UNDERSTANDING AND EVALUATING THE RISKS OF FORMAL SAVINGS ACCOUNTS FOR OVC POPULATIONS

A brief based on research conducted by EPRI and SEEP for the ASPIRES project

Introduction

Savings accounts provided through financial service providers (FSPs) such as commercial banks, credit unions and regulated microfinance institutions can provide a number of benefits to orphans and vulnerable children (OVC)[1] and other vulnerable populations. Savings in general mitigate the effects of livelihoods shocks by providing a financial buffer that supports resilience. Savings accounts in the formal financial system versus informal savings provide security for savings and can serve to incorporate OVC populations within the formal financial framework, enabling them to access to other financial services. There are also opportunities for formal savings products to incorporate mechanisms that incentivize saving specifically for expenses such as schooling fees, vocational training, or establishing a microenterprise that represent a longer-term investment in children's livelihood capabilities. However, orphans and vulnerable children may face risks when accessing formal savings accounts. In this brief, we discuss methods for reducing risk associated with abuse or misuse of savings by adults, the potential for deterioration of savings, and the particular vulnerabilities faced by female savers.

Protecting children and youths from savings misappropriation

RISKS FACED BY ORPHANS AND VULNERABLE CHILDREN

In most countries, the ability to enter into contracts is restricted by age, often to individuals 18 years or older (Nagarajan, 2005). This presents a significant obstacle to a child opening a bank account, although one that can often be bypassed by involving a parent or legal guardian as a cosignatory or joint account

[1] This brief uses the PEPFAR definition of orphans and vulnerable children: children ages zero to 17 years-old who have lost at least one parent to HIV/AIDS, who are otherwise directly affected by the disease (such as by living with a caregiver or other individual who is living with HIV or AIDS), or who live in areas of high HIV prevalence and therefore may be vulnerable to the disease and its socioeconomic effects.

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owner (Child & Youth Finance International, 2013). Adult involvement in owning and operating children's savings accounts carries the risk that funds may be directly appropriated by the adult, or that children may be subject to coercion or abuse in order to gain access to their savings.

METHODS TO MITIGATE RISKS

Protecting children's security and the security of their savings is a critical consideration when promoting formal savings for orphans and vulnerable children. There are several methods that FSPs can employ in order to reduce the possibility that vulnerable clients will face abuse from or be taken advantage of by adults in their life.

1) **Increasing children's control over savings account operations.** FSPs may be able to allow children and youth to choose their own adult signatory, depending on local regulations (YouthSave Initiative, 2015). Providing this option to orphans and vulnerable children can allow them to open savings accounts with any trusted adult, mitigating potential for abuse. Banks involved in the YouthSave project required both adult and youth signatures on withdrawals, and trained their staff to be alert to signs of youth being in distress when making withdrawals with adults, to inquire if they suspected coercion, and to escalate the matter if needed (YouthSave Initiative, 2015).

2) **Designing savings accounts with withdrawal restrictions for specific purposes**. If savings can only be withdrawn for purposes that benefit children, such as paying school fees, there are fewer opportunities for adults with access to a child's savings account to misuse funds. Implementing such restrictions in a meaningful way would require monitoring practices that are able to adequately evaluate the validity of withdrawals. In some cases, this may be fairly straightforward, such as requiring documentation from schools to accompany withdrawals for school expenses, but may be more challenging to verify if children need money for more personal expenses, such as healthcare, or want to use their savings for a purpose that does not necessarily come with a documented request for payment, like starting a microenterprise.

3) **Incorporating feedback mechanisms into the design of savings products**. Providing opportunities for orphans and vulnerable children who are savings account holders to provide feedback on their experience can aid in detecting and addressing issues associated with account misuse and other user satisfaction problems. FSPs may need support in engaging with orphans and vulnerable children effectively, which can be a valuable role for OVC service providers. Regular FSP self-assessments of their OVC client protection measures can help ensure that there is adequate and safe access to accounts held by vulnerable children. External evaluations of client protection performance can help identify issues and opportunities, as well. All of these mechanisms can provide information to inform improvements to product design and aid the design of other financial products for vulnerable populations, as well as mitigating risks for orphans and vulnerable children.

Protecting children and youth from savings deterioration

RISKS FACED BY ORPHANS AND VULNERABLE CHILDREN

One of the impediments to savings account access for any low-income population is that account features such as withdrawal fees and penalties for exceeding withdrawal limits or dropping below a minimum balance may deteriorate the value of the client's savings. These design elements can also encourage more substantial savings from young savers (Deshpande, 2011), but if associated costs are too high, they can wipe out the accounts of small savers. If these restrictions significantly discourage account use, the accounts may become dormant and subject to being frozen by the FSP. Clients who are inexperienced with formal savings products, such as orphans and vulnerable children, are often particularly at risk of not understanding account requirements and associated costs and accidentally incurring fees or penalties that eradicate their savings accounts.

METHODS TO MITIGATE RISKS

FSPs looking to provide products to OVCs should incorporate **elements of account design** that can make their products safer and more accessible to OVC populations. These elements include low withdrawal fees and minimal or no balance requirements. A study on the YouthSave project, which seeks to extend access to financial products and complementary non-financial services to youth, found that the project was least successful in engaging youth who are very poor, girls, and out-of-school youth (Johnson et al., 2013). The study highlighted "the importance of further refining products and delivery to attract low-income clients" (ibid, 2), pointing to the need for extremely careful design and outreach when creating products for children and youth affected by HIV.

FSPs can also use **innovative methods to encourage savings** while ensuring that clients can maintain access to their savings at little or no cost. For example, under the YouthSave project, the Bank of Kathmandu piloted a "CYBY" account that bundled a simple savings account and a fixed deposit account. Deposits were split evenly between the accounts. Funds from the savings account could be withdrawn at any time, but funds from the fixed deposit account could only be withdrawn at the end of a set period. This bundled feature was eliminated after piloting when research with youth revealed that they did not understand that the bundled design was responding to a desire they expressed to have help accumulating larger sums of money over longer periods of time (Ngurukie & Deshpande, 2013). Nevertheless, mechanisms like this, associated with strong messaging about their purpose and value, may be worth further exploration.

Providing financial education enables young clients to understand the requirements and components of their savings accounts. FSPs can offer financial education training programs in conjunction with a savings account to provide orphans and vulnerable children with the ability to make informed decisions about their account usage. For example, the YouthSave program found that when youth participated in financial capability activities offered with the project's partner financial institutions, which included financial education, there was greater account uptake (Johnson, 2013). The YouthStart program's midterm review found that FSP staff in close contact with youth clients observed improvements in their

financial capability, especially among young girls "resulting from the combination of good quality and appropriate financial and non-financial services" (Pearson, et al, 2013, 60) offered through the project, which include financial education. The Savings Innovation and Expansion for Adolescent Girls and Young Women Project, offered by Women's World Banking and Xacbank in Mongolia, found that girls receiving financial education along with savings accounts saved four times more than those who opened only a savings account (Tower and McGuinness, 2011).

Protecting girls and young women from gendered risks

RISKS FACED BY VULNERABLE GIRLS AND YOUNG WOMEN

Institutional savings products offered to children must take into consideration the particular needs and risks of young female savers. In some environments, girls must overcome added social and cultural barriers in order to access financial services. Marketing savings accounts to girls will require extra effort in these contexts. For instance, outreach through schools is a common way that FSPs engage young clients, and the higher school dropout rate of girls in developing countries means that girls will likely be underserved without additional outreach efforts.

Savings providers must also consider whether girls and young women may face additional risks in the process of accessing financial services and what role they can play in mitigating these risks. Access to savings may increase the likelihood that girls and young women will encounter violence or harassment inside or outside their homes. In addition to the risk noted above that adults may use abusive tactics to gain access to children's savings, girls and young women gaining access to financial resources may challenge cultural norms and behaviors and increase their risk of encountering domestic violence. This risk can be seen in research into the gendered effects of microfinance interventions, which have found mixed results on women's empowerment and exposure to violence (Christian, 2016).

If having a savings account increases girls' and young women's travel outside the home or causes them to enter into unfamiliar space in the community, they may encounter increased harassment from boys and men. Population Council and K-Rep Bank's Safe and Smart Savings Product for Vulnerable Adolescent Girls (SSSPVAG) program found that girls' participation in their "safe spaces" programming, which involved social training and a mentorship program, positively impacted access to emergency resources, increased mobility, and increased independence with minimal negative side effects. However, the program evaluation also found that girls who opened a savings account without participating in the "safe spaces" programming were at increased risk for experiencing sexual harassment and exploitation (Austrian and Muthungi, 2013).

METHODS TO MITIGATE RISKS

Engaging with girls to understand whether they face distinct risks or barriers in accessing formal savings products is a key to providing them with safe and effective savings products. FSPs could undertake this engagement directly, or partner with community organizations serving girls and young women to assist in outreach. Experience from the YouthStart project suggests that FSPs may need support conducting

outreach to female clients (Microfinanza and Microfinanza Rating, 2015). FSP advertising campaigns could be designed to serve dual roles of educating the broader community about the benefits of savings accounts for girls and young women while driving demand for savings products. FSPs may also wish to consider partnership with community organizations that conduct social interventions to address community norms around gender-based violence and harassment, which could enhance FSPs' reputation in the community and help to fulfill corporate social responsibility mandates.

Conclusion

It can be a challenge to reach vulnerable populations with savings products that are affordable, effective, and limit clients' exposure to risks. This brief has articulated some of the key risks, and potential solutions based on the experience of child and youth-focused saving programs. There is one area of risk that it has not addressed: potential risks associated with stigma, which are closely associated with how savings products are targeted. For further exploration of targeting, please see the ASPIRES paper "Institutional Savings Services for Orphans and Vulnerable Children: Appropriate Targeting Strategies."

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