LITERATURE REVIEW

Evidence, Hope and Hype: A Review of the Literature concerning Commercial Relationships between Savings Groups and Financial Service Providers

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This literature review was developed by The SEEP Network, in partnership with Financial Sector Deepening Africa (FSD Africa) and Financial Sector Deepening Zambia (FSD Zambia).

Author: Paul Rippey, FSD Zambia

Acknowledgements

Chipili Mwaba (FSD Zambia), Guy Vanmeenan (FSD Zambia), David Panetta (SEEP Network), Juliet Munro (FSD Africa), Kuria Wanjau (FSD Kenya), and Naveed Somani (Oxford Policy Management)

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Financial Sector Deepening Zambia (FSDZ) is a national non-profit company providing information, innovation, and impact to increase financial inclusion. We seek to expand and deepen the financial market so all Zambians can benefit from financial services. We work with financial service providers, policy makers and civil society to make Zambia's financial sector more robust, efficient and, above all, inclusive. FSDZ enjoys the active support of financing partners UK AID and Swedish International Development Cooperation Agency (Sida).

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Introduction

This is a review of relevant and accessible literature concerning a subject that is attracting increasing interest and investment from donors and facilitating agencies, namely creating commercial relationships between Savings Groups (SGs) and Financial Service Providers (FSPs).[1, 2]

Various forms of commercial relationships can exist between SGs and FSPs. FSPs can provide savings, credit, insurance, or payment services, either to individual members of the SG or to the group as a whole. This paper classifies the initiatives described in the literature using the following typology of linkages: [3]

CLASS 1 Individual savings accounts, made available to the member usually as part of a package of services offered to the group and its members.

CLASS 2 Group savings accounts, in which the group keeps its financial assets with a financial institution. Note that for purposes of classification, insurance and payment services are also classified under Types 1 and 2, depending on whether they are available to the individual member or to the group.

CLASS 3 Individual credit, which does not create a liability for the group.

CLASS 4 Loans to the group as a whole, or loans to individual members, which are guaranteed by the group, thus creating a liability for all the members.

Many of the documents reviewed here deal principally with Class 4 relationships, that is, credit to the group as a whole or guaranteed by the group, because to the extent that there are unanswered questions or controversies, these concern primarily Class 4 linkages. This is sometimes called *wholesale lending* because a large loan to the group is in turn retailed, or broken down into smaller loans to individual members. This type of credit is believed by some promoters to be a useful way of increasing the clientele of FSPs in areas that are otherwise difficult to reach, a service that SGs generally want and value and one that will strengthen the groups. These propositions – that SGs provide a profitable outlet for FSPs, that wholesale credit is desired by groups, and that it has a positive long-term impact – are examined in some of the papers reviewed below.

However, while these are topics of ongoing discussion among practitioners, it is useful to note that there are at least three aspects on which they essentially all agree:

1. SGs sometimes wish to have current accounts where they keep excess liquidity. This is not controversial. Note that in some cases, SGs are encouraged to open savings accounts principally to build savings so they can guarantee loans, sometimes called *saving to borrow.* In this case, any controversy relates to future lending, not to the initial saving.
2. Individual members often wish to open accounts or to take loans from FSPs individually without involving their group. None of the writers whose documents are reviewed here expresses any reservation about these practices so long as doing so does not put other members' savings at risk.
3. SG records, especially if collected digitally, can be used to develop a financial history for individual members, thus helping them gain access to further banking services. None of the writers of these reviews argues against this practice, although some may raise issues with the ownership or sale of group data.

The points of agreement are not treated at great length in the documents reviewed here. Rather, it is credit, specifically Class 4 lending, that draws the most attention. This is not only because it is an area surrounded by a degree of controversy, but also because from the point of view of FSPs, making loans is more profitable than collecting savings and thus plays a key role in business modeling. However, it should be mentioned that some banks take a long-term view and are satisfied to simply increase the number of current accounts in the short term.

[1] A Savings Group refers to an assemblage of about 15–25 people who meet regularly to save, borrow if they choose, and often engage in other activities, including creating a social or insurance fund with which to meet emergency needs among members. Savings Groups return each member's savings plus a share of accumulated interest on loans, fines, or other income to the member at the end of a cycle, usually about a year, and then begin another cycle. Financial Service Providers is an umbrella term for banks, credit unions, microfinance institutions (MFIs), payday lenders, and mobile money and e-wallet providers. Commercial Relations means that the control of financial resources changes hands, with funds passing from SG to FSP or vice versa.
[2] Savings Groups go by many names in the documents reviewed here. We use the generic term Savings Group or the abbreviated form SG throughout. However, we left other nomenclatures unchanged in the headings of documents, and we refer to such groups as [SGs], adding square brackets within quoted text.
[3] Rippey, P. A. *Typology of Relationships between Savings Groups and Financial Service Providers.* SEEP Network and FSDZ, 2017.

Selection of documents to be reviewed

The literature reviewed in this report was identified and selected through a two-step process. In late 2016, the author identified all publicly available documents on the topic, including through a search of the SEEP Network's SG Resource Library. Then from January to March 2017, the Savings Groups Evidence and Learning Initiative solicited additional documents from industry leaders.

This review is not exhaustive. A small number of documents simply repeat or rephrase ideas that have been articulated elsewhere, and these duplicates were eliminated. The review contains both evidence-based documents and some that are polemical or promotional. In addition, a number of blog posts were also included, chosen to be representative of a much larger number that could have overwhelmed this review if they had all been included. We note the disproportionate attention received by some countries, notably Rwanda, a country with a long history of linking SGs and FSPs, and these efforts have naturally received greater attention. While this review includes many familiar and widely circulated documents, others from less familiar sources are also included, and it is hoped that they will provide new information even for readers who are quite familiar with the literature.

Evidence versus opinion

A reading of the totality of the documents reviewed here leaves the analyst wishing for more and better evidence about linkage experiences. Even those reports that are based on field studies often suffer from samples that are very small and experiences with linkage that are too short to allow for definitive conclusions to be drawn. Some studies have either no control group or a non-randomized control group. In addition, the meaning and source of some claims call for elucidation. Some of the studies fail to define their research methodology, leaving the reader guessing about the statistical validity of the results. Two of the papers presented here (Murray and Rosenberg 2006 and Gugerty and Kremer 2008) present credible research about the impact of the infusion of resources into groups. However, as the groups examined in both studies are often not SGs, the reader is left to determine the applicability of the findings.

Those documents that present evidence about experiences, describe their methodology, and name their researchers tend to mention constraints, including the difficulty of getting members to accept bank credit as well as the sometimes damaging effects of credit on groups. Documents pointing to the market tend to be promotional in tone, giving substantial estimates of the amount of money involved and the number of members of SGs and stressing that they constitute a large and unserved market. Projections of market size often suffer from the pitfall of exuberant market estimation in that they are usually based on reports of the number of groups formed but are not adjusted for members who die or leave the group or whose group breaks up. Nor do any of the documents reviewed mention that many groups cannot now be located because contact information disappeared when a project ended or a trainer moved on.

Any effort to classify such a diverse set of documents will struggle with a few that span categories. Nonetheless, the documents have been placed into three distinct types.

1. **Research.** These papers include case studies and other research. All are based on evidence collected through field studies, and all describe their methodology and name the researchers involved.
2. **The market for FSP-SG linkages.** These documents address the market for SG-FSP linkages, often based on efforts to quantify the potential market and sometimes suggesting ways in which linkages can be structured and promoted. These documents tend to be directed more toward FSPs and their partners than toward SGs.
3. **Policy, guidelines, and cautions.** These are mostly attempts to define good and bad practices in establishing linkages. Some are signed, while others are not. Similarly, some promote linkages, while others express skepticism.

Audience

This review is intended for two audiences.

First, individuals who are making decisions about how and when to bring FSPs and SGs together may find this review helpful in guiding them toward further sources of information and opinions about the best ways forward, possible pitfalls, and predictable outcomes. Although the short reviews below should not substitute for the original primary and secondary sources referenced here, it is hoped that they will guide readers toward appropriate documents for further research.[4]

Second, those who may be guiding the learning agenda of the sector may find that this review points out areas where there is already sufficient information from which conclusions can be drawn, while others may take the view that not enough is known to come to conclusions with any confidence. It is the author's view that this last category – what we know that we don't know – includes understanding the durability of groups, changes in membership, and effects on members' well-being, including poverty reduction among groups participating in all kinds of linkages, particularly those of the Class 4 type. However, it is hoped that readers will use this review to draw their own conclusions.

[4] All of the documents referenced here are available in the SEEP resource library available at: http://www.seepnetwork.org/seep-resources-pages-4.php

1 Research

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.
Type of relationship: Class 4

Niger is home to the first modern Savings Group program, CARE's Mata Masu Dumbara ("Women on the Move" – MMD) program, which began in 1991. These groups were composed overwhelmingly of non-literate rural women.

In 2004, half-a-dozen MFIs and Credit Unions began lending to MMD groups. Ironically, while Niger was the first country to have widespread wholesale lending to SGs, the high levels of poverty, lack of investment opportunities in rural areas, and sparse population would seem to make it one of the least promising countries for wholesale lending.

All lenders used similar procedures for making loans. A loan officer for an MFI would visit all or some of the members of the group and propose a loan. In many cases, the loan officers were former CARE field staff who thus had no difficulty locating their former groups. The loan officer would make a list of all the group members, the amount each intended to borrow, the purpose of the loan, and the interest rate, usually between 2.5% and 3% per month. The President and the Treasurer would sign a legally binding loan agreement for the total amount of money borrowed, using the group's assets as collateral. After disbursement, the group would make periodic payments to the lender until the loan and interest were fully repaid. If the loan was repaid on time and without difficulty, the FSP would propose a subsequent, larger loan.

Although the MFIs had initial success in lending, after three years, they began to encounter a large number of loan defaults, and the amount lent declined sharply as a result. At the same time, reports reached CARE and the donor that a number of groups had broken up or were having difficulties after receiving external loans. Faced with these challenges, CARE commissioned two studies with slightly different objectives.

In June 2007, Hugh Allen, of VSL Associates, carried out a field study and submitted a report entitled *MMD in Niger: Evolution, perspectives, and the future.* His terms of reference included helping CARE facilitate linkages to MFIs by "increasing the size of group revolving funds and the direct financing of individual income-generating activities." Allen interviewed nine groups, held two workshops, and carried out key informant interviews. Following Allen's study, CARE and its partners felt the need for more research, and six months later, in January 2008, Paul Rippey[5] carried out a subsequent study. His report was entitled *Étude sur l'impact des crédits extérieurs, sur les groupements et réseaux MMD, et les mesures de minimisation des risques.* A condensed English version was later produced under the title *Key Findings and Recommendations from the Study on the Impact of Exterior Loans on the MMD Groups and Networks and Measures to Minimize Risks.*

Rippey's terms of reference included information gathering and analysis to help understand the impact of external loans on the MMD groups and proposing solutions to problems encountered. Rippey's study consisted of 40 group interviews conducted by a team of local interviewers, key informant interviews, and two workshops. Rippey had not seen Allen's report until after he submitted his own. However, the two consultants came to similar conclusions:

- Groups were having difficulty repaying their loans. Allen estimated that this was true of 40% of the groups, and in Rippey's sample, of about a quarter of the groups.
- Loans were made haphazardly, and members often did not fully understand what they were committing to when they took out a loan.
- Groups were receiving multiple loans. Within the sample, groups had an average of four loans from two institutions, often simultaneously.
- Coordination among lenders was *ad hoc* and unreliable.
- There was no industry consensus about a code of practice for group lending.
- External loans created stress within the groups. Rippey found that groups that had taken out loans lost members, while those that did not continued to grow.
- Both noted the problem of multiple loans to the same group by different MFIs, which greatly exacerbated the risk of over-indebtedness.

[5] This is the same Paul Rippey as the author of this review, who finds himself in the delicate position of reviewing several documents he himself authored.

In response, both consultants made largely similar recommendations:

- Both called for the creation of a code of practice among lenders as well as greater transparency and avoidance of over-indebtedness.
- Both called into question the practice of having the group as a whole guarantee loans that in practice were only desired by some members.
- Both recommended substantial reductions in the amount lent to groups.

In other areas, the two consultants came to somewhat different conclusions:

- Allen proposed greater flexibility from the lenders, including the practice of portfolio financing, or making a loan to a group, which it would manage itself according to its own principles and procedures rather than tying the group loan to a specified series of loans to individual members.
- Rippey was critical of CARE for its vigorous promotion of linkages and proposed that FSPs should market their own services while CARE limited itself to financial education about the advantages and risks of such linkages.

These two studies, and particularly Allen's, helped frame much of the subsequent discussion of Class 4 linkages. Although neither flatly cautioned against wholesale lending to SGs, both cataloged the risks to the group and proposed ways to mitigate them.

Jan Maes. *Linkages between CARE's VS&LAs with Financial Institutions in Rwanda. CARE Rwanda.* August 2007. Type of relationship: Class 1, Class 2 and Class 4

This report on CARE's facilitated linkages between banks and SGs was widely circulated within the sector. While it deals with a particular financial architecture that is not likely to be duplicated, the careful reporting on the interactions between the NGO and FSP partners can serve to inform other agencies involved in promoting linkages.

CARE Rwanda aimed to link SGs to the network of financial cooperatives known as *Banques Populaires du Rwanda* (BPRs). As a first step in this facilitation, CARE grouped the SGs (called Village Savings & Loans Associations – VS&LAs – in the report) into federations, called *Intergroupements* (IGs). By 2007, there were 42 such IGs. CARE signed an agreement with the BPs to promote linkages by working directly with the BPs and indirectly with the groups through the IGs. To encourage the BPs to participate, CARE placed a revolving credit fund of US$267,500, or approximately US$20,000 per IG, with the BP apex organization, *Union des Banques Populaires du Rwanda* (UBPR). UBPR exercised financial control over the fund and managed it with the intention of making it available to local BPRs. In parallel, participating SGs were encouraged to open term deposit accounts with their local BP. They applied for loans from the BP by submitting loan applications to their IG for assessment. The BPs made the loan to the SGs, and the SGs repaid these directly to the BPs. The BPs in turn handed over 30 per cent of the interest received on the loans to the IG to help offset the costs of the loan assessment.

Despite the 100 per cent guarantee on the loans provided from the CARE funds, the BPs lent to the SLAs on their normal terms, including an annual interest rate of 14 per cent plus a one per cent service charge and a guarantee in the form of a blocked savings account of at least 25 per cent of the amount of the loan. Under the BPR terms, the entire group was legally responsible for paying back the loans.

The agreement signed between CARE and the UBPR projected that the BPs would begin to make loans out of their own funds once lending CARE funds had been shown to be successful. In reality, this had not happened at the time of the Maes study because the BPs were not willing to hand over 30 per cent of their interest earnings to the IGs. Although the IGs were being run by volunteers from the SGs, they found the 30 per cent received was not sufficient to cover their travel and other costs associated with assessing the loan applications.

The study attempted to assess the impact of the linkages on the performance of the SGs. Its findings were ambiguous. Although the SGs did increase their savings over time, it was not possible to isolate the impact of the linkages on these savings. The saving rate may have improved because group members saved more in order to be able to put more in a blocked account and therefore borrow more from the BPs. However, the effect may have been the opposite if group members relied on bank loans rather than on savings for the lump sums they wished to acquire.

The use of the members' savings, as opposed to the funds borrowed from the BPs, was quite low. Even after three years (2004–2006), the total lent from the SGs' internal fund was only twice the amount saved during the same period. In other words, the available internal loan funds did not turnover even once a year. With such low internal borrowing, it is difficult to understand the rationale for putting in place external borrowing: perhaps members preferred the larger external loans, or the internal loan fund was not available because it was being used to guarantee the external loan.

The report stated that linkages increased familiarity with the BPs, which resulted in a high number of group members opening individual accounts with the BPs, particularly those who were relatively wealthy.

The repayment rate for the internal loans was over 97 per cent, while the repayment rate for the external loans from the BPs was lower, at 93.5 per cent. Although the reasons for this discrepancy are not fully understood, Maes suggests that it was related to the repayment flexibility of the internal loans as well as the newness of these external loans and lack of familiarity with them.

The researcher identified some drawbacks with the program: (i) there may have been a disincentive to save as members relied more on bank loans; (ii) the internal fund was often less available for small loans because it was used to guarantee larger loans, often for group income-generating activities; (iii) the accounting was complex and difficult for the IG volunteers to manage; (iv) the system depended on a subsidy; and (v) the BPs showed little interest in using their own funds for lending, and as a result CARE took 100 per cent of the lending risk.

This study is relevant today, especially to NGOs considering guaranteeing loans made by an FSP partner, as it provides evidence that both supports and weakens the case for Class 4 linkages.

John K. Beijuka. *The Linkage of VSLGs To Umurenge SACCOs ASSESSMENT: Final Report. CARE Rwanda.* November 2011.
Type of relationship: Class 2. Class 4 intended but not realized at the time of the study.

This study, the second from Rwanda included here, looks at linkages between SGs and the government sponsored Umerenge Savings & Credit Cooperatives (SACCOs). It is based on focus group discussions conducted in six districts with SG members as well as key informant interviews. The consultant, John Beijuka, found that over 850 groups had already independently opened accounts with Umerenge SACCOs, with members giving the following reasons for opening accounts: (i) proximity; (ii) ease of depositing and withdrawing cash; and (iii) "We were forced to do so by government officials."

At the time of the research, none of the SGs had received group loans from their SACCO. This was primarily because the SACCOs had no products that met the particular strengths and needs of the groups. They could only engage in individual lending, and the criteria for these loans were too challenging for most group members. Beijuka therefore argues that SGs "will need credit in the long run as a[n SG] and not as individual members of the group." Starting from that assumption, he enters into an analysis of the risk/benefit mismatch. He finds that group guarantees for loans are inappropriate because they require all members to guarantee the loans even if they would prefer not to do so. He considers and rejects the possibility that better-off members might volunteer to collateralize loans, and raises the possibility that a member might hope for a reward for taking such a risk.

Beijuka comes to the conclusion that the risk of wholesale loans should not be forced on any member: "Having considered these options, [SGs] visited said that the best option was for all members to consent to borrow a certain sum of money from a particular SACCO, and if anyone raises any objection, the [SG] does not apply for the credit." He concludes with a number of consumer-friendly recommendations, including the idea that the 20–25% of the loan amount withheld by the SACCO as guarantee should earn interest for the borrower.

Satyam Bakliwal and Mfoniso Umoh, under the supervision of Sophie Lusungu Chitedze. *Sustainable Access to Financial Services for Investment (SAFI) Project Learning Document on Financial Linkages: Theme no. 1.* CARE Rwanda. July 2011.
Type of relationship: Class 2 and Class 4

This internal study, the third from Rwanda reviewed here, provides a frank and detailed look at the linkage experience of CARE Rwanda's : Sustainable Access to Financial Services for Investment. (SAFI) project. The authors looked closely at borrowing and non-borrowing SGs, Savings & Loans Associations (SLAs), SAFI groups, and Village Savings & Loans Associations (VSLAs), CARE's staff and procedures, and the FSP partner, namely Vision Finance Company (VFC). The report is generally quite positive about the linkage experience two years after the project began: "There is no indication that [the SG] methodology is adversely affected by the linkage. On the contrary, linkage further strengthens the [SG] methodology and improves the performance of the group." The report recommends expanding linkages to more MFIs, facilitating agencies, and SGs. At the time of the study, 308 SGs had opened savings accounts, while 51 had loans. However, the report freely acknowledges that it was too early to assess the impact of credit, all the more so since very few solidarity lending programs experience problems in their first two years, when loans are relatively small.

The report reviews the recommendations made by the two earlier studies (Maes and Beijuka) and comments on the extent to which the present program took these recommendations on board. It notes the presence of IGs (that is, federations of SGs), and finds that "the efforts

PHOTO COURTESY OF CARE

applied on building the capacity of IGs did not translate into improved capacity of the [SGs] despite the [SG] paying for such services."

The report also mentions the cost of the program to groups: "The [SGs] have complained about the high costs associated with complying with bank[s'] requirements for savings and loans. In some cases, the groups have spent more money from their social fund on traveling, photocopies, and photographs than the 10% interest which the group earns from members who take the loan. Once the mobile money transaction is introduced, traveling costs borne by the group should drastically reduce."

The report contains a trend analysis of linked and non-linked groups. With respect to all performance metrics, the linked groups appear to out-perform the non-linked groups. However, performance indicators are not defined, and ratios are not always clear. In addition, some of the data seem unlikely (though not impossible), particularly the reported 100% attendance rate in the sample of large linked groups over a period of one year.

The study found many positive outcomes, including the following:

- "[The] loan fund is not susceptible to seasonal cash flows and is adequate to meet group members' needs since external funds are also available."
- "Members continued saving in the group fund even after linkages and savings amounts were increased. As group members progress, they are motivated to save more and reach for higher goals."

The authors show that they are aware of various risks, including "reduced focus on savings, over-indebtedness of groups, few members taking advantage of the linkage at the cost of other members of the group, and easy money affecting group solidarity," but state that "so far … none of these perceived dangers have been realized."

Despite uncertainty about the meaning of part of the trend analysis, this is a thorough and balanced study of a linkage program in its early days.

Paul Rippey, Claudine Mutamuliza, and Charlotte Usanase: *Consultancy for Community Managed Savings and Loan Groups: Best Practice Development and Market Linkage Assessment/Pilot Project.* July 11, 2012. Commissioned by Access to Finance Rwanda.
Type of relationship: Class 2 and Class 4

This fourth Rwandan study was conducted in response to a request by Access to Finance Rwanda (AFR). The multiple-task terms of reference included determining best practices for linking SGs and FSPs.

Two Kinyarwanda-speaking researchers visited 22 SGs with external bank and credit union loans in a sample that included groups of four facilitating agencies chosen as randomly as the visiting schedule would permit. The researchers found that contrary to the announced policies of the NGOs, in none of the groups were the external funds blended with the group's own savings. Rather, in every case, the group could state precisely which sums consisted of their own money and which were the FSP's. Furthermore, loans made from external funds were generally made to members on different terms from those made with group funds.

None of the groups reported any defaults, and the outside borrowing experiment was generally considered successful by the groups, except that in some groups, there were disputes about how the internal and external funds should be managed. CARE stated that while they had a target regarding the number of groups to be linked, they believed that the number of linkages should in future be driven by people's choices, not by a program target.

The research found that it is "a questionable assertion that the group's savings are not used to guarantee loans." Although the savings are not formally pledged as collateral, all members of a group have signed up for the loan, and in case of default, it is most likely that the group will repay out of its common assets, namely the loan fund.

The report noted the relatively high cost of borrowing from CARE's principal partner, VFC. The authors consulted MicroFinance Transparency and found that "the standard VFC loan carries an annual interest rate of 80.84%." This was substantially higher than other lenders who were widely available in Rwanda.

The report focused on making SGs more useful for members and suggested that if there was significant demand for larger lump sums, the most favorable policy for SG members would be to help strengthen the group and increase savings within it before having recourse to external credit.

Accenture Development Partnerships with Support from Partnership for Development Capacity Consult (PDCC) Limited. *A Working Future.* 2016.
Type of relationship: Class 1, Class 2, Class 3 and Class 4

This is an end-of-project evaluation of a three-and-a-half-year youth economic empowerment program conducted in two districts of Uganda and run by Plan International, which ended in 2016. The project had some remarkable results in increasing youth employment and incomes and exceeded its target of forming SGs. However, one of the few indicators on which the project fell short was in linking SGs with FSPs. While its target was to link 200 groups, it managed to link only 33. The evaluation highlighted the following reasons for the shortfall:

- Groups were encouraged to link to financial institutions to get access to credit; however, in practice, and as the groups matured, most saved enough money to cover the loans members wanted and so did not feel the need to link.
- One of the FSPs, Barclays Bank, required SGs to have been in existence for two years before they could open an account. However, a number of groups were in their first cycle, and therefore not eligible.
- "Many groups have not grasped the benefits of banking so they are not willing to open an account."

The report mentions Barclays Bank's interesting experiments in Uganda with different forms of software and products: (i) Ledger Link, an app that tracks group information and stores data on group and individual member performance on the bank's servers, thereby helping group members build up a financial history; (ii) eKeys, a mobile banking product; and (iii) overdraft facilities for SGs. Unfortunately, these products are only mentioned, and an objective assessment of their performance and impact remains an important gap in the literature.

Sybil Chidiac (CARE Access Africa), Grace Majara (CARE UK), and Richard Tandoh (Barclays UK). *BOC Linkage Study Report.* February 2015.
and
Plan International, Barclays Bank, CARE International. *Banking on Change Phase 2: Final Report.* February 29, 2016.
Type of relationship: Class 1, Class 2 and Class 4. Possibly Class 3.

Banking on Change (BoC) was a six-year (2009–2015) multi-sectoral partnership between Plan International, Barclays Bank, and CARE International, which operated across 11 countries in Africa, Asia, and Latin America.[6] The partnership created SGs, provided entrepreneurial training to members in each of the countries, and had linkage objectives in all of the countries except for Egypt and India. It was probably the largest project working to link SGs and FSPs anywhere. Following are summaries of two reports on the project.

The BoC Linkage Study Report was written during project implementation and is quite frank about the challenges facing the project. This was followed by the BoC Phase 2 Final Report, which came out a year later after the end of the project. The initial report provides some analysis that is not present in the final report. The final document also adopts a more promotional and less analytical tone.

The BoC Linkage Study Report points to four challenges in reaching the targets set by the project for the number of groups to be linked with FSPs:

- Distance from SGs to bank branches. The study points to increased cash-in-transit risk and a burdensome cost in time and money for many groups.
- Account opening process. This involved paperwork and documentation that proved difficult for many group members and a burden on bank staff, especially those working under commission-based incentives.
- Branch staff engagement. Bank staff group members encountered received high praise for their availability and the quality of the welcome. However, the report notes that as a voluntary program, BoC was not seen as a banking priority, and many bank staff did not know of its existence.

  Quality of linkage training. While in principle all groups were to be assessed as to their readiness for linkage and given financial education prior to linkage, in practice, compliance with these steps varied greatly, with some groups receiving little or no orientation before opening accounts with the bank.

The report provides a useful analysis of how the use of bank accounts varies during the group cycle, with groups changing from net borrowers to net savers as their savings increase. It argues that many groups need external credit, especially early in their cycles, because some members have investment opportunities they cannot meet through their SG.

While this first report focuses on linkages, the BOC Phase 2 Final Report discusses all project activities. It returns to the challenges mentioned in the first report and says that they have been addressed by the development of a linkage tool kit. It acknowledges a shortfall in the number of groups linked (4,390) compared to the target (5,063). Significantly, although individual accounts were not "a core part" of the program, group members opened 2,260 individual accounts.

The research highlighted the fact that each of the countries had its own particularities: Zambia piloted digital recording for SGs using mobile phone apps and used short training videos. In Uganda, Barclays Bank, along with the Grameen Foundation, developed a number of products intended for SGs. In addition, "the bank used a saving[s-]led approach, unlike many other financial institutions, which focus more on credit first."

The reports state that the primary reason for opening accounts is the security of funds, with earning interest and having access to credit as additional reasons.

Jessica Murray and Rich Rosenberg: *Community-Managed Loan Funds: Which Ones Work?* April 10, 2006. CGAP.
Type of relationship: Class 4

This study is based on a review of evaluations and other credible reports on 60 Community-Managed Loan Funds (CMLFs) initiatives. These are projects in which "credit to the members of a small group is managed by the members themselves, with no professional management or supervision of the approval, disbursement, and collection of loans." In most cases, the groups studied are not SGs but may be similar enough to consider the study as applicable to SGs.

Among the projects, 31 had sufficiently credible documentation to allow the researchers to make a determination concerning whether the groups had succeeded. The authors categorized the groups into three categories:

1. Externally-funded groups, which receive funding from an outside source early in their existence.
2. Savings-based groups, in which loans are financed by the members' own savings and there is either no external funding or such funding arrives in modest amounts after the group has earned a solid track record of lending and recovered its own savings.
3. Self-help groups (SHGs), in which groups start by collecting and then lending members' own savings but subsequently receive large loans from a bank that is serious about collection.

[6] Egypt, Ghana, India, Indonesia, Kenya, Mozambique, Peru, Tanzania, Uganda, Vietnam, and Zambia.

The authors' conclusions are clear concerning externally-funded groups. They state that these groups "fail so consistently that this model of microfinance support is never a prudent gamble."

As for self-help groups, "performance has been mixed so far." In contrast, savings-based groups have "a solid track record of lending and recovering their own savings." According to the study, external funding appears to be generally toxic to groups, but when it is removed, sick groups can recover. The authors cite two cases in which this occurred, one of which concerning SGs. In the Kupfuma Ishungu program in Zimbabwe, members were given false expectations and experienced "distorted savings behavior" when CARE promised them external credit during the promotion of the project. About two-thirds of groups disbanded after receiving their external loans. As a result, CARE stopped injecting capital into the groups, and since then, results in terms of group creation and survival have been markedly better.

The authors conclude that "the list of savings-based CMLF programs for which we found evaluations is not a long one – only eleven projects. But every one we found appeared to be successful. Of course, this does not mean there are no failures: projects with good results are more likely to be documented than projects with bad results. But the consistent success of the projects we were able to grade is striking, to say the least."

Interestingly, the authors cast doubt on one of the widespread beliefs about SGs, namely that "Many believe that savings-based groups cannot mobilize loans that are large enough to create or develop microenterprises," adding in a footnote: "We are unable to confirm or contradict this assertion."

Despite the dismal record of injections of donor money, the authors come down on the side of reasonable, balanced wholesale lending to SGs: "When donors inject capital into CMLFs, their main reason is a belief that the members can manage and benefit from loans that are bigger than what the members' savings alone could fund. In many cases this belief is true. But a better option exists. Once a group's credit needs outweigh their local resources, donors can help link the group with commercial banks or other formal financial service providers. The individual members usually cannot use the bank because their balances are too small, or they have no collateral for loans, or the bank branch is too far away. But once the group has built some savings assets and has a track record of managing their internal lending, its members can sometimes get access to the bank as a single collective client, which lowers the bank's transaction costs in dealing with them."

SLOOT/ISTOCK

Mary Kay Gugerty and Michael Kremer: "Outside Funding and the Dynamics of Participation in Community Associations." *American Journal of Political Science,* Vol. 52, No. 3, pp. 585–602. Published by Midwest Political Science Association. July 2008.
Type of relationship: Not financial linkage as discussed in this review, but rather gifts of resources to various sorts of groups.

Like the preceding paper (Murray and Rosenberg 2006), this study included only a few SGs; the reader must therefore judge its applicability. It is included here because it is a rare case of a rigorous study of the effects of an infusion of outside resources into groups, including a look at their impact on the social dynamics.

The study takes advantage of a fortuitous unplanned randomized control trial in Kenya. International Child Support (ICS), a Dutch NGO, had selected 80 women's groups (not only financial groups but groups of all kinds) for assistance.

ICS had the resources to fund 40 of those groups, and to maintain fairness, selected recipient groups randomly, expressing the hope – but not the promise – that the other 40 would eventually receive assistance. However, after the first 40 were funded, there were no available resources for two years. This created two populations of women's groups: a treatment group that had received funding, and a control group that had not.

ICS provided the treatment groups with training for three group leaders on leadership, management, bookkeeping, and administration, and each group received a set of agricultural inputs (fertilizer, seed, and other inputs). Additional training in agriculture was then provided to other members. The value of the assistance package given to each group was US$674, equivalent to about US$34 per member.

It had been hoped that the infusions of training and farm inputs would result in stronger groups. In fact, the study showed undesirable changes in group dynamics, with executive members being much more likely than other members to benefit from the inputs provided. In addition, there was no evidence that the resources had any impact on group solidarity, attendance rates, or meeting frequency. The treatment groups also showed changes in leadership as more educated and younger women as well as a statistically significant number of men moved into leadership positions within the group, replacing older and less educated women.

The treatment groups received significantly more visits from government officials and, not surprisingly, had many more applications for membership (40% more than in the control groups). New members of treatment groups tended to be more educated, better off, and more likely to be male than in those of control groups. Surprisingly perhaps, there were as many departures from treatment groups as from control groups, with older female members disproportionately more likely to leave the treatment groups.

The study concluded that "In community associations in Kenya, we find little evidence that outside funding expanded organizational strength, but substantial evidence that funding changed group membership and leadership, weakening the role of the disadvantaged.…The departure of older women, the most socially marginalized demographic group, increased substantially."

If they examine the effects on the groups at all, many of the other studies included here look at changes in financial behavior, such as amounts saved or borrowed. However, few consider the power and social dynamics of the groups in any detail, and this study may be one of the best indicators available of what might happen in SGs that receive outside infusions of capital. The sums received by the groups in this study were quite small compared to the sums received by SGs that accept wholesale loans, and because they were grants, the study does not reflect the additional stress placed on a group by having external debt that must be repaid according to a rigorous schedule. Nonetheless, there was a measurable change in group composition and power.

One issue that remains to be investigated is whether similar effects occur in groups that receive outside credit: poorer members leaving, more men and better-off women moving into leadership positions, and assets moving to the better-off members. Although these effects may be acceptable or even desirable to International Non-Governmental Organizations (INGOs) and FSPs targeting entrepreneurs and small business actors, they would represent a significant change in the population SGs have traditionally been intended to serve.

2 The Market for FSP-SG Linkages

Bankable Frontier Associates (BFA). *Focus Note 2: SG Linkages – The Business Case for Private Service Providers.* Bill and Melinda Gates Foundation. June 2010.
Types of relationships: Class 1, Class 2, Class 3 and Class 4

This study examines "the case for promoted SGs and their members to be linked profitably to the formal financial system via mobile money, and in doing so, expand the financial options available to their members."

The report argues that FSPs have five incentives for entering into commercial relationships with SGs:

- Deposit mobilization, which is valuable especially in countries where the cost of capital is high.
- Liquidity: The liquidity available to mobile network operator (MNO) agents or banking agent outlets would increase.
- Acquisition of new clients as relations with SGs will allow FSPs to market individual accounts and other services to group members.
- Steady transactions: "Regular transactions characteristic of internal SG financial behavior would benefit MNOs directly with steady transaction fee income, provided that fees are affordable enough for members to transact regularly."
- Data on customer financial behavior: "Digital linkages would allow banks, MNOs, and SG members to benefit from data captured on savings and credit behavior. "By capturing internal financial behavior electronically, providers could create profiles of expected customer savings and repayment capacity."

The focus note goes on to ask – and immediately answer – the fundamental question FSPs will inevitably ask: "Why SGs? A readily available source of clients and funds." The study estimates the number of members and total savings volume of SGs in Kenya, Uganda, Tanzania, and Rwanda and projects that a remarkable US$30 million is saved in SGs every week in the four countries.

The note mostly examines the business case for FSPs, but also asks: "Wait – what is in linkages for SG *members?*" The authors acknowledge that "the net cost to clients (on an annual basis) **rises** as digitization increases … due to the high transaction fees incurred on a regular basis." However, they find offsetting benefits, in particular, the extra income SG members will earn on their deposits if they redeposit part of their annual share-outs in the FSP, "assuming that a group might deposit 20% of annual share[-]out[s] in a deposit account per year, for four years, and allow interest to accumulate."

PHOTO COURTESY OF CARE

Depending on the scenario, the monthly impact on members' savings ranges from a gain of 20 US cents to a loss of 48 cents. The report states that "clients have a clear *disincentive,* given the assumed fee structure, to operate in a fully digitized way. … While we outlined a number of benefits to formal linkages for SGs … (greater security, new and more diverse financial options, and the opportunity to earn interest), the more immediate costs of going digital will need to be fully recognized by financial institutions and mobile money providers wishing to acquire SGs and members as clients."

The report points out that "one of the key benefits of linkages to members is the possibility of establishing a financial history, which could one day blossom into an individual formal financial relationship. While SGs provide numerous financial benefits, many of which would likely **not** be supplanted by formal services (access to immediate, low-cost emergency funds, for example), SGs have natural limits in what they can provide to their members." The report goes on to discuss how members might build up a financial history if their SG transactions are recorded.

The report also raises an important red flag: "Danger Zones: Leading with credit rather than savings." While the report talks about the benefits of mobilizing savings for FSPs, it points out the obvious fact that "for banks, the potential interest income from providing credit usually far outstrips the potential float income from savings account balances. Thus, a looming fear for SG-bank linkages is the proliferation of credit at the expense of members, many of whom have never been exposed to the formal financial sector before." The report continues by arguing that "extending credit to a group on the basis of shared liability places undue strain on members who may be less capable of managing the additional financial burden if other members default on this external line of credit. Based on BFA's research with SG members, this is a real danger to low-income individuals which should be avoided at all costs […] SG-bank linkages should begin with deposit opportunities *and* […] credit should only be added gradually and cautiously as the effects on SG members is better understood."

This report is clear and balanced and points out the potential benefits to FSPs of financial linkages, the potential benefits to some SG members, as well as the clear risks to SGs and particularly to poorer members.

Alice Allan (CARE International UK), Brendan Ahern (Bankable Frontier Associates), and Matt Wilson (Barclays): *State of Linkage Report.* 2015, updated 2016. Type of relationship: Class 1, Class 2, Class 3 and Class 4

This report is "the first […] global mapping of linkage activity," a snapshot of known FSP–SG partnerships at the time of writing. The authors point to the difficult of identifying organizations participating in linkages and in getting accurate data about them as well as to the fact that this lack of information is a constraint for SGs looking for partners and for FSPs looking for markets.

The report begins with key statistics presented in pictographic format and ends with a table presenting "106 active savings group products that are offered by 95 formal financial institutions across 27 countries."

Among the report's findings are the following:

- Linkages are driven largely by local and national institutions, and the report only found five FSPs offering linkage products in more than one country.
- While there is much discussion of the role mobile financial services will play, at present mobile services are relatively rare among the known cases of financial linkages.
- 60% of linkages at present offer only savings facilities, though future inclusion of credit is highly likely: "Whilst savings accounts offer a springboard towards greater financial inclusion, as groups mature, they need greater access to a wider range of financial products."

The report presents brief descriptions of the products offered by each institution, arranged by country. It also offers short case studies of four particularly interesting efforts: Fidelity Bank in Ghana, Barclays Bank in Uganda, FINO PayTech in India, and Banco Azteca in Mexico.

The document as a whole is clear, concise, and free of obvious bias and is perhaps most useful as a guide to future research. The information it presents in its two dozen pages is tantalizing and will leave the curious reader hungry for further research.

Accenture. *Within Reach: How Banks in Emerging Economies Can Grow Profitably by Being more Inclusive.* CARE International. 2015.
Type of relationship: Class 1, Class 2, Class 3 and Class 4

This short document takes the form of a series of insights designed to help commercial banks "make financial inclusion a core strategy." The fourth insight is to "use saving[s] and loan[s] groups as an entry strategy." Specific advice includes nurturing relationships with facilitating agencies to gain access to SGs and then working with the SGs to help them see the advantages of moving to formal accounts. In fact, SGs appear throughout the document, often as brief success stories of banks expanding their market. The document includes a useful typology of bank motivation for investing in greater financial inclusion, defining four categories: philanthropic/Corporate Social Responsibility; regulator-driven; short-term profit driven; and inclusive, or committed to a long term investment, as in universal access as a key to bank sustainability.

Brendan Ahern, Natalia Gomez, and Shirley Mburu. *Assessing Credit Approaches to Savings Groups Linkages.* Bankable Frontier Associates. June 22, 2016.
Type of relationship: Class 3 and 4

This clear analysis compares the business case for FSPs of individual lending vs. group lending. Not surprisingly, it finds that group lending is likely to be more profitable because of the lower transaction costs of making a larger loan to a group with joint and several liability, that is, a loan guaranteed by all the members of the group, compared to making a number of individual loans to those members who want them. However, it notes something of great importance to far-sighted FSPs, pointing out that individual lending has a number of advantages for FSPs in that it "creates more direct pathways to long-term customer relationships" and "may open the door to additional engagement, including mortgages, vehicle and small business finances...," etc.

Because the study is oriented toward FSPs, it does not analyze the desirability of the products from the point of view of group members. However, it does note that "the implications for SG members themselves are equally important. Prior research by BFA and others has uncovered instances in which poorly managed credit injections have contributed to the collapse of SGs. Though this report focuses on the business case for FSPs, we want to emphasize that it is essential that FSPs seek to lend to SG members responsibly."

Two Accenture/CARE Blog posts
Nathan Randall

A pair of analytical blog posts by Accenture share market analyses conducted under a partnership between Accenture and Access Africa.

By the Numbers (Part 1): Comparing Financial Inclusion and Savings Habits in Kenya, Malawi, and Zimbabwe. March 17, 2016.
and
By the Numbers (Part 2): Estimating Market Sizes for Informal Group Savings in Kenya, Malawi, and Zimbabwe. March 18, 2016.
Type of relationship: None indicated; studies deal with market only

Part 1 of this two-part blog post draws on data from the World Bank's Global Financial Inclusion Index (Findex) to show dramatic differences between Kenya, Malawi, and Mozambique, with Kenya being by far the most banked, Tanzania firmly in the middle, and Zimbabwe the least. Kenyans are much more likely to save in banks but also more likely to save outside of banks, in groups or through other non-regulated arrangements. Remarkably, in all three countries, the use of informal savings methods "significantly outgrew that of formal banking."

Part 2 looks at the total assumed market in the three countries. It raises the following questions: "With so many people in all three countries preferring informal saving methods to banking, how large are these markets? How much total capital do they possess? And what can we learn from this?" The author multiplies the total of Savings Group and other "external" savers by the average savings as given by the Savings Groups Information Exchange (SAVIX) and comes up with about US$300 million as the amount of unbanked savings in the three countries, concluding that "the time for banks to commit to serving these groups is now. The economic potential held within informal savings groups is no longer a secret, and therefore can no longer be ignored."

Unfortunately, these clear and concise articles suffer from the pitfall of exuberant market estimations, as described above in the section on *Evidence versus Opinion*.

3 Policy, Guidelines, and Cautions

Hugh Allen: *Why I Think CMMPs Should be Careful about Borrowing from Private Banks*. 2010. Enterprise Development and Microfinance: An International Journal. Type of relationship: Class 4

In this short essay, Hugh Allen advances most of the arguments against injecting private capital into SGs (here called Community-Managed Microfinance Programs – CMMPs). Along with the preceding CARE document (Coady 2014), this is a seminal reference point. The paper includes the following sections:

Why debt? Allen compares debt and savings as financial services and argues that savings are "safer, easy to engineer, and a lot more useful."

Purpose: Allen agrees that "full-time, quasi-formal entrepreneurs are the people who can create real jobs at lower cost than the modern sector and generate new capital if they can get access to sufficient credit." But he challenges the conception that many poor people are looking for investment capital. He argues that the "vast majority" of SG members are much more risk-averse than micro-entrepreneurs and have a clear preference for making whatever investment there is to make from savings rather than credit.

Why do people really want financial services? Allen uses data from a FinScope study in Uganda showing the low frequency of borrowing for businesses compared to borrowing for income smoothing and consumption to question the notion that many poor people are eager to borrow for small businesses. He suggests that we might be "blinded by our assumptions about people wanting to invest their way out of poverty."

Why do we think that outside capital is needed at all? Allen draws on his considerable field experience to assert that over time, SGs consistently increase their savings, loan funds, loan amounts, and loan periods, and suggests that SG loan funds might grow and meet whatever desire most members have to borrow for business investments.

The evidence. Allen points to what was then a small amount of evidence from studies, indicating that outside capital has led to the breakup of a certain percentage of the groups that received external funds and that the outside loans meet with resistance from members and indifference from banks. He concludes that while he cannot "say that the effort is misplaced [or] foredoomed," it is difficult to conduct wholesale lending effectively, questioning the assumption that this is the best use of resources.

If SHGs are successfully linked to banks, what is the problem? Allen preemptively answers critics who might point to the huge number of Indian Self-Help Groups (SHGs), often linked to FSPs, and who might wonder why SHGs would not succeed in Africa too. In response, he points to differences in environment, political mandates, group practices, and costs between India and Africa.

Conclusions. Allen ends by reviewing his arguments, arguing "that bank linkage is not needed by a lot of the poor; that it is not that simple; that an overweening determination to pursue it may divert resources from providing entry-level services [Allen presumably means SGs] to a lot more people, and that it poses real risks." He makes a set of recommendations that may seem moderate

PHOTO COURTESY OF CARE

by comparison with his arguments and which are not vastly different from CARE's recommendations: (i) start with savings; (ii) wait at least two years before lending to SGs; (iii) provide consumer education; and (iv) develop a code of practice for lenders. The difference is one of tone. In effect, Allen is saying: "If one must make wholesale loans, follow these procedures."

The other important difference between Allen's position and that of CARE is that Allen proposes much lower leverage ratios than CARE: "Total debt assumed by a[n] SG should not exceed 50% of the value of the prior share-out and, in later cycles, [be] not more than equal to this amount."

Hugh Allen and David Panetta. Chapter 4, *"Platforms and Linkages" of Savings Groups: What Are They?* SEEP Network Savings-Led Financial Services Working Group. June 2010.
Type of relationship: Class 2, Class 3 and Class 4

This paper, written by two experts on SGs in consultation with SEEP's Savings-Led Financial Services Working Group, is a standard reference on SGs. It merits mention here because, although its discussion of connections between SGs and FSPs is brief and fairly conventional, it is a widely circulated and influential document, possibly the single most read reference on SGs in general.

The authors argue that a consensus is developing around the CARE linkage principles, which they cite. They go on to express concern about "indebting savings groups beyond their capacity to repay and placing the group at risk for the benefit of a few individuals." They point to the possibility of reckless lending by FSPs: "Most facilitating agencies are aware of the risks of linking savings groups to bank credit. Despite good intentions, MFIs in particular are likely to regard savings groups as low-cost targets for credit. In fact, there are cases where multiple MFIs have lent to the same group, leading to over-indebtedness."

Finally, they urge facilitating agencies to "distinguish between demonstrable (as opposed to expressed) demand for credit" and to be attentive to respecting "prudent levels of debt to equity."

Gabriëlle Athmer and Ellie Bosch (Section on SGs attributed to Athmer): *Policy Guidelines for Donor Support to Member-owned Financial Institutions in Rural Sub-Saharan Africa.* Commissioned by the Rural Finance Working Group led by Terrafina Microfinance. 2013.
Type of relationship: Presumably relevant to all classes

These proposed guidelines for donors were commissioned by the Rural Finance Working Group, representing Cordaid, Hivos, ICCO, Oxfam Novib, and Terrafina Microfinance, which wanted to ensure that their interventions were consistent with good practices. The report addresses both cooperatives and SGs, with the two treated separately in the document.

The policy guideline for Linkages between Savings Groups and Financial Institutions is concise: "Promote a demand driven approach when you are supporting MFIs to link with savings groups or when supporting Savings Group Promoting Agencies to link with MFIs for savings and credit. Make sure that partners are aware of lessons learned and emerging good practices. Ensure that the MFI develops appropriate products and delivery mechanisms for the savings groups. In case the promoting NGO is [a] partner, ensure that clear agreements are made with the MFI about products and delivery mechanisms and about the role of the NGO to facilitate the linkage process."

The reader of these statements may wish for more operational definitions of "appropriate" policies and of "demand-driven."

The report returns to the CARE linkage principles and reviews some key studies of linkage projects. Interestingly, it argues that membership of an SG should be considered "financial inclusion." In contrast, many other reports adopt the point of view that individuals are only "financially included" if they are clients of a regulated institution.

CARE, Coady International Institute. A Roadmap to Responsible Linkage. 2014.
Type of relationship: Class 2 and Class 4

This document is extracted from "Connecting the World's Poorest People to the Global Economy – New Models for Linking Informal Savings Groups to Formal Financial Services." It reiterates the CARE linking principles and the quantitative assessment format used by CARE. It presents CARE's approach in easily accessible short form. The linkage principles are available in many of the other documents included in this review, and are presented here in somewhat abbreviated form.

1. Link groups, not individuals. Groups should be linked to financial institutions rather than to individuals. The purpose of the relationship is to complement the group's existing activities. The result should be a strengthening of group cohesion, and should benefit all members. Individual linkages that rely on the group as a guarantee are not recommended for Savings Groups.
2. Only link mature groups. No group should be linked before it completes at least one cycle and share-out. In some exceptional cases, it may be necessary to begin a savings linkage during the first cycle, but no exceptions should be permitted for credit linkage. All groups that have completed at least one complete cycle of savings and share-out and express a desire to link to a financial institution should be rated using the Linkage Readiness Assessment Tool (or similar). Groups that attain a satisfactory rating should be linked.
3. Focus on demand rather than supply. Linkage relationships should be based on the needs and demands of the groups rather than being thrust upon them. Because linkage creates additional liabilities for the groups, it is important that they are ready for such liabilities. Groups should be provided with all information necessary to understand the products and services on offer.
4. Prepare groups before linking them. Groups must be provided with training prior to linkage.
5. Protect core savings group principles. The linkage relationship should not alter the fundamental operating principles of the savings group methodology. The group should maintain its governance structures and procedures, record-keeping and internal controls, and regular meetings with a focus on savings. Linkage decisions should be made by consensus as far as possible rather than by majority.
6. Start with savings. VSLA is a savings-led approach and linkage should not alter this focus. Savings linkage should precede credit linkage, and access to credit should not undermine the overall group emphasis on savings.
7. Maintain a conservative savings to credit ratio. To prevent groups from becoming over-indebted, it is important that a conservative savings to credit ratio be maintained. Using the group's previous cycle share-out amount as a measure of savings (rather than the current savings amount, which is an unreliable indicator of the group's capacity), the amount of the group's first loan should be no greater than twice the previous year's share-out, i.e., a savings to credit ratio of 1:2. This ratio can be increased for subsequent loans, but should never exceed 1:5.
8. Minimize the use of savings as collateral. The flexibility and accessibility of savings is considered an important attribute by group members. Thus, where possible, group savings should not be held as collateral by financial institutions. It is recognized that financial institutions seek to secure their loans, and this principle must be applied in a way that balances the priorities of the savings group and those of the financial institution. However, the principle does not mean that no collateral should be provided to the financial institution, but rather that such collateral should be kept to a minimum.

These principles are widely cited in other documents, sometimes with minor changes, and appear in some of the other studies reviewed here. Questions are raised in other documents concerning some of the principles, notably Principle 1 (linking groups, not individuals). Some argue that in practice, this will always lead to a risk-benefit mismatch when a group assumes the responsibility for loans that go to only a few members. With respect to Principle 3 (focusing on demand), some question the extent to which a donor-funded and often heavily marketed intervention is really driven by demand. Finally, concerning Principles 5 and 7, many will argue that groups that have borrowed several times more than they have ever saved cannot be said to be respecting these core principles.

These debates underline the importance of garnering better evidence about the effects of wholesale lending to groups.

Joanna Ledgerwood and Alyssa Jethani: *Savings Groups and Financial Inclusion. Chapter 1 of Savings Groups at the Frontier.* SEEP Network and Practical Action Publishing. 2013.
Type of relationship: All classes

This thoughtful chapter in a widely circulated book addresses the place of SGs within a market system delivering financial services to everyone, including the poor. Because it takes a high-level look at systems, it avoids the details of particular projects. However, like many other documents reviewed here, it summarizes CARE's linkage principles, balancing its assessment by questioning the wisdom of linking groups rather than individuals with regard to credit, arguing that "other facilitating agencies believe that it is unwise to force those who do not want additional loan capital to be jointly liable for those who do. Why put the savings of all group members at risk if one or two default on their loans?"

Paul Rippey et al., Savings Revolution Blogs
Type of relationship: All classes

Savings Revolution (www.savings-revolution.org) is a website that purports to be a general resource for the Savings Group community. It is edited and largely written by Paul Rippey, the author of the present document. Many of the blog posts take a cautionary position about wholesale credit linkages between SGs and FSPs. Here are two posts that try to bridge the gap between those who are enthusiastic about linkages and those who are not.

- Inside a Banker's Mind reports on an illustrative conversation about how informal groups appear to a commercial banker: http://www.savings-revolution.org/homepage/2014/7/3/inside-a-bankers-mind
- The Savings Group Tiger and the Banking Shark takes this same theme further, describing how different worldviews lead to different conclusions: http://www.savings-revolution.org/homepage/2015/4/19/the-savings-group-tiger-and-the-banking-shark

Xavier Martín. *What are Savings Groups?* PROSAVINGs Program of the Inter-American Development Bank. July 2014.
and
Xavier Martín. *Where are Savings Groups Headed?* PROSAVINGs Program of the Inter-American Development Bank. December 2014.
Type of relationship: Primarily class 2 and Class 4

These two documents are welcome additions from a region that is not always well represented in the SG literature. They cover the same ground as other literature to a large extent and come to the same conclusions concerning relationships between FSPs and SGs, namely that although there are dangers, those should not dissuade groups from linking with FSPs.

The first document (*What are Savings Groups?*) presents three models referencing "several initiatives in which external funding has played an important role in financing the group's initial activities." None of the three models presented makes a strong case for establishing commercial relations between an FSP and an SG.

The first model described in this document is village banks, which are promoted in Latin America and the Caribbean. The village bank experience provides some lessons about the ability of member-managed institutions to remain independent when they receive outside funding: The original vision was for village banks to have an *internal account* made up of members' own savings, and an *external account*, that is, outside loans from an institutional partner (in the case the authors describe, FINCA). In the original vision of FINCA's founders, the group would eventually become independent and graduate from the supporting institution. In reality, the partners found that the internal accounts reduced their own revenue, and these were subsequently abandoned by promoters.

The second model presented here is that of groups formed by rural development projects. The author cites Murray and Rosenberg (2006) in connection with the high failure rate of groups formed to receive outside funds, but argue that good things may come from such an arrangement since "the unmitigated failure of rural development projects with rotating funds has helped reframe interventions and make substantial changes. In some cases, these changes have generated a new approach based exclusively on promoting saving groups, even without the presence of external funding."

Finally, the author describes the experiences with credit unions. Credit unions have often been strong and successful in Latin America, as would be expected in any region with sufficiently educated and aware members provided there is appropriate and robust regulation.

However, the credit union experience is not closely related to the SG experience: the one has professional management, long-term savings, and – to be successful – external controls; the other has real member-based management, and no external controls. It is difficult therefore to draw lessons about the latter from the former.

The second paper (*"Where are Savings Groups Headed?"*) amplifies the preceding document and takes an even more robust pro-savings stance, arguing that "savings can be used to cover the demand for credit," and "even the poorest segment of the population can save some percentage of their income." The author argues that SGs are inherently tools for financial education as members learn by doing.

The paper recognizes the tendency to encourage SGs to follow a single methodology and avoid outside debt but argues that "the reality of experiences in Latin America and the Caribbean demonstrate that there is a wide range of valid methodologies." The author also shows an awareness of experiences elsewhere and advises considerable caution around linkages, offering – among other arguments – the findings of Murray and Rosenberg (2006).

However, the paper does not rule out financial linkages: "Once the group is consolidated and has a certain institutional structure, it is possible to establish ties with other financial entities – ties that are mutually beneficial for the groups as well as for the financial entities." The paper cites some successful partnerships between local structures and FSPs such as World Vision Brazil's alliance with Ande and local financial structures promoted by FEPP and Codesarrollo Bank in Ecuador. It goes so far as to argue that "to increase the quality, diversity, and availability of financial services that can be accessed through participation in a savings and credit group, it is necessary to establish a link with a financial institution of a larger size in order to gain continuous access to a greater range of products and services." Unfortunately, no information is given in the report about the nature of the local structures involved in these cases nor about the relationship itself.

Even though the institutional and social environments in Latin America are quite different from those found in Africa, where most SGs are located, it would be beneficial to study these cases.

Eloisa Devietti, with Paul Rippey. *Program Quality Guidelines for Savings Groups*. SEEP Network. 2015. Type of relationship: Primarily directed to Class 4 but relevant to all classes

The Program Quality guidelines begin with "the conviction that facilitating agencies have a responsibility to implement quality SGs that safeguard the well-being of members and the security of their assets. They represent a sector-wide effort to build quality from the onset as a guarantee for consumer protection rather than waiting for problems to emerge before taking steps to address them."

The guidelines are perhaps closer to a consensus statement than most of the documents reviewed here because of the wide consultations that went into drafting them. As is often the case with consensus, some of the statements may come across as somewhat bland. However, the authors urge NGOs to represent the interests of group members and to "be an advocate first and foremost for the SG members and only offer the opportunity to enter into a relationship with a formal financial provider if it responds to members' articulated needs."

The guidelines come with a set of tools, many of which are mentioned in this review, which implementers should be familiar with.

Barclays Bank, Plan International, CARE International: *The Linking for Change Savings Charter.* 2015. Type of relationship: All classes, primarily Class 2 and Class 4

This four-page document is a pledge to the principles of consumer protection, to be signed by FSPs, INGOs, and donors who are considering marketing FSP services to SGs. Signatories agree to follow the charter's principles and choose partners that will do likewise, enable a savings culture, share their experience, and encourage others to sign the charter.

The charter contains the following six principles: 1. It is a win-win investment that brings social and economic rewards. 2. Banking the poorest is possible. 3. It starts with savings. 4. People come first. 5. Financial education matters. 6. No one can do it alone.

As none of these principles is spelled out in operational detail, these ideals would meet with little disagreement. The charter reassures signatories that they need not worry about enforcement: "We are not formally monitoring commitments, but will carry out informal reviews of activity against the principles." Therefore, there is little reason why anyone would refuse to sign it or to expect that unmonitored statements of good intentions will have much effect on behavior.

William Smith, Lucy Scott, and Andrew Shepherd: Financial Inclusion Policy Guide. Chronic Poverty Advisory Network. 2015.
Type of relationship: Class 1, Class 2, Class 3 and Class 4

This document seeks to identify channels that will effectively reduce poverty and looks at four ways in which financial services can help. The four approaches are: (i) linking the formal and informal financial sectors; (ii) linking social protection and financial services; (iii) using the digital revolution to make financial services more easily available and affordable to the poor; and (iv) scaling up weather-based insurance. Unlike most other of the documents reviewed here, this paper focuses on poverty reduction rather than on financial inclusion, and is one of only a few such documents to mention linking social protection programs and financial services, a topic that is now gaining support and visibility.

Concerning the first channel – linking the formal and informal – the study finds that there is enough evidence to know that it is possible, that it can be advantageous to both SGs and FSPs, that digital platforms are necessary to bring savings in the poorest and most remote communities, and that the involvement of NGOs remains critical both to safeguard SGs' sustainability and for the financial institutions' risk assessment. However, it cautions that the involvement of NGOs is costly and constrains scaling up.

The paper reviews the evidence about the impact of microfinance and states "there is no clear evidence that microfinance programs have positive impacts despite four major reviews examining [their] impacts." As a result, this paper focuses on savings and insurance to help households manage risk. The paper reviews some of the evidence that even very poor people both wish to save and are able to do so.

After going in depth into the need and ability to save, the article turns to a discussion of linkages to date, which tends to move groups toward credit, and, like several of the papers reviewed here, repeats the CARE linkage principles.

It is appropriate to end this review with a reminder that although most of the documents discussed here address wholesale lending to groups, the overwhelming focus of most current linkage initiatives continue to consist of deposit mobilization, and, as stated in the introduction to this review, there is no controversy over savings linkages, a field that has drawn less attention than has credit.

However, there remains a lack of evidence about the impact of and the best approaches to both credit and savings linkages, and it is hoped that this literature review will rapidly become out of date as more high-quality evidence becomes available.

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Annex 1: Program Quality Guidelines for Savings Groups (Principle 6)

Publication (short title)	Author	Country or Region	Type of Relationship
1 Research			
MMD – Niger	Allen, H.	Niger	4
L'impact des crédits extérieurs	Rippey, P.	Niger	4
Linkages between VS&LAs with Financial Institutions	Maes, J.	Rwanda	1, 2, 4
Linkage of VSLGs to Umurenge SACCOs	Beijuka, J.	Rwanda	2, 4
(SAFI) Project Learning document	Bakliwal, S., Umoh, M., Chitedze, S.	Rwanda	2, 4
Best Practice Development	Rippey, P., Mutamuliza, C. Usanase, C.	Rwanda	2, 4
A Working Future	Accenture	Uganda	1,2,3,4
BOC Linkage Study Report	Chidiac, S., Majara, G., Tandoh, R.	Egypt, Ghana, India, Kenya, Tanzania, Uganda, Zambia	1, 2, 4; possibly 3
Banking on Change Phase 2 – Final Report	Plan International, Barclays, CARE	Egypt, Ghana, India, Kenya, Tanzania, Uganda, Zambia	1, 2, 4; possibly 3
Community Managed Loan Funds: Which Ones Work?	Murray, J., Rosenberg, R.	Multiple countries	4
Outside Funding and the Dynamics of Participation	Gugerty, MK., Kremer, M.	Kenya	N/A
2 Market for FSP-SG Linkages			
SG Linkages – The Business Case	Bankable Frontier Associates	All	1, 2, 3, 4
State of Linkage Report	Allan, A., Ahern, B., Wilson, M.	Worldwide	1, 2, 3, 4
How Banks can Grow Profitably by Being more Inclusive	Accenture	Worldwide	1, 2, 3, 4
Assessing Credit Approaches to SG Linkages	Ahern, B., Gomez, N., Mburu, S.	Worldwide	3, 4
Accenture/CARE Blog posts	Randall, N.	Malawi, Zimbabwe	N/A
3 Policy, Guidelines, and Cautions			
Roadmap to Responsible Linkage	CARE, Coady	Worldwide	Primarily 2, 4
Savings Groups: What Are They?	Allen, H., Panetta, D.	Worldwide	2, 3, 4
Policy Guidelines for Donor Support	Athmer, G.	Worldwide	1, 2, 3, 4
Savings Groups and Financial Inclusion	Ledgerwood, J., Jethani, A.	Worldwide	1, 2, 3, 4
Savings Revolution Blogs	Rippey, P. et al.	Worldwide	1, 2, 3, 4
What are Savings Groups and Where are Savings Groups Headed?	Martín, X.	Mostly Latin America and Caribbean	Primarily 2, 4
Program Quality Guidelines	Devietti, E. et al.	Worldwide	All, primarily 4

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