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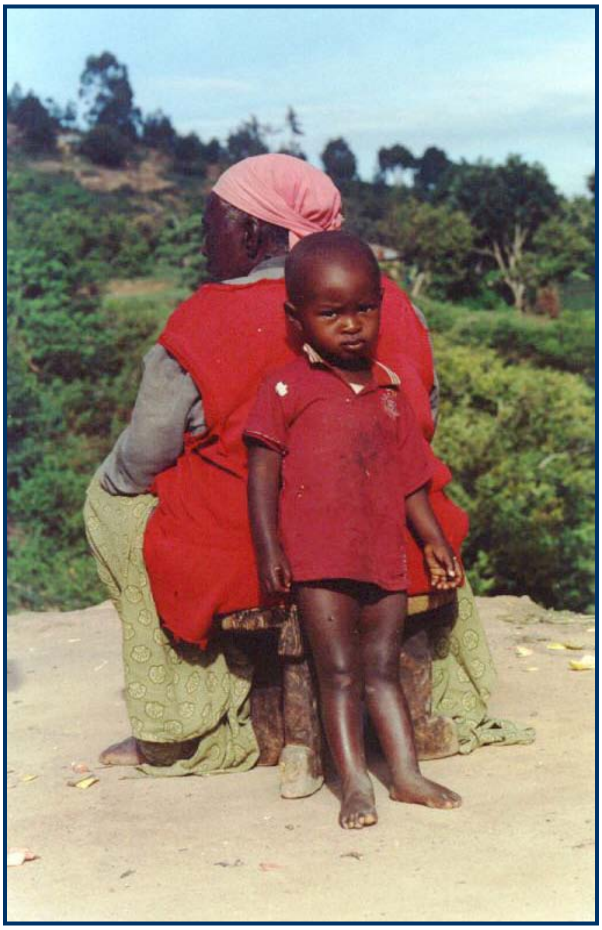

June 2005

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Developing Security for Low-Income People in Old Age in Africa[1]

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Introduction

Demographic changes are being noted globally as a result of declining fertility rates and rising life expectancy. With an aging world population, both the number and proportion of the aged are on the increase. Presently, two-thirds of the world's older people live in developing countries. By 2050, this will increase to 80 per cent. In terms of numbers, the number of people aged over 60 in the developing world is predicted to rise from 375 million in 2000 to 1,500 million in 2050 (Gorman, 2004).

In sub-Saharan Africa the number of people aged 60 and over, will more than double in the next 30 years, despite the impact of HIV/AIDS on life expectancy at birth (Gorman, 2004). Africa's older population will have increased to 204 million by 2050 from the present 42 million (HelpAge, 2005a) which will make more than one in ten in sub-Saharan Africa to be over 60 (Gorman, 2004).

This growth rate of the elderly population will bring with it economic and social problems the effects of which will be seen at different levels – the individual or, the continent as a whole. This generation of the aged will increasingly face additional crises arising from two fronts: disintegrating social safety nets and from the effects of HIV/AIDS.

While 50% of Africans are living on less than a dollar a day, less than 10% of those in Sub-Saharan Africa are covered by social security (i.e. those who have been employed in the formal sector). Close to 90% are therefore excluded while many of those who are covered receive benefits that fall short of their basic needs (HelpAge International, 2005).

Of the forty nations with the highest rates of HIV/AIDS prevalence in adults, thirty-seven are in Africa (CIA -The World Factbook,). Around 60% of orphans in sub-Saharan Africa live in households headed by grandparents (HelpAge International, May 2005). A study undertaken by WHO on caregivers of orphans and other vulnerable children in Zimbabwe in 2002 found that 71.8% of caregivers were over 60 years, 74.2 % of them women. A major reason for this is the high prevalence of HIV/AIDS in the continent. (HelpAge International, 2005a). In Kenya, of the 1.7 million orphans, 650,000 have lost their parents due to AIDS (HelpAge International, 2005b).

This paper focuses on developing security for low-income people in their old age. The question, which is relevant for this population, is more often - what happens when a person is no longer able to earn money due to old age or infirmity? Or sometimes how does one support oneself after retirement? So, 'old age', a relative concept, has been used in this paper in relation to the regular income earning capacities of people, regardless of age or source of income. The paper dwells on how they prepare/cope with the changing situation and if microfinance has any role to play in securing them during their old age.

Research Methods

Over 180 respondents participated in focus groups in Kenya, Tanzania and Uganda. The focus groups were driven by a discussion guide and by ranking exercises specifically designed to examine how people prepare/save for old age and which financial services might assist them to do so.

Challenges of Old Age

People get used to a regular life style during their productive years, and then, with age, comes the time when they cannot support themselves any longer. People lose their direct source of income and have to depend on previous investments, if any, or on their social safety nets.

[1] We are most grateful for the assistance we received from Faulu-Kenya, Equity Bank, FINCA-Tz, Pride-Ta and U-Trust. These institutions assisted with the organisation of the focus groups.

Economic:

Small regular source of cash: For most of the respondents, meeting basic needs of food, shelter and clothing is the biggest challenge in old age. The issue is not the high cost of these consumption needs but that of planning which will ensure a small but regular source of cash during old age.

Perhaps unsurprisingly, food is the biggest expense - and old people are reported even to die of hunger. This is more common in urban and / or in the remote arid areas where earning from *shambas*[2] is next to impossible. In East Africa, most of the elderly population is found in the rural areas, as those who worked in urban areas prefer to shift upcountry on retirement. This move often gives rise to a need for money to set up a new house or repair an existing one. Age brings in physical weakness and illness, and thus creates substantial expenses. This is because the aged have to travel to urban centres to receive medical care as the rural / remote areas have very poor or no medical facilities. Prevalent diseases include cancer, psychiatric problems, TB, diabetes, stress, blindness or poor sight and heart related problems. Divon Kimondo, a taxi driver in Nairobi says, *"It is not that the poor living upcountry need a lot of money, but they do not save up for even a small amount. People do not worry about the future. Also our income is so less, we spend everything to meet our regular consumption needs"*.

Mismanagement of funds: Those people privileged enough to retire with a pension from a company or the government often receive a lump sum. This brings its own dangers. In many cases, lack of knowledge on investments or of business acumen leads to the loss of the whole amount within a very short time. A respondent in Kangari, in Central Province of Kenya said, *"Those who were employed suffer more than business people, the employed are unable to cope … business people are sharper and know how to look for money"*.

Access to credit: People who retire at 55, or when they reach this age feel that they are still capable of working and may merely want to shift to some work/business that demands less physical labour. As a result they may want credit to start a business but lack the necessary collateral in the form of assets or savings. Epainitus Mwigai, 48, a telephone operator in a small hotel in Nairobi says, *"I will be working for another 7 years. I would want to start a business after that. But from where will I get the money? I have no savings or assets to mortgage as security."*

Social

Excess financial costs: The HIV/AIDS pandemic is shifting much of the responsibility for taking care of children to their grandparents - who themselves are often in old age and have meagre income. "Average life expectancy is 52 years in sub-Saharan Africa, and efforts to increase it and make aging healthier are put at risk by the AIDS pandemic. The extended family has been a very resilient agent of support for the elderly, and studies show that most rural elderly have traditional tasks, such as caring for children, which are mutually beneficial Extended family members, mainly the women, usually care for the elderly. However, AIDS threatens the viability of this system.

Grandparents are often left with few financial resources when their economically active sons and daughters die, but they are compelled to try and act as a complete substitute for the parents in caring for their orphaned grandchildren. Instead of reaching the time they had looked forward to, of being looked after by their children, they are faced with the arduous task all over again of raising children and finding money for clothes, food and school and clinic fees" (Hampson, 2005).

These practices leave many elderly people caring for children of school going age. Meeting educational expenses after retirement is a big challenge. Furthermore, the number of single mothers is high and on the rise, and this adds the financial burden of the grandchildren from unmarried daughters or separated/divorced daughters. James Kijua Maliti working as a housekeeper/cleaner in a hotel in Nairobi says, "*We are ten siblings, my mother, a widow, has to take care of my younger siblings, four of whom are of school going age (but the elder two have dropped out) and now she also has to take care of my sister (19) who came back home last month with two children"*.

[2] Very small scale farming usually on land measuring two acres or less that acts a source of supplementary income for rural households.

Social Challenges: When people retire their lack of engagement in work makes them feel unwanted, a problem exacerbated by the disintegration of extended family structures, which have left parents and grandparents uncared for. This results in a feeling of loneliness, neglect and depression. The old are often made to feel that they are a burden to the society. As one respondent said, " *They* (old people) *die early due to stress*". Old people in rural areas are associated with witchcraft, which leads to some old people being social outcasts and further increases loneliness. *"As we grow old and young people start dying around the village, it's believed that we are the ones bewitching them"* says Kiiza, 55, a retired teacher from Kawempe division a suburb of Kampala, Uganda. Lack of money for transport and communication, which would have allowed them to visit children and relatives, aggravates the issue.

Some African countries, like Cameroon, have specific issues. Older people in Cameroon face a multiplicity of abuse of their rights, and are often imprisoned for flimsy and sometimes trumped up charges. Elderly Cameroonians own almost 80% of the land both in towns and villages. With the rising value of and demand for land, the rich and energetic younger people are keen to acquire the land and find ways to chase the old out. A legal battle which is required to follow is costly, almost always land them in jail due to lack of sufficient knowledge of existing land tenure laws, inability to hire lawyers, inability to speak French or English, no option of bail (HelpAge, 2005).

Preparing for Old Age

The study revealed both economic and social issues in relation to preparing for a secure old age. On the social front, respondents felt that Africans in general do not consciously plan for their future – there is little or no culture of saving up for future needs. Daily consumption needs take priority even though these are not always restricted to necessity items. Hence money, which could have been saved for the future, is used up. "*A lot of people do not prepare for old age, they take life easy, they do not think about the future, they come to regret*" says a respondent from the tea growing area of Kangari in Central Province, Kenya.

The common activities that are taken up, more as traditional practices, rather than as a conscious preparation for old age, are as follows:

Investment in Assets: Savings in the form of lump sum cash is rare. Most people save up to invest in some asset, which is expected to reduce costs (for example, build a house and save on rent in old age) or to help earn cash (cows, to earn from selling milk and calves, or rent from previously constructed low cost houses).

In rural areas, the most common form of investment is buying farmland for subsistence or supplementary income by selling some part of the produce, for example– vegetables or fruits. In other areas, they exchange farm produce for items such as milk, beans, maize and bananas. Most households have livestock (cows, goat, chicken), which help earn money by selling milk and eggs, sale of calves (the animal is reared by a household, the owner gets the first two calves, the cattle rearer gets the next), or sale of animal to meet emergency, mostly, big medical bills. Some long-term investments are also made in cash crops such as coffee, tea and vanilla. In recent years planting trees has become a lucrative business because of the high demand for wood (for charcoal, construction of houses, firewood for the tea factories, as well as for domestic use, and for electricity poles).

In urban areas in particular, people build houses/buildings for living or for renting out. Others invest in working tools such as weighing scales, brick making machines, workshop tools etc., which help earn income from them later.

In simple terms, the common trends in investment may be categorised as:

- Those with small savings commonly invest in small-scale farming (growing crops and rearing animals),
- Those with medium sized savings invest in small businesses e.g. butcheries, trading or rent farms for commercial farming.
- Those with larger savings invest in plots and build houses for rent, or buy a tractor to farm in large wheat farms.

Investment in Children: While school fees constitute a significant part of household expenditure, parents view this as an investment, assuming that children will take care of them in their old age. Depending on the social background, some send their children to school or engage them in vocational education to acquire skills through apprenticeship, while others invest in their children by ensuring they get to university and get good jobs.

Education is expensive in East Africa. In Kenya, education is free in government primary schools. Ordinary private schools cost about Ksh. 60,000 ($800) annually. Secondary school costs Ksh. 45,000 to Ksh.60,000 ($600-800) per child per year. There is additional cost for books, uniform, stationary, boarding and food. A common feeling among the respondents is, "*We parents try to give our best to our children, they are our biggest investment. But with the way things are changing one can never be sure of returns on this investment*".

Invest in parallel business: Many employed people invest in small agricultural projects or small enterprises during their employment years, which are run by their children or other family members, until they take over after retirement or old age. Those who can accumulate a lump sum, invest in long-term businesses such as building schools or renting houses in the towns and cities.

Save Cash in Banks: Saving up cash in banks is not the most common way to save. Most citizens of East Africa simply do not have enough faith in banks to entrust their long-term savings to them: *"…many banks have collapsed in the past…we do not trust banks anymore…"* In addition, banking charges are very high – particularly in Kenya. Market Intelligence's Banking Survey of 2004 identified 129 different types of charges levied by banks on their customers. With the small amounts that people mange to save, customers feel that banks deduct too much of their savings for two little service. Chris, a taxi driver in Nairobi says "*I have withdrawn my savings and stopped operating my account in Kenya Post Office Savings Bank as they deduct Ksh.720 from my savings as ledger fee, they charge me a withdrawal fee for a service for which I have to stand two hours in a queue while I am also missing out on business opportunities."* James a salary account holder in Akiba Bank has the same to say, *" I am charged Ksh.100 for every withdrawal. That most often would be half or the total amount I would want to withdraw. So I keep withdraw a lump sum when my salary is credited, and retain it with me, though I know it makes me spend more and also my money is not safe in my house in Kibera [biggest slum in Africa]."* Some respondents said that while people save up in banks through savings accounts or fixed deposits, these were more for short-term needs than very long-term requirements.

Informal Groups: Most women respondents (from low and middle income groups) and men (from low income groups) are members of informal financial groups – the "merry go-rounds" or Rotating Savings (and sometimes Credit) Associations. These bodies help them to save up some money that is eventually invested in an income-generating project or to buy small household items. Women attach a lot of importance to these groups for two reasons: firstly the social benefit of being part of a local homogenous group and secondly the secrecy of the membership and/or the amount saved from their husbands. Small amounts earned from activities such as gardening, charcoal burning, thatching houses, lawn mowing and other menial jobs[3] are saved in these informal groups. The small amounts earned from such activities are saved in these informal groups as they accept small deposits at frequent intervals. Women find value in saving with microfinance institutions such as Faulu and savings and credit cooperatives so that they can borrow against these deposits. The money borrowed allows them to purchase plots of land, and/or livestock or to expand their small businesses. Only those people who are more informed and better off invest in shares, co-operatives and insurance policies.

Methods of Saving

All the above activities require funds big or small, short term or long term. These amounts are acquired in various ways.

Specific Schemes: With the lack of a strong savings habit and reliable financial system for the low-income people, cash savings come mostly through forced savings as government schemes (National

[3] This differs depending on whether it is rural or urban and may also differ by community e.g. the Kikuyu are more likely to engage in farm employment while the people from Western Kenya would engage in thatching houses.

Social Security Fund - NSSF), welfare schemes in cooperatives. Some people also join cooperatives for the purpose of borrowing against their savings. These loans help them buy assets, which will in turn bring income in their old age.

Cash Savings: Savings in cash are mostly short term, with an aim to pay for some planned or regular consumption need, or to use as a security to take a loan against it. People feel that income is disproportionate to the expenses and thus savings is not possible. People usually tend to consume all what is earned even before the month end. If however they manage to save small amounts, it is saved up in banks and informal groups or with MFIs.

These small cash savings are not directly for long term. They are short-term savings used to buy assets that will help in the long run to earn income or to use as security to get a loan. As Makanga from Mukono in Kampala, Uganda says, "*This* [savings with an MFI] *is just a stage for this money to rest as I plan for it.*" Talking to clients of *Jijenge*, a contractual savings/recurring account with Equity Bank in Kenya, reveals that people find this contractual savings very helpful in saving up these small lump sums to use mainly for school fees or for buying household items, electronics in urban areas and working tools or cattle in rural areas. However the clients also said, a special savings product like this is not yet understood or popular in the region and thus the bank needs to conduct additional promotion to take the product out into the market. The performance of the product reinforces this - *Jijenge* contributes a very small portion to the deposits mobilised by the bank. By contrast, at BURO, Tangail in Bangladesh, the contractual savings agreement product accounts for two thirds of the net savings mobilised (see below). However discussion with the respondents (staff of Equity Bank and existing *Jijenge* account holders) reveals that more than 90% of the *Jijenge* clients renew their contract as soon as the account matures.

Save at Home: Due to high banking charges, limited outreach in rural areas and poor past performance of banks in East Africa, much of the cash savings would be found under the mattress. This kind of saving is again often targeted but for even smaller amounts, such as, buying Christmas small gifts. When the target is met, the saving cycle is repeated for another purpose. This is relevant for all age groups, especially for the old.

Designing A Savings Scheme For Old Age

Awareness Generation: The most important issue in the design of a savings scheme for old age, which was reinforced by many participants, was that most people do not consciously save. Thus there is a need to educate people on why one needs to save before offering a savings scheme to assist people develop the habit of saving for old age. Advisory services on investment and business planning were also requested, as many retired people lose their accumulated life savings in a few months as businesses fail due to lack of basic business management skills.

Savings Product: An analysis of the challenges faced by respondents and their approaches to saving, as well as their recommendations allows us to suggest the following product features. According to the respondents, the product "*Should target the forties and fifties simply because at this age one starts thinking ahead - 'old-age'.*" Eligibility age should be above 40 and up to 70 years.

The "P"	Features
Product (design)	• Small opening balance and operating balance • Small deposit amounts at high frequency without charges • No or limited withdrawal (may be lump sum every 5 or 10 years) • Long term recurrent, contract or disciplined savings • Free withdrawals (of limited partial amounts) for emergencies – especially medical bills • Should be able to use savings to access loans of partial amounts (90% of the saved amount) or 40% of the total investment • Should have no fund diversion to cover unpaid loan arrears • Save up for a long period of time and at retirement, the saver is given a choice of whether to take out lump sum cash or to be receiving a specified amount of money per month until death like a pension scheme

The "P"	Features
Price	• No or low transaction fees • High returns on investment • Interest rate on loans in proportion to interest on savings
Promotion	• Most important, the product needs to be proactively promoted • All terms and conditions must be explained in detail • Should have excellent customer service for the elderly • Ensure long term security of saved amount - *"We prefer government involvement since what would happen if the NGO collapses"* - *"We dislike government sole involvement in the proposed scheme due to bureaucracy in accessing savings"* - *"We prefer NGOs due to easy decision making"* • Involvement of religious institutions may attract potential savers too. • Incentives and benefits: Should have support services such as treatment, funeral support, counselling and business (investment) advisory services, and medical insurance cover. Special staff who would monitor the scheme, educate people, encourage savings. The respondents also felt that financial institutions could also educate people on how to prepare for old age as well as how to run businesses. • The name of the product should attract potential customers and so should explain the target and purpose, such as: Savings for the Elderly, Long term Savings Fund, Save for the Future.
Place	• Should be accessible in remote areas, as *"services need to be convenient, since we'll definitely become so weak to walk long distances."*
Positioning	• Helps people to develop security • Helps plan a secured future • Cares for the client's welfare even when they are not most productive for the bank
Physical Evidence	• Documentation should be minimal and simple • Branches to have special arrangement for the elderly, especially those who are sick
People	• Good support from staff who deal with clients with time, patience and clarity • Staff specially trained to deal with the elderly
Process	• Should be minimal and simple • Accessing the saving by the beneficiary should be simple • Additional support in counselling/training for business

Another scheme that was suggested was as follows:

A Pension Cum Mortgage Scheme

Many participants felt that their savings made should not remain as cash at the bank but should go into investments in order to generate a higher return. They referred to SACCOs that engage in property investments - although some of these are seen to be unreliable. Thus they suggested that:

- The saver would commit to regular and long-term saving
- The bank would use these (long-term) funds to purchase property (land and/or buildings) on behalf of the savers.
- At the point of retirement or a certain agreed time thereabout, the land would be subdivided into small plots and distributed to the savers.
- If the investment were in building(s), the bank would continue managing the building(s) and the savers would receive the earnings on a monthly basis.
- The saver would be allowed to borrow against his long-term pension savings.
- The bank would also provide insurance services so that in case of death, or disability the policy provides for basic needs.

Conclusion

Demand Side: Currently, low-income people rarely plan for old age – either because they do not think they need to do so until it is too late, or because they are too busy living hand-to-mouth. However many low-income customers require access to emergency funds to respond to crises (and opportunities). These emergency funds can take the form of loans against or of limited withdrawals from long-term, contractual savings.

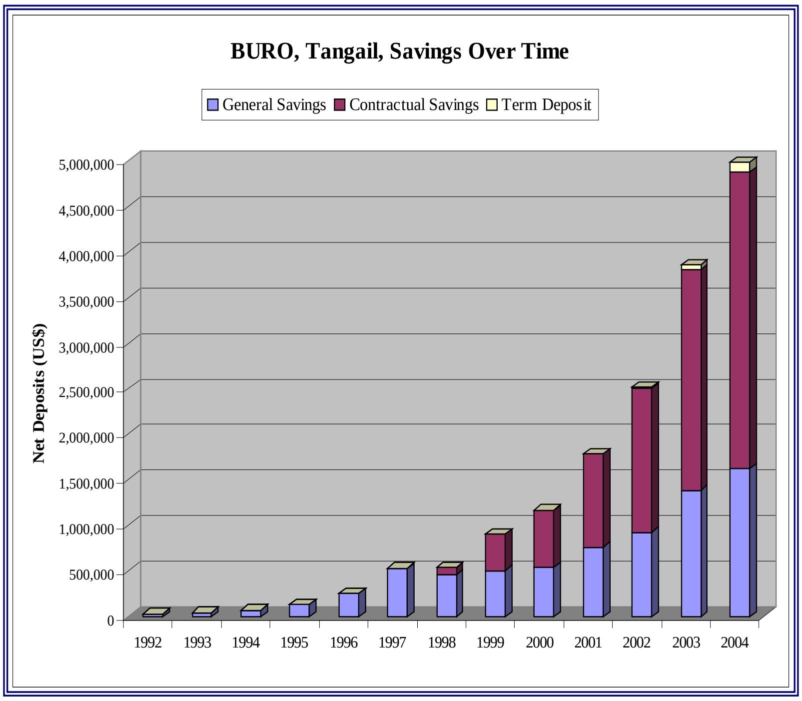
When the low-income people do start to make provision for old age, they are using a variety of informal and often insecure approaches to meet this goal. The most common way of savings is however through small investments in land, housing, livestock, working tools, small business etc. A key reason for savings through in-kind investment in preference to savings in cash lies in the economic trends in East Africa. The inflation rate has varied from 4 and 9 % in the three East African countries and the currencies have mostly devaluated over the past five years (CIA – The World FactBook). This increases the cost of living and have negative impact on long-term savings, especially which is felt by the poor who save small amounts. Furthermore, most banks in East Africa are over-liquid and the T-bill rates in the region are relatively low (as of May 2005 around 8%). As a result banks do not provide attractive interest rates on deposits, particularly for relatively low-value accounts.

While in-kind investments can bring in better returns than cash savings, these approaches often fail – investments are unsuccessful, children do not take care of their parents as hoped, livestock dies, crops fail or people to whom they have rented land or housing do not pay (Wright and Mutesasira, 2001).

Savings in cash is preferred over investment when it comes with specific conditions. For example, for all the discussion of returns amongst the focus group participants, it is above all the discipline of contractual savings arrangements that makes them attractive. Small but regular savings soon generate a relatively large lump sum. As noted above, at Equity Bank in Kenya, even when the interest rate paid on the product was nominal, over 90% of people who completed one *Jijenge* product contract, renewed and started another contract immediately.

Contractual Savings at BURO, Tangail in Bangladesh

BURO, Tangail's contractual savings product has grown faster than any other savings product and now represents 65.5% of the total savings deposited with the institution. At the beginning of 2004 there were 135,091 Contractual Savings Accounts, during the year 48,238 of these matured and were paid and another 89,541 accounts were opened, giving 176,394 accounts (with an average balance of $18.45) as of December 31, 2004. Together these 176,394 contractual savings accounts provided $3,254,672 in deposits as of 31st December 2004. In the eight years since the contractual savings accounts were first pilot-tested in 1997, a total of 305,860 accounts have been opened and 129,466 have matured. At the end of 2004 BURO, Tangail had 221,366 customers and (given that some members have multiple accounts) around 70% of customers held a contractual savings account.



The potential market for long-term contractual savings services to provide security in old age is huge and growing over time. The two potential markets are:

- The middle aged who would require old age financial services in about 20 years time; and

- Young population who join are entering the income earning stage and have shown a rising consciousness about the need for saving for old age.

Clearly the earlier people start saving, the lower amounts they will need to save weekly or monthly to generate a lump sum for their old age. Where young people are able to start saving from an early age, they will also be generating an asset against which they can borrow in times of need or opportunity – thus reducing their insecurity not just in old age but throughout their lives.

Supply Side: As noted above, banks in East Africa are presently cash rich and most of them exceed the minimum liquidity requirement by the Central Bank by a significant margin. Hence a long-term high interest savings product may not be what many financial institutions would want to promote – and indeed in East Africa the vast majority of savings accounts offer negative real rates of return. Nonetheless, such long-term savings instruments for the low-income market may be attractive products for savings banks to offer. Alternatively, it may be more desirable, for both the banks and their customers, to offer short and medium-term contractual savings products. Customers could then use the lump sums generated through these products to buy the land, housing etc. they hope will provide the security in old age.

While the potential for longer-term contractual savings instruments is significant, so are the potential pitfalls. The financial institutions that offer these products must be exceptionally stable so that they do not put precious life savings at risk. Longer-term savings instruments also necessitate excellent asset-liability management to ensure that returns are optimised without compromising risk or liquidity management. Finally, these products are complex and require careful selling – both to attract customers and to ensure that the customers are aware of what they are buying. The latter is, in some respects, particularly important. For example, in South Africa, low-income people are often sold multiple life insurance policies on which they cannot afford to maintain the premiums – and thus surrender the policies at heavily discounted values.

And of course, sadly, the lump-sum payout upon completion of the contractual savings agreement will not ensure a secure old age – if it is inappropriately invested it can rapidly disappear when the "pensioner" needs it most.

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