LEARNING BRIEF

A Typology of Relationships between Savings Groups and Financial Service Providers

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SEEP is a global learning network. We support strategies that create new and better opportunities for vulnerable populations, especially women and the rural poor, to participate in markets and improve their quality of life.

Founded in 1985, SEEP was a pioneer in the micro-credit movement and helped build the foundation of the financial inclusion efforts of today. In the last three decades, our members have continued to serve as a testing ground for innovative strategies that promote inclusion, develop competitive markets, and enhance the livelihood potential of the world's poor.

SEEP's 120 member organizations are active in more than 170 countries worldwide. They work together and with other stakeholders to mobilize knowledge and foster innovation, creating opportunities for meaningful collaboration and, above all, for scaling impact.

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FSD Africa is a non-profit company which aims to increase prosperity, create jobs and reduce poverty by bringing about a transformation in financial markets in SSA and in the economies they serve. It provides know-how and capital to champions of change whose ideas, influence and actions will make finance more useful to African businesses and households. It is funded by UK Aid from the UK Government.

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About FSD Zambia

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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Relations between Savings Groups (SGs) and financial service providers (FSPs) have received a great deal of attention and considerable funding; i. In the process, they have elicited both enthusiastic support and considerable reservations. Supporters are likely to acknowledge certain risks, while putting the accent on benefits such as safer savings and easier access of poor people to formal financial products; detractors are likely to acknowledge certain benefits, while putting the accent on risks such as changes in the social dynamics of the group, and the problems inherent in risk-benefit mismatches.

A possible reason for the divergent responses to SG-FSP relations is the widespread use of the word "linkage' to refer to any contractual arrangement between an SG and an FSP, of whatever variety. In fact, that is a very broad category containing diverse sorts of relationships that vary considerably in the benefits to be gained; the risks incurred by group members; the costs of establishing relations; the incentives that lead INGOs, local NGOs, SGs and FSPs to participate; the technologies employed; the market readiness for different products; and the qualities and long-term objectives of the FSP. Discussions about linkages often involve practitioners struggling to make further finer distinctions within the broad category of SG-FSP relations. The term 'linkage' is often simply too broad to be useful.

This situation makes the field of SG-FSP linkages ripe for a typology, which this paper purports to provide.

Typologies and their use

Typologies are human creations used to classify items that are related in some way but which also are different in other important ways. Typologies provide criteria for placing these items into sub-categories. Typologies are created to aid in analysis, discussion, study, understanding, contracting and in fact any treatment of the diverse elements within a category. It is important to understand that typologies are artificial; they are created by people and do not exist in the world until we give them existence.

Typologies are not intended to provide information, only to provide a useful way of organizing information. The essential criterion for determining *whether a typology is useful is whether it makes it easier for people to communicate and understand each other*. A typology does not contain any assessment of the merits of different types, although it should facilitate people in making clear assessments. It does not provide any information, although it should make it easier for stakeholders to exchange information. It does not depend on evidence, although it should help researchers to design studies and communicate results. The use of a typology does not create any obligations, although a typology can help make contracts and agreements clearer.

The creation of a typology involves two steps: first, deciding which variables will produce a useful categorization; and second, deciding on break-points and measurement criteria for placing items within appropriate categories.

For instance, the familiar Myers-Briggs personality test creates 16 categories of people, which the creators of the test believed would be predictive of job- performance, preferences, and reaction to different sorts of situation. They initially chose four categories with two types within each category: extraversion/introversion, sensing/intuition, thinking/feeling, and judgment/perception. Then, they developed tests – usually self-administered – which placed people in one or the other category for each of the continua. This categorization is thought to indicate the preferences and interests of the people who are tested, and is still frequently thought to be an indicator of future job performance.

Medical protocols also rely on typologies, with typically three types in a category: low, normal and high ranges for dozens of physiological conditions, from blood pressure to enzyme concentrations.

We create typologies to organize our thinking and our research. This organization will only occur if a sufficient number of people agree to use the typology. A widely-accepted typology of linkages will have clear benefits:

1. Reduce confusion and ease discussion, by freeing people from the burden of finding the words to describe what they are talking about. A widely-accepted typology will provide a consistent and relevant set of subcategories of SG-FSP relationships.
2. Facilitate research, by making it easier to define and target specific types of SG-FSP relationships.
3. Make it easier to compare studies, if it is found that they are addressing the same type of SG-FSP relationship; or, make it evident that studies are not comparable, because they are addressing different types.
4. Provide a clearly understood and unambiguous language about SG-FSP relationships to use in contracts, grant agreements, reports, studies and other documents.

Description of the SG-FSP typology

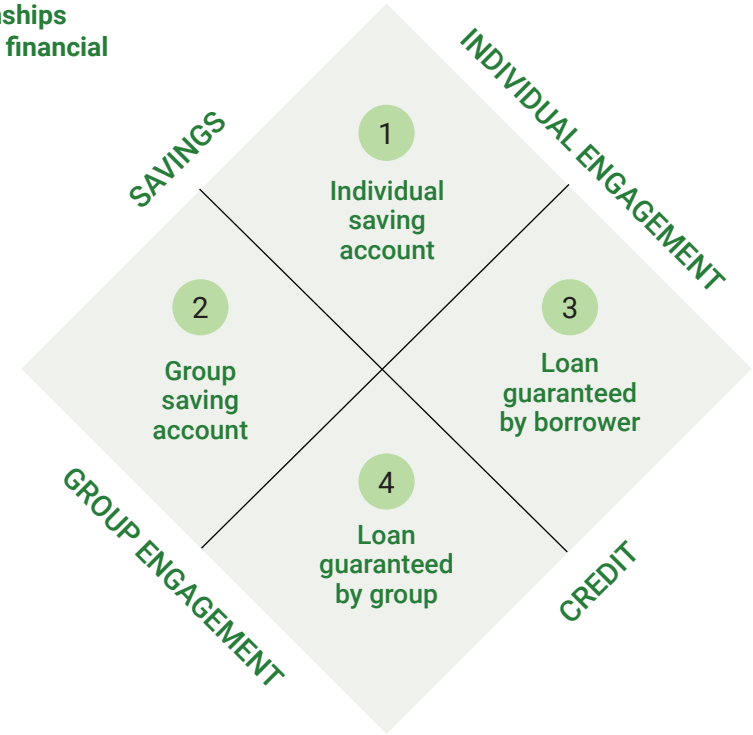
The proposed SG-FSP typology – summarized in **Figure 1** – includes two variables, each of which has two possible values, making a total of four possible types of SG-FSP relationships.

Figure 1: Types of relationships between Savings Groups and financial service providers

Variable	Possible Values	Discussion
Direction of liability	Savings, Loans	The direction of liability defines whether the members of the SG are saving with the FSP, or borrowing from it. In the case of savings, the FSP builds up a financial liability towards the SG or its members. In the case of loans, the SG or its members take on a financial liability towards the FSP. Note that insurance policies and payment mechanisms are forms of savings under this definition; in insurance, the FSP has a promise to pay the SG or its member if certain conditions (death, weather conditions, illness, etc.) materialize, and in payments, the FSP has an obligation to pay a sum to the SG or the member, or to pay a third party in their name.
Parties engaged	Individual, Group	The parties engaged refers to whether the relationship engages the whole group, or only its members. In an individual engagement, the funds transferred do not create either an asset or liability for the SG, nor does the SG carry any reputational or other risk. In a group engagement, the SG assumes an asset or liability, whether or not the SG is formally recognized; or the SG assumes a reputational or other risk that could affect the well-being of the members who are not directly engaged.

Two variables, each with two possible values, produce four possible types SG-FSP relationships, illustrated in **Figure 2**:

Figure 2: Typology of relationships between Savings Groups and financial service providers



CLASS 1 Individual Savings

Savings Group members sometimes open savings accounts with SACCOs, commercial banks, or MFIs. Individual savings fall into this class when the availability or conditions of the savings facility are changed or adapted because of the individual's membership in the SG. That is, if an SG member has a savings account that would be available to them in exactly the same way and with the same conditions if they were not a member, then this should not be considered an example of an SG-FSP relationship.

- Special facilities in opening or operating the account are provided by the FSP to all SG members
- Special facilities in opening or operating the account are provided by the FSP to any SGs which use other services, such as group savings or loans, from the FSP
- FSP representatives visit the group periodically to collect savings, easing transacting

CLASS 2 Group Savings

Group savings occur in accounts that are issued in the name of the SG, and allow the SG to save as a single entity. Savings Groups open such accounts for several reasons:

- To protect excess liquidity, particularly towards the end of a cycle when assets are at their greatest, and the group typically stops making new loans for several months
- To provide a means of long-term saving, which is not readily available in most SGs, so that the SG can build up assets over time
- As a condition imposed by an FSP for future borrowing – that is, an FSP might require a certain amount of savings in a blocked account before it will lend to the group
- Because of a civic duty or privilege, such as in Rwanda, where the government encourages all groups and citizens to open bank accounts, or in Kenya, where registration of the group provides the group with a letter of introduction to banks
- As a means of acquiring modern formal status, perhaps for reasons that are not yet fully formed in the group's intention.

Some group savings accounts may have sub-accounts for each member; these sub-accounts should be considered individual savings if each sub-account is truly independent, and they should be considered group savings if funds can be moved among sub-accounts by the SG or by the FSP.

Savings often accompany credit; it is useful to note if the relations are primarily targeting credit, or primarily targeting savings. Note that if the purpose of the savings account is to guarantee loans to the group, then the account involves liabilities in both senses – SG to FSP, to pay the FSP in case of default; and FSP to SG, to pay the SG the amount saved if the funds are unencumbered, that is, if the loan is paid back.

CLASS 3 Individual Loans

In credit relationships, an FSP accords a loan to a group or its members. Note that sometimes individual members of groups have loans from FSPs that are completely independent of their membership in the SG, and in fact SG members might be unaware of bank loans of the other members.; these These cases do not concern this discussion. Rather, this discussion is concerned with individual loans that in some way are dependent on the borrower's group membership.

Examples of individual loans that would qualify include the following:

- Special conditions for obtaining the loan are provided by the FSP to all SG members as part of a package of services offered to SGs
- The FSP uses the financial history of the group member as part of its loan assessment criteria
- FSP representatives visit the group periodically to collect loan applications or to collect repayments, easing transacting
- The FSP provides a technology-based service to aid group members in obtaining or repaying loans

However, note that loans to individual members that are guaranteed by group funds, or by the signatures of the other group members, or which carry a legal guarantee or strong moral guarantee from the group are considered group loans.

CLASS 4 Group Loans

Group loans are loans that are made to the group, or are made to individual members of the group but are guaranteed by group funds, or by the signatures of the other group members, or which carry a legal guarantee or strong moral guarantee from the group.

These could include the following types of loans:

- Loans made to the SG, and intended to be merged with the group's existing loan fund, and managed according to the SG's existing procedures
- Loans made to the SG, and intended to be managed separately from the group's existing loan fund
- Loans made to individual members, and guaranteed by the group's assets
- Loans made to individual members, and guaranteed by the group using a 'joint and several' guarantee, under which each member is responsible for any defaults.

To determine whether a loan is in Class 3 or Class 4, one should ask whether a loan default would create a problem for the borrower only and thus be in Class 3, or whether it would create a problem for the entire group and thus be in Class 4.

Evolution of relationship

Use of the typology should not presuppose that the relationship between SG and FSP will be static. In fact, it is likely to evolve over time. Some of the ways this can happen are:

- The SG can seek additional products. For instance, an SG with a Class 2 group savings account might seek a Class 4 group loan
- Some SG members might seek additional products, such as individual loans using the group's assets as a guarantee for their personal loan, which would be Class 4 loans because of the group guarantee
- FSPs may seek to move the group from savings to credit; in the this case, savings may be introduced either to allow the group to build up a financial history with the FSP, or to acquire sufficient funds to serve as collateral for a group loan
- An FSP might develop and offer additional products adapted to the needs of the SG, often taking advantage of the economies offered by mobile banking

Insurance, payments

Insurance and payment systems create a financial liability from the FSP to the SG or its members.; for For the purposes of this typology, they are classified as a form of savings even though the mechanics and dynamics differ.

Use of the SG-FSP typology

It is here recalled that typologies can make discussion among practitioners easier, facilitate research, allow for greater comparability among studies, and provide a standardized language for contracts and other formal documents. Here are some suggestions about specific applications that can be made of the typology.

- Facilitating Agencies can use the typology in their strategic statements to make it clear what sort of relationships they want to promote. If there are some types that do not interest them, they can use the typology to make that clear also. This will provide guidance for field staff, for project managers who negotiate with FSPs, and for donors.
- FSPs can use the typology to help them be explicit about what their interests are, in particular if they intend to introduce new financial products of different types to SGs over time.
- Donors can refer to the typology in drafting requests for proposals, and in writing contracts with service providers.
- Since it is likely that the different types of SG-FSP relations will have different outcomes, researchers can use the typology to narrow down their research to specific types.

Other relevant factors that should be considered

The typology addresses two issues that loom large in the consideration of linkages and is intended to provide a simple and usable tool that will facilitate discussion. It should not lead anyone to ignore other important factors that may influence the outcomes of linkages.[1] The following is a list of the variables frequently cited by practitioners as important in assessing linkages. Nothing in the typology is meant to suggest that these other factors are unimportant; rather, the typology is designed to help people make initial distinctions clearly before they move on to discussion of nuances.

[1] This list was extracted from notes from 19 interviews with SG practitioners conducted as part of the research for the Program Quality Guidelines developed by SEEP, and from other conversations and reflections.

Figure 3: Other variables that characterize the relationship between Savings Groups and financial service providers

	Variable	Discussion
1	**The education that the group receives about linkages**	The principle is widely though not universally accepted that SGs need education about formal sector products, rights and responsibilities, and benefits and risks, before they are encouraged to contract with financial institutions, and some FAs include financial education as a step in their linkage program, and that this information should be neutral and objective, coming from sources that do not have a stake in the number of accounts opened or similar indicators.
2	**Group chooses freely**	Groups should choose freely how and whether they participate, but in order to choose freely, they must be informed of their options, and it is difficult to give information without also at least hinting at the direction one hopes the group will go. Rippey and Fowler[2] argued that free choice is not a purely binary variable, but in fact lies on a scale. They listed the following scale of partner influence, in which each step effectively leaves less choice to the group: Inform, Suggest, Endorse, Urge, Require.
3	**Whether interest within group is widespread and consistent**	There is some evidence from field research in Kenya and Niger[3] that group membership changes when outside funds are introduced into an informal group. Much more research needs to be done in this area but there are indications that the interest in external relations with FSPs often varies considerably among the members of a group.
4	**Orientation of the FSP**	Several practitioners believe that the orientation of the partnering FSP – in particular, whether it is essentially developmental or essentially profit-maximizing – is a key element in determining outcomes.
5	**Age of group**	Most Facilitating Agencies that are promoting SG-FSP relationships use the age of the group as a criterion for selecting groups to promote the relationship with. Presumably, groups in their first year are still being trained in SG methodology, and thus are not ready to take on additional risk or complexity. However, age is much more of a factor for credit linkages than for savings if the FSP wants to use the accumulated savings to guarantee loans. Some NGOs encourage groups to open external savings accounts as soon as they start saving in their group, but few if any promote credit in the first cycle.
6	**Other variables**	The outcomes of SG-FSP relationships can turn on many other factors. The following are additional factors that should be taken into consideration: • Proximity of the FSP – Transport of funds to and from the FSP may in some cases increase the risk of hold-ups and other losses en route, and distance may prove costly in time or money to members. • Preferred debt – In Class 4 relationships, the FSP may have strict requirements for repayments such that this debt has priority over other types of debt, such as member share-out. As a result, the group will favor its obligations to the FSP, perhaps decapitalizing its internal funds. • Recordkeeping – Some FSPs may require SGs to improve their bookkeeping, or respect for other procedures, as a condition for providing a desired service, thereby increasing the rigor of the group. Conversely, however, additional records may stress the ability of the group.

[2] Rippey, Paul and Fowler, Ben. *Beyond Financial Services: A Synthesis of Studies on the Integration of Savings Groups and Other Developmental Activities*. Aga Khan Foundation. 2011. | [3] For Kenya: Gugerty, Mary Kay and Kremer, Michael. *Outside Funding and the Dynamics of Participation in Community Associations*. American Journal of Political Science, Vol. 52, No. 3 (Jul., 2008). For Niger: Rippey, Paul. *Étude sur l'impact des crédits extérieurs sur les groupements et réseaux MMD et les mesures de minimisation des risques*. Report carried out for CARE Niger, January 2008.

Prior work

A review of the literature revealed one previous effort to create a typology of linkages. Maria Pagura and Marié Kirsten investigated financial linkages with FSPs and a variety of institutional types, including credit unions and other member-owned and managed institutions.[4] They made the following major division of institutions:

- Direct financial linkages refers to linkages between financial institutions in which the main purpose of the linkage is to help less formal institutions *diversify* their sources of funding, *expand* their loanable funds and/or *balance* liquidity shortages and excesses. A typical example of this type of linkage is a bank or apex organization offering bulk loans to member-owned financial institutions for on-lending to clients.
- Facilitating linkages refers to linkages between institutions in which the formal institution *'hires'* the less formal institution to act on its behalf. In these types of linkages, the less formal institution has two *'constituencies'* caring about its behavior (Conning, 2002). On the one side are the rural clients who enter into contracts with the institution via the local agent. On the other side is the formal institution itself that the less formal institution is representing. In these cases, funds flow from the clients through the partners, or the other way round, to facilitate services rendered.

The majority of SG linkages fall in the first category, although there are almost certainly rare cases in which an SG has on-lent the bank's money to non-members, effectively becoming an agent of the bank. Pagura and Kirsten limit themselves to credit linkages.

Other studies have relied implicitly on typologies, even if they do not explicitly create one. In one prominent example, CGAP studied[5] sixty community-managed loan fund projects, and classified the projects in the following categories:

- Externally funded groups – groups financed by an early injection of external funds from donors or governments
- Savings-based groups – groups receive either no external funding, or such funding arrives in modest amounts after the group has a solid track record of lending and recovering its own savings
- Self-help groups – groups start by collecting and then lending members' own savings, but subsequently receive large loans from a bank "that is serious about collection".

[4] Pagura, Maria and Kirsten, Marié. Formal-informal financial linkages: Lessons from developing countries. Reference pending. | [5] Murray, Jessica and Rosenberg, Richard. Community Managed Loan Funds: Which ones work? CGAP. May, 2006.

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