



# RESEARCH BRIEF: PRACTICES & POSSIBILITIES IN SAVINGS GROUPS

## SEPTEMBER 2014

### What are savings groups?

Savings groups are informal, member-owned and managed groups that provide basic financial services to their members. Members pool their savings together and borrow from the group fund as needed for a specific period.<sup>1</sup> Built on traditional forms of money management, savings groups provide members with access to basic savings and credit services.

In recent years, savings groups have grown in popularity as an effective way to provide basic financial services to people who are usually too poor and too remote to be served by mainstream financial institutions. Various non-governmental organizations (NGOs), including several partners of The MasterCard Foundation, have facilitated the formation of savings groups. Over seven million people across Sub-Saharan Africa are now members in savings groups through group facilitation by NGOs.<sup>2</sup> Membership in non-facilitated traditional savings groups is believed to be much larger, though there is no exact estimate.

**Savings groups have amassed assets of more than \$100 million USD in Africa, according to NGOs. On average, each group saves \$625 USD.<sup>3</sup>**

Despite the popularity of savings groups, relatively little is known about members' financial preferences and needs. Members have a range of financial needs, and savings groups do not address them all. In addition, changes to the financial sector in Africa, such as the emergence of agent banking and mobile payments,

may provide banks and microfinance institutions with mechanisms to provide financial services to savings groups and their members.

### ABOUT THIS STUDY

The MasterCard Foundation wanted to delve deeper into the needs and preferences of savings group members. For example, what kind of services did clients want? Would members willingly pay for some services? How is technology sparking innovation?

This research was commissioned by The MasterCard Foundation to examine opportunities to expand the effects of savings groups towards financial inclusion. The study was conducted by MicroSave and employed a mixed methods approach to generating new insights on savings groups in Sub-Saharan Africa. The study explored innovations in three key areas: linkage of savings groups with banks, practices to improve efficiency and technological possibilities to improve services.

The study included nearly 500 savings group members across five countries and six organizations. Additional methods included a literature review, interviews with industry leaders and an in-depth field study of six projects in three countries. Data collection occurred between March and June 2014.

<sup>1</sup> A typical group duration is about 12-18 months.

<sup>2</sup> [www.seepnetwork.org/savings-groups-global-outreach-pages-20015.php](http://www.seepnetwork.org/savings-groups-global-outreach-pages-20015.php)

<sup>3</sup> [www.seepnetwork.org/savings-groups-global-outreach-pages-20015.php](http://www.seepnetwork.org/savings-groups-global-outreach-pages-20015.php)

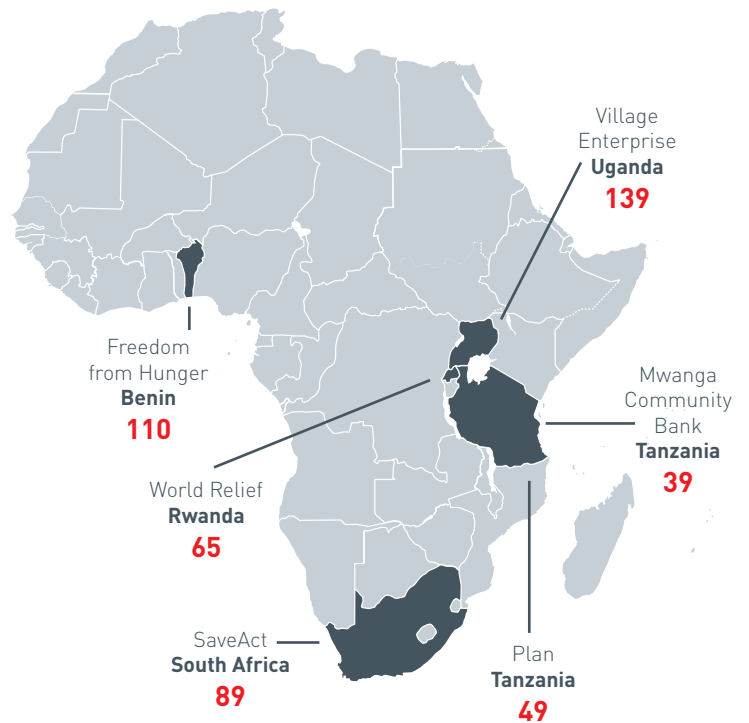
## What financial services do savings group members want?

Savings group members are keenly interested in financial services, including those offered by banks and other financial service providers. Among group members who were surveyed about financial linkages, 42 percent acknowledged that their group was already linked to a financial institution. The corresponding 58 percent of respondents without bank accounts had a strong interest in linking their groups. Most of these people said that they intended to open an account but hadn't done so yet (36 percent); however, some indicated that they encountered difficulty in opening an account (15 percent). Among those who already had formal accounts or wanted formal accounts, the most frequently reported motivations were to ensure safety of deposits and to access additional credit.

Much of the success of the proliferation of savings groups in recent years is attributed to NGOs' efforts to facilitate and train groups. Particular attention has been placed on the potential role for NGOs in providing facilitation services and specifically on linking savings groups with appropriate financial service providers. Surprisingly, savings groups that already had formal accounts had sometimes sought these out themselves, without any prompting from the NGOs. These savings group members who linked to formal banking institutions expressed overall satisfaction with the provided services.

By seeking out their own financial linkages, savings group members are demonstrating that connecting with formal financial institutions is valued.

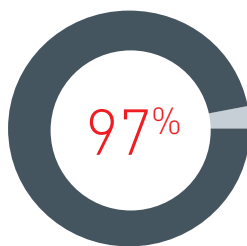
Figure 1: Savings group members surveyed



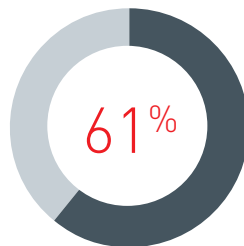
Total number of respondents: **491**

Figure 2: Why do savings groups want bank accounts?

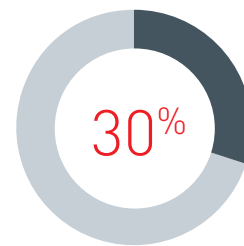
Survey respondents included members whose group has an account with a financial institution (n=71). These members reported the following motivations for opening the account:



Safety of savings



Access to credit



Build financial history

What’s important to savings group members?

**Facilitation.** Savings groups members receiving NGO-led facilitation services indicated that the facilitator was useful and essential to the proper functioning of the group. In particular, the process of share-out, or profit-sharing, requires skilled assistance from a facilitator. Members value the facilitator’s ongoing support for these technical tasks, past the typical one-year of engagement.

Nearly three hundred survey respondents discussed payment for facilitators (Figure 3). Some members paid their facilitators already, and others indicated a willingness to do so in the future. Among those who did pay, payments fluctuated from less than \$2 USD to more than \$10 USD (Figure 4).

**Accessibility.** Despite the appetite for formal financial services, these institutions are not widely accessible to savings group members. Transactions for the formal account require travel to a branch or agent location, which is costly in terms of both time and money. Thinly populated rural areas in Africa cannot support the establishment of rural agents, but members desire some means to connect more directly with the formal financial sector. For about half of the survey respondents, accessing formal services usually meant 30–60 minutes of travel. However, for nearly one-third of the respondents, travel took upwards of 60 minutes (Figure 5).

**Mobile money.** The surveys demonstrate an increasing demand for mobile money accounts. For example, 53 percent of respondents from one NGO in Tanzania have a mobile-money account. In Kenya, group members used mobile money to transfer personal funds to the group account, and to receive loans and share-out using the mobile wallet. However, members face considerable challenges in using mobile money, especially geographical challenges, such as spotty cellular coverage and the limited rural penetration of agent networks. The research shows that mobile money access points are often nearly as far as bank branches themselves. One group in rural Uganda reported that the nearest mobile money agent was a two-hour motorbike ride away. However, the nearest bank branch was only a further five minutes’ walk past the mobile agent.

Figure 3: Do you as a group pay the facilitator who helped you form the group? (n=279)

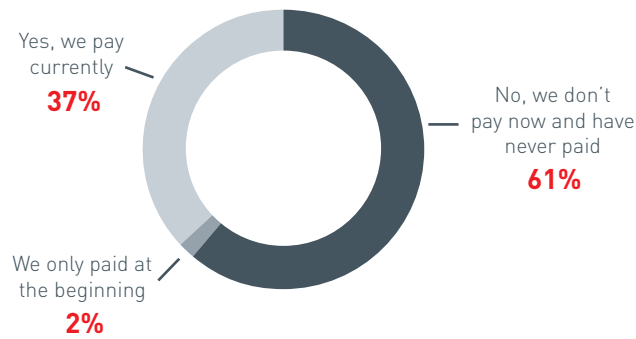


Figure 4: How much does the group pay the facilitator? (n=278)

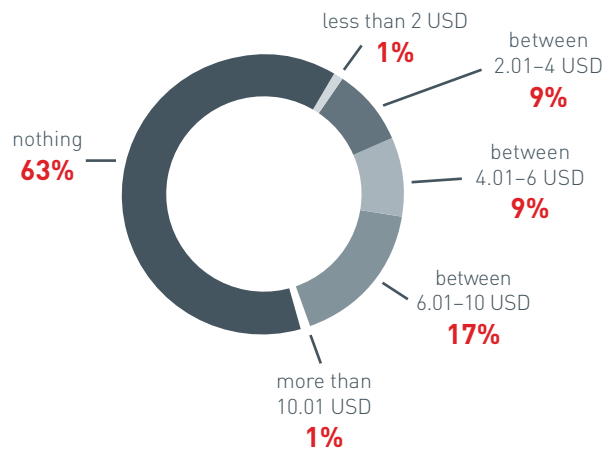


Figure 5: How long does your group representative travel to reach the branch or agent where you can withdraw or deposit the money? (n=72)



## How can technology spark further innovation?

Technology is one of the most promising possibilities for extending the outreach and for deepening the benefits of savings groups. The study explored savings group members' experiences with and views of technology.

**Eighty percent of survey respondents would be willing to pay for the use of technology-based training.**

**Record-keeping.** Savings groups require basic record-keeping. One of the most promising forms of technology may be applications to digitize savings groups' financial records. Applications such as e-recording, developed by FSD Kenya together with Software Group, enable groups to manage bookkeeping data with only a smart phone. The users of this technology report that the application is greatly appreciated by group members. Meetings take much less time (which has, interestingly, led to much higher attendance) and the backed-up records are less likely to be damaged or go missing. Calculating the share-out becomes a simple task. Most importantly, conflicts at share-out are reduced, as the tool prevents fraud. Moreover, all members are better informed throughout the cycle of their accumulated savings, so there are no surprises at share-out.

**Facilitation and training through videos.** In addition to record-keeping, technology has the potential to propel savings groups forward in new and exciting ways through video-based training. Freedom from Hunger has piloted some new approaches using video-based tools, which may be particularly useful for reaching remote, rural areas and especially attracts poor, semi-illiterate women.

**Don't forget the basics.** The group members demonstrated tremendous interest in technological tools, which could serve to both grab their attention as well as reduce costs and widen impact. However, for most people, the greatest challenge in using technology is the inability to recharge batteries. Any technological development should not forget the basics.

## NEW TECHNOLOGY PATHWAYS

- NGOs recognize the importance and potential of technology for advancing the field; however, they lack the requisite skills for engaging with technology and business enterprises.
- The technological tools for administration and training identified through this research are in initial stages of exploration. Several tools have completed pilot testing and are scaling successfully.
- Actors across the savings group movement cooperate intensively and openly. However, private sector actors and organizations facilitating savings groups have different cultures, aims and priorities.
- The potential impact of technology and the related self-scaling models are enormous. Several of these initiatives may significantly disrupt current practices in the savings group sector and dramatically amplify outreach and impact.

## Looking forward

This explorative study investigated current practices in savings groups in Africa, focusing on the experiences and perspectives of savings group members themselves. Through nearly 500 surveys with individual group members, the study built knowledge around group members' needs and constraints.

Group members reveal deep interest in joining the wider financial sector. Groups have spontaneously linked themselves to formal financial institutions and indicate a willingness to either adopt or continue a fee-for-service model. Technology also holds enormous potential for sparking innovative change in this area. We are excited to see what the future holds, and how the field can engage with and respond to the perspectives and needs of savings group members themselves.

## ACKNOWLEDGEMENTS

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