

Chapter 3: Savings Groups and Financial Inclusion

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Introduction

Financial inclusion has gained growing attention on the development agenda of policy makers, central bankers, multilateral organizations, and development organizations globally. Forums such as the Alliance for Financial Inclusion (AFI) and the G-20's Global Partnership for Financial Inclusion in addition to specifically tailored development programs are all discussing how to build more financially inclusive economic systems (Gardeva & Rhyne, 2011). With just over half of the world's population "unbanked" — without access to formal financial services— it is becoming evident that the financial market system is more complex and in need of better understanding to expand access to financial services (Chaia, Dalal, Goland, Gonzalez, Morduch, & Schiff, 2009). With an increasing understanding of the financial market system and most importantly the needs of clients, the microfinance industry is beginning to reexamine its role in contributing to inclusive finance. For example, there is a broad consensus that microfinance products need to move beyond credit to meet the financial needs of the poor and promote access to a range of services. The discourse has now shifted from *microcredit* to *microfinance* to *financial inclusion* and is beginning to consider *financial market systems* and how to make them work better for the poor.

Savings Groups (SGs) offer one among many options to expand financial inclusion and increase access to financial services (savings, credit and insurance) at the community level. As the SG movement continues to develop, facilitating agencies and groups themselves continue to innovate and experiment on further expanding access and meeting the financial service needs across countries and in remote, rural regions, sustainably and at scale. With the importance of sustainability of financial service provision being universally accepted, many stakeholders emphasize the need for the poor to be brought into the formal financial system. With this in mind, there is a continued debate on linking SGs to formal financial service providers as a means to further expand access. Furthermore, as actors in the market system continue to learn and evolve, measuring performance becomes a critical feature to encouraging financial inclusion. This chapter aims to understand how SGs can contribute to improved financial inclusion through examining: 1) financial inclusion and the financial market system; 2) SGs place in the financial market system; 3) linkages between SGs and formal financial services; and 4) performance monitoring of SGs.

Financial Inclusion and the Financial Market System

Full financial inclusion is a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, most of them private, and reach everyone who can use them, including disabled, poor and rural populations (Center for Financial Inclusion at Accion International, 2010).

To achieve a fully inclusive financial system, an approach is required which recognizes the diversity of barriers to access and importantly, the different financial service needs among various lower income segments. Looking for major impact from a single product or institution type risks overlooking the

inherent complexity of livelihoods and financial service needs. Even in the most developed financial markets, the needs of consumers or businesses are rarely met by a single institution.

Formal providers are only just starting to reach many new market segments. A Financial Access Initiative Framing Note, “Half the World is Unbanked,” uncovers that 2.5 billion adults, just over half of the world’s adult population, do not use formal financial services to save or borrow. It also notes that 62 percent of adults, nearly 2.2 billion, living in Asia, Africa, Latin America and the Middle East are unserved, and a little more than 800 million served adults live on less than \$5 per day (Chaia, Dalal, Goland, Gonzalez, Morduch, & Schiff, 2009). Just as these markets may still only be marginally viable from the provider perspective, the added value to the consumer or business may also be marginal. Low loan utilization rates globally suggest that poor people do not all want loans or lack appropriate loan products, and dormant deposit accounts may also demonstrate the lack of appropriate savings products through the formal sector. While some progress has been made, these numbers reflect a deepening recognition that we have a long way to go to increase access to financial services.

Financial Access Trends in Kenya

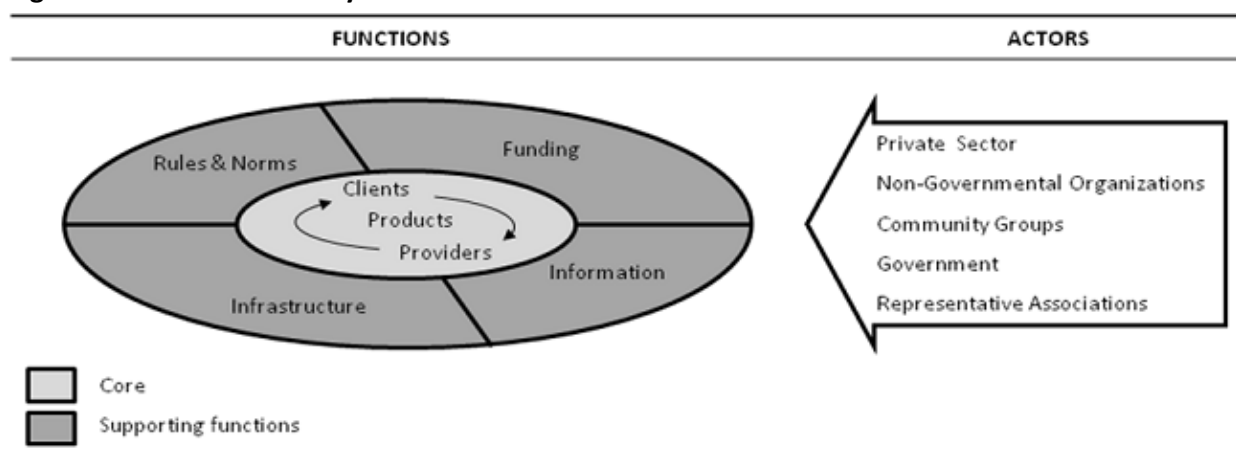
FinAccess studies in Kenya in 2006 and 2009 show that formally included people (defined as those using a bank, Postbank or insurance product) went up from 18.9 percent in 2006 to 22.6 percent in 2009. Surprisingly, despite the growth in formal inclusion, the number of people also using informal services (especially ROSCAs and other community-led groups) has increased from 37.5 percent in 2006 to 38.7 percent in 2009. The proportion of financially excluded has decreased from 38.4 to 32.7 percent, and this is especially apparent in urban areas where financial exclusion was cut in half within a period of barely three years (42.9 percent in 2006 to 20.9 percent in 2009). Savings usage has increased in all but the top wealth quintile between 2006 and 2009. Most importantly, savings rates increased in the lowest wealth quintile, from 23 percent in 2006 to 29 percent in 2009. MFIs, even though still a small actor in the Kenyan financial sector, have doubled their outreach from 1.7 percent in 2006 to 3.4 percent in 2009. Accumulating Savings and Credit Associations (ASCAs) are being used more frequently across all income groups, meaning that overall usage has increased from just under a million people in 2006 to 1.5 million in 2009 (FSDK). These numbers are hopeful yet remain daunting in the task that still lies ahead.
Source: Financial Sector Deepening Kenya, 2009

While many MFIs have commercialised and banks are beginning to serve lower income women and men, there are still significant market constraints to increasing access to financial services. Overall outreach of the microfinance industry remains low with only a small percentage of the population (2 to 5 percent) in most countries accessing *formal* financial services while well over 50 percent of populations remain excluded from any financial services at all (Ferrand, 2009).

The financial market system

The market system approach provides a practical means to analyze financial systems to help explain why access remains low and to identify constraints and opportunities to developing appropriate financial services and delivery channels. It provides a framework for which stakeholders can contribute to improved financial inclusion. Figure 1 sets out the main elements of a financial market system.

Figure 1: Financial Market Systems Framework



Source: (Ledgerwood, 2011)

The two main sets of functions are illustrated:

- Core: transactions between providers and clients
- Supporting functions: the collection of functions which provide the rules that shape behaviour and the information and services that support the development and expansion of the core.

The systems approach focuses on the clients at the center of its framework. Understanding the demands of clients in different contexts for different purposes can help providers offer more tailored financial products. The core of the approach, therefore, is the transaction (savings, credit, insurance, money transfer, etc.) between the provider and client.

The central function of markets is to provide a space for transactions. However, the nature and efficiency of transactions are shaped by formal and informal rules and a range of supporting functions such as information, attitudes and values, product and organizational development, regulations, and policies. These provide information, knowledge and incentives that determine behavior and practices, and shape relationships. The system looks beyond clients (demand) and providers (supply) to other players who influence transactions such as government, private sector service providers, associations and communities; financial markets are inherently pluralistic with numbers of different players involved. It is this multi-function, multiple player arrangement that is referred to as a market system. When the combination of functions and players that constitute financial market systems works well, benefits follow. When they do not, benefits for consumers, especially the poor, are likely to be limited and/or transient. Sustaining the benefits from access depends on the stability of the financial system and its ability to keep providing services and indeed ensuring that people's savings and investments intermediated by the system are not put at risk.

A Center for Financial Inclusion publication, "Opportunities and Obstacles to Financial Inclusion," highlights a number of ways forward to expanding inclusion with a market systems framework in mind.

The publication recognizes that no single stakeholder can improve access and it is the coordination and effectiveness of a range of improvements that will expand access. As facilitating agencies and other stakeholders look to expand access, the publication provides good suggested starting points.

First and foremost, financial inclusion requires educated clients. Financial education and literacy, more recently dubbed financial capability, is at all-time lows among the poorest populations. Second, in order to meet client needs, we need to better understand them. This understanding is needed not just by providers who are offering products and services but also government and policy stakeholders and regulators, for example. Mobile banking and agent banking hopefully promise dramatic breakthroughs in cost and reach while establishing and supporting credit bureaus can have a broad impact reducing risks such as over-indebtedness. Capacity building, not just on the client side through financial education, but also on the provider side is yet another opportunity to increase quality and access. Better regulation that protects clients and improvements and establishments of microfinance associations and self-regulation in addition to reduced direct government interventions all can lead to overall improvements to the financial systems market for poor people (Gardeva & Rhyne, 2011).

The publication also identifies savings groups and self-help groups as appropriate opportunities alongside commercial bank downscaling building investor markets and microfinance transformation. It is becoming more apparent that addressing support function such as supervisions may in fact improve access more than injected capital in some situations, for example (Gardeva & Rhyne, 2011). With a financial market systems approach, stakeholders can more readily identify these constraints and opportunities.

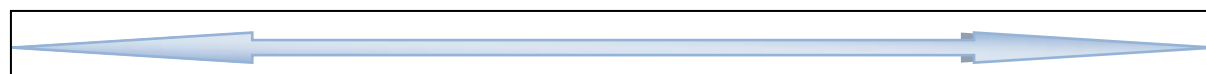
Where do Savings Groups Fit in the Financial Market System?

There is broad awareness that individuals and households have varied financial service needs from cash-flow management, asset building and risk management to productive investment. Often a single financial service provider or product is unable to meet all these needs; therefore, people look to a variety of providers—family and friends, ROSCAs, savings clubs, NGOs, financial cooperatives, MFIs and banks—and financial products—savings, transaction accounts and money transfers, credit and insurance. Key principles for developing financial products for the poor, including convenience, flexibility, reliability and structure (Collins et al, 2010). Savings Groups are one type of financial service provider that responds to these needs.

The spectrum of financial service providers

Full financial inclusion recognizes the breadth of providers and works along the full continuum of providers to improve access and outreach for the poor (See Figure 2). Financial inclusion moves beyond credit and involves access to an entire range of affordable, safe, accessible, and usable financial services and products (credit, savings, transfers, insurance etc.).

Figure 2: The Spectrum of Financial Service Providers



Informal		Formal	
Individuals	Community-Based Groups	Registered Institutions	Regulated Institutions
<i>Moneylenders</i>	<i>ROSCAs</i>	<i>Cooperatives/SACCOs</i>	<i>Banks</i>
<i>Savings collectors</i>	<i>Savings Groups</i>	<i>NGO MFIs/Mutuals</i>	<i>Deposit-taking MFIs</i>
<i>Pawnbrokers</i>	<i>Self Help Groups</i>	<i>Money Transfer Cos</i>	<i>NBFIs (insurance companies</i>
<i>Traders</i>	<i>FSAs/CVECAs</i>	<i>Mobile Network Operators</i>	<i>specialist credit providers)</i>
<i>Shop Owners</i>	<i>Burial societies/Strecher Clubs</i>	<i>Private service companies</i>	
<i>Friends/Family</i>	<i>Insurance CBOs</i>		

Note: Banks include state and savings banks as well as commercial microfinance banks; ROSCAs = Rotating Savings and Credit Associations; CVECAs = Caisses Villageoises D'épargne et de Crédit Autogérées; SACCOs = Savings and Credit Cooperatives; NBFIs = Non-Bank Financial Institutions

Source: (Ledgerwood, 2011)

Savings Groups fill the gap between registered, semi-formal institutions such as NGO MFIs and SACCOs and informal moneylenders and friends/family who offer financial services. SGs (the provider) provide their members (the clients) savings, credit and insurance (the products) in small, manageable amounts. They provide *flexibility* with the members setting the rules, meeting times, interest rates, etc; *proximity* in where the group meets; *reliability* as the group determines the quality of services; and *convenience*, all important needs the microfinance industry is now recognising.

Saving Group programmes provide a good example of sustainable development applying the systems framework, and in doing so, help to address the limitations of traditional microfinance models—credit-focused products delivered by paid staff through an (expensive) branch network. SGs offer an effective means to meet the financial needs of those too poor or too remote to access services from banks or MFIs. In many rural, remote areas SGs are the only place where members can safely save. Ideally as more providers become competitive in rural, remote markets and financial literacy increases, the poor will have more options of places to save. In the meantime, SGs fill a large gap.

SGs also address many weaknesses in the informal system. For example, they allow for flexible savings amounts and regular withdrawals, unlike ROSCAs. The annual share-outs allow for greater transparency and trust in the system, differing from more traditional ASCAs. The easy bookkeeping and recording systems enable group members to each be aware and understand how much money is in the group and the group's bylaws, further increasing transparency and trust. Transparent elections and rotation of leaders reduce power dynamics in the groups mitigating the risk of elite capture. SHGs, for example, while often able to provide members with larger amounts of credit due to linkages with banks, these linkages also reduce transparency and result in increased complexity of recordkeeping and potential for elite capture. . Burial societies and stretcher clubs enable members to save for specific purposes, whereas SGs do not dictate what an individual must save for. Some SG members may make use of multiple informal mechanisms to meet their needs. For example, a member may join a ROSCA for a

specific purpose (saving for a solar lamp) as a one-off need while being a member of an SG as well. (See Chapter 2 for more details on who SG members typically are.)

Savings Groups are, however, often one of many financial service providers to their members. Financial services from SGs are sometimes combined with services from others to help smooth income or meet emergency needs, meet healthcare expenditures, emergencies, children's education or clothing, and food. As members transact in small amounts SGs are not always the best mechanism for financing productive investments. SGs and MFIs serve different needs and while they differ in the financial services they offer (and, in particular, in the loan sizes available), they often complement one another as many SG members borrow from MFIs after having saved and borrowed with the SG for some time. Many remain active members of SGs while also accessing microfinance services. Moreover, while credit and savings through SGs are sometimes used for investment in income-generating activities, the investments are generally smaller than what can be met through MFI loans. As investment needs grow beyond what can be provided by the SG, MFIs gain clients who are well-versed in the principles of saving and prudential management of household finances.

While SGs are primarily defined by the core transactions between clients and providers, there are supporting functions that can contribute to enabling SGs to meet the needs of members. The availability and access to other services such as transportation or mobile banking may further support access to SG services. The fact that savings can be contributed via a mobile phone and more and more people in remote areas have access to mobile phones provides opportunities for members to still save even if they cannot attend a meeting, either because they are too busy or because of insecurity in the area. Groups may also consider putting excess liquidity onto a mobile phone, thereby safeguarding their funds. And while no external funding is required for SGs to operate, the existence of other financial service providers in the system such as banks or MFIs, enable groups to receive wholesale loans which are then lent to the member.

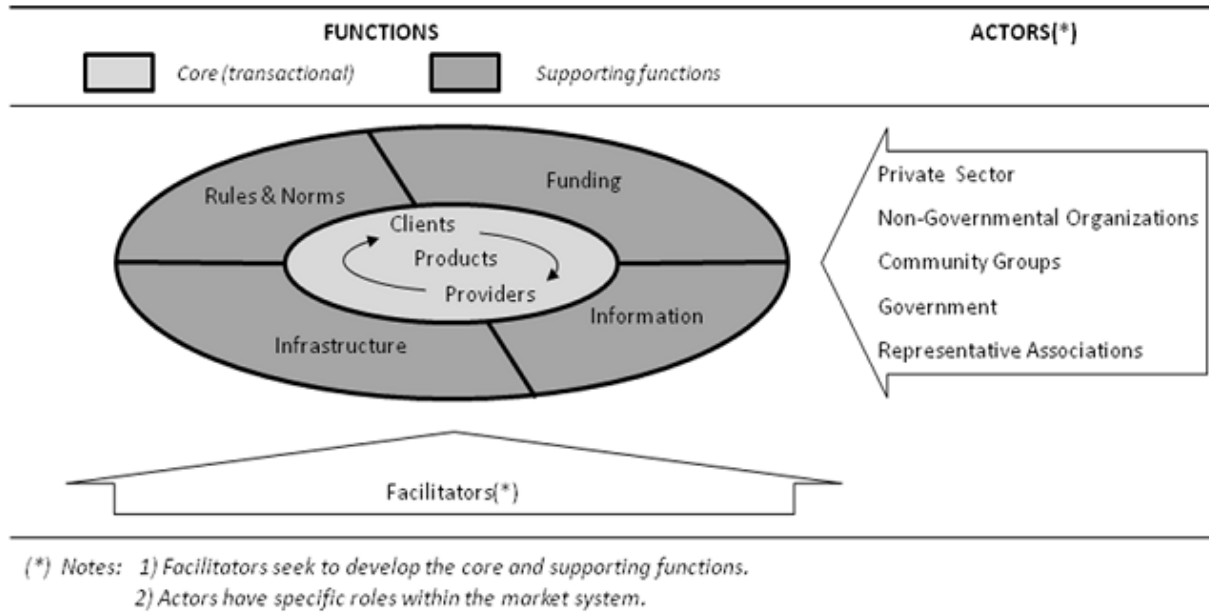
Typically, SGs are not affected by formal rules or regulations; however, there are some exceptions. For example, in Mali, groups are required to register with the government and fill out enormous amounts of paperwork in order to function themselves. However, SGs are particularly affected by informal rules of gender, age, and even caste dynamics. Cultural norms often affect the lack of access to other providers. SGs aim to work within cultural norms while being as inclusive as possible. In many areas, SGs members are only women to reduce any negative effects of gender dynamics. Some organisations facilitate youth or children's groups to respond to varying needs and norms in societies. SGs attempt to address power imbalances in communities by having annual elections and share-outs as well as transparent operations.

Where do Facilitating Agencies fit with a Market Systems Framework?

Facilitating agencies play a unique role in improving the market system to work better for the poor. Working outside the system itself, facilitating agencies play a critical role in supporting the development of market systems. Given they are not permanent actors in the market system and by definition must develop a vision of how the system will work once they leave, facilitating agencies are able to focus on

understanding the needs of consumers and the diversity of actors and roles (see Figure 3 below). Given limited resources, long-term solutions need to be established with appropriate incentives for providers to remain in the market once facilitators leave.

Figure 3: Facilitators in a Financial Market Systems Framework



Source: (Ledgerwood, 2011)

The role of facilitators

Facilitators are temporary and do not seek to provide services directly themselves. Rather the primary goal is to facilitate the establishment of sustainable financial service providers that meet the needs of poor consumers. Therefore, facilitators must have an exit strategy and clearly think through how the system can and should function without their presence. Organisations that facilitate SGs need to ensure a sustainable system remains after they exit. The role of facilitating agencies is to train the groups to manage their own transactions independently. Facilitating agencies do not generate revenue from the groups but rather are funded by donors. While SGs are sustainable (similar to some MFIs), donor funds subsidise the facilitation of SGs (similar to subsidies provided to develop the capacity of MFIs).

While from a market development perspective it is possible to justify donor funding as an up-front investment to create SGs on a one-off basis, the costs are too high to achieve scale using donor funding.

The Financial Sector Deepening project in Kenya (FSDK), along with a number of other institutions, believes there is a need to develop the means to reach at least two million Kenyans with Savings Groups over the next ten years. FSDK undertook a new approach in a pilot with CARE: to competitively identify private sector service providers to use community based trainers (CBTs) to roll out training in return for a fee per successful group trained. Significant progress has been made demonstrating the power of a market based approach. The pilot exceeded all its targets reaching well over double the target (more than 100,000 people). Crucially, with a dramatic reduction in the cost per member trained. This presents

an interesting dilemma as the next stage of market development appears. As people start to see the value of Savings Groups there is a growing willingness to pay and CBTs are now training groups on a fee for service basis. FSDK have also seen some groups training other groups on a purely voluntary basis.

Meanwhile the international NGO CRS has been piloting an approach which seeks to train private sector providers to establish a sustainable business, training and supporting groups. They are establishing a network of trainers with a view to creating peer maintained quality assurance. This seems like the logical next step from a market development perspective. However two issues arise:

(1) Will there be a sufficient market for this linked market or supporting service of training services in the longer term? Groups self-replicate and while may use a modest input from external support over time may not need continuous support services.

(2) Based on projections it may actually be cheaper to simply invest in building a critical mass of SGs and rely on a combination of spontaneous fee for service and voluntary replication. The projected cost per member could become lower than USD5 (currently USD20).

This illustrates an important point: both channels are about making markets work for the poor. The direction FSDK chooses will need to be informed by how the market plays out. If it becomes clear that maintaining the quality of training and support is essential to maintaining quality groups then they will need to go to the next level of market development proposed by CRS. But if the market will 'take' with the one-off investment (CARE model) they can take a less expensive route.

Source: David Ferrand, 2011

Facilitating agencies have a significant role to play in determining how best to ensure ongoing access to Savings Groups through experimenting with and promoting successful models.

Linkage to Formal Financial Service Providers

Savings Groups do not, nor are they designed to meet all the financial needs of their members. Some of the limitations of SGs can be supplemented through formal financial service providers. For example, second or third cycle groups that have accumulated large sums of money are concerned about safety of their funds and may rather deposit the funds in a bank Or other regulated provider. Other group members require more loan capital than their group is able to provide. Others want more specified long-term savings products or specialized insurance products. As a result, a debate has emerged amongst SG facilitating agencies whether to link SG to formal financial service providers. There are three common types of linkages considered: 1) linkages for excess liquidity, 2) linkages for external loan capital, and 3) linking through mobile services to transfer funds, make deposits or receive/repay loans. As groups and facilitating agencies continue to experiment and innovate in this area and learn, good practice guidelines are beginning to emerge.

Linkages for excess liquidity

Concern of theft as the groups' savings increases has made some SGs and facilitating agencies look to formal financial service providers for support. These linkages of course require that a regulated deposit-taking financial institution is available a reasonable distance from the groups.

One of the current challenges groups face when depositing excess liquidity in an external institution is the lack of ownership over the money that ensure. Regulated institutions do not always have the capacity to offer "group" accounts for an informal, non-registered group of people; therefore, members are often forced to rely on one or two individuals in the group to open the account. As a result, there can be power or transparency issues that arise from all members not being able to access the funds. Some groups have found innovative ways to use formal institutions to meet their excess liquidity needs (see boxes below).

"Savings led approaches allows people to enter the formal financial sector as savers rather than borrowers. Greater outreach of savings services not only reduces the cost of funds for a financial institution, but experience has shown that these small savings are far more stable in times of crisis bringing greater stability to the financial institution and the financial sector overall. Expanding savings clients also benefits financial institutions' leverage ratios. Savings and in particular micro-savings should therefore be seen not just as a service that poor need, but one which also benefits the financial sector." (Hendricks & Chidiac, June 2011)

Spontaneous bank linkages among Peace Corps Ecuador Savings Groups

*The Peace Corps methodology recommends that members keep their savings in a cashbox with three locks and three keys. It does not provide guidance on how to open a group savings account at a financial institution. Eleven years into the program, Freedom from Hunger's assessment found that groups had spontaneously and of their own accord opened individual or group savings account with local, formal financial institutions. They discovered that **half of the SGs (called community banks) in the sample keep their money in a locked box while the other half keep their money in a financial institution.***

The majority of the SGs in Bahía have opened a savings account with a commercial bank. Because of the rumors about SGs being robbed, many prefer to keep their money in a commercial bank. While seven community banks in Bahía have a savings account in the name of one member, only one community bank has a savings account in the name of two members. This demonstrates the need for additional training on how to ensure checks and balances when opening a commercial bank account.

When asked about the fees charged by commercial banks, the members stated that they were minimal and that the security was worth it.

Source: (Proaño, Gash, & Kuklewicz, 2010)

MSDSP Tajikistan pilots a creative way to keep savings safe

To address security concerns of Savings Group (SG) members in their second or third cycle or near the end of a cycle when group funds often reach a considerable sum, the Mountain Societies Development Support Programme (MSDSP) piloted linking SGs to Ahmonatbank, a savings bank in Tajikistan.

Working in partnership, an officer from Ahmonatbank's district office visits each SG to observe their meetings. Upon completion of the SG meeting, the officer explains how the "group" could save in the bank. The officer explains the fees required to withdraw money; if money is withdrawn before three months, there is a reduction in interest earned, typically zero interest is paid. If interested, the group nominates one individual under which the bank account can be registered. Only one member of the group can deposit and withdraw money on behalf of the group because unregistered groups, such as these SGs, cannot open a group bank account. While this can be a risk to the group if the individual is able to withdraw the groups' deposits and leave town with the money, MSDSP is working to mitigate the risk. The bank representative facilitates an informal agreement between the group and the individual to ensure safety of the funds. When deposits are made a receipt is issued verifying the deposit and it is entered in the savings book. The savings book is required to withdraw the money from the bank. The receipt and the savings book are then locked in the group cash box. At the end of each meeting, in addition to the standard sums recounted, the group includes the amount in the bank.

Source: (Jethani, 2011)

Linkages for external loan capital

Due to the small transaction sizes available with SGs, members may require additional loan capital – in particular for productive investments. There is a developing debate amongst stakeholders and SG facilitators regarding whether or not SGs should be linked to external loan capital, and if so, how. There is a growing consensus that one of the key strategies to client (including SG members) protection is to improve SG members' financial literacy before linking them to financial institutions.

CARE has taken a lead on piloting financial linkages and strongly believes that Savings Groups compliment a financial inclusion strategy that cannot ignore the formal financial sector. Rather, "CARE's strategy for financial inclusion is to look at [Savings Groups] as the foundation and a basic and often necessary first step to move the excluded into the financial system. In CARE's savings-led approach, linkage to formal financial institutions is also savings-led and the continued importance of savings is emphasized throughout the linkage process" (Hendricks & Chidiac, June 2011).

As group members continue to demand capital beyond the capacity of their SGs, facilitators such as CARE feel a responsibility to facilitate mutually beneficial partnerships, ensuring consumer protection principles along the way. CARE, for example, has spent significant time working with policy frameworks to allow for a smooth transition for informal Savings Groups to access formal services. Regulatory frameworks in many countries make it difficult for banks and SGs to link; some governments require SGs to register as cooperatives to do so, possibly encouraging system on SGs that may detract from their overall purpose. There are always concerns that with formalization may reduce some of the advantages SGs have in transparency, no costs, trust, etc. Therefore, CARE advocates for a simple local registration process that allows the group to maintain its structure and governance models (Hendricks & Chidiac, June 2011). CARE has put forward six critical principles defining a way forward to promote financial linkages with SGs – see section on good practice guidelines.

Linking through mobile services

There are opportunities to leverage technological advances in mobile services to allow for further flexibility and convenience for SG members. For example, savings contributions (share purchases) can be

best sent via mobile money if members cannot make it to the group due to an illness or perhaps migration for work. This linkage could provide benefits for both excess liquidity and external loan capital.

CARE's partnership with Vodacom

Although a service not widely available in rural Tanzania, CARE partnered with Vodacom in late 2010 to introduce group based M-Pesa accounts on a pilot basis to VSLAs in 3 northern districts. The project and Vodacom Tanzania have now co-trained a total of 39 VSLAs on the use of M-Pesa as a standalone 'savings' product. Approximately 60 percent of all VLSA groups who received training in M-Pesa decided to open accounts. Under this linkage, the VSLAs open an M-Pesa account as a group, and use it for the safe storage of excess funds. So far, 24 VSLAs have opened group M-Pesa accounts, and one new M-Pesa agent has been created at the urging of the pilot VSLAs. Some VSLAs are showing evidence of using their M-Pesa account to save up funds for the bulk purchase of agricultural inputs. The typical cost of storing cash in M-Pesa is 1 - 1.5% of the amount transacted.

To date through the M-Pesa system, there have been 52 deposit transactions averaging \$108, and 36 withdrawal transactions averaging \$106.1 The average balance of group M-Pesa accounts as of December 31st, 2010 was \$76 or about \$3.50 per member. Since the partnership launched, many more groups outside the three targeted districts have approached Vodacom and opened VSLA M-Pesa group accounts without having received any training or sensitization on the M-Pesa product from CARE.

It appears that M-Pesa services are in high demand in semi urban and rural (remote) areas. Groups that have joined M-Pesa have encouraged local businesspeople to register as M-Pesa agents, which has enabled groups in remote areas to benefit from M-Pesa services locally.

Several challenges have been encountered however during the initial implementation which will benefit other money wallet providers to understand how to interact with groups and individuals in remote locations. Lessons include:

- *Education on the product, its costs and opportunities requires time and an upfront investment. However, once group members know how the system works and the benefits, word of mouth spreads and the next range of users require less training.*
- *The availability and placement of M-Pesa agents is crucial to reach vast numbers. VSLA members can help identify new agents in their local community.*
- *The availability of cash holdings in small bills is key in rural areas where transaction volumes may be high but transaction amounts are small.*

Source: (Hendricks & Chidiac, June 2011)

Good practice guidelines (proposed issues for discussion)

There are many advantages and disadvantages of linking SGs to the formal financial sector. There is wide recognition that poor people could benefit from access to formal financial services but unclear if linking is the best way to go—and particularly if individuals should be linked or the group itself. And opinions also differ depending on whether the discussion is to link for credit services or for savings services. Some argue we need to better prepare SG members to take advantage of formal financial services and prepare the formal financial service providers for the poor, which may mean linking “graduated groups” to MFIs or may simply mean better financial literacy and awareness of available financial services. Others argue

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for keeping formal sector providers away from SGs (remember the financial crisis!?). Another contingent argues that we need to be aware of learnings from for example Niger and Rwanda where credit linkages led to the demise of many groups (*may need a box here*). Perhaps linking for savings services only makes sense to address cash security concerns.

Below are a list of guidelines (some adapted from CARE, others from an AKF publication “Beyond Financial Services”) to propose for discussion. Some are relatively straightforward, while others spark more debate.

“Linkage is not automatic – it must be demand driven and performance based: Some groups will never link to external sources of funds, often because the group will be able to meet its members’ needs internally. CARE has experience with older groups intermediating up to \$9,000 of their own funds, with members taking loans up to \$500. CARE will not encourage linkage as an automatic next step; it will be based on demand by the members for additional resources. The linkage step also needs to be based on the performance of the group. A group that experiences high default rates or is unable to conduct their share-out without external help is not ready for the added responsibility of external funds. A readiness assessment tool has been created to analyze the groups’ ability to take on credit from a financial institution. Currently this tool is being used for the Barclays funded VSL programming where credit linkages will be explored in the coming year” (Hendricks & Chidiac, June 2011).

Consumer protection is of the highest importance when considering a bank linkage. One of the main tools to ensure consumer protection is through improvements in **financial literacy**. Ensuring better financial literacy and awareness of the options present will allow group members to make more informed decisions in regards to their financial activities. Depending on the demand of the group – whether they desire a linkage for savings or credit – and the relevant other providers in an area, partnerships can be considered to meet the interests of group members and other financial service providers in an area.

Maximum debt to equity ratio: CARE recommends a maximum debt to equity ratio of 3 to 1 for SGs. In previous linkage efforts where CARE has not set this limit, some groups have become over-indebted which has led to default and group dissolution. Of course this only becomes relevant if the loan is taken by the group and not individuals. For individuals, the provider would determine the appropriate leverage ratio.

Balloon repayments: CARE recommends that group loans are repaid in one balloon payment, due at the time of the scheduled share out. If groups are required to follow a traditional monthly or biweekly repayment schedule, it slowly de-capitalizes the group throughout the lending cycle. Because the group constantly revolves the loan funds this de-capitalization can be extremely frustrating, as people are likely to want to take larger loans as the cycle progresses, but may be forced to take smaller loans in order to make repayments to the FI. Loan documents and group practice should reinforce that external debt be repaid before shares are distributed at the end of the cycle. Interest can be repaid monthly or biweekly.

Limit collateral deposits: Some financial institutions require mandatory savings deposits before loans can be made. These serve a dual function; they encourage a savings culture and also act as collateral for the outstanding loan. However, VSLAs already have a saving culture, and have an existing savings pool that acts as collateral for the loan. VSLAs have a history of receiving high return on their savings, as interest paid on loans is earned as return on savings during share-out; therefore forced savings with no or little return can undermine future saving or borrowing. The groups existing financial records of past experience managing their finances should count towards their financial history and reduce the required compensating balance.

Minimum age of groups for linkage is one year – preferably two to three years: Linkage is a graduation step for some VSLAs. VSLA members use the financial services from the groups to manage their household economies and to gain important financial management skills. Most VSLA members have limited demand for high levels of credit when they first join the groups, as they have limited ability to invest the money productively. It is only once household finances are stabilized, small income generating activities have grown a bit and financial skills have been gained that groups are ready and able to take on outside debt. (Hendricks & Chidiac, June 2011)

Linking a group or an individual: Much debate remains regarding this principle and it would be good for the readers to weigh in on their thoughts of all these principles, and in particular this one. CARE for example, recommends that financial institutions lend not to individuals in the group but to the group as a whole. Their experience has shown that for SGs it is more appropriate for the group itself to receive a lump sum loan into the common pool. Those funds would then be commingled with the group savings and would be distributed in the same manner, which ideally maintains group cohesion and reinforces the growing financial skills of the members. Under this system, the concept of joint liability is still maintained as in a traditional group lending scheme. On the other hand, others argue that it is unwise to force members who may not require external loan capital to be jointly liable for those that benefit most from the external capital provided. There is also a concern that the savings of all the group members may be at risk if only one or two members default on their loans. There may be ways of mitigating this result; however, others argue that formal financial institutions should separately enlist individual members to be clients rather than a group—something often more costly for banks to do in remote, rural areas.

Performance Monitoring of SGs

The external evaluator entered the room; and the programme manager directed his attention to the contents of a dusty filing cabinet. “These are all the monthly records of every Savings Group since the inception of the programme,” the programme manager explained proudly, pointing to thousands of records.

“And how is this data processed?” asked the evaluator.

“Processed?” inquired the programme manager.

“Yes,” answered the evaluator. “How are these records analysed and for what purpose?”

“These records are kept here and are always available to any stakeholder,” explained the programme manager.

“Which stakeholders?” asked the evaluator.

“Anyone who is interested,” answered the programme manager.

Perspectives on performance monitoring of Savings Groups: Does it matter and for whom?

The value of any monitoring system must be measured against the usefulness of the information it generates for its stakeholders and the costs—financial and non-financial—of developing and maintaining the system.

There are three main stakeholders in the performance monitoring of Savings Groups: donors, programme management and the groups themselves. The primary interests of donors and implementing agencies are to track the overall progress of their investments, measure the returns of these investments against expected outcomes, and use that experience to improve the design and funding decisions of future programme design and funding decisions. For programme management, active performance monitoring enables managers and supervisors to manage resources—particularly their time—more strategically. And finally, the focused performance monitoring of SGs enables programme staff to identify weaknesses and corrects them through more targeted training and supervision, ultimately improving the safety, operating efficiency and financial performance of SGs.

A useful performance monitoring system must collect, store, and process actionable information to meet the needs of its various stakeholders—donors, programme management and Savings Groups. For the system to be viable, it must do so at a reasonable cost, without creating an overwhelming burden on practitioners and groups.

Standardised information management: tools, requirements, outputs and stakeholders

The primary performance monitoring tool used by agencies that promote Savings Groups is the VSL Management Information System. The open source software is an Excel-based, stand-alone MIS solution for agencies that promote SGs. The system is an effective reporting tool for donors and implementing agencies and, moreover, serves as a management tool that enables programme management to identify differences in performance across programme areas, staff and groups.

The VSL Management Information System was developed by VSL Associates with support from the Bill & Melinda Gates Foundation, CARE, Catholic Relief Services, Oxfam America and Plan International. The adoption of a common management information system by most of the agencies that promote Savings Groups worldwide has advanced the standardisation of reporting in the sector and enabled all practitioners and donors to adopt a stand-alone MIS solution that may otherwise be prohibitively costly and time-consuming to develop alone.

Structure and reports

The VSL Management Information System is structured around four primary reports:

- i) **Performance Ratios.** The overall Performance Ratios report provide implementing agencies, donors and industry observers with a quick overview of the programme based on a selection of 16 key performance indicators developed by the Savings-Led Financial Services Working Group of the SEEP Network. All monetary figures are presented in the local currency as well as an external reporting currency defined by the user. This report enables external audiences to assess the overall performance of the programme and compare results across programmes and other microfinance initiatives, using mainly standardised metrics from the microfinance sector.
- ii) **Overall Project Performance.** The Overall Project Performance Report provides donors, implementing agencies and programme management with a detailed summary of the overall performance of the programme. The report includes 48 metrics covering the outreach of the programme and profile of group membership; the financial performance of groups; and the operational and financial efficiency of the implementing agency. This report enables programme management to monitor the overall performance of the programme and track progress towards outreach, performance and budgetary targets.
- iii) **Portfolio Performance Comparison.** The Comparison report provides the consolidated portfolio performance data of each field staff based on 13 key performance indicators. In expanding and medium to large-scale programmes, this report is perhaps the most important management tool. The report enables programme management and supervisors to identify differences in performance across programme areas and field staff and allocate resources and efforts more efficiently.
- iv) **Field Officer Portfolio Analysis.** The Field Officer report summarises the position of each group in the portfolio of the Field Officer. The report includes 28 data items – covering basic bio-data, membership information, portfolio data and financial performance – of each group and enables programme management and field staff to identify differences in performance across the groups of each field staff. A focused, periodic analysis of differences in group performance allows programme management and field staff to identify problems and take corrective action more promptly and systematically, ultimately improving the safety, operating efficiency and financial performance of SGs under training.

Data requirements

The financial logic of the software is grounded on an income-statement-based approach which captures the financial position of each group at discrete points in time, and imputes both actual and forecasted measures of financial performance. In other words, the software is not predicated upon the use of a specific record-keeping system, historical data or data inputs at fixed intervals. And the system is equally-suited to institutions that promote memory-based record-keeping, a passbook-based system of group records, or a more formal ledger-based system.

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The fundamental principles in the design of the MIS are that the data inputs should not require : 1) group record-keeping beyond the reach of moderately literate populations; 2) data items not directly generated by the normal operations and records of SGs; and 3) an overly complex or copious data collection system that represents a burden for programme staff. Furthermore, depending on the group records and the meeting procedures promoted by the implementing agency, data requirements should be largely observable to programme staff during the normal operations of a groups meeting, requiring minimal additional effort or time beyond the attendance and observation of a normal group meeting.

The core data requirements of the system include 23 data items at the level of each group and basic staffing and expenditure information at the level of the project. Among the 23 data items, 20 items are either fixed or observable during the normal operations of a group meeting; while three items related to member savings and outstanding loans require an examination of the group’s primary records — verbal, passbooks or ledgers. An experienced field staff can normally collected this data in less than 10 minutes following a normal group meeting and data is collected and entered into the system at a frequency determined by the project – typically monthly or quarterly.

The ‘tracked groups’ function of the MIS manages the same output-level information and as such, the functioning of tracked groups is assessed against the same parameters used for supported groups to provide an indication of graduated groups’ level of functioning without technical support. Similar to data on currently supported/cycle 1 groups, data on tracked groups is collected continuously throughout project duration; however, information on each tracked group is collected at fixed semi-annual intervals (semi-annual/every 6 months tracking is recommended but if programmes have the available resources and choose to do so, tracking may be conducted on a quarterly basis as well), using the standard MIS FO Data Collection Sheet.

However, the information for tracked groups is only reasonably valid for the broader population of graduated groups if the selected sample of tracked groups for each cohort is representative of the groups that graduated in that specific cohort. Sampling of tracked groups should be done within each cohort, taking into consideration variation between groups in terms of geographic location, size, gender composition and other characteristics of the groups.

Outputs

The table below summarises the outputs of the MIS (descriptive data, portfolio data and performance indicators) according to each report and level of analysis –groups, field staff and the overall project. These outputs are automatically-generated by the system and based on no more than the routine data collection outlined above. In addition, the system allows for a certain degree of customisation and users can generate customised indicators based on user-defined variables.

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Report	Field Officer Portfolio Analysis	Portfolio Performance Comparison	Overall Project Performance	Performance Ratios
Level of analysis	Group	Field Officer or Area Portfolio	Project	Project
<i>Membership data</i>	Group name	Name of Field Officer or Area	Total number of people assisted by the programme	Attendance rate
	Group number	Number of Field Officer or Area	Total number of current members	Retention rate
	Linkage to external savings	Number of supervised groups	Total number of men	Membership growth rate
	Linkage to external credit	Total number of registered members	Total number of women	
	Date of first training meeting	Percentage change in number of members	Total number of supervised groups	
	Date savings started	Dropout rate	Total number of graduated groups	
	Group trainer	Attendance rate	Number of members belonging to graduated groups	
	Age (number of weeks)	Percentage of women	Average age of groups (weeks)	
	Members at start	Percentage of members with loans outstanding	Membership growth rate	
	Registered members at present		Attendance rate	
	Percentage change in number of members		Member retention rate	
	Dropout rate			
	Attendance rate			
	Percentage of women			
	<i>Portfolio data and financial performance of groups</i>	Number of loans outstanding	Percentage of members with loans outstanding	Assets
Percentage of members with loans outstanding		Average outstanding loan size	Cash in Loan fund	Average outstanding loan size
Write-offs		Loan Fund utilisation rate	Cash in other funds	Return on savings
Cash in Loan Fund		Return on savings	Value of loans outstanding	Return on assets
Cash in other funds		Return on assets	Property	assets
Value of loans outstanding		Annualised return on assets	Liabilities and member equity	Average write-off per graduated group
Property			Liabilities	Percentage of members with loans outstanding
Debts			Member equity	Loans outstanding as a % of total assets
Savings			Average member equity	
Profits/Loss			Savings	
Member equity			Average savings per member	
Return on savings			Retained earnings (imputed profits)	
Return on assets			Average profit per member to date	
Annualised return on assets			Number of loans outstanding	
			Value of loans outstanding	
			Average outstanding loan size	
			Average value of loans outstanding per group	
			Unpaid balance of late loans	
			Portfolio at risk	
			Average write-off per graduated group	
		Write-offs this period		
		Loan fund utilisation rate		
		Return on savings		
		Return on assets		
		Annualised return on assets		
<i>Efficiency of implementing agency</i>			Ratio of Field Officers to total staff	Ratio of Field Officers to total staff
			Caseload: Groups per Field Officer	Caseload: Groups per Field Officer
			Caseload: Registered members per Field Officer	Caseload: Registered members per Field Officer
			Total expenditure to date	Cost per member assisted
			Cost per member assisted	

Data quality and integrity

The MIS includes a data validation tool that significantly improves data quality and integrity. A series of nine logical constraints prevents the entry of mathematically impossible data and the total number of data entry errors is indicated on the Overall Project Performance Report. Similarly, the system identifies and flags groups with reported financial performance outside a normal range and alerts programme management to implausible data.

Limitations in current approaches to the performance monitoring of Savings Groups

The main limitation of the primary performance monitoring tool used by the sector—the VSL Management Information System—is that it is static. A meaningful analysis of group, field staff, area or project performance requires the analysis of trends, which is not directly possible in the current tool. Historical group data is not stored, but is rather eliminated through the entry of new data. Implementing agencies have circumvented this limitation by storing multiple files and creating parallel spreadsheets and databases to analyse performance trends of groups, field staff, project areas and the overall project. The next generation of the MIS will be fully integrated with the Savings Groups Information Exchange (SAVIX), with on-line and off-line capabilities that will allow users to store historical programme data in a single location and access a broader range of database functions unavailable under the current Excel platform.

Secondly, financial results are generated based on an income statement approach; and group profits are imputed based on changes in member equity rather than a proper income statement. In other words, the financial logic of the VSL Management Information System assumes that the group will recover all its assets (primarily its outstanding loans to its members) and repay all its debts to outside individuals or financial institutions before member savings are fully distributed to the membership along with retained earnings. These assumptions are generally acceptable to practitioners that recognise the undesirable alternative: the promotion of formal financial statements, including a proper income-statement calculation of profit, that would grossly complicate group record-keeping and undermine their independence, autonomy and sustainability.

Thirdly, calculations of the returns—on both savings and assets—are understated; the denominator is the current value (of savings or assets) as opposed to the average value over the period. This approach is due to the practical constraint of measuring average savings or assets over the period of analysis—most group record-keeping systems are unable to easily generate this information and approximations are difficult as the financial growth of SGs is not at all linear. On the other hand, the linear annualization of returns generally overestimates the actual returns of SGs over a one-year period, as time-bound groups that have periodic share-outs generally experience a significant decline in loan activity in the last 2 to 3 months of the period. The shorter the operating period, the more significant the difference between annualised returns and actualised returns over a one year period.

Fourthly, practitioners have recently recognised the importance of inter-cycle dynamics in the performance of SGs and discussions of sustainability. In time-bound Savings Groups, the period between the share-out and the subsequent cycle of operations can vary significantly in duration, the entry and

exit of members, splintering of the group into multiple groups, spontaneous replication of new groups around the initial group, collective economic activity based on the funds generated by the share-out and rates of re-investment by returning group members to initiate the subsequent cycle. Current approaches to the performance monitoring of SGs do not capture this period in the life-cycle of SGs, which some practitioners argue is fundamental to understanding the performance and sustainability of SGs.

NOTES:

- Include paragraph on monitoring and reporting of costs?
 1. Increased efficiency of the sector and current cost benchmarks
 2. Issues related to public reporting of costs
 - Lack of standards and validation of reported costs
 - Direct comparison across projects, institutions and regions is sometimes misleading
 - Cost-per-member to date is sometimes misleading and not necessarily indicative of final unit costs
 - Depends on duration of project and time distribution of expenditures on fixed assets)
 - Conflation of current CPM (reported by MIS and SAVIX) and end-of-project CPM
 - Emergence of unrealistic expectations in the sector and elusive objectives based on arbitrary statements (increasing citation of \$10 CPM goal)

Savings Groups Information Exchange²

The Savings Groups Information Exchange is an online reporting system that provides transparent and standardised data on SGs. The SAVIX collects and validates financial and operational data from over 60,000 SGs in all regions of the developing world and the agencies that promote them.

Benchmarking and informed decision-making are critical to achieve high-quality programme results and the aim of the site is to facilitate analysis, develop norms and improve performance sector-wide.

The SAVIX also invites all projects and implementing agencies to have their data rated. The level of data quality for each project is indicated through a system of stars. Using a standard data accuracy measurement tool, projects are assessed by the SAVIX and receive one to four stars based on the measured accuracy of its primary records at the level of the group and field staff. Data ratings provide practitioners, donors and industry observers an objective evaluation of the completeness and accuracy of projects' self-reported data.

Qualitative monitoring

The VSL Management Information system tracks both the financial and institutional performance of SGs. Membership indicators related to the participation of women, membership growth, member retention

² This section is an edited excerpt from the Savings Groups Information Exchange (www.thesavix.org)

and attendance are indicative of the institutional performance of Savings Groups and the overall health of the project. In addition, practitioners have developed a series of tools and processes to assess the qualitative performance of SGs, based on good governance, operational capacity, quality of group records, member participation in group decision-making, and issues related to access by disadvantaged groups and individuals.

NOTES:

- Brief summary of VSLA Health Assessment and Data Quality Assessment
- What other qualitative monitoring tools are used by practitioners?

Long-term monitoring³

The rapid growth in the outreach of SGs has attracted increasing levels of interest in their long-term performance. Through increasingly rigorous monitoring and evaluation systems, industry observers are making greater efforts to better understand the performance, dynamics and survival rate of independent groups, beyond the training period.

Nevertheless, it remains a serious challenge for practitioners to monitor the long-term performance of SGs after the end of implementation in a given area and, more so, beyond the lifespan of a project. Furthermore, the few studies on the long-term performance of SGs are very narrow in scope—limited to end-of-project evaluations and specific projects and institutions.

The SAVIX—with support from VSL Associates, CARE, Catholic Relief Services and Oxfam America—launched a five-year panel study in 2009 to describe the performance of a random sample of 332 SGs mobilised and trained by 33 projects in 6 countries. In the first quarter of each year, standardised data is collected from all active groups in the sample the results are consolidated and published by the SAVIX.

NOTES:

- Short summary paragraph tying in good practices with introductory paragraph
 1. Tools that are compatible with appropriate group record-keeping
 2. Data requirements and collection methods that are largely integrated and observable in the attendance of a regular group meeting
 3. Standardised, open-source management information system that enables widespread use, low cost of access, standard reporting
 4. Targeted outputs (reports) for stakeholder groups
 5. Comment on the SAVIX and long-term monitoring

Questions for Further Discussion and Research

- Are there gaps that still exist that may exclude the poorest? Or are there programming considerations that may need to be in place to ensure inclusion of the poorest, such as expected delayed adoption after less poor groups have had success?

³ This section is an edited excerpt from the Savings Groups Information Exchange (www.thesavix.org)

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