One Early Success Story: Savings Led Groups

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Access to financial services such as saving accounts is very limited throughout the world, particularly in poor rural communities. This is partially due to the challenges banks face in collecting low-value cash deposits using their traditional costly infrastructure. But the problem doesn't lie solely with the economics of small balances. Proximity is also an issue, both for the financial institution and the client. Additionally, the demand must be met for appropriately designed and affordably priced savings products that are offered through a channel that the community trusts.

Community-managed microfinance, often referred to as savings led groups (SLGs), is an alternative channel through which savings products are offered to communities that often have no other access to financial services, neither through a bank nor a microfinance institution. SLGs offer a commitment savings product that has many of the product features that are attractive to small-balance holders, including illiquidity, reminders, constraints, and rewards. Some SLG members earn up to a 100 percent return on their savings[1] and are able to save when and in whatever amount they wish.

Group members have access to microloans that are often too small for MFIs to offer and limited unconditional transfers for emergencies. Members are also able to receive insurance services, which mitigate the effects of unforeseen disasters, and can set up funds for school fees, festivals, and other cyclical annual events. While it is debatable whether SLGs are preferable to more formal savings mechanisms, there is evidence that this channel offers demand-driven savings products based on features and through secure channels that lower-income communities favor.

Product/Service Provider Type for Poor Households Conducting Income-Generating Activities (Vulnerable) vs. Small and Medium Enterprise (Least Vulnerable)[2]

Vulnerable Principal Need: Household Cash Flow Management to Meet 'Lumpy' Expenses, including IGA investment	**Least Vulnerable** Principal Need: Investment for Enterprise Growth
• Maximise savings for meeting predictable expenses • Savings for productive investment • Savings for managing household cash-flow • Savings for recovering from unpredictable crisis • Savings for IGA investment • Insurance for reducing impact of unexpected crisis • Credit for managing household cash-flow • Credit for IGA investment	• Large, long-term, low interest credit for fixed assets in SE • Large, medium-term credit for enterprise working capital • Savings for collateral/loan guarantee • Insurance for asset protection • Savings for enterprise cash-flow management • Savings for consumption

Key Features of Savings Led Groups

Proximity: Savings led groups are community based, and many organizations use a saturation model that facilitates groups being replicated in surrounding areas. Group members can also start groups in areas not currently being served to ensure that there is access to an SLG within convenient proximity to interested community members.

Illiquidity and constraints: SLG members typically have access to their savings at the end of a one-year cycle. Members value the discipline that is forged by having limited access to their funds and being required to make regular deposits. The social fund is available for emergencies or unpredicted needs, while microloans are available for investments, predicted expenses, and consumption smoothing.

Reminders and rewards: Each group member is required to publicly contribute a minimum periodic amount that is verified by the group. Members are reminded of their obligation to contribute at each meeting and are fined if they are not in compliance. By making their contribution, SLG members have access to loans sized in proportion to their savings and access to grants should emergencies arise.

Annual Data 2009 for Select CRS, CARE, Oxfam, and Plan SLGs[3]

Region	Africa	East Asia & Pacific
R 1 - Savings to loans ratio	146.1 %	141.0 %
R 2 - Savings per member as % GNI p.c.	3.6 %	2.9 %
R 4 - % members with loans outstanding	57.0 %	36.5 %
R 8 - Annualized return on assets	40.4 %	18.3 %
R 9 - Annualized return on equity	40.6 %	18.3 %
R11 - Quarterly costs per member supervised	$ 7.7	$ 8.7

Security: Group members are jointly responsible for the safety of their pooled funds. Most SLG cash boxes have three locks, and the keys are distributed to three different rotating group members. Some groups divide the funds among trusted group members. The responsibility of keeping the box extends beyond the group into the community. Since income generating members of the community are often in SLGs, the community depends on the funds intermediated through groups and will help protect them.

Return: Some SLG members have earned a return of 100 percent. The Africa-based SLGs supported by the foundation's grants to CRS, Oxfam, and CARE earn an annualized return of 40 percent. In most urban and especially rural areas where many SLGs function, this is the highest-earning financial instrument available to its members or their communities.

SLGs Provide Real Benefits for Clients

According to the Fletcher School at Tufts University, SLGs reach a reported 100 million households worldwide, specifically in Africa, Asia, and Latin America.[5] A baseline study produced by Innovations for Poverty Action (IPA) and Bureau of Applied Research in Anthropology (BARA) at the University of Arizona for Oxfam America shows that Oxfam SLG group members in rural Mali have earned an annual return on their savings of 30 percent to 40 percent. Additionally, members highly value the groups over other available financial services because of their inherent flexibility and transparency.[6]

Cost per Client Comparing MFIs With CARE's SLG Program[4]

MFIs and CARE's VSLA Programs MFI	Number of clients (two year average)	Costs per Client per Year (US $)
ACSI, Ethiopia	940,000	7.50
BOM, Mozambique	18,601	218.60
SAT, Ghana	74,731	73.70
SEF, South Africa (2006)	54,700	85.60
WAGES (Togo)	59,158	122.50
CARE's VSLAs (three countries, three years)	300,000 clients expected	37.02 (for three years)
CARE's VSLAs (three countries, 10 years)	1,613,620 clients expected	6.88 (for 10 years)

In a household study conducted in Zanzibar, members of Village Savings and Loan Associations (VSLAs), or SLGs, ranked improved standards of living (22 percent), improved housing (21 percent), and increased incomes (20 percent) as the major changes resulting from the VSLAs. Most of the changes seem to be related to business growth or household improvements.[7] In Oxfam SLGs and other organizations using similar methods, oral record-keeping allows illiterate and innumerate members of the community access to savings mechanisms, loans, grants for emergencies, and other services provided to the group.

Connecting Tracks Into Rails: SLGs' Role in Financial Inclusion

SLGs are a trusted delivery mechanism in convenient proximity to underserved communities that offer a savings product with many features demanded by small-deposit holders. Even when other services are available, SLG membership can be one option in a suite of available services. Formal savings products can complement the limitations of SLG members' co-variant risks, lack of privacy, and constraints on savings and loan limits.

But how can this growing platform of more than 1 million groups be brought into the fold of financial inclusion? We see decreasing the dependencies on ongoing external investment and the often heavy set-up cost per SLG member as a key driver and are exploring models through which forming, replicating, and supporting groups can be sustained at the community level.

In 2008, the foundation's Financial Services for the Poor initiative made three grants worth $30.9 million to organizations that support the establishment of SLGs. This cluster of grants has a dual purpose of testing different models of sustainability for the formation and continued replication of SLGs and reducing the up-front costs of forming and supporting SLGs. It is hypothesized that if the need for ongoing external support is removed, the total cost could be reduced to a level that can be supported by group members.

Our work experimenting with self-sustaining models of SLGs tackles such questions as: What is the community demand for financial services offered by SLGs? How much are members willing to pay for these services? What is the commercial viability of SLG trainers charging a fee that provides them a livable wage over an extended period of time? At the end of this cluster of grants, we will have more than 1 million new SLG members who have access to financial services as well as a model for a self-sustaining system to continue to expand this platform.

A self-sustained SLG model could contribute to financial inclusion in several different ways, including:

- *On-ramp into banking:* Whether individually or collectively, SLG members can be matched with or are more likely to seek out other financial products, either through group-linked credit products, increased individual financial literacy, or incorporating mobile money activities into SLG or personal financial transactions.

- *Village agent as aggregator:* The agent or individual who forms and supports an SLG is one step closer to the saver than either a bank branch or retailer and is, therefore, a natural aggregation point as they connect many groups and multiple pots of funds. In Tanzania and Kenya, mobile network operators are exploring ways in which village agents can be mobile money agents, serving SLGs in remote areas or acting as aggregators when individual amounts are too small for SLG members to affordably intermediate individually on a mobile platform.

The extent to which we can connect the 100 million household SLG members into the financial sector, whether through retail outlets that offer financial services or directly to financial institutions, will largely determine savings led groups' ongoing role in financial inclusion. Finding a sustainable SLG model is the first step in exploring how this platform can be leveraged to bring more households into the formal financial sector. Our work with SLGs going forward will concentrate on learning more about how to unlock this potential by exploring creative partnerships between SLGs and other financial service providers, studying the village agent as a channel to provide financial services, and seeking out best practices in linkages to financial institutions.

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[1] VSL Associates website, http://www.vsla.net.
[2] Hugh Allen, "Finance Begins With Savings, Not Loans," in *What's Wrong with Microfinance*? ed. Thomas Dicther and Malcolm Harper (Rugby: Practical Action Publishing, 2007): 49-60.
[3] Data is from the Savings Group Exchange Market and includes data on groups supported by the major NGOs in the sector, including CARE, CRS, Oxfam, and Plan International.
[4] Kristin Helmore, Care's Microfinance in Africa: State of the Sector Report. Data is from the Mix Market (2007) and are based on annual cost. Ratio is Operating Expense/Average Number of Active Borrowers.
[5] Tufts University, the Fletcher School website, http://fletcher.tufts.edu/mfsavings.
[6] Baseline study produced by Innovations for Poverty Action (IPA) and Bureau of Applied Research in Anthropology (BARA) at the University of Arizona for Oxfam America. The study collected baseline data on the Oxfam Saving for Change (SfC) program in Mali. Started in 2005, the program enables women to organize themselves into savings and credit groups.
[7] Village Savings and Loan Associations, experience from Zanzibar: Ezra Anyango, Ezekiel Esipisu, Lydia Opoku, Susan Johnson, Markku Malkamaki, and Chris Musoke.