

WHERE NEXT AFTER VSLA?

A World Renew Research Paper Exploring the Value of
Linking Savings Groups with Financial Services Providers



Savings Group, Bangladesh, World Renew

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EXECUTIVE SUMMARY

Thousands of Savings Groups (SGs) have been facilitated by international and local NGOs like World Renew. These groups, such as Village Savings and Loans Associations, provide extensive benefits to local communities, especially in rural areas around the world. The benefits extend beyond the purely financial, to include increased community cohesion and access to training and best practices in areas as diverse as agriculture, healthcare, and education.

However, SGs have limitations. They typically have a one-year cycle, meaning that only short-term savings and loans can be supported. They are also restricted to lending out what has been saved by the group, which can be insufficient for longer-term micro-enterprise or community investment projects.

There are several ways in which SG capabilities can be extended, some of which are discussed in this paper. In particular, this paper reviews approaches for SGs to link to more formal Financial Services Providers, such as banks, MicroFinance Institutions, and (in some countries) Mobile Network Operators.

There have been many experiments with SG-FSP linkage. The best known is the CARE-Barclays partnership in the early 2010s, but several others have been attempted around the world, with mixed success. Review of published research on such experiments reveals that SG-FSP linkages are most likely to succeed in the following circumstances:

- The SG is stable and mature (usually at least two years old), and its members have gained some financial literacy and discipline.
- The SG views linkage as a way to extend its capabilities without losing its core community development principles.
- The FSP takes a long-term view of its customer base and has a commitment to increasing financial inclusion in its markets.
- The SG-FSP relationship is built upon mutual trust and respect.
- Products are designed by the FSP specifically to meet the needs of SGs and their members.
- The SG is geographically located close to an FSP branch, automated teller, or agent.
- Enough technology is deployed to facilitate linkage, but not so much that SG members lose their dependence on the group.
- The linkage is facilitated and supported by an NGO that will provide guidance with each of the above points.

World Renew and similar NGOs that sponsor SGs can actively increase financial inclusion and community financial health by facilitating SG-FSP linkages. Recommended next steps for such NGOs will be to formalize some guidelines for selection of candidate communities, creation of a pilot, and then development of a handbook for linkage.

GLOSSARY OF ACRONYMS

AML	Anti-Money Laundering (and Anti-Terrorist Financing) legislation
API	Application Programming Interface
ATM	Automated Teller Machine
BP	Banques Populaires du Rwanda
CD	Certificate of Deposit
CDFI	Community Development Financial Institution
CFI	Center for Financial Inclusion (the research arm of ACCION International)
FSD	Financial Sector Deepening (UK-funded NGO in sub-Saharan Africa)
FSP	Financial Services Provider
KYC	Know Your Customer (a subset of AML regulations)
MFI	Micro Finance Institution
MNO	Mobile Network Operator
NGO	Non-Governmental Organization
OECD	Organization for Economic Co-operation and Development
ROI	Return on Investment
RMF	Responsible Microfinance Fund
SACCO	Savings And Credit Co-operative
SG	Savings Group
SHG	Self-Help Group
SROI	Social Return on Investment
UNCDF	United Nations Capital Development Fund
VICOBA	Village Community Bank
VSLA	Village Savings and Loan Association
WSJ	Wall Street Journal

1 INTRODUCTION

For many years, World Renew (along with many other global NGOs) has sponsored the creation of Village Savings and Loans Associations (VSLAs). This is a form of sponsored (or NGO-facilitated) informal community savings group (SG) that has proven particularly valuable in building community, enabling resilience from economic shocks, and encouraging micro-enterprise development among other many other benefits.

However, VSLAs have limits and there may come a point for successful groups when they would like to overcome those limitations. This report discusses the potential benefits and challenges that come from expanding savings and loans capabilities beyond a particular VSLA. In particular, it addresses linkage with formal financial services providers (FSPs) such as banks.

There is limited formal research on the effectiveness of SG linkages to FSPs, and far more needs to be done¹. However, a review of outcomes of linkages suggests that in many cases a real need is being effectively met and communities are benefiting.² At the same time, there are many challenges and pitfalls and not all linkages are successful.

The conclusion of this research is that, when conditions are right, great value can be derived from connecting informal savings groups to formal financial services. However, in order to create a sustainable long-term linkage, a number of guidelines must be followed by the SG, the sponsoring NGO, and the Financial Service Provider. These guidelines will differ by geography, type of SG, type of FSP, etc. with the result that there is no one-size-fits-all approach.

From a broader global perspective, linking SGs to FSPs contributes to the United Nations³ and World Bank⁴ goals around increasing financial inclusion. Reaching financial inclusion goals (including the ambitious desire for Universal Financial Inclusion by 2020) will only be effective if access to formal financial services meets the specific needs of poor and rural communities. The Center for Financial Inclusion (CFI) defines financial inclusion as a “state in which everyone who can use them has access to a full suite of quality services at affordable prices, delivered by a range of providers in a competitive market, with convenience, dignity and consumer protections to financially capable clients.” By this definition, the march to universal financial inclusion has a very long way to go.⁵ Development of relevant products that enhance and extend the financial capabilities already introduced by Savings Groups will increase the likelihood of full adoption and usage of formal financial services⁶.

¹ See Savings at the Frontier / Oxford Policy Management: [Savings at the Frontier Evidence Mapping on Informal Savings Mechanisms](#) for a summary.

² For a popular press example see the WSJ “[The Missing Link? How Banks Boost Savings Groups](#)”

³ See UNCDF “[Financial Inclusion and SDGs](#)” which lays out ways in which financial inclusion supports 8 of the 17 Sustainable Development Goals adopted in 2016.

⁴ See the World Bank introduction to [Financial Inclusion](#).

⁵ See CFI’s “[Financial Inclusion: Hype vs. Reality](#)” commentary on the most recent [Global Findex](#) progress report on financial inclusion, which paints a very different and more realistic picture of real progress than the “official” World Bank report.

⁶ One of the biggest concerns raised by CFI and others is that while millions of bank accounts may have been opened for the very poor, a huge proportion of them remains underutilized or even dormant. This is particularly evident in

The purpose of this report is to review research and experiences with SG to FSP linkages in order to provide guidance to World Renew and other global development organizations, in extending the capabilities of SGs.

This report includes:

- A review of reasons for considering linkage, both for SGs and FSPs
- Discussion of options for such linkages
- Evidence that linkage can work
- Barriers and challenges to linkage, and how to overcome them
- Key success factors that seem to emerge from practical experiments over the past several years
- Recommendations for World Renew and other agencies that sponsor SGs

Footnotes offer sources and/or recommendations for further study, but the report can be read without them. Since many who read this report will have limited understanding of the banking industry or financial services concepts, several of the footnotes attempt to provide a brief explanation of banking terms and practices.

***Note:** Because of the large number of hyperlinks to support easy access research documents and further reference links, it is recommended that this report be read in its electronic form.*

India, following a major government push for banks to open accounts for everyone, without also mandating the design of products that will really meet their needs.

2 THE OPPORTUNITY FOR SAVINGS GROUPS

Estimates of the reach of sponsored or facilitated savings groups varies, depending on definitions. However, there are over 1 million facilitated savings groups around the world, with 20-30 million members and savings estimated as high as \$1.2 billion.⁷

In this report, the discussion is focused on those savings groups that are NGO-sponsored or facilitated, following a specific model. [World Renew](#) largely follows the Village Savings and Loan Association (VSLA) model popularized by [CARE](#)⁸, and supported with training materials from organization like [VSL Associates](#)⁹.

Extensive research¹⁰ has shown that typical economic benefits from sponsored SGs include:

- Increased household income
- Improved food consumption
- Increases in number of income-generating activities
- Growth in community savings
- Increased domestic consumption
- Greater resiliency to economic shocks

In addition, because of the way they are formed, savings groups create greater community cohesion and facilitate learning and growth in a number of additional areas, such as:

- Sustainable agriculture
- Healthcare practices
- Education
- Community peace-making
- Women's status
- Reductions in family violence

While the potential for add-on programming seem limitless, there are, in fact, limits to some of the economic benefits. By their very nature savings groups have limited lending ability. Total lendable amount can't exceed total savings, and loan terms must be short enough to allow for end-of-cycle share-outs¹¹.

In general, there are several potential benefits for SGs and their members that can result from successful linkage to FSPs. These include (in no particular priority order, but see 2.1 below):

⁷Several estimates have been made around these levels. See for example the SEEP Handbook – [Delivering Formal Financial Services to Savings Groups](#)

⁸See the [CARE VSLA overview](#) for more history and description of the model.

⁹ Training materials aren't necessarily precisely followed, but rather provide guidance. Not all VSLAs are alike. Local cultural, legal, political and geographic conditions make certain changes appropriate. The key is that each VSLA has a governing constitution, with rules and disciplines agreed upon by all the members.

¹⁰ Much of this research is referenced in footnotes throughout this report.

¹¹ Many models of SG have a one-year cycle, by the end of which all loans must be repaid, and savings plus earned interest is distributed back to members. Among other benefits this provides a natural audit point for SG record-keeping.

- Funds security – storage of cash by the FSP rather than in lockboxes
- Improved group liquidity (for example the ability to invest excess cash at times of low loan demand, or to receive short-term liquidity when savings are inadequate for loan demand from the group)
- Access to larger and longer-term credit facilities (group and individual)
- Access to savings accounts for individuals, including longer-term interest-bearing instruments such as Certificates of Deposit (CDs). This allows savings for future lump-sum needs, such as anticipated school fees, healthcare costs, or even a house.
- Longer-term sustainability for the SG. Many groups wind down after just a few years because of the limitations for further growth.
- Access to health, disaster and crop microinsurance facilities beyond the group’s social fund¹²
- Access to other banking services such as mobile payments and remittances
- Financial education and advice
- Development of formal financial and credit history
- Opportunities to hedge against inflation¹³ (as opposed to the purely cash-based SG model)
- Automation of record-keeping¹⁴ resulting in greater transparency and reduced opportunities for fraud

2.1 PRIORITIZING NEEDS BEYOND THE SAVINGS GROUP

Several research studies attempt to prioritize the greatest drivers for SG linkage to FSPs. One from the MasterCard Foundation¹⁵, for example, suggests that 97% of savings groups prioritize safety of savings, 61% access to credit, and 30% building of financial history. Typical of more formal research, an informal survey of World Renew country consultants¹⁶ prioritized linkage capabilities as follows:

1. **Individual savings accounts.** This includes flexibility to save over and above the generally fixed periodic payments into the SG. It also allows for savings to remain in the FSP beyond annual SG payouts.
2. **Group savings accounts.** The primary reason for this is a secure place to store cash. Cash in an FSP may also be used as collateral for group loans.
3. **Individual loans.** Individuals occasionally need access to credit beyond the capabilities of the SG. This may be because of cash flow challenges in the SG (e.g. near the end of a cycle when loans need to be repaid) or because of the need for a longer-term or larger loan. Generally, SG members will borrow from the SG in preference to the FSP, so this capability is more for exception situations¹⁷.

¹² Promoted savings groups will often have a separate social fund for emergencies, with mandatory contributions over and above committed savings

¹³ This is especially meaningful in areas with hyperinflation, such as Zimbabwe in the 2000’s and again (to a new extreme) in 2017. While most communities deal with hyperinflation by reverting to barter and investing in long-term material assets, banks have the opportunity to provide hedges such as conversion to stable currencies.

¹⁴ There are emerging mobile apps that will support easier and more robust record-keeping within SGs without connection to a bank. For example, Software Group’s [digital savings group solution](#).

¹⁵ [Research brief: Practices & Possibilities in Savings Groups](#) published in September 2014

¹⁶ Conducted by the author in late 2017. See Appendix A for more detail of this unpublished study.

¹⁷ SEEP April 2017 webinar “[Demand for Formal Financial Services by Savings Groups: Behavior, needs and market opportunities](#)”

Individual loans may still be guaranteed by the SG as a whole, with the effect that it is secured by SG assets.

4. **Group loans.** As against individual loans, if an FSP lends to the SG as a whole, it can increase SG lending capacity and help with the cash flow challenges at the start and end of a cycle. These loans are secured by SG assets.
5. **Health, disaster and crop insurance.** Although most SGs will have a contributory “social fund”, it will not always be enough to address emergencies, particularly those experienced by the community as a whole (e.g. drought or flooding). Access to micro-insurance services is desirable for some SGs.¹⁸
6. **Financial education.** Typically, a sponsored SG will have received a level of financial education from the sponsoring NGO. However, using a bank presents additional opportunities, responsibilities and implications that can deepen a member or group’s financial understanding.
7. **Mobile transactions.** Depending on telecommunication infrastructure and the acceptability of mobile money in a community, the ability to deposit, withdraw and transfer cash in a mobile form is increasingly attractive.

The first four items are standard expectations, although by no means do all linkages provide all four. In fact, SEEP has developed a taxonomy¹⁹ of SG-FSP linkages distinguishing between these items as the primary driver for linkage.

¹⁸ This report focuses primarily on banking services and does not address insurance services specifically. However, many FSPs will offer insurance services in addition to savings and credit.

¹⁹ [Learning Brief: A Typology of Relationships between Savings Groups and Financial Service Providers](#)

3 APPROACHES TO EXPANSION OF SAVINGS GROUPS

3.1 KEEP IT SIMPLE: EXPAND COVERAGE AND CAPABILITY

The most obvious way to expand the capabilities of a Savings Group is to increase its resources. This can be done in a number of ways:

- Joining resources of two or more SGs (ultimately leading to clustering, see the next section).
- Lengthening cycles to allow for longer-term loans and savings. This approach requires some changes to the group's constitution and the addition of checks and balances that are lost without an annual cycle.
- Creating additional funds focused on community projects or longer-term household or community needs (perhaps in lieu of insurance)
- Integration into other development activities as prospective sources of capital, as well as more sustainable forms of community integration.
- Use of technology to improve safety of funds and ease of access to deposits and loans.

In relation to the last option, certain technology providers offer capabilities to SGs that will simplify and strengthen processes and increase convenience for SG members. In some cases, this is offered through mobile apps designed specifically for SG leaders.²⁰

In countries with strong infrastructure, technology providers go further in providing services to form, administer, and link multiple SGs. These providers may also provide additional financial services to individual SGs, acting as simplified financial services providers. A good example is Stokfella²¹, which offers facilities for forming and administering stokvels²² in South Africa, but also offers income-bearing investments for their savings.

3.2 PROMOTE CLUSTERS OF SAVINGS GROUPS

A second option is to create facilitated clusters of savings groups, such as Cluster Level Associations (CLAs) or VSLAs²³. These address some of the limitations of individual SGs. They do not typically operate on the standard one-year cycle of SGs, allowing for longer-term savings. In addition, by collecting contributions and unutilized savings from each SG, they can provide larger loans for suitable projects.

²⁰ A good example is the apps offered by the [Software Group](#). Apps include aids to efficient operation of a single group, but also tools for linkage with FSPs. The Software Group also hosts the SAVIX (Savings Group Information Exchange) website, which reports on characteristics and performance of the majority of NGO-facilitated SGs—a useful research tool that World Renew is also in process of joining.

²¹ [Stokfella](#) was created by Tshepo Moloi as a sideline project applying his banking knowledge to financial inclusion. From the website: “Stokvels are an important part of Mzansi life as they bring friends, families and people with the same wealth goals together. Inspired by this proudly South African savings culture, StokFella was born—an online stokvel platform that not only makes it easier for stokvel clubs to manage their monthly payments and claims online but grow their savings through sound investment channels. At the core of StokFella’s solution is a security-first, transparency and confidentiality oath sworn by its founders and staff.”

²² A stokvel is essentially a savings club, with many variants, that is prevalent in South Africa. It typically has a well-defined constitution that in many ways resembles that of a VSLA.

²³ Starting in May 2018, World Renew is initiating a project in Eastern Uganda, partnering with Pentecostal Assemblies of God in Kaberamaido. The team will be using a useful [CLA Training Manual](#) from the Ethiopia SHG Consortium

CLAs will typically include all the SGs in a parish or similar district – perhaps 6-10 groups totaling as many as 200 members. The CLA committee is made up of representatives from each SG, who will manage contributed savings, loans (which are made to the SG rather than individuals), and ongoing accounting.²⁴

A huge advantage of CLAs is the ability to share learnings and resources between communities, facilitated by the CLA. Healthcare, sustainable agriculture, education, and government advocacy can all leverage the scale represented by the CLA.

In some cases, CLAs are grouped together in a Federation. This further increases the level of influence of members of SGs through collective action. It also provides legal identity to the group of CLAs. The table on the next page is a useful summary of the role of CLAs and Federations in relation to SGs.

While the CLA obviates the need for access to long-term savings and (often) larger loans, there may still be a need to link the CLA to an FSP. This is the case primarily for the following reasons:

1. There is growing interest by central regulatory agencies to regulate semi-formal depository organizations, such as SACCOs and CLAs. This is best avoided or addressed by depositing funds directly into an FSP, which may lead to exemption from a number of regulatory standards.
2. With the greater amounts of cash managed by CLAs, cash security is an even bigger concern for a cluster than for individual SGs. As a result, CLAs prefer to have access to an FSP branch to make deposits and withdraw cash as needed.

In the future, mobile and other technologies will add greater value for linkage. The advantage for an FSP is that the scale that comes from linking to an SG (rather than individuals) is greatly increased when banking a CLA.

²⁴ A useful description of how clusters work in practice is contained in Tear Fund [Savings and Self Help Groups in Ethiopia](#)

People's Institution	Process and Functions			Administrative responsibilities
	Economic	Social	Political	
Self Help Group Level 1	<ul style="list-style-type: none"> - Savings - Internal lending - Individual Income Generation Activity - Group Income Generation Activity - Resource Mobilization (Finance) 	<ul style="list-style-type: none"> - A new identity for the member - A sense of belonging - Self esteem - Care and support of one another - Community Action programmes - Social Action programmes - Identify need for new group formation 	<ul style="list-style-type: none"> - A voice in community issues - Participation in local governance as elected members 	<ul style="list-style-type: none"> - Regular meetings with good attendance - Book keeping - To keep the group going effectively
Cluster Level Association Level 2	<ul style="list-style-type: none"> - Establish relevant linkages for mobilization of credit for SHGs - Linkages to introduce relevant technologies leading to Food security - Plan and implement sustainable projects to provide goods and services to the entire community. - Human resource mobilisation where necessary - Need based skill training (Agriculture, business) 	<ul style="list-style-type: none"> - Collecting relevant information and passing on to member SHGs - Establishing relevant linkages in areas of gender equity, health, education, nutrition etc - Community action programmes – inter community issues - Make value statements for the community and ensure a value system 	<ul style="list-style-type: none"> - Making presence known in local governance - Take up activities as extension arm of government. E.g. Govt. awareness programmes, relief work, distribution of goods & services etc. - Actively influence local level decisions through concerted voice of SHG members participating in governance. 	<ul style="list-style-type: none"> - Maintain quality of member SHGs 1. Ensure SHGs reporting to CLA on monthly basis. 2. Training, Audits and Grading 3. Conflict resolution in SHGs - Raise funds for the administrative expenses of the CLA - New group formation - Community Facilitators taking instructions from CLA.
Federation Level 3	<ul style="list-style-type: none"> - Coordinate inter-CLA business activities - Influence trade policies at local level - Establish linkages for Insurance schemes 	<ul style="list-style-type: none"> - Collaboration with other Community Based Organisations on issue based programmes - Information dissemination through newsletter / magazines - Networking with other development players 	<ul style="list-style-type: none"> - Represent the Community in decision making bodies outside the community - Lobby for pro-people's policies at regional/national level - Organize rallies and other awareness programmes on issues - Advocacy for "Rights". E.g. Children's, Women's 	<ul style="list-style-type: none"> - To establish a unique identity for the People's Institution - To provide Legal identity for the People's Institution - To take over the overall administrative responsibility from NGO and sustain it. - To ensure that administrative costs are raised and spent accountably - To ensure democratic functioning of the institution

Figure 1: The Role of Cluster Level Associations²⁵

3.3 CREATE REGISTERED CO-OPERATIVES

In some cases, a local NGO has created a co-operative that will accept savings from, and lend to, multiple local savings groups. Depending on government regulations, the co-operative may need to be registered and subjected to regulatory oversight.

There are risks associated with non-expert creation of a co-operative. The author reviewed²⁶ one such co-operative in Southwest Uganda, in which records were hand-written on paper. Due to initial practices of

²⁵ Taken from the Self-Help Approach (collaboration of Self Help Group practitioners in various countries of Africa and Asia) [Role of CLAs / Federation](#)

lending to individuals, the group was not financially sustainable. When a co-operative is created, it is essential that normal financial disciplines and controls be introduced, just as they are in a well-run Village Savings and Loan Association or other sponsored SG.

3.4 LINK TO FINANCIAL SERVICES PROVIDERS

The rest of this document focuses on linking Savings Groups to more formal Financial Services Providers. This is the most complex approach, but also the most open-ended in terms of potential impact on the financial capabilities of a community and its members.

²⁶ Documented in an unpublished partner evaluation for World Renew. By addressing underwriting policies and record-keeping, and collecting unpaid loans, the group was subsequently able to improve its financial status and ongoing sustainability.

4 WHY WOULD AN FSP WANT TO LINK TO SAVING GROUPS?

4.1 REASONS TO PROVIDE FINANCIAL SERVICES FOR THE POOR

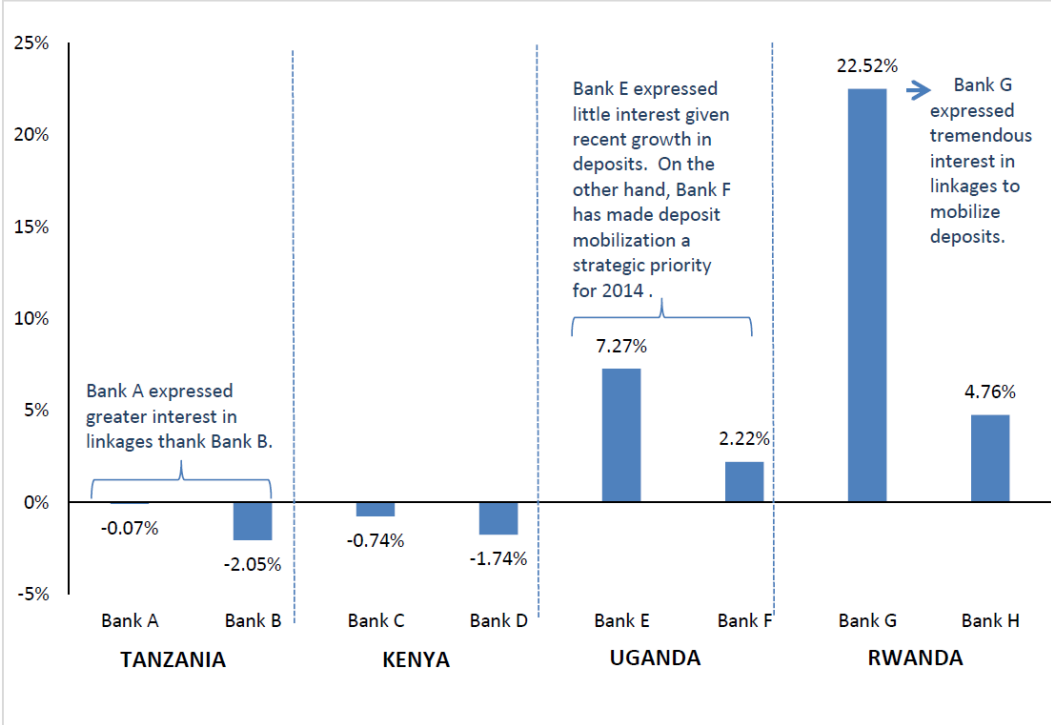
Formal financial service providers want to grow their customer base. From a short-term profitability perspective, they will generally prefer to bank more affluent consumers and businesses. But there are several reasons for looking at poorer communities:

- Contributing to financial inclusion²⁷ as a part of their philanthropic or Corporate Social Responsibility strategy
- Regulatory pressure for FSPs to increase financial inclusion by banking the poorest segments of their communities
- Rising cost of funds from other sources, leading to increased value of access to new low-cost deposits
- New interest and non-interest income from new communities
- Liquidity and steady fee income
- Access to retail deposits. This last item is not universal. A recent Gates Foundation funded study²⁸ offers this varied picture of demand for retail deposits for different banks across four countries in East Africa, and not necessarily just because of the much higher cost of funds for non-retail deposits in some countries.

²⁷ Financial inclusion doesn't just mean providing bank accounts to those who previously didn't have them. The OECD definition is "Financial Inclusion is the process of ensuring access to **appropriate** financial products and services **needed** by vulnerable groups such as weaker sections and low-income groups at an **affordable** cost in a **fair and transparent** manner by mainstream Institutional players". Highlights are the author's, to draw attention to some key principles that must be addressed in SG-FSP linkages.

²⁸ Banking Frontier Associates [Focus Note 2: SG Linkages – The Business Case for Private Service Providers](#). The term "retail deposit margin" is coined for this note and means the difference between interest paid on non-retail liabilities (wholesale deposits, interbank borrowings, etc.) compared with retail deposits.

Chart 4-A: Retail Deposit Margin Across Anonymized East African Commercial Banks



Source: Calculated by BFA using data on liabilities gathered from each banks’ respective 2012 Annual Report. Retail deposit margin provides an estimate of the cost of retail liabilities versus other funds.

Figure 2: Retail Deposit Margin in East Africa²⁹

4.2 REASONS TO START WITH SGs

The problem for formal FSPs in providing banking services to the very poor is that it is very difficult to do so profitably³⁰. FSPs are accountable to shareholders, as well as to customers and communities. Even with the low delivery cost of mobile banking services, the cost of acquiring customers³¹ one by one is prohibitive in relation to the size of deposits and potential for interest or fee income.

Reaching remote rural or slum communities creates additional challenges, including poor telecommunications facilities, distance from branches, and cultural distrust (due to stereotypes in both directions).

When an FSP works with a SG, several of these challenges are mitigated.

²⁹ Banking Frontier Associates op cit

³⁰ Commercial banks typically make a significant portion of their money by obtaining deposits at a low cost, that can be lent out at a higher cost. This “net interest margin” offsets operational costs and generates a profit for shareholders. Additional income can be obtained by providing services to customers and charging fees. For more on bank profitability see 6.1.1 and its footnotes.

³¹ Customer acquisition costs include the sales force or branch personnel, marketing costs, costs for complying with regulatory requirements (especially Know Your Customer), education and training, and onboarding customers to accounts and services. These costs can become substantial if not heavily automated.

- New customers are reached 20-25³² at a time, rather than one at a time. This can reduce several aspects of the customer acquisition process and make it more worthwhile for FSP employees to make personal visits.
- SGs and their members already possess a degree of financial education, have savings discipline, and have demonstrated ability and reliability in repaying loans.
- SGs typically have a local NGO partner, and often an international partner, who can help with facilitation of the linkage and can supplement training provided by the FSP.
- Working through an NGO partner gives members of an SG somewhat more confidence and trust in the FSP, which will build further as the linkage adds value. Conversely, lack of respect from FSP employees toward the very poor may be mitigated by the NGO's involvement.
- FSPs are enabled to develop products that complement and logically follow on from the existing SG capabilities³³.

³² Typical size of a Savings Group, though some can grow to 30 or more, and some may have only a dozen or so members. This depends partly on the model used and partly on the characteristics of the specific community.

³³ See the list in section 2.1 above

5 DIFFERENT LINKAGE OPTIONS

So far, we have talked somewhat generically about SGs (Savings Groups) and FSPs (Financial Service Providers). However, there are many flavors of each, as well as a number of types of linkage. This section offers an overview of some of the options available.

5.1 WHAT KINDS OF SAVINGS GROUPS CAN LINK TO FSPs?

Later in this report, we'll look at some readiness tests and best practices for Savings Groups linking to FSPs. However, in general the best results seem to come from well-established sponsored groups. Examples are VSLAs, VICOBA³⁴, SACCOs³⁵, some models of SHG³⁶, informal Credit Unions and *cajas*³⁷. There are many other informal community savings and lending groups that don't necessarily work as well for linkage (such as ROSCAs, table funding, and merry-go-round funding groups³⁸).

5.2 WHAT KINDS OF FINANCIAL SERVICE PROVIDERS MIGHT LINK TO SGs?

Several kinds of FSP can provide additional services to SGs that warrant linkage. For example:

- Commercial banks – the most obvious example. They typically have scale, capability, and are subject to regulatory consumer protection laws, making them relatively safe. But this is a broad category, ranging from the largest banks in the world (e.g. Barclay's discussed below) to a single-branch bank with half a dozen employees.
- MicroFinance Institutions – the most common example in early days of linkage (see next chapter). This is a very broad category too, with variations in size, business model, and regulatory permissions (for example many cannot take savings).
- Regulated Credit Union or SACCO, which may still be quite an informal organization but has some government oversight and is connected to the overall banking system.
- While not strictly an FSP, a Mobile Network Operator can play a significant part in providing mobile financial services (such as Safaricom's creation of M-Pesa in Kenya).

5.3 FORMS OF LINKAGE

Linkage can be accomplished in a number of ways.

1. Setting up an account at a bank or other financial institution to allow savings by the SG. In this case record-keeping within the SG, collection of cash savings, and distribution of loans is still carried out by the SG leadership.

³⁴ Village Community Bank – common name in Kenya and Tanzania for a model very similar to VSLA

³⁵ Savings and Credit Co-operatives – sometimes formed from a group of Savings Groups, and other times with just individual members. SACCOs are regulated in some countries, unlike Savings Groups. They tend to have customers from multiple communities but are still limited to the small and often irregular savings of their members.

³⁶ Self Help Group, common in India and sometimes (though not always) organized similarly to VSLAs

³⁷ *Cajas comunales* or community savings groups, common in various Latin American and Caribbean countries.

³⁸ There are many names for such groups, with different models and variations in different countries. It is outside the scope of this report to discuss in detail. Mango Tree offers a [useful introduction](#) to Savings Groups, and to [types of Savings Group](#) particularly in Latin America.

2. Creating sub-accounts for each individual in the SG. This can be particularly effective if mobile banking is offered, for example through local Mobile Network Operator (MNO) or bank agents. In this case, members make deposits directly to the bank, and the bank provides record-keeping software and reports on a more automated basis, addressing several potential sources of fraud by SG leaders.
3. Creating separate accounts for each individual in the SG wanting to make additional or longer-term savings. This can be additional to numbers 1 or 2.
4. Leading with loans (often from an MFI) to the SG, or to individual members. (As discussed below, this is not the recommended initial linkage).

One thing to note is that many of the choices for saving and lending mobilization are not “either-or” choices. Where access to formal financial institutions is available, people may well still belong to an SG. The following chart gives a helpful example from Ghana:

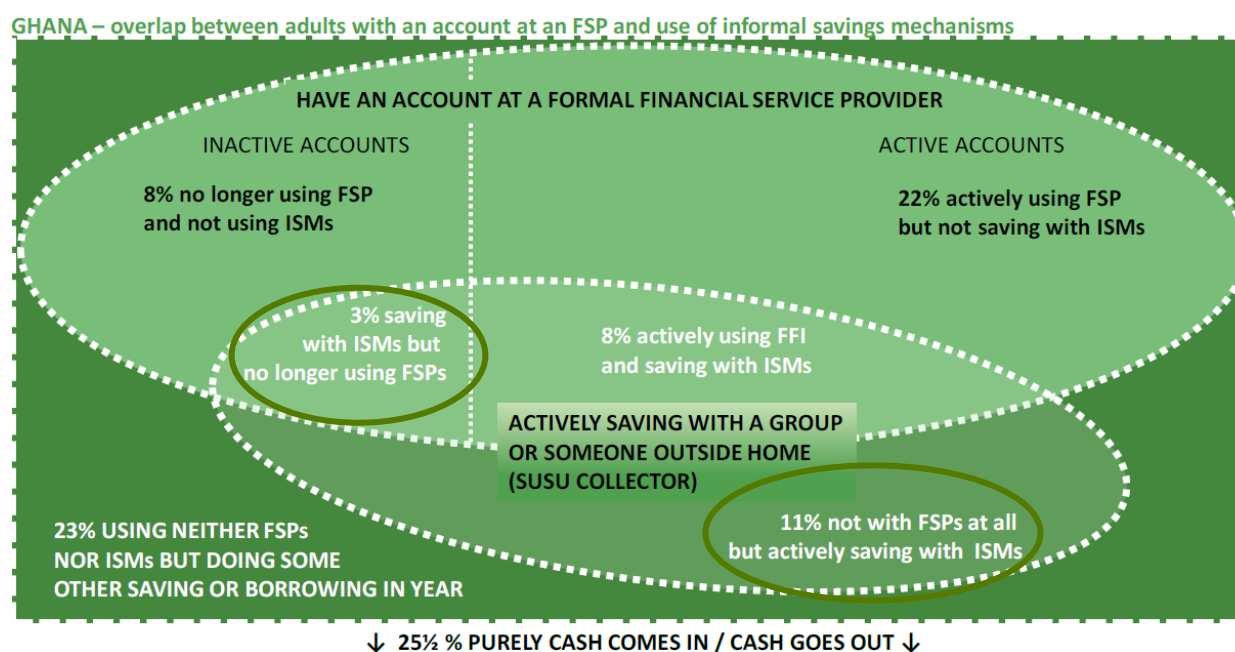


Figure 3: Overlap between SGs and FSPs in Ghana³⁹

So, in Ghana, if all SGs (listed here as Informal Savings Mechanisms, or ISMs⁴⁰) were linked to FSPs, then 11% of the population would be newly financially included, and another 3% would be returned to financial inclusion. This will be different for every country, and of course not all SGs will ever be linked to FSPs, but there is the potential in SG-FSP linkage to impact many millions of people across the world.

³⁹ Oxford Policy Management blog: [Bridging the Gap Between Formal and Informal Savings in Ghana](#). This blog gives an example also from Tanzania, where the much greater availability of Mobile Money Operators significantly changes the value of linkage between information and formal groups. See later in this report for more on the impact of technology.

⁴⁰ It isn't clear from the blog whether ISM represents any savings group or more specifically one that has been formally constituted, for example through NGO sponsorship.

5.4 LINKAGE MATURITY TIMEFRAME

Over a multi-year period Vision Fund Rwanda explored the development of linkage between SGs and FSPs⁴¹. Not surprisingly this shows a pattern from inception of the linkage to its maturity, even for the most successful linkages. They identify four overlapping phases:

Year 1: Formation of relationship between SGs and FSP

Year 2: Linkage implementation – first transactions (typically savings)

Year 3-4: Sustainability – building enough regular activity that the relationship is successful for the SG and profitable for the FSP

Year 2-5: Graduation – removal of the need for a supporting NGO, external funding, etc.

This all presupposes appropriately designed products from the FSP to the SG, and a strong NGO-facilitated relationship between the parties.

⁴¹ SEEP May 2017 Webinar: [Delivery of Formal Financial Services to Savings Groups](#)

6 DO SG-FSP LINKAGES WORK?

There is considerable research on the effectiveness of Savings Groups in transforming communities⁴². However, there is very little well-structured primary research on the effectiveness of SG-FSP linkages. A recent review of over 50 investigations into outcomes related to SGs was able to find only 4 studies that attempted to measure impact of linkage to FSPs.⁴³

There has been some progress made in creating linkages, building upon earlier experiences. We will look at some best practices later in this report, but it is worth recounting a little of the history of linkages.⁴⁴

6.1 LINKAGE WITH MFIs 2004-2007

A couple of early studies⁴⁵ looked at developments in the CARE SGs (started in Niger as early as 1991) that in 2004 started to facilitate loans from MFIs. After about 3 years, the MFIs started to see unacceptable growth in defaults, and the experiment eventually ended. Key reasons given for the failure include:

- Haphazard lending and inadequate education of group members
- Multiple loans to the same group from different MFIs
- Lack of industry consensus on a reasonable code of practice for lenders
- Stress within groups resulting from the external loans, especially when the loans went to particular members but had to be guaranteed by the whole group

This experience, though negative in itself, was very informative and influential in the development of thinking about SG-FSP linkages.

6.2 LINKAGE WITH FINANCIAL CO-OPERATIVES 2007

CARE was also involved in an experiment in Rwanda⁴⁶, in which SGs were linked to financial cooperatives known as Banques Populaires du Rwanda (BPs). The complexity of these arrangements led to disincentives to lend from the BP's accounts – instead the SGs mostly used seed funding from CARE. Record-keeping was also difficult.

The lending first approach also didn't encourage greater saving, and actually discouraged internal lending from the SG's own funds, although it did lead to individual accounts being opened at the BPs.

⁴² See for example the very helpful [final report](#) of an extensive multi-national 5 year study of a variety of anticipated positive outcomes from VSLAs (among other community-focused development initiatives), published January 31, 2018 by World Renew, and funded by Global Affairs Canada.

⁴³ Described in a helpful SEEP Webinar [Understanding the Impact of Savings Groups](#) February 7, 2018

⁴⁴ This section owes much to [Evidence, Hope and Hype: a Review of the Literature Concerning Commercial Relationships between Savings Groups and Financial Service Providers](#) Published by SEEP 2017 with FSD Africa and FSD Zambia

⁴⁵ Hugh Allen. *MMD in Niger: Evolution, Perspectives, and the Future*. VSL Associates, June 2007; and Paul Rippey. *Étude sur l'impact des crédits extérieurs sur les groupements et réseaux MMD et les mesures de minimisation des risques*. January 2008, both summarized in SEEP and FSD [op cit.](#)

⁴⁶ Described in Jan Maes. *Linkages between CARE's VSLAs with Financial Institutions in Rwanda. CARE Rwanda*. August 2007, which is summarized in SEEP and FSD Africa [op cit.](#)

The conclusion was reached that externally guaranteed loan funds don't provide the right incentives for economic development beyond what the SG has accomplished.

6.3 LINKAGE TO SACCOs 2011

In 2011, another study on Rwanda⁴⁷ looked at linkage to government-sponsored SACCOs. These linkages were primarily intended to encourage growth in savings and did not include any appropriate (group) loan products—though some individual loans were made, guaranteed by the SG. A couple of lessons learned were:

- Group guarantees create problems unless agreed by all members
- Collateral savings should earn interest

6.4 CARE'S LINKAGE PROGRAM IN RWANDA 2011

A more thorough review⁴⁸ of CARE's SAFI program in Rwanda, in which the FSP was Vision Finance Company, led to more positive results.

- The overall conclusion was that linkage strengthened the SG
- Group savings and (for a subset of SGs) loans worked well, though it was too early to tell about the quality of credit, since the first 2 years of lending are normally good anyway⁴⁹.
- FSP regulations and processes created significant travel effort, copying costs, etc. In the longer term, the introduction of mobile banking should help, provided an accessible agent network is also created. (See later in this report for a discussion of the role of new technologies in SG-FSP linkage).
- The availability of a larger and longer-term loan fund, including external loans, addressed seasonal fluctuations and met member needs that could not be met with SG savings alone.
- Savings in the fund continued and even grew due to motivations to reach for higher goals.

6.5 CARE AND BARCLAY'S "BANKING ON CHANGE" PROJECT 2009-2015

Easily the best publicized experiment in linking SGs with FSPs was the partnership between CARE and Barclay's⁵⁰. The Barclay's "[Banking on Change](#)" description lays out a number of accomplishments that give encouragement on how far a program can be rolled out in a short period of time:

⁴⁷ John K. Beijuka. *The Linkage of VSLGs To Umurenge SACCOs ASSESSMENT: Final Report*. CARE Rwanda. November 2011, summarized in SEEP and FSD Africa *op cit*.

⁴⁸ By Satyam Bakliwal and Mfoniso Umoh (2011), summarized in SEEP and FSD Africa *op cit*.

⁴⁹ This is one of the challenges of this research – relatively mature linkages are hard to come by and it seems to take about three years before credit problems start to emerge.

⁵⁰ See for example the rather helpful introductory November 2014 article in the UK's [Guardian](#) newspaper. More information is contained on the [Barclay's web page](#) devoted to the experiment.

- 25,000 savings groups were established in just three years (by CARE a number of other NGO partners following the CARE model) with 513,000 members. Average saving per member was \$58 per year
- 494 new group savings accounts were established with Barclays branches in Kenya, Uganda, Ghana and Tanzania
- In Uganda women increased their ability to influence men’s decision making by 33 per cent
- In Peru female group members have increased their investment in small businesses by 47 per cent in three years
- Four banking products were created to answer the needs of poor customers: three different savings accounts and an overdraft facility.

However, the conclusions are rather generic, and do not provide a great deal of learning on best practices in establishing and operating linkages. Rather, the analysis is primarily geared toward encouraging a global focus on Savings Groups and FSP linkages as one of the key tools toward Financial Inclusion, as illustrated in the following diagram from the Barclay’s piece:

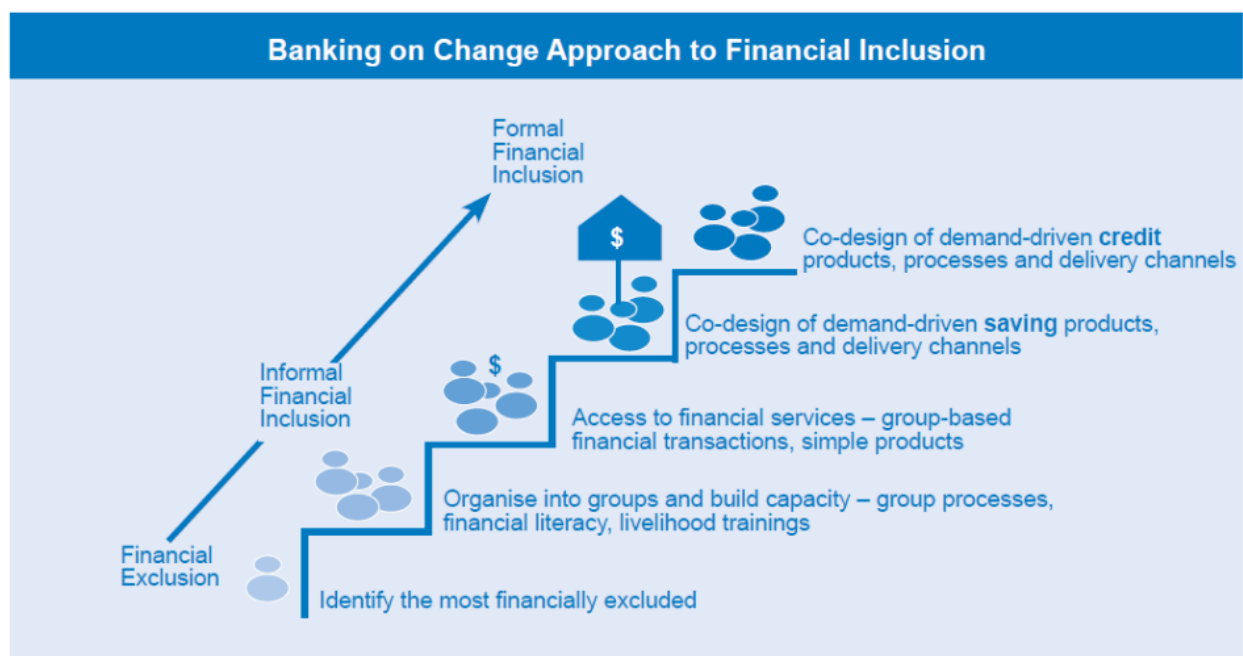


Figure 4: Banking on Change Approach⁵¹

Because of the CARE/Barclay’s program visibility, several other studies have been published over the past few years. One of them⁵², while also primarily promotional, did offer a few challenges from which lessons can be learned:

- The distance from SGs to bank branches was often too great. This created risk for transportation of cash, significant time commitments for SG officers, and in some cases significant travel costs

⁵¹ Barclay’s “Banking on Change”

⁵² By Sybil Chidiac, Grace Majara, Richard Tandoh 2015, summarized in SEEP and FSD Africa *op cit.*

- The program used a complex paper-based account opening process, which discouraged broader use
- Bank staff often didn't know about the program, or else did not consider it a priority
- Training for both SG members and bank staff on how the linkage was supposed to work was of inadequate quality

One other useful conclusion from this particular study was the impact of linkage during a group cycle. Perhaps not surprisingly, SGs tend to be net borrowers early on in the cycle, as loan demand cannot be met from the initial month or two of savings. Conversely, they tend to be net savers as group savings increase. This is an important element of design for linkage—addressing an often unstated issue of cash flow inconsistency within SGs.

6.6 THE STATE OF LINKAGE REPORT 2015

There is no question that [CARE International](#) has made a huge contribution to the development savings groups, and (particularly [with Barclay's Bank](#)) linkages between SGs and FSPs. In 2015 this partnership published a first-of-a-kind status report on SG-FSP linkages around the world⁵³.

The report included a number of statistics and conclusions, although unfortunately nothing definitive on how these linkages individually or together address community development goals. Still, the numbers are impressive:

- SGs had at that time linked to 95 FSPs, of which 67% were banks, 19% MFIs, 7% MNOs and 7% others
- Between them they offered 106 savings and credit products (which suggests most only had a single product—group savings or group lending)
- Linkages were listed in 27 countries with Sub-Saharan Africa heavily over-represented (nearly 2/3 of all linkage products), but also West and South Africa, India and SE Asia, and Central America.⁵⁴
- Most linkages were provided by banks operating at a local or single country level. There were only five international banks represented (Barclays, Bank of Africa, Kenya Commercial Bank, Opportunity International Bank, FINCA) all of which had linkages solely in East or Southern Africa.⁵⁵

Significant conclusions reached were that:

- Offering banking services to SGs requires development of new or bespoke product features:
 - Reduced account fees (which requires simplification and greater automation of account onboarding and transaction processing)
 - Simpler account opening including simpler or less restrictive KYC⁵⁶ requirements

⁵³ Available on the SEEP website as [The State of Linkage Report 2015](#)

⁵⁴ A curious twist is that while India has significant activity, Central America does not, despite its rich history of SGs. Possibly, this is because the nature of linkage in Latin America is semi-formal rather than visible through government regulation

⁵⁵ This could be because of greater incentive for local banks to capture their whole market, or because of significant local variations resulting in different products for different markets

⁵⁶ KYC is the Know Your Customer component of mandated Anti-Money Laundering / Anti-Terrorist Financing regulations. KYC includes initial customer risk assessment based on an understanding of the kind of business conducted,

- Support for multiple account signatories must be supported
- Collaboration is key to success, including
 - Banks accessing MNO⁵⁷ agent networks, MNOs accessing urban ATM networks
 - Banks working with NGOs to coordinate with SGs
 - Banks working together (although this is not yet evident)
 - (The author would add) banks and NGOs working with regulatory agencies to simplify regulations for operating accounts of SGs and SG members in very poor areas

It is to be hoped that an update to the State of Linkage report can be created shortly, since much has changed, particularly with greater global availability of mobile banking products.

6.7 THE EVIDENCE - CONCLUSIONS

While there is much to report in terms of subjective observations on the effectiveness of SG-FSP linkages, there is far too little evidence regarding the impact on community and household economic livelihoods⁵⁸. A recent webinar⁵⁹ from SEEP also offers a certain amount of evidence of the value of linkages but does not deliver concrete primary outcomes for communities.

The [Savings at the Frontier](#) initiative (SatF)⁶⁰ is a 5 year program that “aims to learn from ongoing work on the promotion of informal savings groups and other informal savings mechanisms (ISMs) and how they currently link with formal financial institutions on savings, credit, insurance and other financial services.” The program has already published a number of useful blogs and papers, the most recent⁶¹ of which discusses the challenges associated with creating a business case for linkage in specific contexts. It is to be hoped that this initiative will tie linkage to community economic health more specifically than has been done previously.

Nevertheless, there is considerable guidance coming out of the various research studies, that informs the next two sections on barriers to linkage and success factors in SG-FSP linkage.

plus ongoing monitoring of transactional activity to look for anomalous behavior that could be indicative of illegal activity. The burden on banks is considerable, and for very small balance accounts forms a disproportionately large portion of operating costs. Governments have been working for some time to enact simpler and less onerous requirements in opening and operating accounts for the very poor, given the likely much lower risk.

⁵⁷ Mobile Network Operators, who are increasingly involved in mobile money. The best-known example is the M-Pesa program in Kenya, in which the MNO Safaricom introduced mobile payments to the world.

⁵⁸ The prestigious Stanford Social Innovation Review pleads for better quality research on the outcomes realized by all Financial Inclusion efforts. See [Do Financial Inclusion Efforts Really Have an Impact on Poverty?](#) published by SSIR January 29, 2018

⁵⁹ [The Outcomes of SG Bank Linkages – Emerging Evidence](#) – SEEP webinar November 2017

⁶⁰ Hosted by Oxford Policy Management and funded by the increasingly active Mastercard Foundation, with several other key participants

⁶¹ [Making a Case for the Business Case: New Ways to Provide Sustainable Financial Services to Low-Income Communities](#)

7 BARRIERS TO SUCCESS

The mixed results reported in the previous section make it clear that conditions need to be right for SG-FSP linkage to work. These next two sections look at what stands in the way of effective linkages, and then (more positively) at the characteristics of linkages that work.

The barriers can be categorized as belonging to the FSP, the SG, or the prevailing culture.

7.1 CHALLENGES FOR FSPs

Financial Service Providers would almost all like to provide better banking services to very poor communities in their area of service. However, they need to provide such services in a way that will meet the expectations of all their stakeholders, including shareholders, regulators, and employees.

7.1.1 Profitability

The stakeholder with the biggest pull on most privately held or public FSPs is the shareholder. Most shareholders expect a good return on their investment. They have alternative uses for their assets and generally want to see them put to work in ways that will increase them.

There are financial service providers that are specifically designed around providing services to the underbanked (such as MFIs and [Community Development Financial Institutions](#) in the US)⁶². In those cases, external grant funding can ease the profitability challenges, and shareholders may accept a lower return on investment expectation. But in most cases, banking services are to be offered profitably.⁶³

A FSP's profitability is driven by a number of factors, but in general it needs to be sufficient to encourage shareholders to leave their investments in place (rather than reallocate to more sustainably profitable alternatives). Profits need to be consistent and are generally expected to grow at a steady pace as the FSP advances its mission.

An FSP's profits (before taxes) can be broken down in their simplest form⁶⁴ as:

- Interest revenues (interest on loans and credit-related products)
- PLUS
- Non-interest revenues (loan-related fees, fees for non-lending activities, investment income, etc.)
- MINUS
- Interest expense (the cost of acquiring deposits that can be used to make loans)

⁶² US-based CDFIs are funded partly by private sector investment and partly through government grants. They are required to have a double bottom line – that is to provide social benefit through financial services in poorer segments of their local communities, while at the same time still providing a good return on investment.

⁶³ Larger banks may have limited-term non-profitable initiatives as a part of their community reinvestment, and as a significant Public Relations exercise. Barclays' Banking on Change initiative with CARE is a great example. However, like Banking on Change, they tend to have a limited life. For SG-FSP linkage to be sustainable it needs to be profitable.

⁶⁴ For more information on how commercial banks make money, see Investopedia "[The Banking System: Commercial Banking - How Banks Make Money](#)"; and the American Bankers' Association "[The Business of Banking](#)". Although these are US sources, they give a general idea of the banking commercial model.

MINUS

- Non-interest expense (personnel, facilities, IT, overhead, sales, marketing, compliance)

Providing financial services to the poor typically generates less revenue than it does to more wealthy segments of a community. This would be okay if it wasn't for the fact that delivering financial services to the poor isn't necessarily any cheaper than to wealthier customers. As a result, the profit margin per customer (revenue minus expenses) is lower for poor customers than for the wealthy.

So, the primary challenge is to **deliver services less expensively**⁶⁵ for poorer communities—this is one of most attractive aspects for an FSP to work with an SG rather than individuals. Cost of acquiring customers (a significant portion of overall FSP expenses) is reduced, especially when the FSP works in partnership with enabling NGOs.

A key component to reducing costs that need to be passed on to consumers is the value of working with an SG to enroll 20-25 members at the same time. One study⁶⁶ suggests that customer acquisition costs⁶⁷ even for the simplest and poorest communities run around \$7—definitely unaffordable for the poorest individuals. However, spreading that across the membership of an SG makes it more feasible.

Over time, as communities enabled by better access to financial services become more economically healthy, revenues will also increase, further improving the profit margin. In addition, the availability of very low-cost deposits and provision of loans at relatively high interest rates will provide for a healthy net interest margin⁶⁸, which contributes to a better profit margin.

7.1.2 Technology

Bank technology is in many cases old and difficult to modernize. As a result, many bank processes are very employee-intensive, and thus very expensive. An FSP's core banking system⁶⁹ is most likely bought⁷⁰ from one of a few specialized software vendors. Core banking systems are designed to meet most of the needs of

⁶⁵ This isn't the place for a detailed analysis of the expense portion of an FSP's income statement. But there are many elements that can be reduced through automation and simplification of processes, the most significant of which almost always relate to the cost of employees. Banking is still a people-intensive business, despite major technological advances. For more on a bank's expenses see CDFI "[Reducing Costs through Operational Efficiencies](#)". See also the section below on "The Impact of Technology – Good and Not So Good"

⁶⁶ Banking Frontier Associates "[SG Linkages – The Business Case for Private Service Providers](#)"

⁶⁷ Includes sales, marketing, promotional, KYC, onboarding, printing cards, etc.

⁶⁸ Net interest margin is often used by FSPs to measure the impact of taking deposits and lending them on at a higher interest rate. So, for example, with non-interest-bearing deposits, all interest income from lending (net of charge-offs) becomes a contribution to the company's net income. FSPs generally get deposits from a variety of sources, some of which bear interest (such as Certificates of Deposit or wholesale deposits). They also to a degree deploy capital for further lending. The combination of all of these make up the "cost of funds" that is often expressed as a composite rate of interest. In 2018, the average cost of funds for banks in the US was under 1%, though it is often much higher in other regions. See Investopedia article "[Cost of Funds](#)" for a fuller definition.

⁶⁹ A [core banking system](#) is the vital accounting heart of any financial service company's technology. It typically handles accounting for customer loans, deposits and investments, and acts as the general ledger for the whole bank. It will often also include payment services, account onboarding, and various compliance requirements.

⁷⁰ Typically, only the very largest banks in the world can afford to build their own core banking systems, and even they are gradually moving toward customized versions of commercial systems.

most FSPs. An FSP that wants to do something different, such as provide simplified and low-cost products to poor communities, is likely to run into challenges.

There is a move toward FSPs partnering with Fintech⁷¹ companies that offer specific products and services, such as mobile payments apps, or automated onboarding solutions. There are Fintech providers in just about every market in the world, and many that have great products that would significantly ease the challenges associated with providing services to the poorest. However, their products still typically need to be interfaced with the FSP's core banking system, which can be very costly and time-consuming.

Technology challenges are exacerbated by poor infrastructure, especially in rural areas where wireless and mobile coverage may be limited even in countries that have made great advances in telecommunications infrastructure. Delivering cost-effective services requires strong and consistent telecommunications capabilities.

7.1.3 Regulatory Compliance

In many countries, the compliance overhead for FSPs continues to grow steadily. Some countries will only allow group accounts or loans for SGs that have in some way been registered. This can add a time-consuming additional step⁷². Many countries also impose the same regulatory requirements on FSPs for SGs and low-income individuals as for more wealthy customers. In particular:

Customer protection and fraud rules, while good for customers regardless of income level, can become disproportionately complex and expensive in serving poorer communities.

Capital adequacy provisions impose a significant limitation on how a bank's scarce capital can be used. In particular, the more deposits are taken, the greater the need for regulatory capital that is tied up in low-income liquid instruments.

Anti-Money Laundering (AML) requirements are almost universally demanding of banks, as national and international law enforcement agencies try to slow down the ability for criminal and terrorist organizations to fund themselves. Many AML regulations are just as burdensome for the rural poor as they are for wealthy business people. Some governments are working on this and trying to come up with a more nuanced set of risk-based requirements⁷³, but in the meantime the expectations for banks to meet Know Your Customer, Transaction Monitoring, and other AML regulations result in significant per-customer costs that take a disproportionate share of revenues.

7.1.4 Consumer Protection Shortcomings

One other area that can quickly erode confidence in the SG-FSP linkage is inadequate protection for individual savings groups members. There are far too many opportunities for unscrupulous FSPs or

⁷¹ **Fintech** is short for Financial Technology. There are financially oriented technology providers that have been around for decades, and some that are very new – the latter are more often thought of as Fintechs. Also, some Fintechs have set themselves up in opposition to banks, while others aim to partner with banks to improve their agility and profitability.

⁷² Per the SEEP Handbook, “In Kenya, for example, an SG registers as a Self-Help Group in the Department of Gender and Social Development; in Ethiopia it registers as a RuSACCO or as a Micro and Small Enterprises (MSE); in Cote d'Ivoire, SGs register as Associations in the Mayor's office or with the Superintendent in the rural areas”

⁷³ For example, Mexico and Nigeria

employees to take advantage of their relative superiority in knowledge and power. Grameen Foundation recently developed a case study⁷⁴ with Responsible Microfinance Fund (RMF) and identified seven main barriers to consumer protection in microfinance, which could equally well guide SG-FSP linkage.

Based on the Smart Campaign's Client Protection Principles⁷⁵ the case study identified the following seven areas where inadequate attention could lead to barriers to successful and sustainable provision of services:

1. Client understanding
2. Affordability of the product
3. Network downtime
4. Fraud
5. Absence of recourse
6. Insufficient agent liquidity
7. Cultural barriers

7.2 CHALLENGES FOR SAVINGS GROUPS

Savings Groups that have matured enough to be looking for more security--and more saving and credit flexibility--have great incentive to link to a bank or other FSP. However, there are challenges to be overcome on their side too.

Research by the Oxford Policy Group⁷⁶ suggests several reasons that SGs hold back from linking to FSPs:

- They think they don't have enough money to save
- They are concerned about bank bureaucracy and excessive paperwork
- Challenges with physical access to bank branches
- Lack of knowledge about formal financial services
- Concern about anticipated high fees and charges
- Lack of confidence in mobile networks due to poor network coverage and connectivity
- Limitations on youth inclusion because of their lack of ID cards (for KYC)
- Challenges of using mobile technology for older and illiterate members
- General wariness of dealing in anything other than cash

In general, the challenges can be categorized as issues of trust, logistics, and culture.

7.2.1 Trust

⁷⁴ UNCDF Microlead Partner Case Study: [Protecting Savings Groups Reached Through High-Tech Channels: Guidance from the New Client Protection Principles for a Digital Savings Product](#) February 2018 describes introduction of mobile banking services in Burkina-Faso 2014-2016

⁷⁵ [Smart Campaign's Client Protection Principles](#) – a generalized set of principles to be followed for any provision of financial services to consumers

⁷⁶ Oxford Policy Group blog [Do financial service providers really understand savings group members?](#)

First of all, because of the reputation of commercial financial institutions in some parts of the world, it may be difficult for a community to hand over its savings to a nameless, faceless entity like a bank. Trust has been proven in the people they know, and in the SG processes that hold leaders accountable. But they have heard the horror stories about FSPs that failed and taken all their money, or that have managed to charge exorbitant fees without customers becoming aware until it is too late.

Perhaps the biggest challenge of trust is the fact that FSPs and SGs have radically different goals and values. The FSP is accountable to shareholders to deliver sustainable profitability. It is bound, therefore, to consider the financial impact of all decisions. On the other hand, the focus of the SG is community development, and this will often result in decisions (such as debt forgiveness) that will serve the community even though it results in less “profit” for its members.

Trust can also be eroded due to a lack of understanding of how FSP processes work. For example, because of regulatory requirements to Know Your Customer, an FSP may ask for information that potential customers don't want to provide. This seems intrusive and leads to suspicion.

In addition, there are many stories of FSPs not training staff appropriately for interaction with (especially) rural communities. Low literacy rates can compound the issue, in which bank staff may look down upon poorer people and treat them disrespectfully.

7.2.2 Logistics

Rural communities, in particular, are often a long distance from the nearest FSP branch. It can be burdensome (and sometimes unsafe) for the SG's treasurer to go on a weekly basis to deposit cash. Signing loan documentation or making individual deposits can be challenging for all SG members if they have to travel long distances to do so.

FSPs are focused on this issue through their use of mobile banking and agent networks, although this solution still doesn't address the issue for more remote rural communities⁷⁷. In particular, where mobile networks are not reliable, or where mobile phone ownership is not great, SG members are not comfortable depending on mobile banking.

7.2.3 Culture

Cultural challenges are more difficult to articulate.

- They may have to do with different mindsets between the way group members, especially members of NGO-facilitated groups, think finance can work for them and how FSPs think people should expect finance to work for them.
- They may be driven by class, racial, or tribal differences that cause distrust and diminished service.
- They may relate to low levels of literacy and financial education within communities that are not appreciated in the FSP.
- They may be exacerbated by gender, age, and other biases within communities.

⁷⁷ See “The Impact of Technology” below for more on this topic.

If the FSP serves a predominantly urban middle-class customer base, then the gap of expectations on both sides can be very considerable. This is where an NGO that knows the community culture of the SG, but can also relate to the prevailing culture in the FSP, can act as a valuable intermediary.⁷⁸

Here's useful summary of cultural and practical challenges to be overcome⁷⁹:

- the **mindset gap** that exists between the way group members, especially members of NGO-facilitated groups, think finance can work for them and how FSPs think people should expect finance to work for them
- the **affordability gap** that can arise because ISM users may have different income and expenditure profiles from those who have so far been reached by formal finance (although our research suggests this gap may not be as wide as initially expected)
- the **proximity gap** that comes when the access points that allow dematerialized money (in accounts or e-wallets) to be swapped for cash or vice-versa are just too far from the places where many ISMs operate (and this still looks to be a big issue in all three countries)
- the **digital gap** that comes when basic mobile money services have too low a penetration for people traditionally operating in the cash economy to feel comfortable swapping visible cash-based financial mechanisms for dematerialized formal alternatives
- the **capacity gap** that comes with the FSPs having limited IT, digital and physical capacity and skills to deal with large number of small value transactions and customers capability/capacity to understand and respond to language, products and working methods of FSPs

⁷⁸ This is one of the key reasons for the recommendation below that the focus for linkage be on sponsored groups that still have involvement from the sponsoring NGO.

⁷⁹ Quoted from Oxford Policy Associates blog [Look before you link: The Value for Banks in Working with Savings Groups](#)

8 LINKAGE SUCCESS FACTORS

Having focused on some of the challenges, it must be said that many linkages have been quite successful, at least in terms of increasing savings and providing valuable access to credit for communities and individuals⁸⁰. At the same time, many linkages have not succeeded, or have not proven sustainable.

There seem to be some consistent characteristics amongst the more successful linkages, which can be grouped into aspects of the FSP's role, the SG's role, and the facilitating NGO.⁸¹

8.1 THE FSP'S PART IN LINKAGE SUCCESS

Success for an FSP means sustainable profits while growing customer base, and improved reputation while addressing social concerns and increasing financial inclusion. The improved reputation may also include improved regulatory relationships, particularly in countries with active Financial Inclusion programs. A key element of sustainable profitability is continued utilization of products with a minimum of dormant accounts⁸².

Characteristics that contribute to this success include:

- **Honoring and respecting community Savings Groups** and their members as valuable members of society, and as potential contributors to the FSP's long-term growth
- **Creation of programs that will have a high degree of adoption**, including development of individual savings in addition to group savings. The effort for an FSP in creating and implementing linkages will be well leveraged if 20+ individuals are engaged, resulting in meaningful deposits and multiple credit opportunities.
- **Design of products specific to SGs**. Banks that have tried to sell existing deposit and credit products to Savings Groups have not directly met customer needs. Nuances and simplifications are necessary, and have been carefully researched and considered by the most successful FSPs.. There is a significant cost associated with developing a new product⁸³. For this reason, an FSP will not be successful without an “all-in” mindset of selling the new product suite to large numbers of SGs in order to be able to distribute these costs and receive a return on their investment⁸⁴. Two very specific aspects to product design are:

⁸⁰ A very helpful resource, which has significantly impacted this section, is SEEP's "[Delivering Financial Services to Savings Groups: a Handbook for Financial Service Providers](#)" – referenced below as the SEEP Handbook.

⁸¹ This section also draws in part on a recently published SEEP collaboration with UNCDF, Mastercard, and ITAD: "[Commercial Relationships Between Savings Groups and Financial Services Providers](#)".

⁸² A well-publicized challenge with financial inclusion efforts of all kinds is that it is much easier to get someone to open an account than to have them use it and continue to use it. See for example the Center for Financial Inclusion on the Indian national initiative: [In the Case of India's PMJDY, Considerations for Avoiding Account Dormancy](#)

⁸³ This includes market research, product design, technology changes, operational changes, compliance implications, and marketing materials.

⁸⁴ More formally, [Return on Investment](#) (ROI) is a commonly used measure to determine whether the money being spent on something new is going to product results that make it a good investment. Often banks will set a [hurdle rate](#) that must be met by a new project, to reflect the fact that the capital and resources tied up in one investment could potentially have been used for something more profitable. This is where it is important for FSPs to consider the social investment priorities, and look more broadly at [Social Return on Investment](#) (SROI).

- the ability to deliver products with minimal people costs. Customer service will be critical, and there will be involvement at cash-in and cash-out points at a minimum, but in general onboarding, transaction processing, and reporting should be highly automated.
- very simple onboarding processes. In particular this means taking advantage of emerging government identification schemes⁸⁵, and mobile technologies⁸⁶.

Access Bank and CARE – Tanzania⁸⁷

Overview: In 2015, Access Bank in Tanzania worked with CARE to develop a group savings product tailored to the needs of SGs. In order to make the product accessible and affordable, for both SGs and the bank, Access turned to its business partner and a leading super-agent in the country to develop a mobile solution that provides groups with the same 3-key security with which they are familiar.

Product: The resulting account provides groups with the ability to move money seamlessly between individual and group wallets, deposit and withdraw cash from a growing network of Access Bank agents and maintain options for using bank branches or transferring funds to/from mobile wallets of all the major MNOs in the country. In addition, Access Bank eliminated all fees related to mobile banking for these SGs.

Outcome: The combination of ‘box-like’ security features and universal access has proven to be an attractive proposition for more than 300 groups to date.

- **Entering into cross-sector partnerships.** Given some of the challenges facing both FSPs and SGs (as described in the previous section), successful FSPs will be open to engaging with NGOs, government agencies, and other industry players in designing, selling, and delivering SG-friendly products. In many countries, partnership with a Mobile Network Operator (MNO) will also be necessary to facilitate mobile banking capabilities for cost-effective delivery.
- **Leading with savings.** This is counter-cultural for most FSPs. As described earlier, a key contributor to FSP profitability is interest income and credit-related fee income. But there is very strong evidence that linkage works best when it starts with savings.⁸⁸ A key benefit for the FSP to starting with savings is the opportunity to build some history with the SG and observe savings discipline. It also provides early increases in deposits at low cost (although if possible they should pay some interest to the SG).

⁸⁵ The best-known scheme, with massive success in rolling out over 1 billion ids, is the Indian Aadhaar scheme. There has been significant [controversy](#), however, around its effectiveness, as well as some major privacy concerns. Nevertheless, many other countries are pursuing similar efforts to issue unique and non-forgable identification documents to all residents.

⁸⁶ For example, some Fintech companies have been looking to use mobile technologies for “selfie” based identification, or for barcode-based identification imbedded in the phone.

⁸⁷ Quoted from the SEEP Handbook *op cit* p 23

⁸⁸ Hugh Allen, a widely respected practitioner for many years for Savings Groups, recommends that FSPs wait 2 years before starting to offer credit products. (See Hugh Allen: *Why I Think CMMPs Should be Careful about Borrowing from Private Banks*. 2010. Enterprise Development and Microfinance: An International Journal). This was also the CARE/Barclays policy in the Banking on Change program. Others (such as SEEP) recommend at least 3 months of active savings. But the point is still clear – starting with savings rather than credit will increase likelihood of success.

- **Following industry best practices.** There has been considerable research and many experiments. FSPs should not attempt to reinvent the wheel but should take advantage of emerging industry best practices.
- **Offering financial education** that will extend and enhance what a sponsoring NGO is already providing to SG members. While there is some investment involved, this will significantly increase the uptake in use of FSP products. In particular, materials and verbal training should be provided on the differences between informal and formal financial services, and what to expect.

The key to success for FSP is understanding the target community and their needs--designing products and services that will meet those needs at low cost. A sponsoring NGO can help with gathering requirements and connecting with communities, but there is no substitute for good product development. The following diagram gives a good overall view of what is needed.

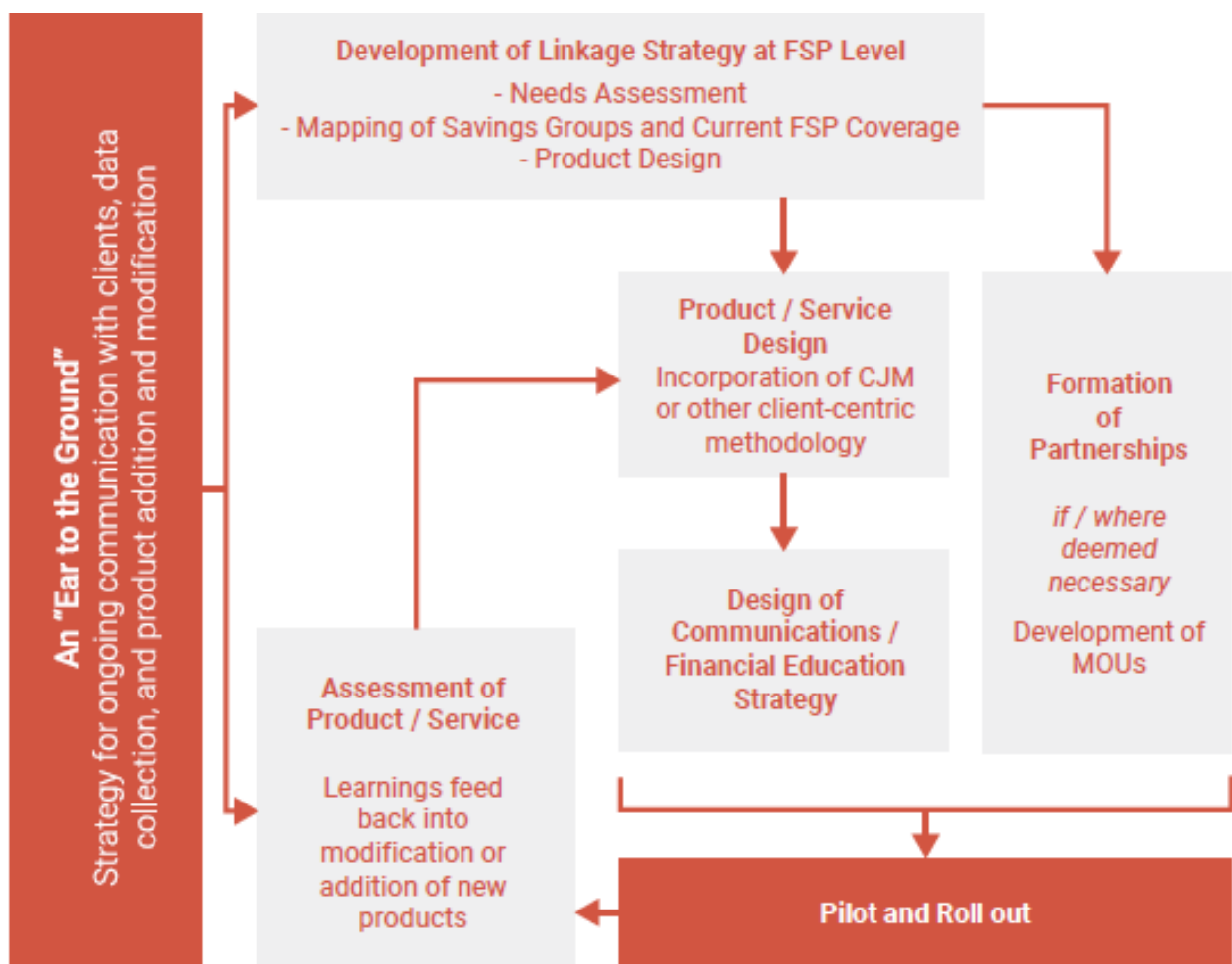


Figure 5: Development of Linkage Strategy⁸⁹

⁸⁹ Taken from SEEP's "[Commercial Relationships Between Savings Groups and Financial Services Providers](#)" op cit.

8.2 SG SUCCESS CONTRIBUTING FACTORS

Success for a Savings Group looks very different than for an FSP. FSP linkage should not replace the SG's activities but will greatly extend and enhance them. This is critical. The SG adds value to the community in many ways that the FSP cannot contribute. Critical success factors for SGs include:

- **Continuing to pursue the SG's purposes.** FSP linkage cannot be allowed to distract from the original and subsequent purposes of the SG. While improving economic livelihoods through encouragement of saving and availability of credit is a core purpose, there are many other benefits that must be retained, as discussed in section 2 above.
- **Preserving the SG's core principles**⁹⁰. Mature SGs have been successful because of their discipline, routines, and community cohesion. Linkage with an FSP in no way removes the need for these principles. On the contrary, access to outside credit (particularly if guaranteed by the group membership as a whole) can create strains on the cohesiveness of the community.
- **Incenting continued participation in the SG.** Where individual accounts are granted by the FSP, there may be a temptation for individuals to leave or become inactive in the SG. This can be addressed in part through collaboration with the FSP to make active SG membership a condition of FSP services. Some groups also ensure that loan interest rates are lower from the SG than from the FSP.
- **Waiting for SG maturity.** Linkage success is very dependent upon the SG having gone through multiple savings cycles, proven its discipline and consistency, gained some financial education, and built trust.⁹¹ A mature SG will also be more focused on saving and lending in support of income-generating activities, rather than primarily for household needs.
- **Moving toward cashless operations.** Where technology permits, linkage can be greatly eased by cashless transaction activity. For example, when SG members can make their own mobile deposits to the SG's account at the FSP, or to their own personal accounts, then the risks of cash handling and the inconvenience of travel to a branch can be essentially eliminated.

8.3 THE ROLE OF THE NGO

Local and global NGOs play a key role in successful SG-FSP linkage. This will often be accomplished by a global player (such as CARE or World Renew) training local NGO partners (churches, etc.) in identification of good SG candidates, building of relationships with FSPs, and assisting in connecting the two. Some particular roles that will significantly contribute to success are:

- **Resolving culture gaps.** This includes working with SGs, communities, and interested FSPs to identify, educate, and monitor resolution of differences in cultural expectations, biases, training, etc. In addition, the NGO will need to help with resolution of the differences in values between the FSP and the SG—arriving at a value proposition that will contribute to the goals of both.

⁹⁰ The SEEP Handbook states this well: “Savings Groups core principles are 1) member ownership and control over decision-making, 2) transparent, equitable and democratic governance and 3) a savings-led approach. These fundamental features of the SGs methodology are important to maintaining group cohesion and integrity. The introduction of formal financial services and products should not compromise group integrity or contradict these principles. An SG's decision to work with an FSP should be made by consensus and based on the terms of the group constitution.” (*ibid* page 27).

⁹¹ The SEEP Handbook offers a helpful scoring mechanism for assessing Savings Group readiness for linkage (*ibid* page 22)

- **Support the SG in its original mission.** In the enthusiasm of a new linkage it is very easy for an SG to lose sight of its reasons for existence. The NGO can provide a “level head” and guidance in merging the new FSP capabilities into the SG’s practices and expectations without losing ground previously gained.
- **Facilitating communication.** An NGO that has helped to establish multiple SGs in an area will be better placed to identify the best FSP candidates, and to help those FSPs to contact and negotiate with SG leaders. In the same way, SGs may look to NGOs to help with challenges in understanding, or to resolve issues that arise with their FSPs.
- **Facilitating financial literacy.** An NGO-facilitated SG will typically have received valuable financial education (one of the benefits for an FSP in working with SGs). However, further education will be needed before working with an FSP. This may be provided by the FSP itself, but the NGO will play a role in identifying and filling gaps in understanding. This may take a considerable period of time but should not be rushed.
- **Providing confidence.** With the NGO as an intermediary, and its ongoing monitoring role, both the SG and FSP can have more confidence that issues are not getting out of hand, and that expectations on both sides can be met.
- **Advocate for consumer protection.** Global NGOs in particular can work with government agencies and FSPs to insist upon appropriate consumer protections in products and services provided to SGs.

In effect, the NGO will end up marketing the FSP’s products to SGs. This may be uncomfortable, unless a detailed and monitored Memorandum of Understanding (MoU) is set up between the NGO and FSP. Among other things, the MoU should clearly define roles and responsibilities around marketing, sales and ongoing customer service – most of which should be the FSP’s responsibility. Messaging from the FSP also needs to be very clear and well understood by the NGO.

In some cases, NGOs have received commission from the FSP for introducing SGs and facilitating linkage. While this can help to offset local costs, it presents the possibility of a real or perceived conflict of interest and is not recommended by this author.

In the longer term, the SG-FSP relationship needs to be sustainable without NGO involvement. Whether funded by donations or by commissions from the FSP, the intervention of the NGO adds cost to the overall relationship. This cost is worthwhile to get a relationship up and running, but in the long term should be unnecessary.

8.4 SUMMARY

In summary, success is quite possible for both the SG and its members, as well as the FSP. But this will most likely only happen if conditions are right. Over time, these success factors will be refined as more quantitative research is completed, and statistical correlations can be created between different linkage characteristics and success. Eventually, the nuances of local cultural and infrastructure conditions will also be added, so that tailored success criteria can be developed for particular countries or regions.

In the meantime, though, this section has provided a starting point that will maximize the likelihood of linkage success.

9 THE IMPACT OF TECHNOLOGY – GOOD OR NOT SO GOOD

Advances in technology over the past several years have raised tremendous excitement about the possibilities for Financial Inclusion.⁹² FSPs are looking to technology to address a number of the challenges they face in improving financial services access for the poorest in their respective countries or regions.

At its best, technology will enable cheaper, faster, more convenient, and more dependable delivery of a wide variety of financial services. This will be driven in particular through partnerships between traditional FSPs and emerging Fintech companies⁹³.

9.1 HIGH IMPACT TECHNOLOGIES

There is much hype today about emerging technologies in financial services. Everyone is talking about Digital Ledger Technology (DLT), Big Data and advanced analytics, machine learning, Natural Language Processing, biometrics, and the like. But most of these technologies will not (yet) impact an FSP's ability to deliver profitable products to the poorest in their service area. Much more important will be increasingly effective use of some basic capabilities.⁹⁴

Core banking systems are often unwieldy, difficult to change, expensive to maintain, and need complex and manual operational processes to feed them. However, as more modern core banking systems are developed, they are being built with the ability to scale up or down, deliver simple or complex products, and leverage automation to the maximum. These more modern systems are also being designed with extensive API⁹⁵s that will allow Fintech companies and other partners to add enhancements without fundamental change to the core.

Online and mobile banking have become the norm for delivery of basic financial services in most developed economies and, increasingly, throughout the world. However, they have generally been designed for relatively affluent customers (with smart phones and good education). The exciting initiatives for financial inclusion leverage older technologies in new ways and meet the challenges of remoteness, low education, and low-tech mobile devices.⁹⁶

⁹² For examples, see Accion's "[How Financial Technology is Changing Financial Inclusion](#)"; World Bank "[How can we leverage digital technology for financial inclusion?](#)"; and Entrepreneur India "[Is Advancement in Technology Leading to Financial Inclusion?](#)"

⁹³ There is great synergy between the two. FSPs have an established large customer base, trust, regulatory acceptance and knowledge, and deep understanding of how to deliver financial products profitably. On the other hand, Fintech companies are typically more agile, able to take more risk in trying things out, more sophisticated technologically, and very entrepreneurial. The combination of the two is where the greatest impact will lie, although that combination can be very challenging exactly because of these very different sets of assets.

⁹⁴ See for example CGAP "[FinTech for the Poor: Not All Virtual, Not All Apps](#)"

⁹⁵ Application Programming Interfaces, which provide a standard for using a system's services, feeding in data, or retrieving data. In banking, this has become a hot topic, especially in Europe where the Payment Services Directive # 2 mandates banks to provide such APIs.

⁹⁶ Reference was made earlier to [M-Pesa](#), Safaricom's introduction of mobile payments to Kenya. What was particularly exciting about this service is that it didn't require smart phones, or branch networks. It maximized use of text (SMS) messaging in simple, understandable ways, to support payment transaction initiation and receipt. It also took advantage

Customer onboarding has actually become much more difficult over time. Automation of this function doesn't require much very new technology⁹⁷. But if it is to be inexpensive (with minimal FSP employee involvement), easy and quick, then more automation is essential. This includes simple question and answer approaches to gathering KYC information, and reliable mechanisms for initial and ongoing identification of the holder of accounts and balances.

Technology-enabled agents who will service the “last mile”⁹⁸ for communities that are distant from physical branches. Where agents are used for cash-in / cash-out services, they are often not given the tools necessary to predict cash needs, maintain reliable records, or quickly carry out transactions. This is changing, however, as is the availability of low cost ATMs and Point of Sale terminals. Increasing ubiquity of card-based payments also reduces the need for cash-in / cash-out capabilities. This is again slowest in poorer rural communities and is often not a viable option.

Some banks are taking advantage of mobile infrastructure and agent networks to create mobile-only savings accounts for rural communities, and particularly for women. For example, NBS Bank in Malawi⁹⁹ used its agent network to carry out simplified onboarding and then provided a cash-in/cash-out function that supports a mobile savings account.

9.2 HOW WILL TECHNOLOGY HELP?

There is considerable scope for technology to address a number of the challenges faced by FSPs (see section 6.1 above). Automation and process optimization reduce costs. Mobile technologies bring FSPs closer to the communities they wish to serve. Well-designed core systems and supporting infrastructure provide more agility in building products that are flexible and simple.

For example, an FSP should be able to design a generalized “low-income” savings product that can be adapted to differing community needs without customization¹⁰⁰. This product would be delivered through whatever channels would be most suitable to the community (branch, agents, mobile, etc.). Customer support would be built in, using the same channels-- most of the time without human intervention.

of Safaricom's existing agent network to support cash-in and cash-out operations. Any community that had a place where mobile minutes could be topped up also became a place where cash could be used to top up mobile account balances from which payments could be made. Those same agents could then offer a cash-out facility to allow customers to turn their mobile money balances into cash. The system was not without its challenges, but it was a very significant contribution to the use of technology to enable financial inclusions.

⁹⁷ While outside the scope of this document, technologies currently in play include biometrics, facial recognition from “selfie” images, digital id cards, automated access to national KYC databases and credit bureaus, and so on. The ultimate goal is to avoid any need for the new customer to interact with FSP personnel at all, or at least for such interactions to be quick and electronic (audio or video). More advanced technologies will come into play later, including machine learning for assessing customer risk and tuning KYC needs, chatbots to simulate bank personnel, etc.

⁹⁸ “[Last mile](#)” is actually a telecommunications term referring to the final link from a network to an individual or company. In a banking context it can refer to the conversion of digital balances to cash, which inevitably involves a bank teller, agent, or ATM or Point of Sale terminal.

⁹⁹ Partnership between NFS bank and Women's World Banking described in [Pafupi Savings: Expanding Financial Inclusion to Rural Women](#). While this is not an FSP-SG partnership (marketing is directly to communities and members) it provides a good model for also reaching SGs, which would likely increase adoption rates considerably.

¹⁰⁰ There is a very important difference between customization and personalization. In the former, typically code changes and new system implementations are necessary to meet the needs of a new customer or customer segment. In the latter, changes can be made by FSP personnel and (in a self-service model) even by the customer without any new coding being necessary. The cost difference is obviously huge.

In the background, as FSPs use data more intelligently, they will build credit scoring models and marketing plans that will reduce credit losses and increase cross-selling of products. For example, as they learn more about how an SG uses loans (e.g. creating market linkages or purchasing new crops for sustainable agriculture methods) it will eventually become possible to tailor credit products to the specific needs of the community. This in turn will lead to greater customer loyalty and sustainability of profits.

There are several examples¹⁰¹ of successful usage of technology to help address some of the barriers, such as the “last mile” problem (and in particular the cash-in / cash-out gap).

- Equity bank’s Equitel service is an end-to-end solution, with a virtual MNO using Airtel infrastructure and CARE as the NGO partner.
- Ugafode (a regulated MFI) offers a service in Uganda in partnership with NGO Catholic Relief. This opens accounts, enables deposits and withdrawals for the group (for a fixed monthly fee), and provides reasonable minimum balances, group-individual transfers, mobile wallet linkage, and financial literacy education. Several challenges around agent location, engagement, training, etc. are currently being addressed.
- PostBank in Uganda, Tanzania and Kenya offers group and individual savings and credit, with minimal KYC, and no fees. This solution uses mobile banking to drive down transactional costs by minimizing human intervention.

While mobile technologies can significantly reduce costs for onboarding and delivery of financial services, especially in rural areas, there is still a significant cost factor – that of the network of agents and/or mobile ATM or PoS terminals. One study suggests the following breakdown of costs in a mobile environment:

¹⁰¹ These are taken from the SEEP Handbook *op cit*

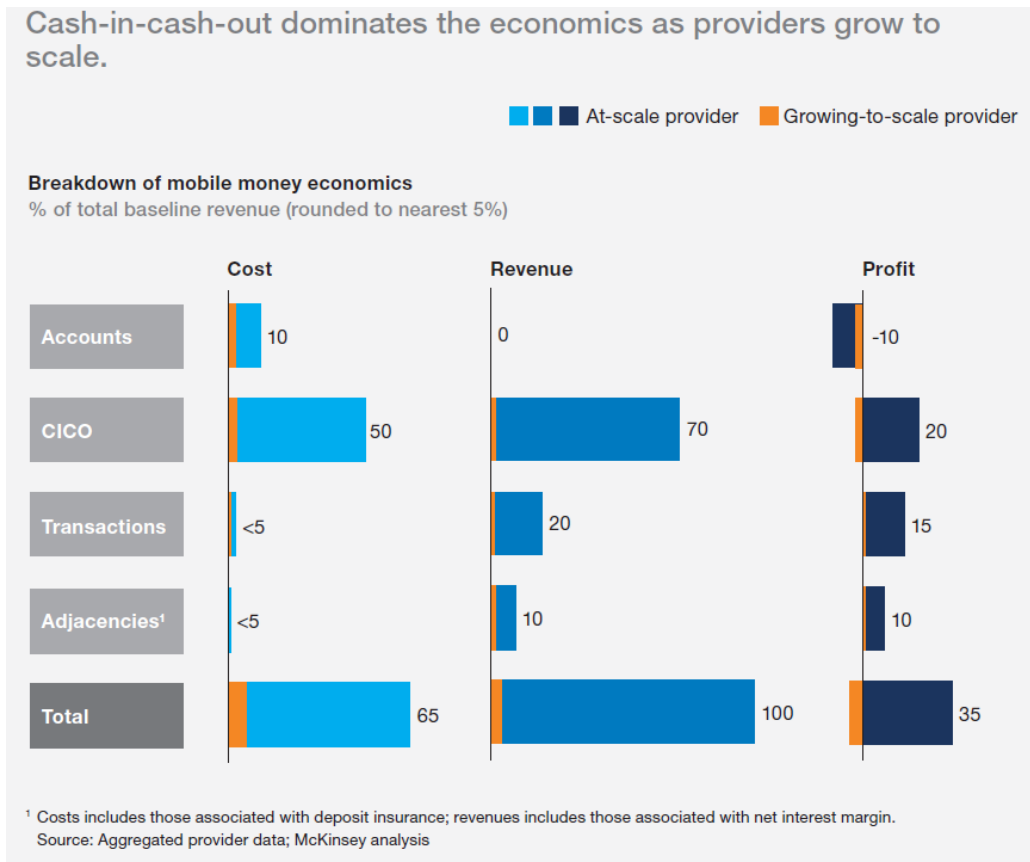


Figure 6: Cash-in / Cash-out Economics¹⁰²

9.3 HOW CAN TECHNOLOGY HINDER?

Too much technology can be a bad thing. For SGs the use of mobile technology can be harmful unless it is carefully delivered and monitored. For example, if an SG member has access to a bank or MNO agent in order to make a savings deposit to the SG’s account at the FSP, then why do they need to go to an SG meeting?¹⁰³ The problem with this approach is that many of the other benefits of an SG (such as community cohesion, and group learning in agriculture, education, healthcare) are then eroded.

In addition, technology-enabled services can create a technology gap for communities in which mobile ownership is greater among men than women, or where a gap exists in any other dimension of the

¹⁰² McKinsey [Mobile money in emerging markets: The business case for financial inclusion](#). “At scale” providers are larger providers that already benefit from major economies of scale because of their market share. “Growing to scale” providers are those moving toward significant market share.

¹⁰³ Mastercard Foundation [Alternative Delivery Channels for Financial Inclusion](#) states “In group lending methodologies, one unintended consequence of the payment efficiencies provided by ADCs is that group meetings happen less frequently. Now that transactions can be done digitally from a member’s phone and/or at a local agent, clients have fewer incentives to attend the meetings.”

community (age, tribe, etc.). For example, women may be significantly disadvantaged by national ID systems that focus on providing IDs for men, or by lower mobile phone ownership than men.¹⁰⁴

The technology gap within communities is in addition to a gap experienced by many rural communities that lack adequate telecommunications infrastructure¹⁰⁵.

¹⁰⁴ See Women's World Banking [If technology is so great, why hasn't it done more for women's financial inclusion?](#)

¹⁰⁵ See Oxford Policy Management blog [Look before you link: The Value for Banks in Working with Savings Groups](#)

10 NEXT STEPS FOR WORLD RENEW AND OTHER NGOS

Since this report was commissioned by World Renew, these next steps are somewhat tailored to that organization. However, most of what is proposed here will apply to any NGO that currently sponsors Savings Groups and has an interest in exploring linkage with Financial Services Providers.

World Renew has been very successful in its support of local NGOs who provide community development advice, training and facilitation in their local communities. One major area of success has been in Village Savings and Loans Associations (VSLAs). While not on the scale of the larger players (CARE, Catholic Relief Services, etc.) 3,200 SGs with over 80,000 members represents a significant contribution to economic livelihoods. In a study just completed, the impact of many of these groups was measured over a five-year period with very positive outcomes.¹⁰⁶

The author of this report recommends that World Renew initiate a program to explore, test and roll out linkages to FSPs where appropriate, including guidance on selection of groups and partners, training of local NGOs, negotiation with FSPs, etc.

In order to follow up on this recommendation, the following steps are proposed:

1. Initiate a search for **funding** for deeper research and piloting of VSLA-FSP linkage.
2. Solicit **initial proposals** from country consultants with a particular desire to explore linkage. Assess those with highest likelihood of success based on SEEP Handbook criteria¹⁰⁷. Given the value of mobile money for linkage, proposals from countries with high mobile usage should be particularly considered.
3. Develop **initial guidelines** for VSLA selection, engagement of NGO partners, and initial contact with local or national Financial Service Providers. This should include use of the product design portions of the SEEP Handbook¹⁰⁸ as a basis for discussion with FSPs.
4. Develop a **plan for an initial pilot**¹⁰⁹ with selected local NGO partners, VSLAs and FSPs. World Renew should oversee this whole process¹¹⁰.
5. **Identify an FSP** that has already developed products for SG savings and credit, and partner with one of them to create a pilot for the World Renew VSLAs.
6. Work with the FSP and local partner to **select pilot SGs**, identify success factors and metrics, carry out initial training and planning, and implement a first phase with group savings only.
7. If the first phase is successful, **add products** like individual savings if applicable, and group and individual credit, along with other products that would add value to all partners.

¹⁰⁶ The recently completed “[Five Years, Five Countries, Many Thousands](#)” report gives a good picture of the kind of success experienced in many different regions over a period of many years.

¹⁰⁷ SEEP Handbook *op cit* pages 20-22, 28

¹⁰⁸ SEEP Handbook *op cit* page 23-27

¹⁰⁹ A pilot conducted by Freedom from Hunger in Burkina Faso from 2012 to 2015 has some useful elements and recommendations that may contribute to design of a pilot program. See [Freedom from Hunger Pilot Project Report: Using Mobile Money to Link Savings Groups to Financial Institutions](#)

¹¹⁰ World Renew is currently reviewing potential pilot projects to be overseen by country consultants in communities that have expressed a strong desire for linkage. Potential projects have already been identified in Haiti, Kenya, Nigeria, and Bangladesh.

8. **Measure impacts** over a 2-3 year period (at least) and use the results to refine this approach and update standard VSLA constitution to include clauses related to management of the FSP relationship.¹¹¹

¹¹¹ World Renew has made great strides in measuring the impact of VSLAs in many projects around the world. The focus is not so much on numbers of groups or members, or amount of savings, but on the impact on the community and its households in terms of nutrition, income-generating activities, and domestic consumption. The same kinds of measures will be necessary in looking at the impact of linkage, over and above what the SG has already accomplished.

11 APPENDIX: WORLD RENEW VSLA SURVEY

This Appendix summarizes the results of an informal survey of World Renew country consultants and specialists in relation to SG-FSP linkage. The author is grateful for the participants' contributions, which have significantly informed his research and findings¹¹².

The survey was conducted in December 2017. Responses were received from 7 of 13 addressees, which covered most regions.

11.1 VSLA LIMITATIONS

The limitations of standalone VSLAs that drive the need for expansion are prioritized as follows:

1. Access to larger loans for individuals
2. Access to larger loans for groups
3. Access to longer-term savings and loans
4. Addressing mismatches in group funds against loan demand

Less important are fund security and social fund as a surrogate insurance. Least important is need for access to digital or mobile financial services.

Additional priorities listed by individuals include:

- Hedge against high rate of inflation (2 responses)
- Market information and linkages (2 responses)
- Excessive record-keeping as groups grow (specific to the Caja Rural model in Honduras)
- Access specifically to crop insurance, though offset by the likely cost (Honduras)

11.2 PRIORITIES FOR ADDITIONAL FINANCIAL SERVICES

The most important capabilities in additional financial services (whether formal or informal) are unsurprisingly:

1. Access to individual savings accounts
2. Access to group savings accounts
3. Individual loans
4. Group loans

Beyond these obvious basic functions, value would be added by:

1. Health and disaster insurance beyond the social fund
2. Mobile transactions (payments and transfers)

Additional capabilities listed by individuals include:

- Financial education (very high priority)
- Crop insurance (Honduras)
- Long-term investment opportunities (e.g. CDs)

¹¹² See the author's article [Linking Savings Groups to the Formal Financial Sector](#)

11.3 INFORMAL LINKAGE EXPERIENCE

3/7 respondents had experience of linkage between savings groups on an informal basis:

- Alfalit attempted to link Cajas through a government initiative in their area, but the program abruptly lost funding because of issues in the government, so they never made it past the introductory stage. The intent was first to provide a forum for sharing best practices and for obtaining trainings together.
 - Loss of funding ended the program, but informal sharing continues. Greater cooperation is desired (e.g. sharing funds) but there may be legal barriers.
 - A major potential benefit of clustering would be the smoothing of loan demand and savings supply, though logistics may be challenging.
- Goal was to increase the available monies for borrowing or allowing individuals to borrow large amounts for a longer period. Also, maximum saving amounts are indefinite, as members can save as much as they can. Included pooling, credit union formation, and linkage to formal FI.
 - The desired outcomes are achieved albeit many challenges. To some extent, I feel that a lot of members stop to save down the line in these clustered structures, as at this point it is more commercial and hence less favorable. This might be because the structures are not set up well and as a result may induce unexplainable losses. Probably, the trust is lesser and so members may feel safer in the smaller groups.
 - Arrangement did not address fund security or social fund limitations
- Pooling of SGs to allow them to share experience, one of them was a health education combined savings group.
 - Primary benefit was shared learning in related topics (healthcare)
 - Does not address need for credit history

11.4 FORMAL FINANCIAL SERVICES LINKAGE EXPERIENCE

5/7 respondents had experience of linkage between savings groups and the formal sector FIs:

- (Zaire): Set up bank accounts with FIs but limited products (0% savings and no credit)
 - It didn't work--there is currently very limited benefit to our groups of formally linking with the financial sector. The costs outweigh any benefit, the banks provide 0% interest saving accounts but no credit, they charge fees and commissions on withdrawals so it makes it noncompetitive
 - Delivered through branch network, no training
 - The only benefit was fund security, but more than offset by costs
- (Honduras): Set up group account at an MFI (FAMA) offering group loans, but loans also provided by partner agencies
 - Services primarily delivered through agents. No training from the MFI, but some from partners.
 - Our partner agencies are not formally registered as MFIs, so there is a legal limit to the amount of loans that they can provide to the Cajas. That being said, the cajas usually don't exhaust the capacity of the partners. Several cajas have taken out loans in this way, and paid them back, and they seem happy with the results. The caja members are able to access capital, the caja grows a bit from the interest collected, and the partner generates some income from interest that it can re-invest either in other loans or in its social programs.

- The loan that the Coyolar caja took out with FAMA was paid back, but they noticed that the interest rate was high, and that the terms of payment were not favorable because they had to pay more up-front. This was difficult because the harvest had not yet come in. I think it could continue to work in the future, but there are details that must be taken into account.
- The caja members express a fear of failure when working with outside MFIs. The risk of losing causes them to be cautious.
- Group accounts opened with a bank initially for fund security.
 - Services delivered primarily through a branch. Training provided by WR and partners in basic banking functions.
 - This works, and is sustainable because of gradually increasing banking services
 - A key reason for success was that the desire of banks to get customers encouraged cooperation. Getting group funds secured in banks and getting them when needed increased trust.
 - However, unfriendly bank officials made the process frustrating in some situations.
- Group accounts opened with a bank initially for fund security and ease of making deposits.
 - Services delivered primarily through a branch. Training provided by WR and partners in basic banking functions and regulations.
 - The approach is sustainable because the formal financial service is a standardized system where checks and balances are regulated by the Government
 - The approach is sustainable, because the process is simple and was well understood by members, payment was made easy and convenient to all.
 - However, long queues and poor network connectivity could sometimes hamper efficiency.
- Personal accounts opened with a bank to allow the savings groups to be able to save their money in the bank and obtain bank services.
 - Services delivered through a branch. Training provided by SG board members.
 - It's sustainable because it facilitates the savings groups to develop relationship with local banks. Exchange and learning by both the banks and the savings groups helped.
 - Major problem was complexity of bank fees.

11.5 SUCCESS FACTORS

All listed success factors were rated as important overall, with the following average priorities:

1. Closeness to branch
2. Stability of the savings group
3. Trust in formal financial institutions
4. Availability of mobile banking services

Clearly account management and transaction cost is also a factor, as well as access to affordable credit. In agricultural communities, flexibility on loan repayment schedules is important to coincide with timing of harvest and subsequent marketing.