



Chapter 3 - FINANCIAL EDUCATION

3.2 SAVINGS



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Saving services

In order to start a business it is good to have savings. Savings will also help you during the initial stage of your business when the profit is small. There are different types of saving services, they are generally divided in three main categories: formal, semi-formal and informal

FORMAL

e.g.: Bank, Post office, Credit Union, Regulated Microfinance Institution (MFI)

Those are regulated by a government agency to ensure the safety of your money. Generally they pay interest on your savings, and some of those institutions insure your saving.

SEMI-FORMAL

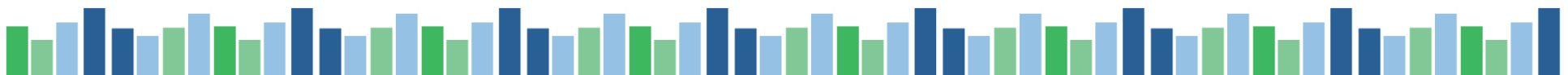
e.g.: Non-regulated MFI or cooperative, savings collectors, credit association, solidarity group

This category is in the middle between formal and informal, because they offer organized services, but they are not regulated by the government.

INFORMAL:

e.g.: At home, in kind (gold, land, etc.), etc.

A saving method you generally manage by yourself, usually at home.



Saving services

Since it is not easy to decide which kind of saving service is suitable for you, you can find the advantages and disadvantages for each category in the following table.

Saving Services	Advantages	Disadvantages
Formal	<ul style="list-style-type: none"> • Safest option • May earn interest • Access to wider range of savings products • Help to manage money • Can save time on bill payments 	<ul style="list-style-type: none"> • Low remuneration • Minimum deposit required to open account may be barrier • May charge fees • Long lines and delays inside bank • Less accessible to poor and those who cannot read and write
Semi-formal	<ul style="list-style-type: none"> • Easy Access • Savings often linked to credit • May earn dividend on loans made with savings. • Group rules about frequency and amount of deposits encourages saving 	<ul style="list-style-type: none"> • Safety not guaranteed • May or may not earn interest • May have limited or no access to loans • Limited access to savings or withdrawals subject to group approval
Informal	<ul style="list-style-type: none"> • Easy access • Value might increase overtime • Must sell to access cash- decreases temptation 	<ul style="list-style-type: none"> • Not safe • Too easy to spend and waste on non-essential items • Difficult to liquidate in case of emergency • Value could decrease overtime • Risk of theft

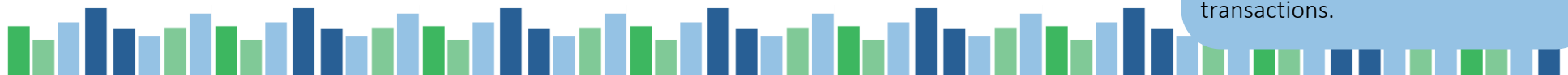
When choosing a saving method, you should consider the following characteristics:

Access to savings/ Flexibility of withdrawal; Convenience and ease of use; Requirements for opening a saving account; Safety; Interest Rate; Cost of savings; liquidity.

The content of the table on the next page will help you to ask the right questions and get the necessary information to decide on a saving method.

Interest Rate: A modest percentage of money you saved paid by banks and other financial institutions to the deposit account holder.

Cost of Savings: (Fees) Different institutions may charge fees for transactions.



Saving services

Access to savings/ flexibility of withdrawal	<p>Do you have to commit to saving a set amount at regular intervals or over a certain time period?</p> <p>Are there rules about how much you must deposit and when?</p> <p>Are there rules about how much you are allowed to withdraw and when?</p> <p>Can you withdraw the money at any time without penalty?</p> <p>Does it have an ATM network?</p>
Convenience and ease of use	<p>Is the account convenient?</p> <p>What are the institution's hours of operation?</p> <p>Is it open at convenient times?</p> <p>Are transactions quick and confidential?</p> <p>What is the quality of customer service?</p> <p>Is information on the account easily available?</p> <p>Does it provide statements?</p> <p>Are they easy to understand?</p> <p>Are the application procedures easy to follow?</p>
Requirement for opening an account	<p>Is there a minimum deposit required to open the account?</p> <p>Is there a minimum balance required to keep the account open?</p> <p>Are small deposits accepted?</p> <p>What documentation is required for opening an account?</p>
Safety	<p>What is the reputation of the institution?</p> <p>Does it have insurance or other guarantees to safeguard funds?</p> <p>Are the telephone or electronic transactions safe?</p>
Interest rate	<p>Will your savings earn interest? If so, how much?</p> <p>How and when is the interest paid?</p> <p>What is the difference in interest rates earned across different types of savings products or plans?</p>
Cost of savings	<p>What fees are charged for deposits, transfer, withdrawals, or passbooks?</p>
Liquidity	<p>How easy is it to withdraw funds from the account?</p> <p>Will the full amount be available?</p> <p>Are fees charged if the funds are withdrawn before a specified date?</p>

