The Demand for Formal Financial Services by Savings Groups: Financial Behaviour, Needs, and Market Opportunities

Date: April 5, 2017
Time: 9:30 – 10:30 am (EST)

MODERATOR

David Panetta, Program Director of Financial Inclusion through Savings Groups*, The SEEP Network*

SPEAKERS

Ian Robinson, *Oxford Policy Management*
Amy Davis, Project Director, *Catholic Relief Services*
Guy Stuart, Executive Director, *Microfinance Opportunities* & Fellow, *Ash Center of Harvard University*

QUESTIONS

David's Presentation

What is the source of information for the presented market size?

David: The data set referred to (which includes data over 250,000 SGs during the training period, typically YEAR 1) is the SAVIX management information system (www.thesavix.org). Long-term figures come from two longitudinal studies, covering a total of 8 countries, from the SAVIX and the AKF Long-term Monitoring Initiative.

Is there a direct link to AKF's Long-term Monitoring Initiative data?

David: For more information on AKF's Long-term Monitoring Initiative, please contact Mark Staehle at AKF (mark.staehle@akdn.org)

How cost sensitive were the youth and women to the Push and Pull costs that seem to be a nudge in usage and adoption of DFS?

David: There is no available evidence from the experience and literature on Savings Groups.

Guy's Presentation

Could you please provide a clear definition for Savings Groups?

David: For a clear definition of Savings Groups and a comprehensive overview of the sector, please see "Savings Groups – What are they" (http://www.seepnetwork.org/savings-groups--what-are-they--resources-175.php)

Can you confirm that the informal loans are in fact loans within the SG?

Guy: Informal loans in the graphs *exclude* loans from the SG. They might be between people within the SG—one individual to another but we did not track this. A common type of informal loan was a loan from a friend or neighbor.

Do you have any record of the share-outs going into formal FI's?

Guy: These were not common.

All trivial information. I hope this moves on.

David: Understanding the financial behaviour of SG members is not trivial; it is the cornerstone of facilitating effective relationships between SGs and financial service providers.

The market is there but the issue of access in most areas remain a challenge. Can you share any experience on this?

Guy: The data from Central America suggest that proximity to a financial service provider is not the issue. FSPs are located in market towns that respondents in the Diaries studies frequently visited to perform transactions that had nothing to do with finances. If they needed to use the services of an FSP they could have done so on these regular visits.

Are the lump sum purchases over and above the savings kept at home?

Guy: Yes.

After the large lump sum savings, what is the trend of cash kept at home?

Guy: Lump sum spending inevitably reduces the amount left over to deposit at home or, more likely, results in a draw down of money from home savings.

The recommendations for Promoters sound too intrusive into what should be decided by the SGs. Should we not empower SGs to make decisions on their preferred during of a cycle based on their objectives?

Guy: One option is to feed the information we have gathered in the Diaries back to the groups to give them a sense of what we have seen. They can then decide for themselves what the information means and how to respond to it. At this time we do not have the budget or capacity to do this in Central America. I don't if CRS will be able to do this Zambia.

This webinar is clearly for novices. Not much new information here.

David: Efforts to understand the financial behaviour of SG members are limited, and often superficial. The application of financial diaries to SG members is a recent and innovative initiative; the data presented by Microfinance Opportunities and CRS has all been consolidated within the last few months; and the approach is arguably the most robust effort to understand the financial lives of SG members. The data and its implications are equally relevant for new practitioners in this area, as well as industry experts.

Amy's Presentation

What are the definitions of managing vs. poor vs. peri-urban vs rural?

Amy: We can share an upcoming brief on this research. Kindly send your email and we will get it to you! The definitions of Managing and Poor came from an adapted wealth ranking exercise performed by CRS researchers with the Financial Diaries Field Officers. The Field Officers each spent two years living in the villages where research was performed, interviewing between 20-25 households every week. Through their two-years of data collection, observation and integration into their respective communities, they developed deep familiarity with the situation of the households and of the villages. We asked the Field Officers to compare each of the households they were working to the broader community and put them in to one of four categories: Well-Off, Managing, Poor, and Very Poor. At the end of the exercise we looked at the themes emerging from the wealth ranking exercise and the behavior from the financial diaries and realized that the Well-Off and Managing had similar characteristics while the Poor and Very Poor had similar characteristics. To this end, we decided to merge the Well-Off and Managing together and the Poor and Very Poor together for analysis. The approach had the advantage of being relatively cost and time effective as each Field Officer could provide unique 'expert' advice on 'their' households and villages.

The two main points which CRS looked at when categorizing households as Peri-Urban and Rural was proximity to the provincial capital and the infrastructure in the community. The furthest site was 51km from the provincial capital while the closest was 3km.

How long can a Savings Group accumulate before they can share out?

Amy: 8-12 months

The bullet point on "limiting deposits/loan amounts" is interesting…however if we assume that empowerment is about SGs making their own decisions around how and what to save then limiting or predefining savings amounts seems counterintuitive. Please talk more about this recommendation.

Amy: This recommendation is coming from Microfinance Opportunities, not Catholic Relief Services or the Expanding Financial Inclusion in Africa project. The groups trained by CRS democratically decide how long they want their cycle to last. It's most common for groups to choose a cycle that is between 8-12 months – at times they are shorter and at times they are longer. If and when SILC groups have cycles shorter or longer than the expected 8-12 month period it's normally in response to seasonal changes; wanting their share-out prior to occur before or after the planned date to purchase the required agriculture inputs before the rain starts is one example.

How are repeat loans that members receive during a cycle accounted for in the comparative analysis with or against the average share-out value?

> Amy: The average loan size is approximately 350 kwacha and the average SILC member receives a loan about once every three months. Therefore, the amount they receive in loans in one share-out (900-1200 kwacha depending on the length of the cycle) is normally equal to or more than the amount they receive from their share-out. (The exchange rate between the USD and the Zambian kwacha fluctuated greatly during the study, peaking at 14 kwacha to the dollar at its weakest and 6.5 kwacha to the dollar at its strongest. The conversion used for the Interim report was 8.64 kwacha to the dollar.)

What was the book mentioned earlier again? Money and ? I cannot find it on Amazon.

> David: The Poor and their Money, Stuart Rutherford

More purchase just after share out also indicates that savings groups members are saving for specific objective which are met after share out.

> Amy: We agree. CRS developed 42 household specific (Respondent specific – meaning that CRS and MFO reviewed the Financial Diaries data for each household interviewed and asked them specific questions about their financial behaviors.) in-depth interviews focusing on cash flow management, financial tool use, and financing lump sum purchases. We asked each household what the most important financial tool offered by the SILC was. The most common response was the 'SILC saving account.' Many participants further explained that the SILC savings allowed them to accumulate lump sums of money to make larger than usual purchases. They consistently cited that when money is saved at home they aren't able to accumulate large sums. The respondents interviewed also reported to have improved money management and budgeting skills as a result of keeping a financial diary for two years, an unintended consequence of participating in the study.

The US Financial Diaries did a great job of uncovering myths about financial behaviors and education levels. Do you plan to do the same studies? I also found the US FD to be very insightful on the alignment and misalignment of income and expenses. You've done that here, but do you have broader findings about the role SGs play in income smoothing?

> Amy: We are working with Microfinance Opportunities on our final report and one of the sections is going to focus on households use of financial tools when they have no or low income weeks. We'll be performing a coincident in time analysis to see what resources SILC (and non-SILC) households draw from when they have no or unusually low amounts of income in a week or over an extended period of time. In the Interim Report CRS and MFO found that SILC members had a net cash flow that was 70 kwacha less in weeks that they received a loan compared to weeks where they didn't receive a loan. One potential explanation for this is that SILC households sought out loans during weeks when they were suffering cash shortfalls, so rather than trying to increase spending, they were trying to maintain it as close to their average (or to a subsistence level) as possible.

What are your thoughts about the relatively large amounts that are being saved at home at the time of share out? Were you surprised by this behavior? Do you think this is an argument for other savings mechanisms (e.g. a bank account) or for a large deposit in the SG at the beginning of the next cycle? Can you say more about CRS's response?

Amy: At first we were surprised by this behavior, but after reviewing the responses to the in-depth interviews the behavior tends to make more sense. The lives of community members are complex and in a group of 25-30 members they are going to have diverse needs and ways of using the share-out. The data that Guy presented from Central America and the data from CRS' Financial Diaries in Zambia showed a similar story – households in SGs accumulate lump sums of money from the group that are larger than what they receive in the majority of weeks throughout the year. Some households may prioritize large purchases with this lump sum of money while other households may prioritize saving the money at home to use over time, a tool for managing cash flow once they've accumulated a large sum.

The data from our Interim report revealed that SILC savings and home savings each served a distinct and important function for households. The data show that households closely followed the protocol of weekly SILC deposits, making a deposit into a SILC group three out of every four potential weeks and only accessed it once per year. The SILC account for these households served as a savings account. Functionally, households used the home savings tool in a similar way to how an individual might use a checking account in a more developed financial ecosystem by using it to address the mismatch between their earnings and expenditures. One way of looking at this is that the households are taking money out of their savings account(receiving a share-out) and putting it into their home (checking) account, so they can easily access and use it to address the weekly mismatches between their earnings and expenditures.

Ian's Presentation

Do these groups make budgetary allocations about how they will spend their share out before they actually do? Or do they just spend when the share out is available?

Ian: It varies. In most groups I've encountered members take whatever money is due to them and decide how to spend (or save) it on an individual basis. However, I am aware of other groups that have sought to allocate a proportion of the total share-out to a collective investment (e.g. a vehicle for group us). But I have no evidence as to how successful such ideas have been and whether group members would want to do this on a regular basis.

Could you provide an example of non-NGO supported savings mechanisms?

David: Examples include ROSCAs, funeral societies, susu collectors, among other forms of community-based microfinance.

What can NGO savings group facilitators do to better link savings groups to formal financial service provides to provide a safe place to save share outs?

David: The second installment in this webinar series (April 26) will address the supply side, including the facilitation of these relationships by NGOs, product development and the business strategy of FSPs.

Ian: NGOs can play a variety of roles. These might include: (i) helping in the education of SG members to deal with technology and digital financial services, understand banks and other formal FSPs, and their aims and constraints; (ii) help negotiate trade-offs so the SGs and their members feel they are getting added value overall; (iii) help banks and other formal FSPs understand the SGs and their members, what they value, what they are unlikely to give up at any cost and where trade-offs may be feasible; (iv) monitoring and assessing how the actions of banks and other FSPs are affecting the financial behaviours and attitudes of SGs and their members; (v) explain to the FSPs why some behaviours and decisions by SGs and their members might not be those they expected. These are examples of "honest broker" types of roles. But what an NGO does and for which party/ies, may well depend on who is funding them. Some NGOs may feel decidedly uncomfortable in any sort of "broker" role, honest or otherwise.

Would it be possible to receive the full report? We are working on the same side but in South Africa and our findings are similar to those reported in Ghana and Tanzania.

Ian: There is no "full report" available for publication. But we will continue to disseminate lessons as the SatF programme continues. Please note that the research we did in Ghana and Tanzania was on very limited sample sizes and areas. We would not want the findings interpreted as generally representative across either country.

The topic on security is interesting but we have not heard a lot of actual incidences regarding share out being robbed. Are there statistics on this?

Ian: I don't know.

David: Security of group funds is consistently cited as one of the main unmet financial service needs, in response to the increased risk of theft as groups mature and approach the period share-out. It is extremely revealing that not a single speaker or participant in this webinar has ever encountered a reported incident of theft of group funds. Nevertheless, Guy emphasized that regardless of the frequency of theft, the *perceived* risk can have a real impact on the financial management of groups and their members. In other words, financial services that improve the sense of security of SGs and their members can have a positive impact on savings rates, member retention, group survival rates, and the stress suffered by members, particularly the Box Keeper – regardless of the frequency of theft.

What role of regulatory bodies towards savings groups should be and to make sure healthy development in this regard?

Ian: My personal view is that regulatory bodies should have one simple mantra regarding Savings Groups: "leave well alone". Pragmatically, in some countries this may be a forlorn hope. I would argue that if a Government entity insisted on applying, for instance, a form of registration for SGs, and this is necessary to give them legal personality which in turn would allow them to open a group bank account, so be it. But please do not extend that to any form of licensing. I have heard the argument that Governments want to ensure that SGs are safe and members not ripped off, hence the need for regulatory oversight. This is nonsense, except in states where a government believes that it and only it can ensure its citizens do not willfully do themselves harm.

A better reason we had for digitization and bank deposits was when there was a fire at Kibera (Nairobi) and these affected some savings groups records and some money.

Ian: There are various reasons why digitization might help SGs and their members. Security of money and conversion from paper to electronic form is one of them. There is an interesting experiment going on in SE Tanzania right now looking at digitization of around 30 Aga Khan Foundation VSLAs. However, results are not likely to be available for some time. FSDT in Tanzania might be the best source of further information on this in a few months time. I am sure they will publish findings on their website.

How can a savings group be encouraged to save some amount of money in the bank after their share out?

Ian: This is up to the promoter/ facilitator, assuming we are talking about this type of SG. Where SGs are self-replicating, the problem may be more tricky. In any event, this is a decision for the SG members. There may be good reasons why a majority of members of an SG feel reluctant to leave some proportion of their share-out proceeds in the group box, not least if they have ear-marked the money for particular personal purchases or expenditure (e.g. school fees).

What do these mean: FSPs, ISM, and MNOs?

Ian: apologies if I didn't make this clear:

FSP – financial service provider – essentially a formal (i.e. regulated) financial institution

ISM – informal savings mechanism: a broader term than "savings group" to include non-facilitated accumulating savings and credit associations, rotating savings and credit associations, funeral societies (some of which may accumulate savings by members), *susu* collectors (i.e. Ghana), family and clan savings groups. Happy if anyone wants to add to this list.

MNOs – mobile network operators (sometimes referred to as "telcos", including Vodacom, MTN, Airtel and others)

How did the SGs in Tanzania manage the question of mobile phone banking interface in lieu of the literacy levels?

Ian: in some cases I think with a bit of difficulty; but where there is support from the likes of CARE and AKF, the problems of low literacy levels can be overcome. This is definitely an issue that banks and other FSPS need to watch out for. Also in countries such as Uganda where there are about six main languages, training and mobile apps need to be provided in those languages in different areas.

In Tanzania, how does uptake of the DFS linkages compare with the usage?

Ian: SatF does not have data on this; or rather not yet.

Literacy tends to be low in most sub Saharan Africa, how does this tally with the observed relatively high uptake of DFS in among women in Tanzania which requires some Technology savvy?

Ian: I don't know. This will probably need further research. At a guess, users of DFS may not be totally illiterate or innumerate and can manage sufficiently to use their mobiles. In any event, if they have mobiles, they probably know enough about numbers and the keyboards to make calls. Also, they may go to agents and ask them to operate the mobile money service on their behalf – referred to as "over the counter" service. Not surprisingly, though, this may prove a mixed blessing and depends very much on the integrity of the agents.

Can any of the experts share their thoughts/experiences with same and mixed sex savings groups and women's empowerment…is there any evidence to suggest that same

or mixed sex groups are more successful in achieving women's economic empowerment?

Ian: I have no such evidence readily to hand.

Is multiple membership a risk? If yes, how can we reduce the risk of multiple group membership?

Ian: it depends. If people who are members of multiple groups use loans from one group to pay off their debts in another, sooner or later this ii likely to cause problems. But for those who want to save or borrow more than single groups allow – and they can service such debts – then multiple membership may make sense. So I think we need to look at individuals' circumstances and with what group members as a whole feel comfortable (or not). Let's not generalize.

You mentioned that one of the big frustrations with Savings Groups for participants can be the relative small size of loans – would shortening the cycle not exacerbate this?

Ian: it might. But again, context is key. Some members may find it a drawback and others not.

Interesting that some of the drawbacks (e.g. members wanting to save more) are up on the list. These are elements that must be decided by the SGs and not facilitators. So is the drawback the methodology or the level at which an SG is empowered for their agency to decide on their membership composition (e.g. made up of those that can afford to save specific amounts of their choice) or the value of their savings?

Ian: entirely agree that these are group decisions. I don't see that you can jump from individual circumstances where someone might be able to save (or borrow) more than a group allows to a general statement about methodology or levels of empowerment. When they finally decide on what will work for them, group members in effect have to agree on trade-offs, i.e. what might not suit a few members 100% is acceptable to a majority of members. Those outliers then have a choice of remaining in the group or leaving. Personally, I am against a facilitator or NGO laying down rules for this. By all means give guidance, explain trade-offs and stress that it is up to the members. Then let that happen.

Would it be beneficial if the groups were encouraged to use share outs or larger lump sums for productive purposes (income generating) and their smaller share outs or savings for consumption?

Ian: Again, I am most reluctant for me or anyone else to be telling group members how to live their lives, including advising what would be more or less beneficial. Decisions as to what people do with their savings are up to them. How would any of you reading this like me saying that you should adjust your own balance between saving and consumption? Doubtless, I'd be told to mind my own business – and quite right too! Of course, Governments and macro-economists do this, but that's inevitable.

It was interesting that Ian mentioned the point of groups compulsorily requiring members to borrow (or borrow in larger amounts than they wish). We have identified this among groups in our fieldwork and are working on providing pre-linkage financial education around groups re-evaluating their policy on compulsory borrowing. Do you have any other recommendations?

Ian: Again, I think this is ultimately up to the groups and their members. I would advise against your financial education saying “do not do this”. A more cautious approach focusing on the trade-offs for different members facing different economic circumstances, opportunities and capacities that lead to differing levels of demand for saving and borrowing might yield a result which satisfied most members of a group. I think a firm “policy” of compulsory borrowing inevitably moves any group away from a savings-led culture to something that would ultimately be more risky, at least in terms of group coherence and the maintenance of social capital.

The issues around inappropriateness of financial products offered by financial institutions, distance or lack of proximity to SG, high cost of accessing financial services by SG or for delivering services by financial institutions etc. are factors that have been known and well documented for a long time. My question is what activities or interventions were or are being conducted by facilitators of financial inclusion to address these issues? Financial literacy is another big gap both at financial service provider level and at SG level. Financial literacy is a very broad area as well depending on what you seek to achieve with your respective financial inclusion strategy. What did our colleagues in Ghana, Zambia and Kenya do to address this?

Ian: The research we conducted in these countries was pretty limited and intended to illustrate to formal financial service providers (FSPs) potential and pitfalls by way of links with informal savings groups. But when it comes to later stages where we are evaluating detailed proposals from FSPs and then the implementation of successful bids that we will be doing our best to ensure that the financial education and other support the FSPs provide to savings groups meets members’ needs and gives them the confidence that the FSPs are looking out for their interests. If they fail to demonstrate this, SGs will either not link with FSPs or, if they do initially, will rapidly stop using their services.

You are suggesting multiple share outs say in a year (shorter cycles). Doesn’t this militate against the need for the group members to rely on loans from the group rather than share outs?

Ian: I hope I did not suggest that multiple share-outs were necessarily a good thing. They may or may not be depending on group and member circumstances and requirements. The balance between members’ needs for loans as opposed to relying on share-outs will depend on what members’ demands for money are at any given point during a cycle, as well as the availability of savings to be lent out at times when members need money.

While I agree with the understanding that some of the issues related to financial inclusion are context specific, do we have common issues/aspects/pillars that require attention in any context?

Ian: As far as the FSPs are concerned my main concern is that they make every effort to bridge the “mindset gap” and really get to understand how groups work, their members think and respond, and work thorough with group and their members what is likely to best suit them. This sounds simply (indeed it’s not much more than marketing 101). But that is not to deny its importance.