style-type: none"> Lottery tickets included with demand deposits where the chances of winning are proportional to account size Early withdrawal or exceeding the limited withdrawals is permitted but with a penalty
Low predictability, high value (i.e. major illnesses/accidents, death)	<ul style="list-style-type: none"> Security Immediate access to lump sum cash in emergency 	<ul style="list-style-type: none"> Interest-free loans from friends, family, or employer High-interest loans from moneylenders Selling off assets Foregoing consumption/investment 	Need better served by insurance products	
Low predictability, low value (i.e. small illnesses/accidents)	<ul style="list-style-type: none"> Liquidity Low transaction costs 	<ul style="list-style-type: none"> Home savings 	<ul style="list-style-type: none"> Liquid demand deposits with no restrictions on withdrawals and low minimum/opening balances 	<ul style="list-style-type: none"> Lottery tickets included with demand deposits where the chances of winning are proportional to account size

Research findings regarding the perception barrier of the urban poor market suggests that it may be fruitful to think about initially launching products to build trust and a reputation amongst the urban poor. This may entail starting with liquid or semi-liquid demand deposits in order to allow the urban poor to test the services before committing to long-term savings products.

...clue to cracking the low income urban market segment for savings may be in replicating the characteristics that make informal mechanisms ubiquitous and proposing a value in addition to what these popular coping mechanisms offer.

BOX 3 : Product Design: SIMPEDES, BRI

The Bank Rakyat Indonesia (BRI) has included a lottery component in its SIMPEDES rural savings product. The SIMPEDES account requires a minimum deposit and balance of IDR 5,000 (PKR 33.4), with a minimum second and next deposit of IDR 2,500 (PKR 16.7). The lowest account size to receive interest is IDR 10,000 (PKR 66.8). Customers with a minimum of IDR 10,000 (PKR 66.8) are given a lottery number. The chances of winning are proportional to the account size and the lottery is conducted on a semi-annual basis for cash prizes.

BOX 4: Product Design: Jijenge, Equity Bank

The Jijenge savings account is a contractual savings product with an emergency loan facility offered by Equity Bank in Kenya. The product enables customers to design a customized plan where they have the flexibility to determine the length of the contract and the frequency of payments. Interest is paid on a tiered basis to encourage long-term contracts. However, early withdrawals are heavily penalized. Customers also have access to an emergency loan on demand of up to 90% of the value of their account balance.

CONSIDERATION 3 - HOW SHOULD FINANCIAL INSTITUTIONS MARKET TO THE URBAN POOR?

An effective and well thought out marketing strategy will be key to mobilizing savings from the urban poor. Financial institutions will be entering almost virgin territory and their marketing strategies will have to support in developing the market. The study found that not only are the urban poor distrustful of and intimidated by banks, but they are also very reliant on the informal savings mechanisms available to them. In entering this new market, financial institutions will have to develop marketing strategies that will stimulate the demand for saving in a formal financial institution and persuade the urban poor that they too can save in banks. Moreover, the marketing strategy will have to include a communications strategy that resonates with the urban poor and will facilitate trust-building.

Key Marketing Objectives

The findings of the research suggest the following three main objectives for a bank's marketing strategy to attract respectable volume of savings and a number of savers from the urban poor market segments:

- Build potential client's trust in banks.
- Build potential client's awareness of saving through banks.
- Promote bank's saving product against competition.

Trust-Building

Trust-building will be a key component of marketing savings products to the urban poor by formal financial institutions. Unlike

offering credit, where the institution must trust the client, with savings it is the client that must trust the institution with his/her money. Financial institutions that want to tap the urban poor market for savings mobilization will have to persuade the urban poor that the institution is safe, reliable, and wants to serve them.

Financial institutions [...] will have to persuade the urban poor that the institution is safe, reliable, and wants to serve them.

Box 5: Key Factors for Trust-Building

- Ensure that potential clients are aware that the financial institution is legally licensed and monitored by the government
- Ensure that operational systems and staff ethnicity, culture, and social class feel familiar to clients
- Encourage community leaders and respected individuals to save with the financial institution as this will encourage others to save through word of mouth
- Ensure that clients know that their savings are used by the institution to benefit their community (by funding credit to the community)
- Demonstrate a strong repayment record

Adapted from: CGAP-MicroSave Virtual Savings Exchange, "Summary of Dec. 8, 2005 Virtual Discussion on Marketing,"
http://microfinancegateway.org/resource_centers/savings/practitioners/_marketing

The key marketing message for trust-building should be that banks are regulated institutions and it is this regulation that provides institutional security for clients, beyond what they receive from an informal savings mechanism.

Some respondents said that banks were known to have hidden fees and penalties which often result in the depleting of one's life savings. As a result, it is essential that microfinance banks aiming to enter this market are cognizant of these fears and directly address them through marketing.

The key marketing message for trust-building should be that banks are regulated institutions and it is this regulation that provides institutional security for clients, beyond what they receive from an informal savings mechanism.

A bank looking to build trust of urban poor will need to project its image of safety and reliability. It can do this through several means:

- Demeanour of its sales team and staff that interacts with the target market
- Institutional branding suggesting security
- Well crafted promotional message focused on security and reliability, and delivered through well selected and relevant media

Awareness Raising

The study also revealed that the urban poor are generally intimidated by banks because they are perceived to be only for the rich and

educated. Hence, banks generally (whether mainstream commercial or microfinance banks) are not seen as an option for savings or any other service by the urban poor. Furthermore, it was also observed that the urban poor not only do not plan for long

term cash needs, they also tend to feel that their saving are too small to be worthwhile to save in a bank.

Thus a bank planning to serve the urban poor needs a marketing strategy geared to develop a new market. The bank's promotional strategy will need to have the following objectives:

- Stimulate demand for saving in bank / formal financial institution.
- Persuade the urban poor that they can save in a bank too.

The key to mobilizing savings from an undeveloped market, such as that of the urban poor savers, may be face-to-face marketing through a focused and well trained sales force that not only sells the value of saving in the bank, but also educates the potential savers, either individually or in groups, the value of saving and their ability to save in a bank.

...it may be worthwhile for banks to support a generic promotion with the theme that the poor can, and should, save in banks for security, reliability, and value.

The cost of entering a virgin market will be high for the first entrant and this may dissuade many banks from taking the initiative of developing a potential market. Thus it may be worthwhile for banks to support a generic promotion with the theme that the poor can, and should, save in banks for security, reliability, and value.

On another note, it must be noted that the distribution channels will also need to support the image of trust and client relevance, for example: bank branches, technology, processes that do not intimidate the target market; staff trained to deal with the urban poor.

...a bank planning to serve the urban poor needs a marketing strategy geared to develop a new market.

Promoting the Savings Product and its Value Over Competition

The marketing strategy employed by financial institutions must also address the value of each of their specific products. This will entail persuading the urban poor of the value of saving through its product over other options (formal and non-formal) available.

A bank can do this through product specific promotion. For example, the bank will promote through a sales force and other relevant communication media; by advertising the special features and advantages that product has over the competing saving mechanism, either formal or informal, that the target market uses. Here, the bank will pitch a specific product against

the whole range of competing saving means available to the urban poor.

In order to address the unique selling proposition of its product over the competition in the informal sector requires the bank to understand the target market's perception of the advantages and disadvantages offered by the competing savings mechanisms, both formal and informal, being used by clients.

Choice of Promotional Tools

In order to enter and the urban poor market for savings mobilization, financial institutions must develop comprehensive promotion plans that identify relevant communications and promotional tools to support their marketing objectives cost-effectively.

Exhibit 16 : Summary of the Advantages, Disadvantages and Uses of Various Promotional Tools

TOOL	EXAMPLES	ADVANTAGES	DISADVANTAGES	WHEN TO USE
Advertising	<ul style="list-style-type: none"> Print media (brochures, newspapers, magazines, leaflets) TV Radio Banners Wall writing 	<ul style="list-style-type: none"> Good for creating awareness Reaches a wide audience Repetition of marketing message, main brand and product positioning helps build customer trust 	<ul style="list-style-type: none"> Impersonal - cannot answer all of the customer's questions Not good at getting customers to make a final purchasing decision 	<ul style="list-style-type: none"> For mass awareness raising For attitude and behavioural change (i.e. building trust in formal savings institutions) When audience is large and communities are culturally/linguistically homogenous
Personal Selling	<ul style="list-style-type: none"> Loan officers promote savings products to clients Door-to-door canvassing by a dedicated sales team Bring groups together during a promotional campaign Training of potential clients in financial planning 	<ul style="list-style-type: none"> Highly interactive - lots of communication between the buyer and seller Excellent for communicating complex/detailed product information and features Relationships can be built up - important if closing the sale may take a long time 	<ul style="list-style-type: none"> Costly if using a dedicated team - employing a sales force has many hidden costs in addition to wages Risk of ineffectiveness is high if staff is not effectively and thoroughly trained 	<ul style="list-style-type: none"> For product promotion For building a relationship with customer For attitude and behavioural change (i.e. Building trust in formal savings institutions) Customer education and awareness raising To enlist the support of key individuals in the community who can influence opinions
Sales Promotion	<ul style="list-style-type: none"> Lottery participation Gifts Incentives for bringing in new clients Access to other services 	<ul style="list-style-type: none"> Can stimulate quick increases in sales by targeting promotional incentives on particular products Good short term tactical tool 	<ul style="list-style-type: none"> Can be of high cost per exposure, but not necessarily If used over the long-term, customers may perceive them to be a regular component of the product Too much promotion may damage the brand image 	<ul style="list-style-type: none"> To promote specific product To enlist change in behaviour in short period of time To attract customer to "try" a new service or to experiment
Public Relations	<ul style="list-style-type: none"> Sponsoring events Lobbying with local influential people Press releases Community service projects 	<ul style="list-style-type: none"> Often seen as more "credible" since the message seems to be coming from a third party (i.e. the media) Cheap way of reaching many customers - if the publicity is achieved through the right media Facilitates trust building 	<ul style="list-style-type: none"> Risk of losing control - cannot always control what other people write or say about your product Events and community service projects can be resource intensive 	<ul style="list-style-type: none"> To build trust To project a certain image of an institution To persuade, change opinions, attitudes and behaviour

There is a range of promotional tools from which financial institutions can select. Four key tools are advertising, personal selling, sales promotion, and public relations. Multiple tools can be used simultaneously to meet the financial institution's marketing objectives. It is important that financial institutions employ a mix of tools that are relevant to the urban poor and for the marketing objective, such as trust-building and persuasion to save through their savings products.

Exhibit 16 offers an overview, including the advantages and disadvantages and appropriate use, of promotional tools that financial institutions have used globally to mobilize savings from low income communities.

CONSIDERATION 4- HOW CAN THE DELIVERY MODEL SUPPORT THE SPREAD OF SAVINGS OPERATIONS?

The delivery model includes the distribution channels used (i.e. full service branches, satellite branches, smart cards and ATMs, mobile units, lockboxes); banking hours, bank processes, and customer service. These factors affect the client in terms of transaction cost; perception about trust, reliability, friendliness, and relevance. These variables will also determine the bank's cost of delivery and thus the pricing of the service offered to the client, and overall, the viability of the savings operations. The study found that the urban poor value proximity of point of transaction for low transaction costs; simple processes for quick accessibility; and a welcoming environment to feel that the bank's products are relevant to their needs.

Distribution Channels

The urban poor interviewed in this study cited inaccessible branches, long wait times, and inconvenient branch timings as deterrents to saving with banks.

The challenge for the financial institution is to strike an affordable balance between the cost of saving service delivery and client's preference for security, liquidity and convenience of access. Several institutions across the globe have managed to reconcile convenience to clients with affordability by:

- Establishing low cost offices / satellite offices near the clients.
- Deploying mobile units or employees to expand outreach, especially in low density population areas.
- Using existing delivery channels of their own such as piggybacking mandated deposits with other transactions such as loan payments.
- Building alliances with or outsourcing to existing formal, semi-formal or informal service providers in the target market. For example Bank de Nordeste in Brazil cut its cost of transaction at the teller window by a factor of ten, down to US\$0.25 by serving clients in the post offices rather than in their own branches. Banks in Ghana hire or commission deposit collectors from within the target area. Both alliances and outsourcing can potentially reduce the transaction cost for the financial institution but they also raise significant principle agent issues. Furthermore, outsourcing can involve passing on the responsibility of control and accountability to a third party and may encounter issues related to regulatory compliance.
- Serving groups rather than individuals. Banks in Ghana and India serve informal deposit collectors and/ or informal savings and credit groups.
- Distributing lockboxes at clients' homes and collecting the deposits made at any time.
- Using e-technologies such as Intelligent ATMs, smart cards, mobile phones, PDAs or handheld computers.

⁵ Robert Peck Christen, N.Srinivasan, Rodger Voorhies. 2005. "Savings Services for the Poor: An Operational Guide"

The choice of delivery systems used will depend on several factors that include; population density; wealth, geographical accessibility / communication infrastructure / roads, electricity, other available formal, semi-formal, informal services; and education level of potential staff. Financial institutions can also look to combine delivery systems with those that extend services to the poor and can “collect” volumes with those that lower the per client transaction cost. For example combine mobile collection that is high per client cost for financial institution but lowers transaction cost to the client with low cost options such as lockboxes, or piggybacking on loan delivery system.

Exhibit 17 below summarises the delivery system options suitable for the urban poor markets, the associated outreach to the poor and other challenges.

Box 6 Combining Delivery Systems: SafeSave, Bangladesh

SafeSave offers savings accounts that are delivered through daily visits by deposit collectors. Customers can deposit as little as one taka (PKR 0.89) per day. Accounts with a balance over 1,000 taka (PKR 892) earn 6 percent interest. Savers are eligible for loans of up to three times their savings balance. Clients may withdraw upto 500 taka (PKR 446) daily at home through the deposit collector. Withdrawals of up to 5,000 taka (PKR 4,459) can be done through the branch office, with a guaranteed maximum waiting time of 10 minutes. Amounts over 5,000 taka (PKR 4,459) are received within 24 hours.

Exhibit 17 : Delivery Options for Urban Poor Markets and Associated Challenges

Delivery Options for Urban Poor Markets (Depending on communication infrastructure and laws)	Outreach to the Poor	Challenges
<ul style="list-style-type: none"> Full service branch if area is better off and densely populated 	May not be able to afford to serve the poor	High cost
<ul style="list-style-type: none"> Satellite 		Security, staff
<ul style="list-style-type: none"> Alliances with other financial and non-financial organizations like post offices 	May exclude the poor by serving only users of the primary service	Principal-agent issues
<ul style="list-style-type: none"> Using existing delivery channels of other services (for example: credit provided by the same institution) 	May exclude the poor by serving only users of the primary service	Principal-agent issues
<ul style="list-style-type: none"> Serving the committees / individual deposit collectors instead of individual depositors 	May exclude the poor by serving only users of the primary service	<ul style="list-style-type: none"> Liquidity management High covariant risk
<ul style="list-style-type: none"> Serving groups rather than individuals 	May exclude the poor by requiring regular, fixed deposits	<ul style="list-style-type: none"> Liquidity management High covariant risk
<ul style="list-style-type: none"> Mobile Units 	High cost may necessitate fees or other features that select out the poor	<ul style="list-style-type: none"> High costs, risk of fraud, security Usually linked to larger institutions with lower covariant risk and more capacity to manage liquidity
<ul style="list-style-type: none"> Mobile collection via hired /commissioned staff 	Same as above	High costs, risk of fraud, security
<ul style="list-style-type: none"> Lockboxes 		Security
<ul style="list-style-type: none"> Smart cards and POS devices 	Usefulness depends on acceptance, whether they handle deposits as well as withdrawals, and accessibility; cost, distance and skills needed to use them	Reliable power and available support services
<ul style="list-style-type: none"> Internet banking 	Same as above	Reliable power and available support services
<ul style="list-style-type: none"> ATMs 	Same as above	Reliable power and available support services
<ul style="list-style-type: none"> Mobile phones 	Depends on availability and acceptance	Usually linked to larger institutions with lower covariant risk and more capacity to manage liquidity

Adapted from "Savings Services for the Poor: An Operational Guide"2005. Edited by Madeline Hirschland

⁶ Robert Peck Christen, N.Srinivasn, Rodger Voorhies, "An Operational Guide: Savings Services for the Poor", Edited by Madeline Hirschland

Bank Processes

The study found that the urban poor value simple processes to open a savings account and to make transactions. Some participants cited the long and complicated processes and requirements of banks as reasons to not save with them. These include long forms that need to be filled, which are very intimidating to the urban poor who have limited education, and references required for opening a bank account. Financial institutions offering savings products to the urban poor should simplify their processes as

"We don't go to the bank because over there the procedures are so difficult. It's difficult to go there to deposit or withdraw money."

A 31 year old entrepreneur from Ichra, Lahore

much as possible. Moreover, for any forms that need to be filled, it is important to provide customer service support to clients, particularly those who are non-literate.

Customer Service

Quality customer service will be an essential component for any bank intending to launch savings products for the urban poor. A number of participants in the study cited the attitude of bank staff as a significant deterrent to bank use. They said that staff members were often disrespectful and unhelpful. Moreover, the customer service needs of the urban poor are unique in that they often have limited literacy and education and therefore require additional support in utilizing the various services offered by banks. Thus, it is imperative that financial institutions pay close attention to their customer service through staff training and strict codes of conduct for staff.

Furthermore, since the urban poor do not regularly utilize banks, they will require additional support in understanding product features and bank services and staff should be trained and prepared to meet these needs.

Welcoming Branch Environment

If delivering savings products through full service branches, financial institutions should evaluate the look and feel of these branches. The urban poor studied indicated that they were very intimidated by banks and their look and feel contributes to this intimidation. It is important for banks to reassess the look of their branches, keeping in mind that it is important to strike a balance between a welcoming environment and communicating a sense of institutional security.

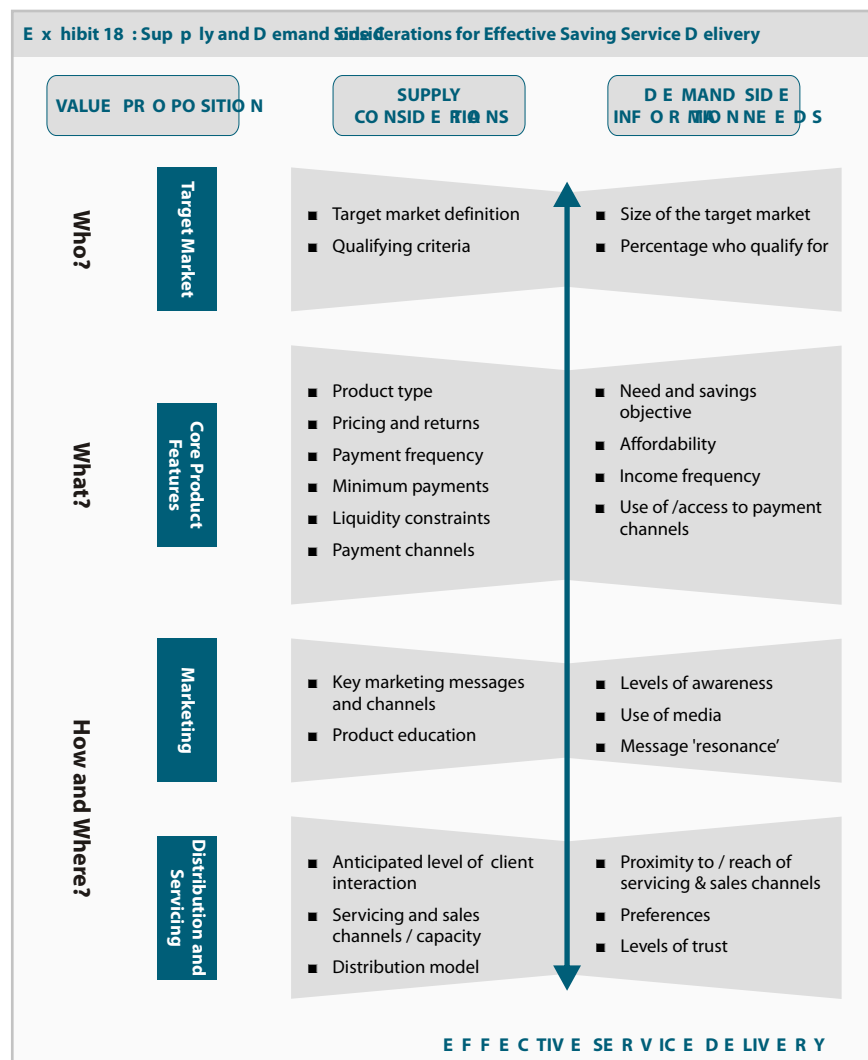
CONCLUSION

This report presents a broad overview of the saving needs, behaviour and preferences of the urban poor, and derives from these preferences some key considerations for financial institutions in designing, marketing, and delivering savings products for them.

The demand side research on which this report is based is only the first step in identifying the needs and preferences of the target market segment such as the urban poor. The research leaves room for further research, either by the financial institutions themselves, or under a sector wide initiative. On one hand, the financial institutions need to understand the demand side parameters set by the target markets' preferences, behaviour, and acceptance thresholds specific to the savings service design

elements like product features, marketing messages and tools, distribution channels and systems. Exhibit 18 below highlights further demand side information needed for specific saving service design considerations.

The focus of this study was on understanding the urban poor's demands and suggesting some parameters for effective, market responsive saving product design and delivery. Financial institutions looking to mobilise small savings of the urban poor also need to explore their institutional capabilities in terms of internal control systems, risk management, MIS, staff capacity and capabilities, and distribution technology. Sustainable saving operations need to add value to the client and fit the organization's current or accessible capabilities so that the organization can mobilize deposits in volumes that sustain savings operations.



Note: Exhibit concept is adapted from "The Savings Market for the Poor: Assessing the barriers, costs and potential" - a presentation by FinMark Trust and South African Savings Institute

APPENDIX ONE : METHODOLOGY Limitations

The study was a qualitative research study conducted to gain in-depth information about the savings needs and preferences of the urban poor, as well as the coping mechanisms they use in the face of life cycle events that exert significant financial pressure. The study was conducted in two communities each in Karachi in Lahore. The communities were selected due to their falling within the target area of an MFB (both current and forthcoming), as well as the diversity within them, and ease of access. The communities selected in Karachi were Nasir Colony in Korangi and Pakistan Bazar in Orangi Town. In Lahore, the communities selected were the target areas of Kashf's (Kashf is a microfinance institution that is planning to expand to an MFB in the near future) branches in Ichra and Bhagbanpura. In Orangi, participant recruitment was conducted through the Orangi Pilot Project, an organization providing micro-credit. In Korangi, recruitment was done through Kashf, Tameer Microfinance Bank, and through the president of the Korangi Number 2 market near Nasir Colony. Finally, in Ichra and Bhagbanpura, recruitment was done through Kashf.

Data collection was conducted using in-depth interviews and group discussions using various Participatory Rapid Appraisal (PRA) tools. The objectives of the study were as follows:

- To understand the savings needs of the urban poor
- To understand the coping mechanisms used by the urban poor to address the financial requirements of various economic stressors
- To understand what specific savings mechanisms are used by the urban poor, their advantages and disadvantages, and major uses.

Participants were selected based on access, ethnic diversity, a mix of occupation types (i.e. salaried workers, entrepreneurs, and housewives), and a mix of gender.

Because this study is a qualitative study with a limited scope, some limitations must be kept in mind when reading this report.

- Because access to the communities studied was provided mainly by microfinance institutions (MFIs) or microfinance banks operating in those areas, the majority of the participants in this study are users of micro-credit. Since the savings market is seen to be bigger than the credit market, this may be somewhat limiting. Although some of the participants from Orangi and all the male participants from Korangi are not borrowers of MFIs, there is a significant bias towards borrowers.
- While numbers have been given in the study to approximate the costs of various economic stressors, these numbers are just approximations and are not statistically significant, as they are based on the qualitative data collected during the study. Therefore, these approximations should be read with caution.
- The study is based in Karachi and Lahore, the two biggest urban centres in Pakistan, and therefore the applicability of the findings to smaller urban centres of rural areas may be limited.

Figure A1: Overview of the Research Tools Used.

TOOL	OBJECTIVE	TOPIC SO F DISCUSSIO N	EXPECTED OUTCOMES
1. In-depth interviews	To understand the savings mechanism used by individuals, their advantages and disadvantages, trends in savings needs, and the economic stressors and associated coping mechanisms used by individuals	<ul style="list-style-type: none"> ■ Savings mechanism used and their advantages and disadvantages ■ Savings behavior ■ Past and anticipated life cycle events that require financial lump sums and coping mechanisms used to address these 	<ul style="list-style-type: none"> ■ Information about the savings mechanism used, how these mechanisms work, and their advantages and disadvantages as perceived by the respondents. ■ Information about participants' savings use in the past 6 months, the uses of these savings, and their decision-making processes about savings use ■ Information about the economic stressors/shocks (both past and anticipated) faced by individuals, including specific examples of recent such events
2. Life-cycle Lump Sum Analysis	To identify the key events in a typical individual's life cycle that require lump-sums of cash, the relative financial pressure they exert, and the coping mechanisms used for each	<ul style="list-style-type: none"> ■ Events in an individual's life that require lump-sums of cash ■ The relative financial pressure exerted by each event ■ Mechanisms used to cope with the various life cycle events described 	<ul style="list-style-type: none"> ■ A list of events that occur in an individual's life that require lump-sums of cash ■ A ranking (from 1-5) of the relative financial pressure exerted by each of these events ■ Information about the coping mechanisms used for these life cycle events
3. Relative Preference Ranking	To understand the attributes of savings services and how these are prioritized	<ul style="list-style-type: none"> ■ Savings mechanisms used in the community ■ The attributes of savings services and how they are ranked in order of importance ■ The attributes of the specific savings services used in the community 	<ul style="list-style-type: none"> ■ A list of the various savings services used in the community ■ A list of attributes of savings mechanisms ■ A ranking (from 1-5) of the relative importance participants give to various attributes in selecting a savings mechanism ■ The extent to which each of the stated attributes are present in each of the savings mechanism used in the community
4. Savings Services Analysis	To determine the financial services (both formal and informal) most commonly used and their advantages and disadvantages	<ul style="list-style-type: none"> ■ Formal and informal savings services available in the community ■ The relative use of these services by community members ■ The advantages, disadvantages, and major uses of each savings service. 	<ul style="list-style-type: none"> ■ A list of formal and informal savings services available in the community ■ A ranking of the relative use of these services ■ Information about the advantages, disadvantages, and major uses of each savings service

Figure A2: Overview of the Participants in the Sample

OBJECTIVE	TOPIC OF DISCUSSION
In-depth Interview	<p>Korangi (Karachi)</p> <ul style="list-style-type: none"> ■ 4 females (1 entrepreneur, 3 housewives) ■ 4 males entrepreneurs <p>Orangi (Karachi)</p> <ul style="list-style-type: none"> ■ 4 females (2 entrepreneurs, 1 housewife, 1 unmarried/unemployed female) ■ 4 males (3 entrepreneurs, 1 salaried worker) <p>Ichra (Lahore)</p> <ul style="list-style-type: none"> ■ 6 females (2 housewives, 2 entrepreneurs, 2 salaried workers/entrepreneurs) ■ 5 males (5 entrepreneurs) <p>Bhagbanpura (Lahore)</p> <ul style="list-style-type: none"> ■ 4 females (2 entrepreneurs, 1 housewife, 1 salaried worker) ■ 4 male entrepreneurs
Life Cycle Analysis	<p>Korangi (Karachi)</p> <ul style="list-style-type: none"> ■ 2 female groups of salaried workers ■ 1 female group of entrepreneurs ■ 1 male group with a mix of entrepreneurs and salaried workers ■ 1 male group of real estate agents <p>Orangi: (Karachi)</p> <ul style="list-style-type: none"> ■ 1 female group of entrepreneurs ■ 1 female group of entrepreneurs and housewives ■ 2 male groups of entrepreneurs <p>Ichra (Lahore)</p> <ul style="list-style-type: none"> ■ 1 female group of housewives ■ 1 female group of entrepreneurs ■ 1 male group of salaried workers ■ 1 male group of entrepreneurs <p>Bhagbanpura (Lahore)</p> <ul style="list-style-type: none"> ■ 2 male groups of entrepreneurs ■ 1 female group of entrepreneurs ■ 1 female group of housewives, 1 salaried worker, 1 entrepreneur
Relative Preference Ranking	<p>Korangi: (Karachi)</p> <ul style="list-style-type: none"> ■ 1 female group of entrepreneurs <p>Orangi: (Karachi)</p> <ul style="list-style-type: none"> ■ 1 female group of housewives and 1 salaried worker ■ 1 male group with a mix of salaried workers and entrepreneurs
Savings Services Analysis	<p>Ichra (Lahore)</p> <ul style="list-style-type: none"> ■ 1 female group of entrepreneurs and 1 salaried worker ■ 1 male group of entrepreneurs <p>Bhagbanpura (Lahore)</p> <ul style="list-style-type: none"> ■ 1 female group with a mix of students and housewives, all with at least Matric education ■ 1 male group with entrepreneurs and 1 salaried worker

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