

Savings Groups and Consumer Protection: Government Regulation, Rules and Guidelines



CASE STUDY

Savings Groups and Consumer Protection: Government Regulation, Rules and Guidelines

This case study was developed by the SEEP Network in partnership with FSD Africa and Arora Associates.

Authors: Sukhwinder Arora and Ian Robinson (Arora Associates)

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Nchimunya Chiboola (Africare Zambia), Sosthenes Kewe (FSD Tanzania), Chipili Mwaba (FSD Zambia), Juliet Munro (FSD Africa), David Panetta (SEEP Network), Ashley Wheaton (SEEP Network), and Betty Wilkinson (FSD Zambia).

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Through access to finance initiatives, it seeks to build financial inclusion. Through capital market development, it looks to promote economic growth and increase investment. As a regional programme, it seeks to encourage collaboration, knowledge transfer and market-building activities – especially in fragile states. FSD Africa also provides support to the FSD Network.

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About Arora Associates



Arora Associates Ltd (AAL) is managed by Sukhwinder Arora who has over three decades of experience working on private and financial sector development. Sukhwinder's experience covers the entire policy and program development cycle – conceptualization, scoping, policy and program finalisation, periodic reviews and evaluation. He has worked with a wide range of international and national stakeholders including donors, FSD programmes, central banks, commercial banks, mobile network operators, payment providers, non-governmental organizations, researchers and business associations. In addition to serving as Director of AAL, Sukhwinder also works on specific assignments for Oxford Policy Management, including Team Leader of the Savings at the Frontier Programme.

Ian Robinson is an AAL associate and the Technical Lead, Customer Experience at the Savings at Frontier Programme. Ian is a former investment banker who has led and participated in the implementation, design, monitoring and evaluation of numerous financial inclusion programmes in Africa.



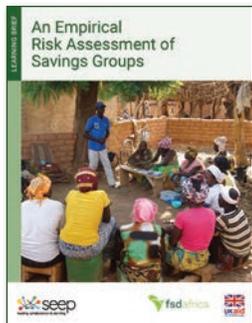
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1 Introduction

What role do governments play in protecting Savings Groups as financial service providers and their members as financial consumers? This brief paper assesses emerging government efforts to regulate and register Savings Groups in Sub-Saharan Africa. Most of the regulatory developments identified in this report are quite recent and formal evaluations of their impact are not yet available. Despite the limited evidence, the trend merits further discussion: the regulation of Savings Groups has important implications for market and development actors, and the rights and responsibilities of groups and members.



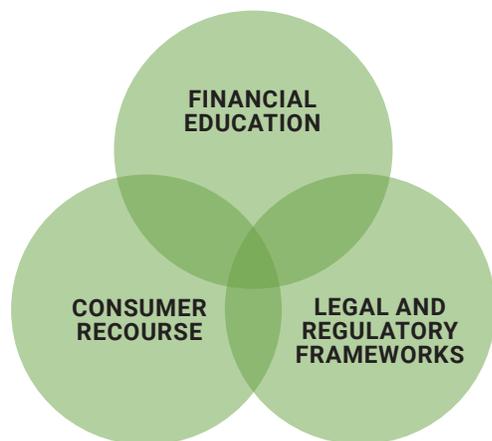
This paper draws on the experience of the authors, particularly in Sub-Saharan Africa, and two key SEEP Network publications: [An Empirical Risk Assessment of Savings Groups](#) (Wheaton 2018), which examines key risks faced by Savings Groups in Burkina Faso, Madagascar, Tanzania and Rwanda; and [State of Practice: Savings Groups and the Role of Government in Sub-Saharan Africa](#) (Jarden and Rahamatali 2018), which maps 74 public policies and programs related to Savings Groups in Sub-Saharan Africa.

2 Consumer Protection for Savings Groups

Do Savings Groups need consumer protection? As SEEP's 2018 risk assessment reveals, the members of Savings Groups face a variety of risks that could undermine their financial wellbeing. It does not necessarily follow, however, that the members of Savings Groups can be provided the same types and levels of consumer protection as, say, bank customers. Savings Groups are independent, self-managed and informal – the local and dispersed activities of these groups generally fall outside the consumer protection frameworks of regulatory authorities.

In general, consumer protection is achieved through three interconnected and mutually reinforcing components:

1. Financial education
2. Consumer recourse (i.e. redress of grievances)
3. Legal and regulatory frameworks



Of these, financial education can help group members protect themselves. Typically, financial education is provided by the entities or individuals that set up a group. Members also acquire financial capabilities through participation in these groups (i.e. experiential learning), as well as through the experiences of fellow group members and other groups in their community.

In terms of redress, Savings Groups generally deal with problems that occur within their own groups or community, in consultation with members or, when necessary, local officials. Any external intervention is by choice, rather than required by law. However, when Savings Groups are registered and/or interact with formal financial service providers (FSPs), then the laws, regulations and recourse mechanisms of the formal financial sector come into play.

2.1 Challenges to effective consumer protection for Savings Groups

There are a number of factors that make effective consumer protection for Savings Groups particularly difficult:

- **Member-owned:** Savings Groups are member-owned, self-managed, and independent.
- **Limited external engagement:** members are used to resolving internal issues at the level of the group or community.
- **Diversity:** not all Savings Groups are the same. Groups can have distinct rules or working arrangements, they exist in both rural and urban contexts, and can be comprised of members of different ages, genders and socio-economic status.
- **Dynamic:** groups are constantly evolving. From one cycle to the next, a Savings Group may adopt changes in operating procedures and experience the exit and entry of new members. Over time, groups may integrate other activities, adopt digital technologies, or develop relationships with external entities.
- **Scale:** with large numbers of participants spread across the country and frequent transactions of low average value, the monetary and non-monetary costs of formal consumer protection measures may not be viable.
- **Location:** by design, Savings Groups are promoted in underserved markets, often in geographically and socially isolated communities, placing further limitations on the viability of formal supervision.

Savings Groups are popular precisely because they meet basic financial and social needs in a familiar context, at low economic and social costs, and are near-frictionless in their operations. Excessive procedures and formalization – including, but not limited to, consumer protection – could threaten the very features that members value.



2.2 Key drivers and factors for consideration

The key drivers for government regulation, policies and guidelines to protect the rights of Savings Groups and their members may be shaped by a combination of the following:

- **Protection of members' savings** (similar to depositors in a regulated financial institution)
- **Ensuring that development and market actors act responsibly** in relation to Savings Groups
- **Generating data for monetary policy** from sources that central banks have not yet been able to access
- **Use of Savings Groups as channels** to support economic and social development (e.g. under livelihood and social protection programmes)
- **Coverage of Savings Groups and their members** as a part of a government's efforts to provide overall consumer education, protection and recourse

3 Savings Groups, Government Regulation and Risk

The Governments of Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda “have approved or have pending microfinance policies and laws for tiered regulation and the registration or legal recognition of Savings Groups” (Jarden and Rahamatali 2018). In addition, legal recognition – without registration – is an option for groups in Rwanda and Madagascar who wish to “access extension services, financial institutions and additional government support” (Jarden and Rahamatali 2018).

Registration and regulation offer potential benefits to Savings Groups:

- **Increased formal sector participation** – legal recognition can be used to satisfy *Know-Your-Customer* (KYC) requirements at financial institutions.
- **More effective targeting and implementation of government programs** – registered groups are more efficiently located and serviced by government agencies.
- **Enhanced consumer protection** – registration can improve the ability of groups to avail the services of local law enforcement.

However, registration and regulation can also increase risks and transaction costs for groups and members through:

- Time and cost to gather documents and register
- Time and cost to submit periodic reports and respond to requests for information by relevant authorities
- Political interference in group operations
- Potential for local agents of the regulatory authority to demand bribes

3.1 Examples of Savings Group Regulation

Table 1 outlines examples of existing group registration requirements in Rwanda, Tanzania, Uganda and Zambia.

Table 1: Savings Groups registration requirements

Country	Registration requirements
RWANDA	<p>Informal financial service providers, including Savings Groups, are recognized by Category 1 of the National Microfinance Law (2008), requiring registration with the nearest local administrative entity. In practice, however, registration is voluntary.</p> <p>The government promotes group registration for several reasons:</p> <ul style="list-style-type: none"> ● Statistical purposes and monitoring of financial inclusion trends ● Consumer protection ● Formal sector participation, where legal recognition can be used to satisfy KYC requirements at financial institutions ● Implementation of government programs, as governments are able to locate registered groups and deliver services more efficiently
TANZANIA	<p>Savings Groups will be supervised under tiered regulation in the recently adopted National Microfinance Act (2018), and group registration will be required. The measures in the Act were introduced to improve stakeholder coordination, standardize registration practices and support Savings Groups’ access to formal financial services and government funds.</p>
UGANDA	<p>The Microfinance Institutions and Money Lenders Act (2016) includes registration requirements and reporting guidelines for Savings Groups. Community Development Officers register, monitor and compile annual reports on Savings Groups, which are submitted to the microfinance regulator. Required data includes the number of groups, members (disaggregated by sex, age and location) and affiliated non-governmental organization (NGO). Local governments levy a modest annual registration fee for all groups. The Uganda Microfinance Regulatory Authority hopes the guidelines will mitigate mismanagement of groups and risks such as theft or fraud.</p>
ZAMBIA	<p>There is no legal requirement for Savings Groups to be registered in Zambia. However, to open a group bank account, Savings Groups are required to submit a certificate of registration from the Cooperatives Department or the Ministry of Community Development. Registration also enables access to government benefits such as business grants and farming inputs but does come at a cost, including annual fees and tax obligations.</p>

3.2 Potential risks arising from government regulation

Government regulation of Savings Groups focuses mainly on group governance, record-keeping and reporting requirements. The unintended consequences could be significant:

- **Vision:** While many countries recognize the contribution of Savings Groups to financial inclusion in their national financial inclusion strategies, the long-term vision is seldom clear. Some public policies and programs support the co-existence of the formal and informal sectors, while other government interventions seek to reduce the role of the informal sector – sometimes where no viable alternative yet exists.
- **Capacity for policy development:** Microfinance laws and regulations are drafted by the relevant authorities, many of whom may not be familiar with Savings Groups. Regulators may fail to recognize important aspects of how Savings Groups work, including what their members value, the benefits of informality, the need for reciprocal and near-frictionless saving and borrowing practices, and the importance of building social capital. If the core attributes of Savings Groups are not taken into consideration, regulation may in fact detract from key components of their success. For example, attempts to regulate interest rates could affect the incentives for savers and borrowers in the group, who all share in the interest collected. In addition, the diversity among Savings Groups and level of group maturity mean that widely applicable consumer protection provisions are challenging.
- **Capacity for implementation:** The ambitions of regulatory authorities can run ahead of their capacity for implementation. To effectively enforce regulatory frameworks, resources are required at the level of ministries, central banks and other regulatory arms, such as those supervising microfinance institutions (MFIs), savings and credit cooperatives (SACCOs) and other small FSPs not under the direct purview of central banks. Nigeria, Rwanda, Tanzania and Uganda provide examples of government regulation of small FSPs that lack the resources for supervision or the capacity for enforcement. In general, central banks are unlikely to take on consumer protection for Savings Groups and would need to delegate the roles of supervision and enforcement. However, delegated authorities, such as local government officials, are even less likely to have the capacity required to interpret and consistently enforce regulations across local jurisdictions.
- **Unintended consequences of government support:** Government support for Savings Groups can also affect incentives for their formation and management. For example, government officials offering welfare payments or agricultural inputs through newly created groups may hasten the formation of new groups without strengthening their internal capacity. Without the time and internal incentives to develop capacity, mobilize savings and develop a rule-based system, these groups may lack the trust and solidarity they require to flourish.



4 Conclusions and Recommendations

This paper seeks to initiate a conversation among regulators, funders, financial service providers and development actors on the role and impact of government regulation for Savings Groups. The following recommendations aim to ensure that emerging regulation, if pursued, is both appropriate and effective.

4.1 Educate regulatory authorities

Regulatory authorities would benefit from an improved understanding of how Savings Groups operate, the contribution they make to financial inclusion and the risks that they currently face. Governments may not fully appreciate that savers and borrowers are largely one and the same and that the interest collected is shared amongst all group members. Similarly, the diversity among Savings Groups and differences in level of maturity mean that some proposed consumer protection provisions may be suitable for some groups but inappropriate for others. Development and market actors can support regulatory authorities through national fora, exposure visits, learning events and targeted communications.

4.2 Encourage sector-wide coordination

At a time when government regulation relating to Savings Groups is nascent, the involvement and coordination of diverse stakeholders is critical. For best results, government officials, FSPs, Savings Group promoters and funders must work together to assess and test appropriate consumer protection strategies. Involving a broad group of stakeholders can avoid a rush to introduce regulation, reduce the risk of unintended negative impacts, ensure that regulatory ambition is aligned with enforcement ability, and appropriately divide responsibilities for consumer protection across different actors.

4.3 Improve data collection and applied research

Effective policies can only be formulated on the basis of sufficient evidence. Development actors and research institutions can support policy development through more systematic collection of better quality, disaggregated data on Savings Groups and their members. In addition, applied research is recommended to explore key strategic questions, such as:

- What types and levels of risk are faced by Savings Groups?
- How are consumer risks currently addressed by Savings Groups and their members?
- What more could be done by Savings Groups themselves to protect against consumer risk?
- To what extent are formal consumer protection approaches appropriate for community-based financial institutions?
- Who is best placed to collect and analyze information on the incidence and impact of diverse risks faced by Savings Groups?
- What types of consumer education, legal protection and redress are most appropriate to address these risks?
- Who is best placed to implement each of these approaches?
- What are the likely impacts, potential risks and estimated costs of each approach?

“LET’S NOT TAMPER WITH THEIR DNA [...] WITH THEIR NATURE OF BEING A SAFE SPACE FOR THE MEMBERS. LET’S REALLY TRY AND SEE HOW THEY’RE STRUCTURED NATURALLY, ORGANICALLY, AND TRY AND SEE HOW TO AUTOMATE THAT WITHOUT DESTROYING THE WHOLE FABRIC OF SAVINGS GROUPS.”

– DR. MONIQUE NSANZABAGANWA, DEPUTY GOVERNOR,
NATIONAL BANK OF RWANDA (JARDEN AND RAHAMATALI 2018)

4.4 Create an enabling environment

Governments wishing to contribute to consumer protection for Savings Groups must articulate clear objectives for any proposed strategy, policy or regulation. Governments can begin contributing to the scale, sustainability and impact of Savings Groups by recognizing their importance in national financial inclusion strategies and incorporating Savings Groups into social welfare programs. Regulatory authorities can also create enabling environments by removing barriers that affect the establishment and operations of Savings Groups. For example, government policies and programs can facilitate the adoption of digital financial services by Savings Groups, which have the potential to benefit groups through cashless transactions, increased transparency and more accurate record-keeping.

4.5 Promote and facilitate Saving Groups’ access to formal financial services

A common element across national financial inclusion strategies in Sub-Saharan Africa is an aim to link Savings Groups to the formal financial sector. To date, however, progress is limited. The business case for FSPs is not yet clear and further experimentation is required to demonstrate that such linkages are both commercially viable and create value for Savings Groups and their members. Where viable, access to appropriate formal financial services may help protect savings, expand access to new financial products (e.g. insurance) and bring Savings Groups within the ambit of consumer protection measures that apply to formal FSPs.

4.6 Establish realistic expectations

As noted earlier, consumer protection frameworks in many countries are nascent, if they exist at all. At present, and for the foreseeable future, government policy and regulation will focus on formal financial institutions. Consumer protection that focuses specifically on Savings Groups seems some way off, except for those groups linked to FSPs. Ultimately, it may be unrealistic to expect that Savings Groups and their members can be provided levels of financial education, protection or recourse comparable to the clients of formal financial institutions.

4.7 Proceed with caution

Group registration and regulation could disincentivize the formation of groups. Or, onerous requirements may lead groups to remain unregistered. Policymakers should proceed with caution, ensuring that any intervention is proportionate to the perceived risk, and that lessons in consumer protection from other small scale FSPs have been considered. It may be prudent to start with voluntary registration, monitoring group behavior and member satisfaction, and examining the implications of regulation on the incidence, severity and responses to identified risks.

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