Linking the informal financial sector to the formal sector will expedite the national drive for enhancing inclusion, providing sustainable job creation and assist in addressing other macroeconomic challenges including the longstanding problem of most of the domestic currency in circulation being outside the formal financial sector.

CONCEPT NOTE ON TRANSITIONING SAVINGS GROUPS INTO THE FORMAL FINANCIAL SECTOR

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I. Purpose

Traditionally, Village Savings and Loan Association (VSLA)/ Savings Groups (SGs) promotion has been led by national and international NGOs and a large extension network of community-based trainers. But recently, governments have deepened their engagement in SGs promotion, through laws and policies, with regulators setting the rules on how Savings Groups can operate and access formal services and through direct investments and priority setting through SGs integration into strategies and programmes. This integration has been witnessed in programs and/or policies related to Financial Inclusion, Social protection, and women empowerment.

Looking at such developments, the CBL through the Financial Sector Development Unit (FSDU) focusing on financial inclusion nationally, decided to develop this concept note to improve the Savings Groups Model, in particular to advance sustainable Gender Equality in financial inclusion. This note aims at showing the impact of Savings Groups in general but mostly to advance gender equality and women empowerment goals and to provide strategy to draw attention to the Savings Groups Model into the formal financial sector.

II. Introduction

We should first look at the Concept of Savings Groups. It is estimated that there are nearly 14 million members of informal savings mechanisms known as SGs across 75 countries. With total assets between $430 million and $1.2 billion.[1] In the case of Liberia, during the peak of the Loan Extension Availability Facility **(**LEAF) Programme VSLA/ Saving groups were recorded to be more than 2,000 (VSLA, MFI and Credit Unions) with a total assets of L$644M[2] consisting of 90+ percent women membership.

Research and experiences from practitioners show that Savings Groups are effective at mobilizing women to expand their access to financial resources and serve as a platform for women's financial inclusion, economic empowerment, social and political empowerment, maternal and child health, Nutrition, education and other development objectives.

Ultimately being active women members of Savings Groups experience has an impact on their power within, and power to influence change in their households and communities. Over 64% of adults in Liberia nationwide do not have access to a bank account - over 71 percent are women[3.] In Sub-Saharan Africa, less than 30 % of women have an account with a financial institution and this is exacerbated for poor rural, young women and other marginalized populations, who are mostly operating in the informal sector. This limits their ability to interact with markets and range of investments in livelihoods, health, education and nutrition.

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[1] SEEP, Care, MasterCard Report "Delivering Formal Financial Services to Savings Groups", 2016
[2] About USD6M at exchange rate 108:1 (2017)
[3] SEEP, Women Empowerment and Savings Groups, What do we know, 2018

Savings Groups are a pathway for women formal financial inclusion. They aggregate demand among low- income women and offer an entry point for financial service providers in marginalized communities. More and more, governments are seeing the impact that Savings Groups have. Regulators, Ministries of Finance and financial institutions seek interest in understanding Savings Groups, formalizing them and looking at the role of innovative technology solutions to transition into the formal sector.

III. What is a Savings Group?

Savings Groups were initiated in Niger by CARE as Village Savings and Loans Associations. They are comprised of individuals who save together and take small loans from those savings. They are, by design, financially and institutionally sustainable. Savings Groups also include Self Help Groups that follow the same methodology of contributing a set amount and take a loan (with the exception that there is no share-out at the end of the cycle). Savings Groups are fundamentally different from traditional Rotating Savings and Credits Associations (ROSCAs) in that the money is not given to each member on a revolving basis but kept in a central pot for a period of 9-12 months, at which time it is divided out amongst participants.

Savings Groups generally:

1. Consist of 15 to 30 self-selected members from within a community who meet regularly (weekly, biweekly, or monthly) to save;

2. Savings are used to capitalize a loan fund from which members can borrow;

3. Members' can borrow as needed and repay with interest up to three times their savings, payable over a period of one to three months;

4. Group members may choose to contribute to a social fund, which is a simple form of insurance to cover the costs of small emergencies and social needs. Social funds are fixed, agreed-upon small contributions made at each meeting by every member;

5. Community-based SGs are organized and trained in the basics of savings and loans, over a set operating cycle of about one year;

6. At the end of a cycle, most groups will distribute the entire fund to members according to the amount each has saved. Some groups choose to roll over a proportion of their funds to the next cycle;

7. Groups typically then begin the cycle again;

8. Savings groups' members often borrow to invest in investment in productive activities, businesses, smooth income and support livelihoods and basic needs in the household.

While adaptations of the SG model have been introduced over time in response to evolving circumstances, the model remains highly standardized. Members themselves determine share price, loan interest rate, maximum loan duration, loan priorities, social fund contribution, and a system of fines for infractions of group policies. Members develop a group constitution that codifies these policies as well as governing structures and procedures. Member savings and loan transactions are typically recorded in individual passbooks, or a central ledger, though some groups operate with paperless, memory-based record-keeping systems. Surplus cash and records are kept in a lockbox with 3 keys, each held by a different, elected 'key-holder' to prevent unauthorized cash movements. Groups are time-bound, generally operating in 9-12 month cycles. At the end of the cycle, a 'share out' takes place when savings and interest income are distributed to members in proportion to the savings each has accumulated.

IV. Linking Savings Groups to Financial Inclusion

a. SGs: Key to economic security

Savings Groups are a key way to provide access to financial services for people living in areas which financial institutions typically ignore and where the cycle of poverty prevails. The poor need financial services for the same reasons as anyone else: to manage risk (e.g., health emergencies, crop failures, etc.), build assets, invest in productive activities, manage cash flows, and smooth incomes. Traditional microfinance and Banks have not, for the most part, been able to provide such services because it is too expensive to reach into remote rural areas (although cell phone/ Digital financial services technology is showing promise)[4].

If financial institutions are only available outside villages, rural population will have difficulties accessing them and this is exacerbated for women. Women tend to avoid institutions that require initial fees for membership and guarantees for their loans. They are particularly intimidated by the threat of debt collectors seizing their goods in case of non-reimbursement. Other formal institutions used by men have been beyond women's economic scale, loaning larger amounts and requiring larger minimum savings than women can afford.

Savings Groups will per their nature allow their members, in particular women to have access to "informal" financial inclusion by receiving loans for both income generation and household consumption. They cover medical costs, food, and education of the children. It is also a space where members of SGs build trust and support to each other which strengthen social cohesion by creating a collection of individuals that trust each other and strengthen social networks and ties.

[4] SEEP, Savings Groups: What are they?, 2010

In terms of economic impact for example, over three years:[5]

1) In Uganda, VSLA members' monthly household income rose from $60 to $95;

2) In Rwanda, members' spending on household assets increased by 300%;

3) In Tanzania, members increased their spending on children's school fees by 76%;

4) In Rwanda, VSLA members running small businesses grew from 19% at baseline to 43% at the end of the project, and business investment grew by 339%;

5) In Uganda, 42% said they could solve problems themselves compared with 31% at baseline, while 63% indicated their husbands respected and valued their role, compared with only 48% at baseline;

6) In Rwanda, the average number of meals per day eaten by VSLA members rose from 2.1 to 3.2;

7) In Rwanda, the average amount members spent annually on healthcare increased from $5.60 to $10.30.

But the benefits don't stop there: If members economic interests grow and they want increased access to funds there are several options beyond the individual group. In some cases, groups develop networks or federations combining the weekly contributions of individual groups, so the capital is increased in size. In other cases, where reliable financial institutions exist, members might decide to collectively (or individually) approach such an institution.

Indeed, by being members of Savings groups, women and other participants have access to basic financial literacy. According to a Standard and Poor Ratings Services survey, globally there is a five-point gender gap, with 35% of men being financially literate compared with 30% of women. Savings Groups allow to fill that Gap. Members of SGs are thought on how money works: how someone makes, manages and invests it, loans and interest. This means that after the first cycle they could be linked to formal financial institutions.

b. access to formal financial services

As groups mature and grow, the need for new and diverse financial services becomes stronger. In addition, mature groups have a higher demand for credit, particularly at the beginning of the

[5] SEEP, Savings Groups: What are they?, 2010

savings cycle when group savings are low. They also face sometime security issues of their saving. Fund security is the most articulated need across groups. Accumulating cash, typically kept in a locked box, poses a serious risk and causes high anxiety for those responsible for keeping it. Based on this, some group members want long-term saving and/or to re-invest a portion of the share-out in big income generating activities. Accessing other financial products from formal financial institutions can be a solution for some members but be aware that the linkages are on a demand driven basis.

This is when groups start to look to a formal financial service provider to access bank accounts, microfinance institutions (MFIs) and/ or mobile network operators (MNOs) to keep their funds safe. The account can also help the group develop a financial identity and access other financial products offered by the financial institution such as credit. As some of the members start developing their micro-enterprises, they save more and their credit needs become larger and more complex than what their savings group can offer. There are clear steps on how to link SGs with Financial institutions (market assessment, product design, etc.…).

Once linked to a bank, the average savings per member increases by between 40 and 100 percent and the average profit per member doubles. Data from Banking on change shows that the average Savings Group member saves US $58 per year, indicating that the world's 11.5 million active savings Groups members could accumulate over US $660 million in savings annually[6]. As an individual, maintaining a bank account can be quite expensive given the amounts deposited and the transaction costs in accessing an account, whether it be distance or the actual fees. However, accessing an account as a group spreads the cost over two dozen or so people, making it much more affordable. Individuals also graduate to the formal financial system – about 13 percent of group members are willing and able to open individual accounts once they have been linked as a group.

Savings groups, therefore, offer a stable and cost-effective springboard from which poor individuals can start a journey to financial inclusion. For women they are a good pathway, to aggregate demand among low- income women. Over the past decade, about 1 million girls and women in underserved markets of sub-Saharan Africa have gained access to formal financial services through Savings Groups[7]

INGOs and community based organizations supporting SGs creation and implementation therefore have been working with international and national banks, MFIs, MNOs and regulators to break down the barriers related to cost, KYC (Know Your Client), interest rate that normally prevent a group from accessing formal financial services. The development of these products has also been done in consultation with SG members and facilitators agencies to ensure that the products offered effectively respond to the need of the population.

[6] Banking on Change: Breaking the Barriers to Financial Inclusion, 2013
[7] FSD, SEEP, Savings Groups and Women Financial Inclusion, 2018

c. Financial Inclusion of SGs as a pathway to women empowerment

Overall and as stated in the above in this concept paper, Savings Groups mostly work for women. By meeting the needs of women for improved access to finance, they not only allow women to manage basic needs of their households and/ or develop small businesses, but they also provide a space for women to grow their confidence, and a forum for women to discuss on matters of shared interest. To a certain extent, we also observe gains in decision making and leadership, with women taking leadership positions in the groups or communities[8].

V. Activities

The CBL's strategy is to develop the necessary framework in conjunction with the World Bank's technical assistance and implementation support, that will transition savings groups into the formal financial sector based on the following activities:

a) Engagement with Apex body, NGOs and INGO working with saving groups to understand and ensure helpful policies for saving groups;

b) Collect necessary data on savings groups location and activities and ensure updated information about these groups;

c) Conduct diagnostic study and capacity assessment of National and Regional APEX, as well SGs and provide capacity support for management and reporting;

d) Provide seed funding and other support to revamp the informal financial sector;

e) Encourage all savings groups to have saving accounts with formal financial institutions;

f) Encourage financial institution to derive attractive financial products and services for savings groups; and

g) Conduct workshop for savings groups and financial institution to interact with the hope to provide saving groups access to financial products and services (including digital financial products and services).

[8] SEEP, Women Empowerment and Savings Groups: What do we know?, 2018

VI. Outcomes

The products of savings group membership include development of good financial habits (savings, loan repayments), basic education on how finance works, community trust and interdependence, and concentration of a significant number of potential customers in one place.

Due to our facilitation, key to successful long-term engagement between Savings Groups and formal Financial Institutions will include:

1) Maturity of the savings groups i.e. including financial education, established savings and loan repayment patterns, and strong group governance;

2) Geographic closeness to a branch or qualified agent, to allow for cash-in / cash-out capabilities, even if mobile services are provided;
3) Establishment of trust between rural communities and formal financial institutions, and respect in the financial institution culture for the value and dignity of members of the community;

4) Development of specific cost-efficient services that can be offered at an acceptable cost to Savings Groups and their members. These can be no-frills services and should require minimal to no human operational intervention because they are mainly mobile-based.

Besides, it is our assumption that it is feasible for commercial financial institutions to develop and deliver banking services to the very poor and still make at least a moderate profit. For this to be true, several conditions would need to be satisfied:

Cost of customer acquisition must become very low, even if initially relatively high. Working with local and international partners to contact groups of Savings Groups in a locale can address this in part. In addition, delivery of mobile enrollment and KYC capabilities through agent networks would significantly reduce onboarding costs.

Also, servicing costs will be minimized through technology (streamlined core banking, simple mobile services, and automated customer service capabilities). Some of this technology depends on wide smart-phone availability (though as M-Pesa and similar services have shown, much can be accomplished through feature phones). Use of chatbots and similar technology for customer services is still in its infancy but provides a direction for the future. Natural language processing in particular may help to alleviate literacy limitations.

We will work with NGOs, etc. working in this field together to develop clear requirements for financial institutions looking to expand. Small Enterprise Evaluation Project (SEEP) has developed a very helpful handbook that goes some way toward this and we believe too that the WB has useful publication and knowledge sets that we can dip from. However, local conditions vary enormously, and product design is likely to be quite different from country to country. Examples of differences to be addressed include:

a. Economic conditions (stability, inflation, etc.)
b. Legal and regulatory conditions
c. Technology infrastructure, including mobile phone network and penetration
d. Existence of agent networks or equivalent

Government policy should actively encourage financial institution engagement through a combination of carrot (e.g. tax incentives) and stick (e.g. sanctions).

VII. Conclusion

Financial inclusion for very poor rural communities is challenging. However, the existence of an informal financial sector in the form of savings groups/ village savings and loan association provides a tremendous opportunity for banks and other financial institutions including insurance companies to develop products that can be delivered and serviced profitably.

The biggest challenge may be creation of a large enough potential customer base to cover product development costs. This can only be accomplished through the kind of collaboration that the CBL seeks from organizations like the World Bank.

Linking the informal financial sector to the formal sector will expedite the national drive for enhancing inclusion, providing sustainable job creation and assist in addressing other macroeconomic challenges including the longstanding problem of most of the domestic currency in circulation being outside the formal financial sector.