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What Does Consumer Protection Mean for Savings Groups?

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September 10, 2019 | 9:00 – 10:00 am EDT



David Panetta
The SEEP Network



Sukhwinder Arora
Arora Associates



marc bavois
Catholic Relief Services



Julia Arnold
International Center for
Research on Women

SEEP Network Learning Series: Savings Groups and Consumer Protection



CONTEXT

- 25+ years experience: Savings Groups are a safe place to save
- Recognized gaps in the body of knowledge: **LONG-TERM** outcomes and **UNINTENDED** outcomes
 - Money management, the safety of group funds, procedural drift, conflict between members and governance, and evolving relationships with regulatory authorities, financial service providers and private actors.

OBJECTIVE

- Improved understanding of the risks faced by Savings Groups and their members, and effective risk mitigation strategies

AN EMPIRICAL RISK ASSESSMENT OF SAVINGS GROUPS

LEARNING BRIEF

An Empirical Risk Assessment of Savings Groups



GROUP ATTRITION

Annualized group survival rate of 91%

THEFT

- Two thefts, per 100 groups, per year
- Average loss of \$273 (39% of the group's previous share-out)

NEGATIVE RETURNS

Over a period of nearly 4 years, 5% of groups have experienced a negative return at least once

AN EMPIRICAL RISK ASSESSMENT OF SAVINGS GROUPS

LEARNING BRIEF

An Empirical Risk Assessment of Savings Groups



MULTIPLE-GROUP MEMBERSHIP

In about a quarter of all groups, ≥ 5 members belong to multiple groups

FINANCIAL LITERACY

Nearly a third of members do not understand their own records

Panel Discussion



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GOVERNMENT REGULATION: Potential Benefits

CASE STUDY

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



1. Increased visibility of Savings Groups

- Increased awareness of and support from policy-makers, banks and other actors
- Data for monetary policy from sources that central banks have not yet been able to access (informal/ invisible)

2. Consumer protection for Savings Groups

- Protection of members' savings
- Ensuring that development and market actors act responsibly in relation to Savings Groups

3. Increased opportunities for Savings Groups

- Increased formal sector participation (e.g. Know-Your-Customer requirements at financial institutions)
- More effective targeting and implementation of government programs
- Use of Savings Groups as channels to support economic and social development (e.g. cash transfers, agricultural inputs, etc.)

GOVERNMENT REGULATION: Challenges facing the Regulation of Savings Groups

CASE STUDY

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



- Member-owned, self-managed, and independent
- Self-contained/limited external engagement
- Significant diversity in rules and working arrangements (amongst Savings Groups)
- Groups are constantly evolving in operating procedures and membership
- Transaction costs of formal regulation for regulators and groups
- Feasibility of formal supervision in underserved markets (often in geographically and socially isolated communities)

GOVERNMENT REGULATION: Risks of the Rush to Regulate

CASE STUDY

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



- National vision - predominant focus on formal financial inclusion may underestimate and undermine the intrinsic value of Savings Groups
- Limited government familiarity with and capacity for SG policy development
- Mismatch between policy ambitions and implementation capacity
- Government support for Savings Groups can distort incentives for their formation and management, not least in unintended ways

GOVERNMENT REGULATION: Recommendations for Regulatory Authorities

CASE STUDY

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



- Improve understanding of how Savings Groups operate
- Encourage sector-wide coordination
- Improve data collection and applied research
- Create an enabling environment
- Promote and facilitate Saving Groups' access to formal financial services in ways that produce benefits for the groups, their members and FSPs
- Establish realistic expectations
- Proceed with caution

“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

COMMUNITY-BASED APPROACHES: SILC Committees in Togo

CASE STUDY

Savings Groups and Consumer Protection: Risk Mitigation through Community-Based Structures



- SILC Committee represents all Savings Groups in the canton
- Information sharing, SILC promotion, problem-solving
- Additional level of external recourse, member/group redress
- Demonstrated effectiveness in resolving loan defaults
- Potential to serve as clearinghouse on borrowing information

“Members of multiple groups should understand that losing privacy is the price to pay to join more than one Savings Group.”

- SILC Committee member in Togo



INSECURITY AND THEFT IN MADAGASCAR: Responses and Unintended Consequences

CASE STUDY

Savings Groups and Consumer Protection:
How Savings Groups Responded to
Insecurity and Theft in Madagascar



CONTEXT

Widespread and worsening insecurity increasingly affects Savings Groups in Madagascar

IMPACT

Erosion of trust, precipitated share-outs, group dissolution, hampered mobilization of new groups

SPONTANEOUS RESPONSES HAVE UNINTENDED CONSEQUENCES

- Increase confidentiality → Reduced transparency
- Eliminate cashbox → Forced borrowing, increased risk of internal theft/misuse of funds
- Group accounts → Costs and transit risk
- Community policing → Harsh punishment

INSECURITY AND THEFT: Recommendations

CASE STUDY

Savings Groups and Consumer Protection:
How Savings Groups Responded to
Insecurity and Theft in Madagascar



- Incorporate more discussion of risk, mitigation and trade-offs in training and group support
- Equip groups for premature/short-notice share-outs
- Maintain clear, consistent communication with groups through situations of insecurity

UNINTENDED CONSEQUENCES AND RISK MITIGATION: A Gender Perspective



- Financial services, including Savings Groups, are part of the larger narrative of women's economic empowerment
- WEE is often seen as the magic bullet to redress gender inequality, reduce poverty, mitigate violence and improve wellbeing
- However, this narrative often overlooks the gender and social norms that shape women's lives and can result in constricting women's access to or benefits from financial services, such as Savings Groups
- Some of these **unintended consequences** are:
 - Increased time poverty
 - Job market segregation and women's care burden
 - Gender-based violence
 - Co-option of income and credit
 - Poor health outcomes

UNINTENDED CONSEQUENCES AND RISK MITIGATION: A Gender Perspective



- **Parallel investment in norm change and intrahousehold communication** is critical to ensure women reap the full benefits from access to financial services and economic opportunities
- **Norms do not change the instant women enter the market** - they are still responsible for the lion's share of the household chores, child care, and other duties
- Men may perceive women's economic gains as undermining their **power**, which may result in violence directed at women

Q&A



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The SEEP Network



Sukhwinder Arora
Arora Associates



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Catholic Relief Services



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International Center for
Research on Women

Thank You!



David Panetta
The SEEP Network
panetta@seepnetwork.org



Sukhwinder Arora
Arora Associates
sukhwinder@arora-associates.com



marc bavois
Catholic Relief Services
Marc.Bavois@crs.org



Julia Arnold
*International Center for
Research on Women*
JArnold@icrw.org

For more information about the SEEP learning series on Savings Groups and consumer protection, contact **David Panetta**: panetta@seepnetwork.org

www.seepnetwork.org



Webinar Spotlight

Blockchain 101: What Is It and How Can It Empower Women?

September 25 | 9:00 – 10:00 am EDT

Financial Inclusion in Africa: Is the Informal Sector Still Relevant?

October 2 | 9:00 – 10:00 am EDT

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Track 2: Springboards for Youth to Education, Employment and Entrepreneurship

Track 3: Gender-transformative Approaches for Women's Economic Empowerment

Track 4: Achieving Scale and Sustainability through Digital Savings Groups



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