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A PRO POOR FRAMEWORK FOR ENHANCING MICRO-SAVINGS IN NIGERIA

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1.0 INTRODUCTION

Nigerians generally do not seem to have what is usually referred to as "the saving culture". This ascertainment may not entirely be true as it based on information from the formal banking system without recourse to the savings activities at the informal sector of the economy. It is a fact that the informal sector of the economy is large with unrecorded transactions. The sector of the economy is large with unrecorded transactions. The sector consists of petty traders, artisans, market women e.t.c., a number of whom constitute the low income group of the economy.

Much effort at encouraging and mobilizing savings is directed at the formal sector. Though these efforts can be argued to be open to both the formal and informal sectors, it is pertinent to state that the design of savings products automatically locks out those in the informal sector. For instance, the various savings products of commercial banks are not attractive to informal sector operators and the low income group because of excessive documentation. In addition, government efforts like the National

savings certificate and the pension scheme may not win the patronage of petty traders and artisans.

Given the level of saving activities at the informal sector and among the low income group, it is obvious that Nigerians do not lack the culture to save but need encouragement and design of formal products that would enhance commitment to saving. The kind of savings that take place in this sector is short term in nature and is targeted at events or certain purchases. These if pooled together can form a good base for development of the economy in general and better the long-term welfare of individuals in particular.

This paper, therefore, attempts to examine the fundamental issues in saving and thereafter design a formal savings habit of the populace, especially the low income group. The framework is designed to mobilise micro-savings, hitherto kept with thrift collectors and roll it over gradually till old age. The paper is divided into six sections. Following the introduction, section two expounds theoretical issues in savings and presents all relevant theories on savings. Section three describes the experience of other jurisdictions in encouraging and mobilising micro savings. The need for enhanced savings is analysed in section four, while a framework for enhancing micro-savings among the low income group is proposed in section five. Section six concludes the paper.

2.0 THEORETICAL ISSUES

Savings fundamentally is about choosing between current and future consumption. Savings theories traditionally predict that current consumption is related not to current income, but to a longer-term estimate of income. According to the theory presented in 1936 by the great British economist John Maynard Keynes, it is a 'psychological law' that when their incomes increase, people increase their saving to such an extent that the saved share of their incomes increases. This putative law was rooted in empirical observations of saving in various income groups, and Keynes concluded that, in a period of economic growth, the share of national income that constitutes aggregate saving steadily rises. Keynes' theory of saving was generally accepted by his contemporaries. But, in 1942, the American economist Simon Kuznets showed that Keynes' theory was contradicted by statistical data: in the United States saving's share of national income had not undergone a long-term increase - despite an enormous increase in personal incomes. This contradiction was seen as a paradox, and it soon became the

object of a number of studies. One of those studies resulted in a work, published in 1954, in which Franco Modigliani and his assistant, Richard Brumberg, presented an entirely new theory of household saving: the life-cycle hypothesis.

The life-cycle hypothesis derives from the simple idea that people save for their own retirement and that they therefore accumulate savings during their active years in order to be able to consume those savings during their retirement. A stringent, mathematical formulation of this hypothesis led to a number of conclusions that could not be drawn from earlier theories, for example, that a person's saving is not determined only by his income, but also by his wealth, his expected future income, and his age. The hypothesis also made possible a rational explanation of the Keynes-Kuznets paradox. As Modigliani and Brumberg showed, in the life-cycle model there is no unique correspondence between the cross-section and the time-series saving-income relationships.

In its original formulation, the life-cycle hypothesis was a theory of saving behavior on the part of the individual. But Modigliani has expanded the perspective of the hypothesis and in a number of writings dealt with the issue that is far more interesting from an economic-political standpoint: the conclusions the theory provides regarding aggregate household

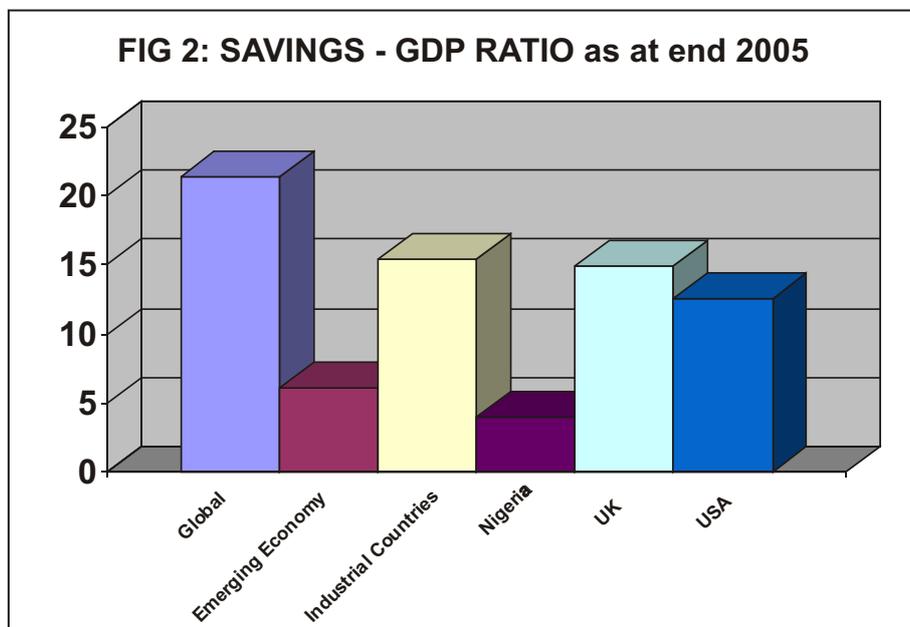
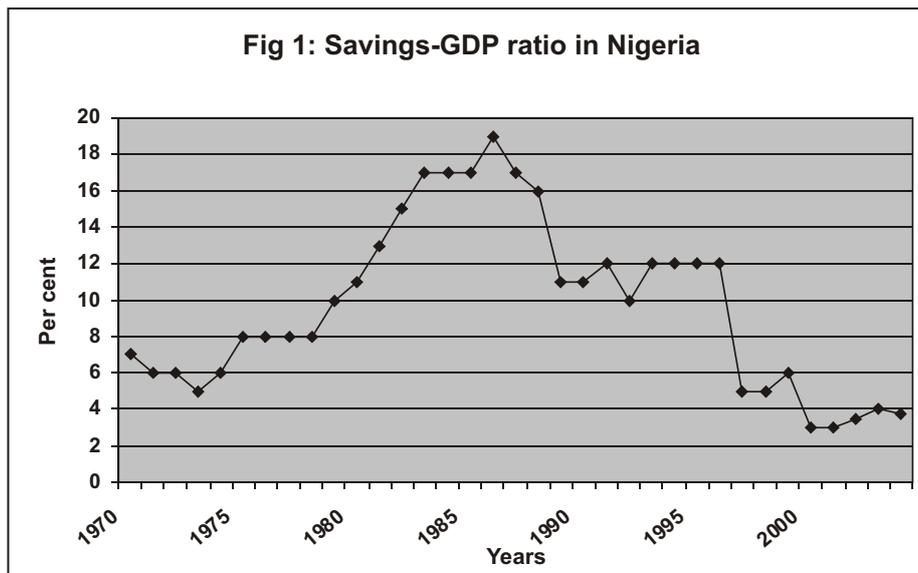
saving. Here, he has shown that the theory implies, among other things,

- that saving is not determined, as earlier theories have suggested, by households' income level, but rather by the rate of increase in that income level,
- that saving is affected by population growth as well as by population age structure,
- that saving is affected by households' aggregate wealth and hence also by the interest rate in its capacity of capitalization factor, and finally
- that the multiplier effect of an autonomous expenditure increase approaches the inverted value of the marginal tax rate.

With the life-cycle hypothesis, Modigliani has created a wholly new theory of household saving - a theory that has proved to be of major significance to research into consumption and saving. It has constituted the basis of theoretical and empirical analyses of many different types of problems - chiefly those involving the effects of economic-political measures. Among other things, it has been used for analyses of the effects of various social-insurance systems and the consequences of budget deficits on the economic situations of various generations.

3.0 OVERVIEW OF SAVINGS IN NIGERIA

High savings rates and a strong, competitive financial sector are vital to the success of any developing economy, yet on both counts Nigeria lags far behind a lot of countries. Available Statistics shows that savings in Nigeria have been low and inadequate to fund and sustain the level of investment that is consistent with the country's economic growth targets and potentials. The savings rate which was 7.0 per cent in 1975 rose consistently to 19.0 per cent in 1986 because of the then prevailing economic climate as reflected by the growth of economic activities. Thereafter, the performance of the savings rate has been very dismal. During the period 1986 to 1989, domestic savings averaged 15.7 per cent of GDP. However, with emergence of financial sector distress in the 1990s the rate of aggregate savings declined significantly. The distress syndrome resulted in a significant fall in domestic savings in the period 1990 to 1999 as the savings-GDP ratio dropped to 6.0 per cent and had continued to fall. By 2005, the savings-GDP ratio was approximately 4.0 percent which was relatively when compared to the figures for some other countries like Canada (23.7 per cent), France (19.7 percent), Japan (27.5 per cent), UK (14.90 per cent), East Asia (24.3 per cent), China (43.2 per cent) Emerging economies (6.1 per cent) and USA (12.6 per cent).



3.1 COUNTRY EXPERIENCES

Across the continent, getting those informal sector savings out from under mattresses and into banks - where they can contribute to economic growth - has long been blocked because of the high fees banks charge and the extensive paperwork needed to open an account. Convincing banks that they can profit from serving the poor has required a change in mindset in an industry long comfortable with high profit margins and low competition.

In **Malaysia**, the Merdeka Savings Bond is used for mobilizing savings. The bond is for retirees who are 55 years old and above, and who do not have a full-time job. Armed Forces personnel who opted for mandatory retirement below the age of 55 are also eligible to purchase the bonds. The Merdeka Savings Bond provides investors with the benefit of early redemption without any penalty in terms of forgone profits. Investors can redeem the full amount of their initial investments at any time after the first profit payment. Profit payments will

then be based on the number of days the bond is held. This feature gives investors the option and flexibility to withdraw their savings at any time to meet unanticipated expenses.

In **Japan**, a savings culture based on a virtue of thrift was developed. The Japanese government had used the promotion of savings as a means of achieving national goals. Savings were viewed as an important funding source of new industries and the power to support the government to catch-up with the growth rates of the

most advanced economies of the world. Savings were encouraged as a means of rehabilitating the economy and eliminating high inflationary levels. The establishment of the Central Council for Saving Promotion (CCSP) in 1952 intensified promotional activities, which centred on lectures and the distribution of housekeeping account books to housewives throughout the nation.

South Africa launched the Mzansi scheme to cut banking fees and paperwork. Mzansi, meaning 'south' in Nguni languages, is a collaboration between the big four banks (Absa, First National Bank, Nedbank and Standard Bank) and the Post Office's Postbank. Seven months after its launch, a million people had opened new low-cost accounts, the first access to formal banking for many. The Banking Association says the accounts have brought an extra 4% of the population into the banking system, placing the country at the same level as Argentina and a step away from Malaysia. Mzansi accounts have reduced fees and are available to customers who have low incomes or erratic incomes or are not in formal employment. They can use automated teller machines at any of the big four banks or Postbank to draw money at a much lower cost than for traditional accounts. The Banking Association estimates that Mzansi accounts are between 15% and 40% cheaper to use than normal bank accounts. The association believes that most of the million Mzansi customers were previously outside the banking system, rather than switching from an older account, although they cannot at this stage be precise. Yet, even if they are all new bank customers, Mzansi will have to continue growing at the same rate to reach its target of attracting 8 million new customers in three years.

In **Bolivia**, the FFP FIE is a private financing fund (fondo financiero privado) that serves 7,262 clients in peri-urban and urban parts of Bolivia. FIE conducted a market survey that revealed an interest among their clients for a programmed savings account. In 2000 they launched their first programmed savings account Pasanaku, which has witnessed a great decrease over the last year. The decrease in number of accounts is believed to stem from the product's delivery rather than lack of demand for the product.

The SANASA Thrift and Credit Cooperative Societies is a federation representing affiliated credit unions that serve approximately 10 million clients in rural, periurban and urban areas of **Sri Lanka**. Common savings products offered by SANASA's affiliates include Passbook Savings Term Deposits and Children's & Youth Savings. Deposit collectors are available to all clients regardless of the type of savings product they have chosen. Term deposit accounts have an additional commitment feature since this product is designed to restrict the timing of withdrawals until the account has matured by imposing a fee to early withdrawals.

Bangladesh uses Safesave which is a cooperative serving approximately 6,800 clients in urban **Bangladesh**. Central to Safesaves' Savings and Loan Account is a daily door-to-door collection from clients. From the perspective of savings, the frequent visits by deposit collectors can facilitate clients to commit to saving more today. In particular daily deposit collection provides discipline without the obligation and compulsion that goes with the established fixed instalment model. The Savings and Loan Account is reported as their only savings product.

First State Community Loan Fund is a non profit organization that manages the matches of Individual Development Accounts (IDAs) in 3 counties of **Delaware, USA**, covering urban, tourist and agricultural areas. The program has 450 IDA accounts allocated to them, of which 143 are used to date. This IDA program started in November 2001 and witnessed a growth in accounts in June 2002. IDAs are savings accounts that are matched 1:1 or 1.5:1, depending upon the population served. They require minimum monthly deposits of \$25 to a maximum of \$1,500 that will be matched. The minimum savings term is 6 months. Furthermore, IDA contracts are governed by restricted use; savers must commit to save for a specific goal, which has been defined by this program to be:

- post-secondary education
- homeownership for first time home-owners
- small business start-up or expansion

IDA accounts are joint accounts between the saver and First State Community Loan Fund. These accounts are held in commercial banks. When the account matures a check with the account's money is made out to the provider of one of the three allowable savings goals. For example, a check is made out to a post secondary educational institution.

Banefe- Banco Santander is a commercial bank operating in **Chile's** urban areas serving approximately 750,000 total clients. Its Superahorros account allows the client to save without noticing due to its automatic transfer feature. The client can specify a fixed monthly amount that is then deducted from his/her credit card or checking account, wherever his/her

salary is deposited. These monthly deductions are placed in the Superahorros account. The Superahorros account is one of Banefe's most popular accounts, serving approximately 90,000 clients. The product is targeted to micro entrepreneurs and salaried employees but does include a variation that is targeted to children, which has a lower monthly deposit requirement. Also in Chile Bandesarrollo Micro empresas is a bank serving approximately 36,000 clients in urban and rural areas of Chile. Its Cuenta de Educación offers clients a long-term savings plan to meet the future expenses of their children's educational fees. The account has restricted withdrawals (a maximum of 6 per year). It also assists with devising an appropriate savings plan for the client by calculating how much one has to save to meet the future educational expenses.

Other high performing economies in **Asia** created a secure bank-based financial system through storing financial regulation, good supervision and industrial reforms. Some governments used a variety of interventionist mechanisms to increase savings. While **Singapore** guaranteed high minimum private savings rate through mandatory product fund contributions, countries like **Korea** imposed stiff taxes on conspicuous consumption and mortgages. The republic of Korea encouraged voluntary savings of the household sector by developing an attractive long-term savings scheme while increases in corporate savings also resulted from varied forms of incentives from the government.

In **UK**, the system of savings revolves around tax relief. There is generous tax relief for pension contribution especially for high earners, and there is a large range of tax free or tax

favoured products. The free lump sum in the pension is a very valuable benefit to a higher rate tax payer. However, the largest benefits accrue to those who were higher rate tax payers in retirement. They receive five times the amount for the lower income group.

4.0 THE NEED FOR ENHANCED SAVINGS

Saving portends many benefits for the society and the individual. As contained in the theoretical literature, the importance of savings to the economy can be positive or negative. This depends principally on the condition of the economy. For a depressed economy savings can exacerbate the harsh conditions of the economy. This is because savings would deprive such an economy of consumption expenditure needed to revive the economy. This thinking is better understood with the paradox of thrift propounded by John Maynard Keynes. The paradox states that if everyone saves more money during times of recession, then aggregate demand will fall and will in turn lower total savings by the population. Its argument is that if everyone saves, then there is a decrease in consumption which leads to a fall in aggregate demand and thus leads to a fall in economic growth.

The proponents of this idea, however, did not completely refute the importance of savings in an economy. Rather, they believe that it is virtuous only up to a point. It is laudable up to the point businessmen in the economy wish to borrow for investment. A number of economists [particularly the classical school of economists] are of the view that since what was saved was later invested, there could not be excessive saving. Thus, savings would ensure economic growth and its flow needs to

be encouraged and sustained.

The benefits of savings are not limited to the macroeconomy. In fact, saving accrues more benefit to the individual than to the overall economy. It is critical to households both in developing and developed countries. This is because savings smoothens consumption in the face of volatile income. In addition, it supports household investments in human and physical capital. Accumulated savings can also buffer expected or unexpected spikes in household expenses due to childbirth, school fees, home repairs, life-cycle celebrations, etc. Savings may also cushion familiar risks [due to illness, theft, or job loss] or structural risks [due to war, floods, or fire]. It may allow people to take advantage of unexpected investment opportunities. In summary, savings are often simply a hedge against uncertainty.

As stored resources, savings are useful for wide range of purposes. Without it income shocks could leave permanent scares on households. Thus, it is prudent to sacrifice to some quantity of current consumption in order guarantee some level of future consumption. There are some life-events that require planning and savings: retirement, home purchase, tertiary education, etc. While household savings are not only directed at these life-events, they are the ones that can be predicted far enough in advance to warrant planning and saving arrangements specific to the task.

In Nigeria, like in many other developing countries, owing to the absence of efficient credit and insurance markets, household savings are a crucial determinant of welfare. Though there are many benefits to savings Nigerians have been considered not to save enough.

Individuals often do not seem to understand how or why they should save and this is particularly the case for the less well-off members of the society. A greater amount of low income groups and those in the informal sector of the economy have no savings at all. Those of them that save maintain only short-term thrift collection which can only be used to finance day-to-day needs. It is pertinent to mention that poverty does explain the saving habit among the low income group. The explanation lies in the lack of financial education in the society as a whole reinforced by inadequate incentives to save.

4.1 BARRIERS TO SAVINGS IN NIGERIA

Given the many benefits (both to the individual and to society as a whole) that savings can bring there must be serious reasons why people do not save enough. Some of the factors accounting for the low level of savings in Nigeria include:

- Many people feel that the risks and difficulties of saving outweigh the risks and difficulties of not saving.
- People often do not seem to understand how or why they should save when their income barely solve their problems.
- Lack of confidence in the financial institutions
- Possessing the necessary identification required to open an account may also be a hindrance.
- High Incidence of poverty and low nominal disposable income
- Underdeveloped capital markets
- Financial sector distress

- Conspicuous consumption
- Unfavourable economic environment characterized by high unemployment and inflation.
- Finding savings boring and difficult
- Not wanting to pay for financial advices

In order to improve the overall welfare of Nigerians there is the need to enhance savings. The government might have to go beyond moral suasion in its attempt to promote savings and come out with a saving programme with adequate incentives. There may also be the need to develop a credible framework which would enable people save all through their lifetime. A sustainable savings culture would go a long way in giving people assurances about their future. This could ensure that life expectancy is elongated and would improve the good of the overall economy.

5.0 A FRAMEWORK FOR ENCOURAGING SAVINGS IN NIGERIA

According to Nnanna (2003), savings culture can be influenced by institutions and regulatory agencies that direct the decisions of households, firms and governments. In line with this assertion, the Nigerian government have made efforts to promote savings in the country. These include the introduction of the National Savings Certificate (NSC), floatation of the Federal Government bond, the introduction of the new contributory pension scheme, among others. In addition to these, financial institutions within the country have designed formal savings products to sooth the perceived needs of their clients. Some of these products, though available to all, are not

accessible to those in the informal sector and the low income group. Operators at the informal sector consider these efforts rather too formal and too expensive. The framework for enhancing savings is discussed below in two folds: the [informal] micro-savings and the lifetime savings framework.

5.1 THE MICRO-SAVINGS FRAMEWORK

Micro-savings have always existed in Nigeria but have usually been mobilised informally. Individuals use this informal micro-savings structure to smoothen consumption, prepare for emergencies and fund large purchases. The existence of this mechanism suggests the willingness of Nigerians to save. Households and individual use the financial services to turn small, frequent cash flows [such as daily proceeds from food vending] into usefully large sums [perhaps to buy a deep freezer]. Research on informal savings mechanisms suggest that participants accede to it because they want low transaction costs and assistance with deposit discipline.

Transaction costs are non-price costs of financial services. It may include waiting time [opportunity cost of time to make deposit or withdrawal], transportation, etc. For the poor, these costs, which are usually indirect and incalculable, may offset all other factors in the choice of savings mechanism. Deposit discipline comes with the social obligation to save a stipulated amount over a given period. Cash at hand or at home is easier to "withdraw" and spend than cash at a "bank". To maintain this savings people would have to resist short-term wants and consumption pressures. These pressures weigh less if cash is out-of-sight and out-of-reach.

The major forms of informal micro-savings mechanisms currently existing in Nigeria are: door-to-door thrift collection, rotating savings, and savings clubs. These are discussed below.

a. Door-to-door thrift collection

Under this arrangement, poor people often pay others to collect and to keep their savings. Deposit collectors visit their clients often at their doorstep, market stalls, workshops, etc., to pick up a small but fixed amount. The practice is that the clients make daily deposits for a month [usually for 30 days]. At the end of the month, the collector retains two days deposit [as his charges] and returns the balance to the contributor. The process starts off again immediately and continues cyclically until either party gets tired or loses interest in the transactions for any reason.

These transactions are usually attractive to the low income group and operators in the informal sector because it is almost devoid of transaction costs. Exchanges take a few seconds and occur where savers live or work. Furthermore, the presence of the collector may prompt the saver to find a way to save something, even when it is not convenient. The saver willingly submits to this pressure because taking the easy way out in the short-term might be detrimental in the long-term.

b. Rotating Savings

In Nigeria, small groups could come together and make fixed contributions at intervals. The membership of these groups on the average usually ranges from four to twelve. The contribution is gathered into a pool which is then collected by a member. In turns, each

member gets the pool. Technically, those who are yet to receive the pool are savers, while members who have already collected the pool are debtors. Like in thrift collection, rotating savings offer low transaction costs and the pressure to save regularly. Transaction costs are low because members constitute people who know and trust each other and who already meet regularly or live or work close to each other. There is always the pressure to save [contribute] because failure to do so reduces the pool for other members.

c. Savings Clubs

This arrangement could be described as a large-scale rotating savings or small scale credit unions. It is usually run by religious groups, social clubs, or trade unions. It has low transaction cost because members make deposits at regular meetings. The public nature of the deposits imposes external pressure to save. This arrangement is more flexible than the rotating savings because each member chooses the amount to deposit and the interest might be paid on deposit balance. The cycle usually starts and ends near major events [such as Christmas or harvest] that require or produce large cash flows. The contributions are usually invested or kept in banks by the custodian for the funds to earn returns pending the end of the cycle. At the end of the cycle, each member collects the total amount deposited sometimes with interest.

5.1.1 Formalising micro-savings mobilisation in Nigeria

Though informal savings mechanisms are useful, they, however, do not remove the need for formal services. It is true that the mechanisms has a few advantages [especially low transaction cost] over

the formal system, it nonetheless has its own disadvantages. For instance, formal savings services offer greater safety, higher rates of return, anonymity, etc. It may be useful to combine the strength of the informal with the strength of the formal to ensure enlarged micro-savings. If this suggested hybrid version of savings is adopted it would go a long way in enhancing savings in Nigeria.

One attempt to combine the merit of formal and informal savings mechanism is the SafeSave concept introduced in Dhakar, Bangladesh. The central innovation was to hire door-to-door collectors to visit clients daily. This keeps transactions costs low but adds the safety and positive returns of a formal savings institution. Clients may make deposits of any size [including no deposits] or request a withdrawal, to be delivered next day. SafeSave as operated in Bangladesh does not provide much social assistance with savings discipline nor are its savers hidden from public view.

In Nigeria, this could be modified to suit the needed purpose. It could begin with the monetary authorities enacting a regulation which would make financial institution mobilise [compulsorily] a certain amount of micro-savings from the informal sector. These financial institutions might then deploy its staff to go door-to-door collecting thrift or they might outrightly contract a known and established deposit collector to undertake the task on their behalf. The thrift collectors or officials of the financial institutions, in order to win the unflinching trust of savers, would need to relate with the contributors in a very informal way. To ensure the entrenchment of savings discipline, mild penalties might be introduced for withdrawal outside the scheduled time.

The proposed framework has many sides and features and should target the low income group, artisans and operators at the informal market of the economy, who would need assistance with their savings. One feature is that its benefits and contributions are defined in order to ensure depositors' commitment. The objective of the scheme is to enhance the long-term welfare of the low income group. Given the fact that most people want to save more than they currently are doing, but would typically leave the savings till tomorrow, there is the need to introduce deadlines. Deadlines are sometimes needed in order to inspire the savings to occur. The threat of losing the benefit must be sincere and the consequence to missing the deadline must be significant enough to inspire depositors to make the savings payment. Without deadlines, an individual might prefer to postpone saving in hope of saving more later to make up for the immediate shortfall. The deadline ensures that savings is regular; this regularity arguably leads to higher overall savings.

In this framework, deposits could be designed to coincide with periods of expected rise in income. Individuals who expect a windfall or wage increase in future could commit now to save a certain proportion of that increase. The idea is simply that if the individual waits until the increase is realised to form a new savings plan, then the immediate urge to consume that increase will dominate and no additional savings will occur. This mechanism can target a group [e.g. farmers, traders, etc.] and the expected cyclical rise in income [e.g. harvest, festive seasons, etc.]. Farmers, for instance, might be willing to save a certain percentage of income from increased proceeds from harvest season crop sales. Unless the transaction is prearranged, it could be difficult to get the farmer to save when

proceeds of the harvest are received. By incorporating the commitment to save with the payment, even if the commitment is not totally binding, savings might eventually be found to increase. This could be applied to all low income professionals or artisans.

For this micro-savings framework to be successful there must be unwavering commitment. Perhaps the most common and straightforward commitment savings feature is the restriction on the use of funds. Savings could be purpose specific and withdrawals tied to expected future needs such as education, health care, and old age. It is believed that money saved for a particular purpose is likely to be spent on that purpose and hence will affect savings and consumption decisions. This is to the extent that individuals want to save for particular purposes but have difficulty doing so with their normal savings account. A special account for that purpose in fact could inspire increased savings towards that purpose. Ensuring the success of target savings might require more than moral suasion. The programme should, in fact, try to enforce the direct use of funds. Releases of funds to vendor [e.g. schools or hospital] should be monitored and verified in order to encourage savers to utilise the funds as planned.

Withdrawal of savings outside targeted periods should be discouraged as much as possible and could be allowed based on its merit and should also be on a case-by-case basis. The target group of this scheme needs to be given financial enlightenment in order to understand its importance to them. In order for this micro-savings mobilisation scheme to be successful, there is need for external support and rewards which might be in the form of higher and tangible interest rate or even a

matching donation. This is where the impact of the government is required. Financial institutions can not be made to reward micro-savings depositors from their coffers. They should bear the operating cost of collecting the deposits while the government pays the reward. The announcement of a matching donation of a certain amount of naira for every, say one thousand naira, contributed fortnightly would go a long way in enhancing the micro-savings mobilisation.

5.2 A framework for establishing a lifetime savings Culture

It is becoming increasingly necessary to encourage long-term savings and ensure sustained welfare of people throughout their lifetime, especially in old age. In order to get more people [of all income group] to save for more years it is necessary to change the social attitude and establish a framework that would ensure a life time savings culture. Individuals should be encouraged to save in various forms including the formal micro-savings framework, government bonds, NSC, and patronage of the new pension scheme. A form of lifetime savings which, though already existing in Nigeria, suffers low patronage [especially from the low income group] is life insurance. Individuals sometimes do not want to [or are not able to] take the perceived risk of locking their money for many years. This notwithstanding, they may be advised and encouraged to save in other vehicles. If individuals are scared to put their money in a "locked box" [away from their access] they could be encouraged to save in medium term or shorter term vehicles first, and later transfer to longer term savings [with saving for old age as the ultimate terminus]. There is the need to make savings easier to understand,

with better incentives and a more integrated coherent system.

A lifetime savings system can address this. It could be designed as a one-stop shop for lifetime financial needs of both the low, medium and high income groups. The starting point of this framework would be the opening an individual savings account. For the low income group this could be in form of the formal micro-savings account described in the preceding section. In addition, special target savings account [e.g. education, health, children, etc.] could also be operated. Currently in Nigeria many deposit money banks operate these special savings products. Patronage has, however, not been optimal especially

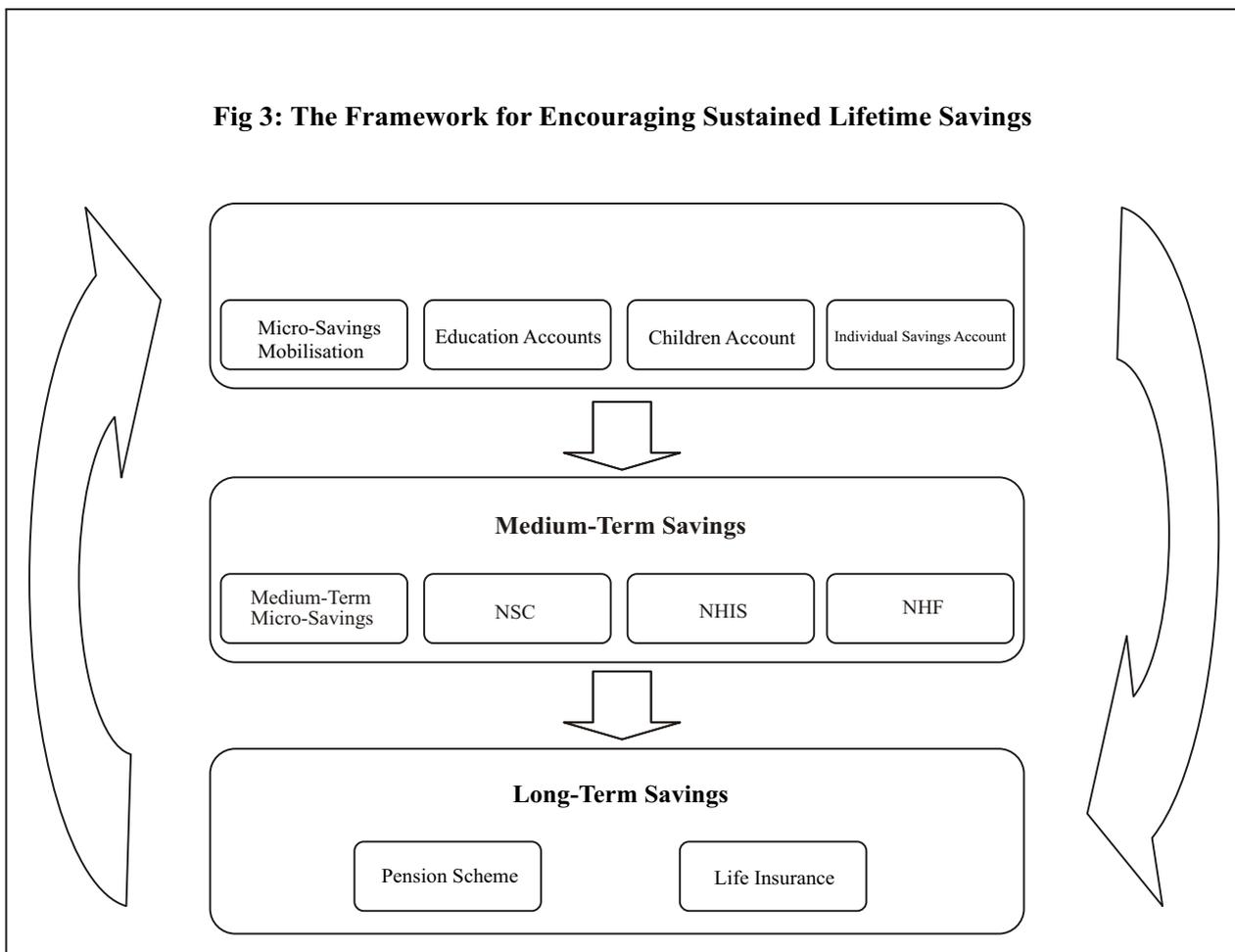
among low income groups owing largely to lack of awareness reinforced by low incentive. Thus, financial education, fair incentive and cooperation of the banks are integral for the success of the framework.

After establishing the individual savings there is the need for medium term savings such as purchases of medium-term government bonds, subscription to the NSC, the National Health Insurance Scheme (NHIS), the National Housing Fund (NHF), etc. An important feature of this phase is that individuals should be able to borrow short-term against the funds especially in cases of emergency. The last stage of the framework would include the incorporation of life

insurance and the pension's scheme. This framework if well managed would ensure continuous and sustainable savings especially for the low income group who are constantly in need of guarantee for old age welfare. The matching donation could be adopted in the first phase and increased in subsequent stages to encourage further saving.

The figure below shows a complete picture of the framework for mobilising and encouraging lifetime savings, especially for the low income group. This framework could be used to ensure smoothening of consumption in the face of volatile income flows and also to enhance the welfare especially later in life.

Fig 3: The Framework for Encouraging Sustained Lifetime Savings



6.0 CONCLUSION

The informal sector of the economy consists mainly of low income group who desire to save for different reasons. These could include saving to finance a specific project, to ensure smoothed consumption, or to guarantee quality welfare at old age. Most of these individuals, however, make only very short-term informal savings either with deposit/thrift collectors or through rotational savings. This is basically due to low transaction cost and the pressure which ensures deposit discipline. It is

a fact that most people, in the absence of any pressure to save today, would postpone saving until later, leading to a viscous trend of savings procrastination. Informal savings mobilisation in its current form has its disadvantages. The merits of the informal savings scheme could be combined with that of the formal savings system to produce a somewhat hybrid savings framework which could serve the needs of low income and poor groups. There is also the need to provide a framework that would ensure that micro-savings mobilisation is projected into a longer-

term. For this framework to be successful there is need for a credible system of reward and incentives for saving. Thus, the paper presents a lifetime framework to show how micro-savings could be integrated with other existing products and government initiated programmes [e.g. NSC, NHF, NHIS, etc.]. This integration, if successful, would ensure that the low-income group maintains smoothed consumption and also have assured welfare in old age. This could have a positive effect of elongated life expectancy and would improve the overall good of the economy.

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