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Microfinance and HIV/AIDS NOTE 4

Products to Serve an HIV/AIDS-Affected Market: Savings

Individuals, households, and the extended community confront not only health issues and loss of life due to HIV/AIDS, but the economic implications of this disease as well. Increased financial pressure on individuals and households comes from dealing with unplanned expenses such as medical bills, additional spending on more nutritious foods for those who are sick, transportation to health centers, and the cost of supporting children orphaned by HIV/AIDS. In addition, incoming resources often diminish if individuals are no longer physically able to contribute to farming, business, employment, or other earning activities; are stigmatized and cannot generate the same levels of income because of market exclusion; or die. Low-income people are more acutely affected by these financial strains because they have fewer resources on which to draw. Savings services can help households build up their asset base to prepare for the economic shocks brought about by HIV/AIDS.

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HIV/AIDS has a dramatic impact on communities around the world, particularly in Africa. Individuals, households, and the extended community confront not only health issues and loss of life due to HIV/AIDS, but the economic implications of this disease as well. Increased financial pressure on individuals and households comes from dealing with unplanned expenses such as medical bills, additional spending on more nutritious foods for those who are sick, transportation to health centers, and the cost of supporting children orphaned by HIV/AIDS. In addition, incoming resources often diminish if individuals are no longer physically able to contribute to farming, business, employment, or other earning activities; are stigmatized and cannot generate the same levels of income because of market exclusion; or die. Low-income people are more acutely affected by these financial strains because they have fewer resources on which to draw.

This microNOTE explores how savings services can help households build up their asset base to prepare for the economic shocks brought about by HIV/AIDS. It offers examples of savings products, describes the key questions to ask before attempting to manage deposits in HIV/AIDS affected markets, and lists some of the challenges to providing savings services.

THE POWER OF SAVINGS

Poorer families confronted with HIV/AIDS often either sell what assets they have to meet initial expenses related to healthcare or borrow heavily against assets (such as gold, jewelry, livestock ,or land). Research demonstrates a fairly consistent pattern of coping in which households liquidate savings and protective assets first and then sell productive assets—those that generate income—only when they run

out of other options.[1] As financial expenses increase over time and the severity of HIV/AIDS-related illnesses drains more assets and income, households can find themselves without sufficient financial assets, or heavily indebted. Some families do manage to cope and avoid deeper levels of poverty—they might be able to diversify livelihoods activities to increase income, leverage accumulated assets effectively, draw on social capital to access community support, or link to effective antiretroviral treatment early in the HIV illness. However, the onset of HIV/AIDS quickly renders many poor people destitute and can create poverty among economically active households as they face depletion of income and assets.

A *MicroSave* study[2] on the economic impacts of HIV/AIDS suggests that the economic degradation experienced by caregivers and those orphaned by HIV/AIDS is not much different from that experienced by the person with HIV or AIDS. The severity of economic impact for all depends on:

- Existing economic resources (including strength of business or income earning) when the crisis begins;
- The duration of a given crisis, the number of crises, and the timing between them;
- The quality and number of coping mechanisms available; and
- Networks that an individual or caregiver belongs to (especially informal networks) and knowledge of the formal and informal resources available.

One key coping strategy for HIV/AIDS-affected households is to build an asset base early and protect productive assets to prevent undermining of future income-earning potential. In essence, a household's ability to plan for future shocks, maintain income flows, and build assets is based upon its ability to save. *Supporting savings services and access to easily liquidated assets in HIV/AIDS-affected markets can be one of the strongest tools for strengthening household economic well-being and reducing the spiral into poverty*. Savings must precede the economic shocks or come during a period of recovery (before future shocks). Both individuals and the larger household support network, such as relatives and caregivers, can benefit from services designed to help them save and store assets for future consumption needs or to support children whose parents die of HIV/AIDS.

Why Savings Products Can Help HIV/AIDS-Affected Markets (Based on research by *MicroSave*)

- The more resources an individual has before an HIV/AIDS-related crisis hits, the better able he or she is to cope. Savings provide the needed cash for medical and nutritional needs and transport to health centers and fills income gaps during periods of illness and care.
- HIV/AIDS is not just about the declining health and death of the individual, it is also about those who care for them—those who experience erosion of economic resources and must continue with the business of life. Access to savings can help affected individuals avoid falling into poverty and continue to support the remaining family members.
- HIV/AIDS-related crises are worst when multiple needs for lump sums of cash converge. Individuals are likely to divert a loan to crisis needs for lump sums of cash at some point. The ability to liquidate savings provides cash for successive crises.

AREN'T THE POOR TOO POOR TO SAVE?

Many people, including those already working with low-income populations, find it hard to believe that the poor can save. Households worldwide use the little resources they have as insurance against emergencies, for religious and social obligations, for investment, and for future consumption. Poor people find many creative ways to save, including putting cash under a mattress, banking lump-sum amounts at harvest time, participating in community savings clubs, or purchasing gold, household items, or livestock to be sold in case of emergency. Individuals also

[1] Donahue, J., K. Kabbucho, and S. Osinde, S. "HIV/AIDS—Responding to a Silent Economic Crisis Among Microfinance Clients In Kenya and Uganda." *MicroSave*, Kenya, 2001.

[2] Donahue, J., et al., 2001.

prepare to face crises by building social networks (often called "social capital") that may provide access to cash or goods in the future. Economic strengthening programs working in HIV/AIDS-affected markets may be able to encourage or incentivize the poor to save and protect their assets before they face serious financial shocks. Matched savings and rotating livestock schemes are examples of products that can help people with very small means and minimal assets move to the next level of financial security.

Research by CGAP[3] indicates that, given the choice, most poor people would rather access savings than borrow in cases where they need additional funds. However, the poor often lack access to safe, formal deposit services, such as those offered by banks. Financial institutions often have short or inconvenient operating hours, require long travel time to access, and have time-consuming procedures and inappropriate requirements for account opening and operation (including transaction size and minimum balance); these are all barriers for low-income individuals. As a result, the poor tend to resort to informal mechanisms to store their savings.

> "Poor people can save and want to save, and when they do not save it is because of lack of opportunity rather than lack of capacity."
>
> Stuart Rutherford
> *The Poor and Their Money*, 1999

Informal savings mechanisms, while convenient in many ways, are often risky. Saving at home, for example, may put the cash at risk of theft or at the mercy of social pressure from relatives needing money. Some members of community groups lose their money to dishonest members who steal or mismanage the funds. Also, the small scope and rigid amounts involved in most informal savings groups do not allow for effective accumulation of needed assets. One model that is found in many communities is the Rotating Savings and Credit Association, which requires each participant to "save" the same amount at each meeting, with the total sum given to one person on a rotating basis. While this model is easy for local communities to manage, it does not allow participants the flexibility to deposit, store, and withdraw funds when needed. Savings in livestock or other goods may be negatively affected by price fluctuations and are difficult to divide it into small amounts as needed. For example, selling a whole cow for a specific health-related expense may provide too much cash, and the balance may be wasted. Similarly, some larger assets, such as land or productive equipment, cannot be liquidated quickly at the best price when funds are needed.

Programs working in HIV/AIDS-affected markets can lower the savings risk and provide access to safe opportunities for both cash and easily liquidated assets. Microfinance institutions (MFIs) or public health programs can encourage and motivate savings as a way to mitigate against future financial shocks. Helping to reduce the barriers that prevent households from accessing safe savings services, creating safe informal savings mechanisms, bringing services closer to clients, and improving the variety and features of asset-based products are key steps in supporting savings.

Potential Risks of Informal Savings Mechanisms

Type of Savings	Risks
Savings in-kind (livestock, land, household goods, etc.)	Illiquid; subject to price fluctuations, theft, death of livestock
Cash savings at home	Theft, destruction, social pressure to use for other purposes, temptation to spend on trivial expenses
Community groups	Small scope, rigid savings deposits and timing, possible mismanagement

[3] Consultative Group to Assist the Poor (CGAP) is a consortium of 33 public and private funding organizations—bilateral and multilateral development agencies, private foundations, and international financial institutions—working together to expand poor people's access to financial services. See www.cgap.org.

APPROPRIATE SAVINGS PRODUCTS

Institutions hoping to develop products that meet the needs of HIV/AIDS-affected markets should understand that the poor have clear preferences. CGAP *Focus Note No. 13* (1998) and *Donor Brief No. 4* (2002) highlight factors (listed in order of preference) that influence a poor household's decision to hold a savings account:

- ***Security:*** Secure savings are not in jeopardy from fraud, theft, fire, and relatives' demands. Safety is paramount, even in the face of inflation.
- ***Low Transaction Costs:*** Proximity is essential to reduce the high transaction costs of making deposits and withdrawals. Convenient opening times and minimal paperwork requirements are also important.
- ***Appropriate Design:*** Individual voluntary deposit products that allow frequent deposits of small, variable amounts and quick access to funds are best. Contractual savings are also useful for planned lifecycle expenditures such as weddings, funerals, and birth celebrations.
- ***Positive Returns:*** If transaction costs are low, rural savings occur even with negative real returns—indicating that the poor can be relatively insensitive to interest rates as a priority when evaluating savings options.

Households and individuals affected by HIV/AIDS rank liquidity—being able to access the savings in cash as needed—high as a preference option.

What the Poor Seek in Savings Products

Security
Low transaction costs
— Proximity
— Convenient opening times
— Minimal paperwork
Appropriate design
— Frequent deposits
— Small, variable amounts
— Quick access
Positive returns

The most common savings products offered by financial institutions are cash deposits. These can take a variety of forms: highly liquid accounts in which frequent, small deposits and withdrawals can be made (often called "passbook accounts" or demand deposits), and time-bound accounts that lock in the savings either through a contract that requires regular deposits or through a requirement that the money is left in the account for a specified time period in order to receive a lump-sum at the end of the contract. The time-bound deposits are often used to save for school fees, weddings, agriculture inputs, and other anticipated expenses or lifecycle events. The most successful savings products rely on careful market research to understand the target populations' needs and preferences.

MicroNOTE #2, *Microfinance and HIV/HIV/AIDS: Strategic Partnerships*, states that, in addition to the above preferences, institutions should consider the following:

- Products should be **simple**. Many of the world's poor are not used to formal financial institutions, such as banks, and need to learn to trust them through the gradual uptake of products. It is thus easier to start a client with a simple product such as passbook savings before signing her up for a sophisticated contractual savings deposit.
- **Small minimum balances** are necessary to allow even the poorest to participate.
- Highly **liquid accounts** do not necessarily mean that savers will make frequent withdrawals, but the accessibility is highly valued by clients.
- Allowing account holders to **name their beneficiary** in the event of death allows surviving families to get access to the money more quickly.

METHODS FOR PROVIDING SAVINGS SERVICES TO HIV/AIDS-AFFECTED MARKETS

Other than the formal provision of savings services through the banking sector, there are several approaches that allow very poor populations to save and accumulate assets. The savings model or approach may be group-based—storing assets such as cash or livestock within the community—or it may target individuals affected by HIV/AIDS. Some specific savings and asset-building models that may be appropriate for HIV/AIDS-affected markets include:

- Accumulated Savings and Credit Associations (ASCAs)
- Child Savings Accounts (CSAs)
- Matched Savings
- Contractual Savings Products
- Community Emergency Funds
- Mobile Savings Collectors
- Rotating Livestock Schemes

Accumulated Savings and Credit Associations

ASCAs are a savings-based model where small, self-selected groups (10 to 30 people) pool small amounts of cash on a regular basis, often weekly, and then lend a portion of the accumulated savings to individuals (usually fellow group members). The loans are paid back with interest, causing the fund to grow. The regular savings contributions to the group are "deposited" with the group with an end date in mind for distribution of the funds, usually after a cycle of 8–12 months. When the savings cycle is over, each member receives his or her total savings back. In addition, each member receives a portion of the interest generated from the loans, usually based on a formula linked to the amount saved during the cycle. The benefit of the small group is that if an emergency arises during the cycle, members can choose to withdraw some of their savings, or take a loan, to cover the expense.

Several international nongovernmental organizations (NGOs)—such as CARE, CRS, Oxfam, PACT, and Plan International—have been pioneers in refining the traditional ASCA model by creating a process of mobilizing and training groups to be self-managed. Usually after about 12

Two Case Studies of the ASCA Model

Before the political crisis in Zimbabwe, CARE International designed the Kupfuma Ishungu Rural Microfinance Project, a four-year project aimed at building the capacity of communities to mobilize and manage savings. From the savings, members granted loans to meet production, consumption, and social needs of vulnerable members, mainly women in the areas hardest hit by HIV/AIDS. The project worked with communities and trained HIV/AIDS support organizations to mobilize and train groups in self-management of their savings and how to lend to one another. The goal was to diversify household income sources and to protect and enhance household assets. At the height of the project, more than 50,000 individuals participated in more than 7,100 groups, nearly all in rural areas. In addition to providing financial services, 1,300 groups set up social funds to assist members with funeral-, medication-, and health-related expenses. A baseline evaluation, followed two years later by a comparative study, showed that members reported increases in productive and protective assets as well as marked strengthening of social capital and standing among the community at large. Members reported moving from purchase of small assets to larger, productive assets (cattle, donkeys, scotch carts, and housing construction) using their savings. CARE also introduced a learning curriculum—Selecting, Planning, and Managing an Income-Generating Project—that allowed many members to effectively launch economic activities. The most common use of earnings from the resulting microenterprises was to improve household food consumption, followed by payment of school fees.

Kibara Mission Hospital Community HIV/AIDS Project in Tanzania works with CRS to promote an ASCA model known as Savings and Internal Lending Communities (SILC) in the communities it targets for HIV/AIDS clinical and public health services. Although the Kibara Project was designed primarily as a health project, CRS helped introduce the SILC groups as a way to improve incomes and boost the nutritional status of people living with HIV/AIDS and their households. After training promoters dedicated to the SILC model, the Kibara Project was able to promote and form groups in the areas where it was offering voluntary counseling and testing, home-based care, and clinical treatment. The promoters mobilized, trained, and provided follow-up coaching to nearly 1,000 individuals (as of August 2007). CRS identifies the general tenets of SILC as critical to its success: self-selection of members, time-bound cycles, simple transparent systems, group agreed-upon financial rules, trust, and minimal outside input (no external financing is provided). It also supports a phased-out training approach, which begins with intensive training on six key modules and is followed by intensive follow-up with the groups, leading the groups gradually to the point that they reach maturity and can operate independently. Positive results of the Kibara Project include significant increases in income-generating activities by the members, savings toward a goal of acquiring fixed assets, improved education about HIV and AIDS, and collective action to form businesses that benefit all group members.

months of training and phased coaching, a group can manage its transactions and become independent. Some groups create additional savings funds, called "social funds," to support members in times of crisis or to offer assistance to orphans and others in the community affected by illness or loss. These social funds can help cushion households affected by HIV/AIDS when a financial shock occurs. A fundamental principle of ASCAs is self-selection of members: the individuals decide collectively on who they want in their group. If offered in the same communities where HIV/AIDS programming is taking place, these groups can be a powerful means by which poor households can build financial safety nets. One note of caution on the self-selection principle: many HIV/AIDS programs attempt to transform groups formed for care giving, health messaging, or other purposes into ASCAs. This practice is not recommended unless there is unanimous agreement among the members that the group wants to engage in financial transactions together. A group formed for one purpose may not succeed for another.

Child Savings Accounts

Many commercial banks around the world offer CSAs, which allow parents or guardians to open accounts for minors in order to save for their future. While the adult signatory on the account manages the deposits and withdrawals, these accounts can introduce young people to the financial sector and build assets for their future needs. Banks use these products to groom the next generation of clients, hoping to convert the children to regular customers when they reach the legal age to transact independently. Many MFIs legally permitted to offer savings services are also developing this product line. Health programs targeting HIV/AIDS-affected communities might consider approaching banks and MFIs to discuss how they can inform communities on the benefits of CSAs and how to prepare individuals to open these accounts for their children (such as helping households acquire the needed paperwork to open an account).

In many countries CSAs are being established with a social development angle to allow children to begin asset building for the future. One example is the United Kingdom's Child Trust Fund, established in 2005 as a universal and progressively funded CSA, and Korea's CSAs for some of its most disadvantaged children. In HIV/AIDS-affected communities, CSAs can be opened and built up while parents are still living to provide for their children in the future. In addition, building assets over time gives children a safety net as they grow older and provides resources on which they can draw for education, health, and other important life expenses, particularly if they lose a parent. These accounts must be designed with a clear beneficiary named to ensure the transfer of the asset to the child if the guardian dies. One of the most important features for the low-income market is an account with low fees so that small savings balances are not quickly eroded through bank charges.

Matched Savings

One of the obstacles for poor people is finding the motivation to save, especially when the balances they hold are so small. The Center for Social Development at Washington University in the United States has worked on research related to asset building and protection, particularly by matching deposits of poor people to help them grow their savings and expand their asset base. The match serves as an incentive and, in a sense, an asset transfer to low-income households. Pilot projects related to matched savings accounts for asset building are going on in Hungary and Slovakia, where a variety of CSAs are being tested to improve the ability of all children, particularly those from low-income families, to begin accumulating assets from birth.[4]

The SUUBI project in Uganda experimented with this methodology by identifying children orphaned by HIV/AIDS and providing them with savings accounts that would be matched up to certain amounts and blocked until the child went to

[4] http://gwbweb.wustl.edu/csd/asset/cdas.htm

secondary school.[5] At that time, the savings could be used to pay for the child's education.

Contractual Savings

Another method of motivating and protecting savings for future lump-sum needs is the use of contractual savings products. Based on a formal agreement between the financial institution and the account holder, a fixed amount is deposited each period (usually weekly or monthly) until the end of the contract. At the end of the specified period, the accumulated savings become accessible to the account holder, often with interest. Failure to make the agreed-upon deposits causes the saver to forfeit interest or face penalties.

These products can help households accumulate enough cash over time to meet lump-sum expenses, such as paying school fees, purchasing farm inputs before a planting season, or investing in a more valuable asset such as land or productive equipment to generate income. Because contractual savings are a contract arrangement and involve holding money over a long period of time, they are best offered by commercial banks, cooperatives, and other institutions legally governed for mobilizing deposits. In HIV/AIDS-affected markets, contractual products can help households save in small amounts for children's education and can be combined with CSAs or child development accounts to involve the child more proactively in accumulating the needed resources. Contractual accounts may also be modified to help those affected by HIV/AIDS save during periods of good health.

A Hybrid CSA and Matched Savings Product: Child Development Accounts—SUUBI Uganda

The SUUBI project in Rakai District of southeast Uganda pilot-tested matched savings accounts for secondary education to support children made vulnerable by HIV/AIDS. Fred Ssewamala of Columbia University designed the project, in which households supporting orphans, who were selected by the community, were able to save in "child development accounts" at a local bank. One hundred caregivers and the children they support were invited to participate in the pilot. Specially designed savings accounts were opened for each participant at Centenary Bank, a trusted financial institution in the community. The caregiver and the child were able to deposit into the account and the SUUBI project provided a savings match of double the amount saved up to a certain limit per month. The children, most completing their final years of primary school, became active contributors by performing small jobs in the community and saving during their holidays. The savings accounts were "locked" and only to be used for secondary and university-level education, unless prior consent for withdrawal was obtained from the SUUBI staff (for example, in case of emergency for the child's benefit). In addition to matching the savings, the project provided counseling and support to caregivers and program participants, along with regular mentoring of the children. After two years, the children and their households had saved enough to pay for the children's secondary education. Initial review of the pilot demonstrated improved outcomes in attitudes toward HIV prevention, educational planning, and family cohesion.

Community Emergency Funds

Community emergency funds encompass various group-based savings and protection activities that a community might engage in to prepare for future needs. In Ethiopia, the *Iddir* community burial societies were traditionally village groups, often 200 members or more, who contributed regularly to plan for deaths in the community. When a member of the *Iddir* died, a certain pre-determined amount was allocated for funeral expenses and burial. More recently, the government has encouraged the *Iddir*s to be involved in a variety of development activities that benefit the community, particularly in areas of high HIV/AIDS prevalence. In other countries and communities, informal mechanisms spontaneously emerge (or are historically and culturally in place) to cope with crisis and share resources among members in times of need. The important point for HIV/AIDS-affected communities is to reduce stigma so that those families affected by HIV/AIDS are not excluded from community safety nets, but are instead supported by them.

Mobile Savings Collectors

In both Asia and Africa, there are clear examples of savings collectors moving throughout markets, collecting small daily payments from market traders. Also, banking units on wheels bring savings services directly to the communities where their clients are located. *Safe*Save, a

[5] Ssewamala, F., et al. *Economic Empowerment as a Health Care Intervention among Orphaned Children in Rural Uganda*. Working Paper No. 06-16. Center for Social Development, St. Louis, Missouri, USA, 2006.

registered cooperative functioning much like an NGO in the slums of Dhaka, Bangladesh, uses collectors who visit homes six days a week to offer the opportunity to save as much or as little as a client would like, while allowing withdrawals from the account on the spot. Many clients also borrow from *Safe*Save, and the collector can facilitate loan repayments. In Ghana, the *susu* collector model has been refined in several contexts to bring savings services closer to the clients. *Susu* collectors collect daily amounts that are voluntarily saved by their clients, and return the totals at the end of each month, minus one day's amount as a commission.

The *susu* collector function has been expanded by licensed MFIs with "mobile banking" services, where a collector moves around locally to accept savings and offer additional services, such as loans and life insurance benefits. In other models, *susu* associations, clubs, and companies act as an affiliation whereby participants pool savings together as a group or through an agent. The company model is a registered entity that often combines loans with the savings services. Mobile collection must incorporate strong internal controls and risk management plans to avoid incidences of fraud or theft.

HIV/AIDS-affected communities can benefit from the mobile nature of these services to begin the discipline of saving for future needs and accumulating or accessing sums over time as needed, using the regular deposit mechanism. Because the service comes to the client, individuals who are unwell or unable to travel can still access their accounts.

Rotating Livestock Schemes

Beyond cash savings, many NGOs and AIDS support organizations (ASOs) have engaged in accumulating livestock as an asset for low-income families. A rotating livestock scheme gives a few members in a community the first animals, with the obligation to breed them and share the offspring with other community members. As each household receives livestock, it is obligated to breed and provide offspring for others so a chain of assets is built in each household. These models are particularly effective when good veterinary care is available. Similarly, guidance on appropriate breeding practices and maintenance of a diverse gene pool is important to ensure long-term success of the program. Heifer International (www.heifer.org) is well-known for the livestock and animal gifting programs it operates internationally.

The benefit of such schemes to HIV/AIDS-affected markets is that even youth can participate in caring for animals when they are not in school, and often the animals can be kept near the home to facilitate home-based income-generating activities.

Are You Prepared to Get Involved?

Both MFIs and ASOs may be convinced of the need to support asset building through savings services, particularly in HIV/AIDS-affected markets. However, before embarking on savings programs, they must consider their ability to protect the poor's valuable assets. In *Savings Service for the Poor: An Operational Guide*, edited by Madeline Hirschland, institutions are asked to first evaluate their *institutional capacity* to support savings services—such as whether their cash management practices ensure that savings are available on demand and whether they possess the ability to store or invest the savings in a secure way. They next need to confirm that there is good *governance* in place to ensure that the institution's management can protect deposits. If these pre-conditions are met, then the most fundamental question becomes: is there *client demand*? Institutions must effectively analyze what HIV/AIDS-affected markets need in terms of products and how those products should be delivered.

Questions to Ask Before Starting Savings Services

- Do we have the institutional capacity?
- Do we have effective governance?
- What are clients asking for in savings?
- Is it better to partner with another organization to offer access to savings products?

These same considerations are relevant for informal, group-based mechanisms that might be supported by ASOs. Sometimes the analysis clearly indicates a need to partner with another organization, such as a bank or an experienced savings provider. ASOs are typically very connected to the individuals and communities with which they work. Their support of both informal and formal savings services cannot be underestimated. They can help to form groups for formal group-based services; disseminate information about available savings products and how to qualify to open accounts; encourage institutions to develop client-driven products and help with the market research to inform those decisions; convince individuals to save, especially during times of wellness; and link households to support services that provide advice on asset protection and asset accumulation.

Institutional Capacity

The ability to manage someone's money and ensure that it is protected from theft and loss requires liquidity management, internal controls, and staff capacity to design and market products. In many cases, physical infrastructure, including protected safes and information technology systems, are needed to support deposits and withdraws.

One of the biggest challenges for MFIs moving from credit to savings is engendering client trust and confidence in their institutions. Formal financial institutions such as MFIs that are authorized to accept deposits must be profitable or close to it before starting savings services. Products designed to support HIV/AIDS-affected communities may require institutions to be more vigilant in sensitizing staff on how to avoid stigma or discrimination against clients. All programs must carefully calculate the cost of offering savings—the costs to both accept and pay out deposits—to ensure they can sustain the product in the way it was designed. Informal programs, such as ASCAs initiated by ASOs, must consider whether they have the staff and funding to dedicate to the project and the ability to mentor groups to the point where they can manage on their own.

Governance

Whenever savings are taken in the form of cash deposits, there must be appropriate management oversight to ensure adequate protection, both of the institution's viability and of the client's deposits. For formally licensed financial institutions, oversight is provided by government and/or independent regulatory agencies. The board of directors of a financial institution should be in a position to regularly review the auditing procedures and findings. For informal savings schemes, controls should be in place to ensure that deposits are secure. Some of these controls might include lock boxes for cash, with several locks and the keys held by different members of the group; verification of transactions by more than one group leader; counting of cash in front of all members; and requirements that all transactions take place in the presence of the group (no payments outside of meeting times). In these informal schemes, loan approvals and repayment should be done with the participation of all members.

Client Demand

MFIs, ASOs, and health-based programs interested in supporting savings services must conduct good market research to understand what savings mechanisms are already in use and what gaps exist in the market, particularly for households affected by HIV/AIDS. More than just sensing a need, or desiring to help out in some way, there must be evidence that people will actually deposit money if the service is offered. *MicroSave* and CGAP have both designed tools that assist in market research and product development (see resources listed at the end of this note). Solid market assessments for formal and informal services are important to determining the product features and most appropriate delivery mechanisms for the target clients.

Partnership

The goal is to provide a safe, accessible, and stable source of resources for the future to support people living with HIV/AIDS, as well as their

children and caregivers. In cases where an institution does not have the capacity, is not legally able to offer services, or does not have the funding or mandate to explore financial services, the best option is for the institution to partner with another institution. MicroNOTE #2 in this series, *Microfinance and HIV/AIDS: Strategic Partnerships*, provides excellent guidance on linking ASOs and financial service providers.

CHALLENGES TO OFFERING SAVINGS

Developing savings opportunities for the poor and motivating their use, particularly in HIV/AIDS-affected markets, poses many challenges. Health programs hoping to extend savings to HIV/AIDS-affected markets can find it particularly difficult to identify appropriate formal institution partners.

Most countries regulate the types of institutions permitted to accept and manage cash deposits and have tight rules on how these deposits must be protected. These regulations typically limit savings to formal financial institutions to which the poor, particularly in rural areas, may not have access.

Regulations often require that financial institutions "know their customer" to prevent money laundering and wrongful use of money. These restrictions mean that institutions must ask clients to provide proof of identification and place of residency—requirements that are difficult for many low-income households to meet. Where savings services do exist and are appropriate for the market, ASOs and others supporting HIV/AIDS-affected communities can help individuals gain access—for example, by helping clients obtain the necessary government identification to open a savings account and helping them understand how to use banking services.

Challenges to Offering Savings Services

- Working with regulatory environments
- Extending services in rural areas
- Covering the costs of managing and protecting deposits
- Finding solid, reliable formal partners that will provide needed savings services
- Designing the right products
- Developing staff capacity

In addition, financial institutions need to cover the costs associated with handling deposits and often do so by charging additional fees. These fees quickly deplete the small balances the poor are able to maintain. Taking financial services to rural locations where population densities are low makes it even more expensive to offer the service. In some parts of the world, small cooperatives and rural banks have attempted to fill the void in more remote regions, but often their unregulated nature and weak governance structures threaten the security of and access to deposits of the poor who use their services. A few formal institutions, such as Equity Bank in Kenya (www.equitybank.co.ke), are expanding geographically via mobile banking services, cash outlets, point-of-sale machines in retail locations, and ATMs. In addition, they are removing minimum balance requirements and eliminating fees for holding an account to enable greater use of savings services.

People in HIV/AIDS-affected markets most desire savings products that allow them to deposit and withdraw based on their needs. These "voluntary" savings provide the flexibility that a household facing health shocks requires. While MFIs have often claimed to offer savings services, the savings they collect are typically not voluntary. Instead, these savings are compulsory—required by the MFI as a type of credit guarantee. As a condition of a loan, clients are required to "save" a percentage of the credit extended. These balances are only available upon repayment of the loan or, in some cases, are used to cover defaults of fellow borrowers. Households coping with the financial pressure of HIV/AIDS may need the compulsory savings immediately, but by withdrawing these savings, they sacrifice their future access to credit.

Although there are no known examples of unregulated MFIs working with commercial banks to offer savings specifically targeted at HIV/AIDS-affected

clients, a number of MFIs are partnering with commercial banks as a regular course of business. Most partnerships focus on helping MFI clients gain access to the basic liquid and time deposit products, including passbook and regular savings accounts, current accounts, and fixed-term deposits. The key for offering appropriate products is to focus on voluntary savings and encourage HIV/AIDS-affected communities to build protective and productive assets.

Finally, both MFIs and public health programs face challenges when developing staff capacity to offer savings products. Sometimes they must hire new staff with experience in savings services or with an understanding of the needs of HIV/AIDS-affected markets.

Most MFIs begin as credit programs and become licensed to accept voluntary savings deposits. ASO and health-based program staff are often not aware of the variety of savings services that can be offered, or how to link households to these products. The lack of expertise within both MFIs and ASOs leads to poorly designed schemes and the inability to effectively grow the asset base of a household or community.

Some of the products and approaches discussed in this microNOTE can inspire more effective partnerships. More importantly, helping HIV/AIDS-affected communities consider the power of savings and make the best decisions in terms of keeping their assets secure and available when needed is something that MFIs and ASOs concerned with HIV/AIDS can participate in. ASOs, in particular, are well-placed to introduce informal models such as the ASCAs, community emergency funds, and rotating livestock schemes as starting points for building assets to protect against the financial shocks associated with HIV/AIDS.

Useful Resources on Savings

CGAP Savings Information Resource Center. http://www.microfinancegateway.org/resource_centers/savings/

Specifically: Donor Brief No. 4 (2002) and Focus Note No. 13 (1998)

Center for Social Development. Specifically on asset building: http://gwbweb.wustl.edu/csd/asset/index.htm

microLINKS. Specifically on savings: http://www.microlinks.org/ev_en.php?ID=12659_201&ID2=DO_TOPIC

MicroSave. www.MicroSave.org

Specifically: Donahue, J., Kabbucho, K. and Osinde, S. "HIV/AIDS -Responding To A Silent Economic Crisis Among Microfinance Clients In Kenya and Uganda" and *MicroSave* Briefing Note #11: "HIV/AIDS—Responding to a Silent Economic Crisis"

SEEP HIV and AIDS Microenterprise Development Working Group. www.hamed.seepnetwork.org

Specifically: SEEP "Promising Practices" case studies highlighting microenterprise development projects partnered with HIV/AIDS programs. Two of these showcase the power of the ASCA model in HIV/AIDS affected communities:

1. "CARE International in Zimbabwe, "Kupfuma Ishungu"— A self-managed, village savings and lending scheme"
2. "Kibara Mission Hospital Community HIV/HIV/AIDS Project Supported by CRS Tanzania/Diocese of Musoma."

The World Council of Credit Unions (WOCCU). Specifically best practices on savings mobilization: http://www.woccu.org/bestpractices/savings

Carolyn Barnes, "Economic Strengthening Activities Benefiting Orphans and Vulnerable Children in Africa: Mapping of Field Programs," 2005. http://www.crin.org/docs/Economic%20Strenthening%20for%20OVC%20-%20West%20Africa%20-%20Mapping%20of%20Pro.pdf

Madeline Hirschland *Savings Services for the Poor: An Operational Guide* (Bloomfield, Connecticut: Kumarian Press, 2005).

Marguerite Robinson. "Chapter 7: Savings and the New Microfinance," in *The Microfinance Revolution* (Washington, D.C.: World Bank, 2001).

Stuart Rutherford. *The Poor and Their Money* (New Delhi, India: Oxford University Press, 2000).

USAID, Save the Children and AED FIELD Report No. 2. "Economic Strengthening for Vulnerable Children: Principles of Program Design and Technical Recommendations for Effective Field Interventions" (Washington, D.C.: USAID, 2008).