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seepnetwork.org/Members
The Demand for Formal Financial Services by Savings Groups: Behavior, Needs, and Market Opportunities

April 5, 2017 (9:30 – 10:30 am EST)

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INTRODUCTION

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MARKET SIZE

• Accounting for group attrition, post-project expansion by community-based trainers and spontaneous replication, it is estimated that there are at least 1m active Savings Groups worldwide comprised of 20m members.

• Average assets per group
  
  YEAR 1: $859  
  YEAR 3-4: $1,182

• Estimated total assets of Savings Groups worldwide
  
  $859m to $1.2bn
UNDERSTANDING THE MARKET – Learning Questions

1. What is the financial behaviour of Savings Groups and their members?

2. What are the strengths and limitations of Savings Groups?

3. What are the unmet needs of SGs and their members for financial services, and the implications for financial service providers?
1. What Savings Groups Do: Evidence from Financial Diaries (Guy Stuart, Microfinance Opportunities)

2. SG Financial Diaries in Northern Zambia: Conclusions and Implications (Amy Davis, Catholic Relief Services)

3. Market Insights from Savings at the Frontier (Ian Robinson, Oxford Policy Management)
What Savings Groups Do: Evidence from Financial Diaries

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ACKNOWLEDGMENTS
AN EXAMPLE - Eugenia
OBJECTIVES

• Understand how Financial Diaries offer insights that are hard to generate any other way

• Present evidence of how SG members in Central America manage their money

• Discuss implications for financial inclusion
## FINANCIAL DIARIES – An introduction

### Types
- Purchases
- Income
- Informal Financial Services
- Formal Financial Services
- Transfers of money
- Home Account
- In-kind Transactions
- Events

### Dimensions
- When…it occurred
- How…the transaction was performed
- Why…an individual performed the transactions
- Whom…it was conducted with
- Where…it occurred
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Group Model</td>
<td>Oxfam</td>
<td>Various</td>
<td>CRS</td>
<td></td>
</tr>
<tr>
<td>Respondents</td>
<td>107</td>
<td>111</td>
<td>39</td>
<td>134</td>
</tr>
<tr>
<td>Urban-Rural</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Livelihood</td>
<td>Economic Dependents</td>
<td>Agriculture, Micro-Retail</td>
<td>Agriculture, Casual Labor</td>
<td></td>
</tr>
<tr>
<td>Avg. Gross Weekly Income (USD)</td>
<td>32</td>
<td>38</td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td>Variation of Income (CoV)</td>
<td>1.26</td>
<td>.89</td>
<td>1.56</td>
<td>1.79</td>
</tr>
<tr>
<td>Avg. Gross Weekly Expenditures (USD)</td>
<td>36</td>
<td>35</td>
<td>14</td>
<td>17</td>
</tr>
</tbody>
</table>
SAVINGS GROUPS – General theory of change

Large Savings Balance = Small Contributions + Loan Interest

Loans Received, Repaid with Interest

Used for Assets, Productive Investments, and Risk Management,

Economic Growth and Quality of Life

Small Contributions
Accumulating Savings
SAVINGS GROUP DEPOSITS PER MONTH, per member

El Salvador

Guatemala
AVERAGE SHARE-OUT, per member

El Salvador

Guatemala

Average Share Out, USD
### WEEKLY CASH-FLOWS – Number of Weeks with inflow larger than share-out

<table>
<thead>
<tr>
<th></th>
<th>El Salvador</th>
<th></th>
<th>Guatemala</th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Income</td>
<td>Cash Transfers</td>
<td>Income</td>
<td>Cash Transfers</td>
</tr>
<tr>
<td>Earner</td>
<td>4.6</td>
<td>1.9</td>
<td>5.5</td>
<td>0.1</td>
</tr>
<tr>
<td></td>
<td>0.3</td>
<td></td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>Dependent</td>
<td>3.4</td>
<td>0.6</td>
<td>1.2</td>
<td>0.7</td>
</tr>
<tr>
<td></td>
<td>0.0</td>
<td></td>
<td>0.0</td>
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</table>
Using Savings and Loans
LUMP SUM PURCHASES

Graph showing the average lump sum purchases per month for El Salvador and Guatemala, categorized by spending on agriculture, assets, clothing, education, food bulk, health, and other lump sum purchases.
Conclusions
IMPLICATIONS FOR FINANCIAL INCLUSION

• For Savings Group promoters
  • Shorten cycle
  • Modify group rules limiting deposit and loan amounts
  • Promote early saving

• For Financial Service Providers
  • Prioritize savings-led linkages
  • Provide a safe place to store share-out proceeds

• For providers of Financial Education
  • Use of share out
  • Managing FSP linkages
WHAT FINANCIAL DIARIES TAUGHT US

• From just this one sequence of slides we saw:
  • The accumulation of savings through Savings Groups in the broader context of cash flows
  • How members used their accumulated savings (without having to ask them directly)

• Many more analyses are possible

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Getting to Lump Sums
FREQUENCY OF DEPOSITS

Avg. Number of Deposits to Group Per Week

Managing: 0.72
Poor: 0.64

Peri-Urban: 0.55
Rural: 0.79
AVERAGE VALUE OF SHARE-OUT

<table>
<thead>
<tr>
<th>Category</th>
<th>Avg. Value of Share-Out (ZMW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing</td>
<td>997</td>
</tr>
<tr>
<td>Poor</td>
<td>514</td>
</tr>
<tr>
<td>Peri-Urban</td>
<td>807</td>
</tr>
<tr>
<td>Rural</td>
<td>817</td>
</tr>
</tbody>
</table>
AVERAGE LOAN SIZE

Avg. Value of Group Loan Received (ZMW)

- Managing: 430
- Poor: 255

Avg. Value of Group Loan Received (ZMW)

- Peri-Urban: 333
- Rural: 395
### INCOME AND SHARE-OUTS

<table>
<thead>
<tr>
<th>Comparison</th>
<th>SILC</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Weeks where Income &lt; Share Out</td>
<td>98.8%</td>
</tr>
<tr>
<td>% of Weeks where Income &gt; Share Out</td>
<td>1.2%*</td>
</tr>
</tbody>
</table>

*Relative to average share-out value for SILC households
Spending Lump Sums
AVERAGE SIZE OF LUMP SUM PURCHASES

- Managing: 695
- Poor: 238
- Peri-Urban: 412
- Rural: 690
FREQUENCY OF LUMP SUM PURCHASES - Business

- Month with No Share Out:
  - Agriculture: 0.006
  - Construction: 0.006
  - Food: 0.026
  - Miscellaneous: 0.009
  - Other Purchases: 0.006

- Month After Share Out:
  - Agriculture: 0.028
  - Construction: 0.006
  - Food: 0.042
  - Miscellaneous: 0.012
  - Other Purchases: 0.006
WEEKLY CASH-FLOWS

- **Home Savings Withdrawal**
- **Income**
- **Other Financial Inflows**
- **Business Outflows**
- **Household Outflows**
- **Share-Out**
- **Other Financial Outflows**
- **Home Savings Deposit**

### Weekly Cash-Flows

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Avg. Value Per Week (ZMW)</th>
</tr>
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<tbody>
<tr>
<td>Typical Week</td>
<td></td>
</tr>
<tr>
<td>Week of Share Out</td>
<td></td>
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<tr>
<td>1 Week After</td>
<td></td>
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<tr>
<td>2 Weeks After</td>
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<tr>
<td>3 Weeks After</td>
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**Graph Description:**
- The graph shows the average weekly cash flows for different time periods, including typical weeks and weeks following a share-out event.
- Different categories of cash flows are represented with various colors and values.
- The graph indicates changes in cash flow over time, with specific focus on the week of share-out and subsequent weeks.
General Conclusions

• The data from CRS Financial Diaries’ project show that the SILC methodology is meeting many of its goals in this region.
• The comparison of SILC and comparison households’ financial service use shows that SILC groups are extending financial access to households that would otherwise be financially excluded.
• SILC groups also provided meaningful lump sums to participating households, and these lump sums were much larger than those that households could access from informal FSPs or their social networks.
• The data also show that these households are utilizing these large sums of money to make lump sum purchases, both for business and household purposes.
• CRS is introducing Financial Education initiatives that educate their groups on the potential trade-offs of spending on consumption and investments and continuing to save for the future.
Market Insights from Savings at the Frontier

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SAVINGS AT THE FRONTIER – An overview

- Partnership between the MasterCard Foundation and Oxford Policy Management
  - Ghana, Tanzania, Zambia (2015-2021)

- Mission is to test and demonstrate whether
  - FSPs can use innovative and profitable business models to scale up financial services for rural and semi-urban households in Sub-Saharan Africa in collaboration with informal savings mechanisms (ISMs)
  - Sustainable partnerships can be formed between FSPs and ISMs that improve the welfare of poor people

- The lessons learned will be shared with broader financial sector stakeholders so that they can develop, implement and support effective solutions to improve the delivery of financial services to other marginalised populations

*Note: Through FSPs, SatF seeks to work with NGO facilitated savings groups and other informal groups such as funeral clubs, ROSCAs, etc.*
SAVINGS AT THE FRONTIER – Progress so far

• Market analysis, awareness raising, and market coordination
  • Gathering market information, conducting market analysis, identifying barriers to and opportunities for financial inclusion, facilitating relationships and raising awareness about the programme and opportunities for linkage

• Provide financial support to FSPs
  • Shortlisting FSPs for initial funding support to share the risks inherent in developing ideas and business models, including (in most cases) undertaking further research and piloting
  • Around eight FSPs will be carefully selected and provided with funding (up to $1 million) and some technical assistance

• Develop and implement a monitoring, research, evaluation and learning (MREL) framework to
  • Facilitate internal learning to support adaptive evidence-based programme management; and
  • Contribute to an expanded knowledge base on what does and does not work, for whom and under which conditions
What members say they **VALUE** about their groups

**Ghana**
- Highly flexible and convenient
- Encourage savings, help improve savings discipline
- Access to loans
- Welfare benefits in enabling members to access cash for emergencies
- Access to lump-sums on share-outs
- Use to pay school fees, purchase assets and farm inputs, invest in income generating activities
- Build social capital

**Tanzania**
- “Savings groups are better than banks, because with banks there are many procedures and requirements to fulfill before you get a loan. Our groups have no complications”
- Use to invest in income-generating activities, fund school fees and
- Provide funds for emergencies, e.g. ill-health and death of family members
- Therefore…. strong focus on flexible access to credit
What members say about **DRAWBACKS** of their groups

**Ghana**
- Poor security and risk to members’ funds, especially just before a share-out
- Calculating share-outs needing outside support
- Some members want to save more per week than group allows
- Only small loan amounts available early on in a cycle
- Some members more successful in growing their businesses wanted to borrow more than their savings group’s available funds could provide
- These and other factors promote multiple savings group membership

**Tanzania**
- Poor security (especially in more mature groups)
- Calculating share-outs often needs outside technical support
- Higher loan size becomes more restricted
- Pressure to make regular saving can be hard for members with irregular incomes
- Members moving on (marriage etc)
- Upatus within savings groups
### Ghana

**Positive views:**
- Security of funds - especially larger amounts around share-outs
- Ability to earn interest on surplus savings (but lack of awareness of how banks calculate and pay interest)

**Negative views:**
- Poor treatment by some banks of small-scale retail customers (bad news travels faster than good)
- Lack of proximity => costs of time and travel to nearest branch
- High charges to operate an account

### Tanzania

**Positive views:**
- Security of funds – especially larger amounts around share-outs
- Knowledge of opportunities such as government programmes

**Negative views:**
- Bad experiences – group not allowed to withdraw funds after depositing share-out
- High charges to operate both a bank and a mobile money account
- Banks require collateral to borrow
- Banks not suitable for low-income people
- Risk of being “punished” for default or non-compliance
### GAP ANALYSIS – FSPs & ISM Users

<table>
<thead>
<tr>
<th>Gap</th>
<th>FSP Perspective</th>
<th>ISM/ User Perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mindset</strong></td>
<td>How FSPs think finance should work for people (and what features are preferred) may differ from…</td>
<td>… the way informal group members, think finance can or should work for them</td>
</tr>
<tr>
<td></td>
<td>FSPs have business models based on the income and expenditure profiles and concentration of customers and often don’t go deep in rural areas</td>
<td>ISM users may have limited direct experience of dealing with formal FSPs and been discouraged by pricing of products and services, as well as additional transaction costs</td>
</tr>
<tr>
<td><strong>Affordability</strong></td>
<td>- differential socio-economic and geographical reach of ISMs versus formal financial institutions or MNOs</td>
<td>Early analysis in Tanzania suggests that, even for mobile money, there may still be a wide gap for truly rural adults. This is likely to be even more acute in Zambia</td>
</tr>
<tr>
<td><strong>Proximity</strong></td>
<td>Evidence so far indicates ISM members are sensitive to the costs associated with using financial services (including costs in terms of money and time spent accessing even mobile agents)</td>
<td></td>
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</tbody>
</table>
## GAP ANALYSIS – FSPs & ISM Users (cont.)

<table>
<thead>
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<th>Gap</th>
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<th>ISM/ User Perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capacity – different FSP and user perspectives</strong></td>
<td>FSPs have limited IT, digital and physical capacity and skills to deal with really large numbers of much lower value transactions than they are used to handling</td>
<td>ISM users’ may currently have limited capability/ capacity to understand and respond to language, products and working methods of FSPs</td>
</tr>
<tr>
<td><strong>Digital – gap can arise when basic mobile money services have too low a penetration for people traditionally operating in the cash economy</strong></td>
<td>This is less of an issue in Tanzania than in the other two SatF countries (Ghana and Zambia) and should make digitisation of all ISM activity (even where some users still pay in and take out cash) easier than in countries where mobile money is less used</td>
<td>The capacity, understanding and trust issues are aggravated when dealing with virtual money</td>
</tr>
</tbody>
</table>

Savings at the Frontier
Success factors contributing to linkages – market insights for FSPs

- Understand your potential customers
  - Thoroughly research both demand and supply-side options
  - Six out of ten savings group borrowers in Tanzania used loans for both productive investments and consumption purposes => product development implications
  - Women and youth in particular offer promising uptake of digital financial services, especially in Tanzania
    - Get to know and build trust with potential customers
- Experiment – we don’t yet have the answers; likely to be context specific
- Rich potential for digitizing informal collective savings
  - Record every single individual level transaction =>
  - Potential for reducing errors and frauds
  - Open up potential for cross-selling opportunities
Success factors contributing to linkages – market insights for FSPs (cont.)

- The most valuable attribute of informal savings is often the “social nudge”
- Potentially high average balances from savings group accounts in banks, but...
- Probably high numbers of transactions by savings groups using their accounts
- High acquisition costs for banks
- Work out what is needed to ensure savings groups and members’ continuing active use of their accounts – another critical success factor
- Concerns over increased interest in regulating savings groups and potential impact on future FSP – SG linkages
Further information

Visit the SatF webpage:  
http://www.opml.co.uk/projects/savings-frontier

Contact Ian Robinson: rainboum@gmail.com
Q & A

David Panetta, The SEEP Network
Amy Davis, Catholic Relief Services
Guy Stuart, Microfinance Opportunities
Ian Robinson, Oxford Policy Management
Thank you!

For more information about SEEP's Savings-Led Financial Services Working Group, contact Eloisa Devietti:

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www.seepnetwork.org
SEEP Announcements

2017 WEE Global Learning Forum – May 23-25, Bangkok, Thailand

Peer Learning Group to be announced in the coming days!

Commercial Relationships between Savings Groups and Financial Service Providers

https://weeforum2017.org/